

Combating the Canadian discount - the first step to a successful tech sector



This is the second article in a series addressing how local start-ups can overcome the hurdles to building a successful, globally-competitive technology company from the Ottawa/Canada base. The first article outlined five systemic issues: the Canadian discount, perpetual fundraising, slow market adoption, poor sales momentum, and thin ecosystem.

“The Canadian discount” broadly captures the structural and demographic disadvantages associated with working out of Canada at this point in our high tech industry’s life cycle. Consequently, compared to their U.S. counterparts, Canadian startups are generally expected to deliver more but valued less.

Silicon Valley VCs have said to me, “Pat, in the valley, this would be a no-brainer,” or “that can’t be done in Ottawa.” Unfortunately, Ottawa is considered to be far away from the epicentre of the new company formation engine...the San Francisco bay area, with the highest concentration of startups, capital, support systems and headquartered acquirers in the world.

Invariably, Ottawa startups go to the U.S. for investment (to “the Valley” or mid-points like Boston) due to the small endemic Canadian venture capital pool, which many stats show as continually deteriorating while the U.S. capital situation is actually improving.

Vcs like to be near their investments and Ottawa is a day’s travel away. With all the disadvantages of space, time, border crossing, the dollar, tax implications, etc... Canadian companies, as **investment opportunities**, need to be **FAR** more compelling than Silicon Valley groups. This means that “risk adjusted” returns “calculated” by the venture capitalists make it very compelling to invest here.

U.S. investors are attracted to proposals that deliver leading edge technology, usually described as “disruptive” to a marketplace. Most often, this is when Ottawa entrepreneurs hang their hat. We are very credible when talking technology and this is the most compelling leverage point to combat the Canadian discount.

When it comes to delivering the tech vision, this is when we get noticed from “San Jose.” We couple this into *aggressive* business plans, with quick ramps of new technology into the market, and we get them hooked. Many startups have successfully raised U.S. capital; a testament to our great ideas, excellent talent and our ability to execute along a technology path.

However, this often shifts into “bleeding edge” versus “leading edge.” Coupled with aggressive business plans, more money and time is required to get the job done. Unfortunately this often leads to hiccups in execution and to severe “down-rounds” for subsequent financings, which often eliminates the upside for earlier investors – the indigenous ones. Many companies have been ruined due to over rotating on technology.

We need to continue working the tech superiority angle, an undeniable strength, but we need to temper it. Ironically, we try to deliver more than the market actually needs, and we needlessly push far beyond our “completion.” This amounts to an overreaction to mitigating the Canadian discount.

The next three factors are significant areas needing improvement.

First timers/team

Most of us are first-time Ottawa entrepreneurs, who worked in larger companies until the bubble burst in 2001, creating a large group of “new” entrepreneurs who haven’t yet finished their first cycle through a successful startup. This creates a first timer problem, since venture capitalists like to back experienced “been-there-done-that” entrepreneurs.

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To mitigate this, companies have created cross-border teams by importing talent, and/or locating the headquarters to the Valley but keeping the bulk of the company in Ottawa. Successful companies have attracted both experienced entrepreneurs and the required talent.

This is especially important on the business side, as our talent pool for sales, marketing and operations is quite shallow. Until we have a much deeper pool, there is unfortunately no choice. Build the team and further blunt the discount.

Connections

Another key issue is the lack of a wide array of connections with customers, advisors, venture capitalists, investment bankers, market analyst firms, etc. This is a structural issue due to the historical demographic of Ottawa as a centre for technology “development” and not “market facing.” This puts us at a disadvantage. Because of our focus on tech, to our detriment we spend less on increasing our connectivity. Excellent

companies focus on buzz, which is essential to getting noticed in crowded and hyper competitive markets, and it’s generated by leveraging connections.

Customers: The greatest leverage point, for and against

While giving a “VC 101” overview to a local high-tech audience, someone asked how to begin a startup. I told them, “chat with a customer, find out their problems.”

I witnessed a general reluctance in the audience. Then someone asked, “how do I find a customer if I don’t have a product?”

Then I asked, “how many people in the audience know a customer?” Only five hands went up out of the 75-plus audience members. I then modified my question to, “how many of you know someone who knows a customer?” Over half of the audience members raised their hands.

The bottom line is that if you are determined, you can get to a customer. But you have to prioritize the fulfilling of a customer need before technology.

My most important and final thoughts are about customers. Namely, the best way to overcome the Canadian discount is to attain an insane level of customer intimacy, with at least five of the most important customers in your market, at an early stage of product development.

The main yardstick venture capitalists use to measure a start-up is customer base. This is it: the grail, all else is detail.

Our most successful entrepreneur shows us the way. As long as I can remember, Terry Mathews has incessantly been preaching this mantra. He says “Go out there and talk to customers. What are they doing? What are their problems? What I can do for them? I deliver that, and I have a business.” I wholeheartedly agree with him. This is the source of his great success and we should emulate it.

*Next column: Perpetual fundraising,
A “bridge” too far*

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