



STARTUPS: FROM RUSSIA TO AMERICA

A GUIDE TO THE AMERICAN STARTUP ECOSYSTEM

Russian startups are building innovative products and services that compete in global markets. Engaging with American startup communities can help Russian entrepreneurs become global champions—whether through access to mentors, capital, and distribution. This guide provides a clear, practical explanation of how to engage in the American startup ecosystem.

STARTUPS: FROM RUSSIA TO AMERICA

A GUIDE TO THE AMERICAN STARTUP ECOSYSTEM

Russia has made great strides as a startup ecosystem over the past few years. The emergence of lean startup methodologies, open source development, pervasive mobile devices, and the cloud have significantly reduced the cost of building web- and mobile-based startups. 3D printing and synthetic biology has had a similar effect for manufactured devices and life sciences. Twitter, blogging, and Quora have made it easy for entrepreneurs and technologists in Moscow, St. Petersburg, or Novosibirsk to keep up with the very latest ideas from Silicon Valley, New York, London, or Tel Aviv. American incubators and accelerators have become open to ideas from around the world, while Russia has started developing respected incubators of its own. Venture capital, and even angel investing, has become increasingly global—with American venture firms investing in Russian startups and Russian venture firms entering the American market.

Today, Russian entrepreneurs who possess the necessary talent and drive can build products and services that can compete for global market share. However, competing globally requires access to the best resources in the world—whether mentorship, talent, capital, or distribution. Just as American venture capital firms have started looking to invest in Russian startups, Russian founders are increasingly looking to America for access to mentors and distribution.

This guide is designed as a simple, practical “how to” for founders of Russian startups looking to engage in America. Engagement may be as simple as keeping up with the latest ideas or as complex as building a physical presence on the ground. It is divided into four parts: Ideas and Connections, Mentors and Partners, Capital, and Build a Presence.

ABOUT THE AUTHOR

Evan Burfield is the cofounder of 1776, an incubator platform for startups with innovative products in education, health, energy, and smart cities. 1776 programs include their incubator and classes in Washington, DC and the Challenge Cup, a world cup for startups tackling grand challenges. Evan is an entrepreneur and angel investor who holds a degree in philosophy, politics, and economics from the University of Oxford.

1. IDEAS AND CONNECTIONS

Five or ten years ago, connecting with the ideas and experiences of people around the world was very difficult. You could invest the time to fly to various cities and slowly build the relationships to get you access to the people with the latest and greatest ideas and ways of doing things. You could pay the money to attend conferences to hear them speak on a panel and reveal a few quick bits of wisdom. Or, you could wait until an expert wrote a book by which point their ideas would no longer be cutting edge.

Today, technology and a shift in culture has made it possible to digest the ideas of leading thinkers and practitioners as they occur. More importantly, you can debate these ideas with them in open forums, helping to build your own reputation. There are four main ways to jump into this kind of engagement: social media, Quora, social networks, and AngelList.

SOCIAL MEDIA: TWITTER, BLOGS, SLIDESHARE, YOUTUBE, AND VIMEO

There are many experts in building and funding startups who prolifically share on social media. Twitter is the most obvious source of information but do not forget to follow individual blogs, SlideShare, and video sharing platforms like YouTube and Vimeo. All of these enable you to follow people relevant to your businesses as well as respond with comments and questions. Retweeting and commenting with relevant questions or thoughts is a great way to start becoming known to someone you may want to engage more substantively with in the future.

QUORA

Another great source for ideas and connections is Quora, a platform for experts to post questions and receive back answers and commentary. In addition to following many of the same individuals above, you can follow particular categories of interest, such as “angel investing,” “venture capital,” “lean startups,” or “growth hacking.” You can also follow topics relevant to your industry such as “education technology.”

As you follow particular questions and individuals on Quora, you will identify more experts to follow on Twitter. And as you develop a level of comfort with the topics discussed, you can ask questions and share your opinions and ideas to start building your reputation.

SOCIAL NETWORKS: LINKEDIN AND FACEBOOK

One of the benefits of social media and Quora is that anybody can follow and engage in the discussion. To be able to build deeper connections with leading

PEOPLE AND GROUPS TO FOLLOW

www.twitter.com/bfeld

www.feld.com

www.twitter.com/paulg

www.paulgraham.com

www.avc.com

www.twitter.com/davemcclure

www.twitter.com/paulsingh

www.Livestream.com/500startups

www.slideshare.net/500startups

www.venturehacks.com/archives

www.cdixon.org

www.bothsidesofthetable.com

www.angel.com/valuations

<http://blog.semilshah.com/>

www.twitter.com/techstars

thinkers and doers in the American startup community, social networks are a key platform.

Before starting to build “connections” on LinkedIn and “friends” on Facebook, the first thing you need to do is to make sure your personal and business profiles are ready to represent you. If you attempt to connect with a high profile investor or startup founder, the first thing they will do is check your profiles to see if you are credible. Making sure you have your key information listed in a professional format is important. This is particularly so if you are attempting to friend someone on Facebook. Whether it is fair or not, they will not want to see pictures of you partying with friends. Rather, they will want to see you working hard, sharing relevant articles, and attending key events.

The second thing you need before starting to connect with people is to remember Dave McClure’s first rule about pitching an investor: “Don’t be weird.” If you have never actually met someone in person, had a significant interaction with them on social media, or share multiple connections in common, then it is weird to connect with them on LinkedIn. If you have never had an extended conversation with someone, then asking to be their friend on Facebook is weird as well.

The positive news for a founder working in cities like Moscow or St. Petersburg is that American founders and investors come to speak and interact at startup hubs and incubators like Digital October, API Moscow, Skolkovo, and Ingria. When you have the opportunity to speak with a potential mentor or investor, you should make sure to follow up with a LinkedIn connection.

Of course, a network is only valuable if you use it. As you build your network within the American startup community, make sure you use LinkedIn or Facebook as a platform to market what you are doing. Share regular updates with your network on developments with your startup or when you will be visiting new cities.

ANGELLIST

The fourth channel to build an American startup network is Angellist. Angellist is many things. In Section 4 of this Guide, Angellist will appear again as a platform for raising capital. Whether or not you have ever fundraised through Angellist, it remains an important platform for marketing yourself, your startup, and forming connections with mentors and investors.

As with your LinkedIn or Facebook profile, you should approach your Angellist profile as a marketing opportunity for yourself and your startup. Angellist is one of the first places that an American investor or founder will look if you attempt to connect with them. For your personal Angellist profile, make sure to include any educational or professional accomplishments that enhance your credibility. For your startup’s profile, include screen shots of your app and a pitch video. You should also list all of your team members, advisors, and investors and have them confirm their involvement.

Once you have created your startup profile, you should manage it like any other marketing channel. Make sure to release an update about your startup at least once per month—a press mention, customer win, or key hire are all standard ways of letting people know you are making progress.

With your profiles created, Angellist becomes a great source of research on competitors as well as potential investors and mentors. You can search across industries, stages of development, and geographies. You can

follow companies or people you think are relevant. And if it is important, you can use the platform to request introductions to potential partners, mentors, or investors.

2. MENTORS AND PARTNERS

While social media and social networks are a powerful way to engage with ideas and build connections, traditional methods continue to work as well. Building relationships with mentors within your industry in America, leveraging existing partnerships with multinational corporations, and leveraging the networks of your service providers are all important methods for accessing American mentorship, capital, and distribution.

DEVELOPING AMERICAN MENTORS AND ADVISORS

As you start to build your network, it is appropriate to ask people to be your mentor or advisor. A *mentor* is someone who provides you with informal guidance as you need it, usually without compensation or a formal role with your startup. An *advisor* is someone with a formal but limited role, often to help access markets or capital. It is customary to offer advisors who provide value to you a small piece of equity in your startup.

MULTINATIONAL CORPORATIONS

One of the most effective ways of building links into US markets is through existing partnerships you may have. For example, if you work closely with Microsoft in Russia, then you should ask Microsoft to make introductions to experts within your industry in the US. Microsoft has teams working with startups in every major US market and industry. If you are a valued partner in Russia then they should help you navigate their Microsoft network to make connections for you. The same should be true for Google, IBM, Facebook, Yahoo!, and other large US technologies companies.

Multinational corporations within particular industries can also be powerful channels. If you are a healthcare technology startup working with General Electric in Russia—or an education startup working with Pearson in London, then you should work to navigate their internal directory and get introductions to their American teams. In most of these companies, surprisingly small teams focus on “startups” or “innovations” around the globe. If you can get to those teams then they can help you with advice, partnerships, and distribution within your industry in the US.

SERVICE PROVIDERS

As with key partners, your service providers should be able to leverage their global networks to help make connections for you in US cities or industries. As an added benefit, these service providers will often have service offerings that can help you handle some of the complexities of doing business in new and different markets—whether tax advice, legal issues, or managing cross border financial transactions.

International law firms like Squires Sanders, Orrick, and others have teams in Moscow that focus on startups as well as strong practices in most major US cities. Accounting firms like Ernst & Young, PwC, and others will have a deep presence in almost every US city of any size. Finally, Russian banks like Sberbank are forming strategic alliances with American banks like Silicon Valley Bank with deep connections into startup communities across America.

3. CAPITAL

Capital is important to your ability to develop new products and enter new markets. Having the right investors is particularly important if you are looking to expand globally, distribute your product or service in the US, or build a presence in the US. There are three ways you can leverage your investor relations to better engage with the US: having a Russian investor active in the US, having an American investor active in Russia, or having the right angel investors.

VENTURE CAPITALISTS

Over the past five years, Russian firms has become increasingly active investors in US startups. As a result, they have built extensive networks within Silicon Valley, New York, and other leading US cities. In addition to their investment activity with American startups, many of these firms obviously look to invest in promising Russian startups, particularly ones with the potential to scale globally. In the same way, American venture capitalists have started building teams in Russia to invest in promising Russian startups.

A full description of the latest best practices for raising capital, whether from Russian or American sources, is beyond the scope of this guide. In general though, it will be difficult to capture the attention of credible American venture capitalists without a friendly introduction from a mutual connection. One reason why it is important to have a law firm and accounting firm with connections in America is because they can often make these introductions for you. As you develop mentor relationships with American founders or angel investors, they can also make introductions to venture capitalists within their networks.

ANGEL INVESTORS AND ANGELLIST

In addition to venture capitalists, angel investors continue to become an increasingly important source of capital and connections in both the US and Russia. Raising capital from American angels is an excellent way to engage in the US startup community and within your industry. There are two primary ways to connect with potential angel investors. The first is through mentorship relationships you have already built with US founders, who can provide trusted introductions into angel investors that they believe would be interested in your startup. It is always worth remembering that introducing you to a potential angel investor requires your mentor to risk their reputation on you. Make sure that you have built a strong relationship with a mentor before you ask them to open their network to you.

The second way to connect with potential angel investors is AngelList. As we discussed in Section 1, AngelList is an excellent way to conduct competitive

RUSSIAN VENTURE CAPITALISTS

Runa Capital

Bright Capital

Almaz Capital

DST Ventures

AMERICAN VENTURE CAPITALISTS

Intel Capital

e.Ventures

Bessemer

500 Startups

research and build your network in the US. Its primary purpose, however, is to connect startups with angel investors. Increasingly, startups are able to raise capital from accredited investors directly through AngelList using its *Online Investing* platform. The rise of *Syndicates* and *Backers* have also enabled prominent angel investors to aggregate capital from their networks for a group investment into startups.

The landscape for angel capital in the US is changing rapidly. A quick search of Quora will find several ongoing discussions about best practices for raising capital on AngelList. In general though, it is important to be able to show verifiable customer traction if you wish to successfully raise capital on AngelList. Most startups have also found AngelList to be more effective to closing a round that already have substantial capital commitments rather than raising an entire round online. In other words, if you go public on AngelList with 40% or more of your round already committed and strong week-by-week growth numbers that an investor can quickly confirm to be credible, then AngelList can be the single fastest way to raise the remaining 60% of your investment round.

LEGAL ISSUES

A few final legal notes about raising capital from American investors—whether venture capital firms or individual angels.

First, protection of intellectual property rights and corporate assets are likely to be concerns for American investors with Russian startups. Setting up your business with a standard venture corporate structure including a Delaware C Corporation will be important to alleviating those concerns. A legal advisor with experience in US startups should be able to do this easily.

Second, deal terms for investments by American angel investors and early stage venture capitalists have become increasingly standardized into vehicles including convertible notes and series seed deals. You can find “open source” deal documents and discussions around market terms on Quora. It is important that you understand these market terms prior to raising capital in the US. Furthermore, if you have deal terms with previous investors that are “outside the market” by including onerous provisions on founders or subsequent investors, then these deals will make it prohibitively difficult to raise capital from sophisticated US investors. Resolving these issues prior to raising US capital is important. Again, a legal advisor with experience in US startups should know how to resolve these concerns to bring them “inside the market.”

Third, if you are raising angel capital, then it is importantly that you understand evolving issues related to accredited investors and general solicitation. These are areas of law and regulation that are changing almost daily. Simple and innocent mistakes could potentially handicap your ability to access US markets for an extended period of time. As always, consult your legal advisor!

4. BUILDING A PRESENCE

Today, it is possible to network with American mentors and experts, access global distribution, and raise capital in the US, all without visiting or establishing an office in an American city. There are several reasons why a Russian startup may still benefit from spending time in America or even building a team in one or more American city.

There are certain industries where distribution is concentrated in the US. For example, if you are building a consumer web application with a global audience, there are significant advantages to having a presence in Silicon Valley.

The same is true for a fashion or finance startup with New York City or an education or healthcare startup with Washington, DC. Beyond distribution, there are particular types of technologies such as cloud computing in which there is a significant concentration of elite talent within US cities.

Finally, while it is possible to network, raise capital, and scale within the US without a presence on the ground, it is undoubtable *easier* with in person interaction.

PICKING A CITY

While it is easy to think that all startup activity in America occurs in Silicon Valley, there are often significant advantages to other cities. As mentioned above, certain US cities tend to have strong networks within particular industries, often due to presence of one or more dominant companies within that industry. Explore where people within your American network are based. Think about the established companies with whom you most need to partner or would be possible acquirers.

To conduct further research, you may want to contact economic development organizations, which can provide you with state-by-state information on such issues as existing local industries and clusters, infrastructure, tax rates, and other details. These organizations have entire business units dedicated to helping you set up your company in their state or city, so they are a great source of information. For contact information visit Select USA, a resource provided by the US government: <http://selectusa.commerce.gov/contacts>.

GETTING ESTABLISHED

Building a presence in the US costs time and money—the two most precious resources for your startup. In order to maximize the return on the investment, you should already have a network of relationships ready to activate when you arrive (see Section 1: Ideas and Connections and Section 2: Mentors and Partners). A good rule of thumb is that you should be able to arrange a week's worth of potentially valuable meetings in a city before you arrive. There are, however, ways to accelerate the process of getting established within your industry in the US: hubs, incubators, and accelerators.

STARTUPS HUBS AND INCUBATORS

In a growing number of American cities, there are startup “hubs” and incubators that bring together many aspects of the startup community as well

CITIES & INDUSTRIES

San Francisco: consumer web, cloud, enterprise

New York: financial services, media, fashion

Portland: fitness, wellness

Washington, DC: education, healthcare, government, enterprise

Seattle: cloud, retail, enterprise

Cincinnati: consumer packaged goods

HUBS & INCUBATORS

Chicago: 1871

Washington, DC: 1776

Austin: Capital Factory

Denver: Galvenize

Boston: CIC

San Francisco: RocketSpace

New York: General Assembly

as established corporations. Like Digital October in Moscow, these hubs usually have events, co-working, and various types of mentorship programs. Some have competitive membership criteria; others are open to anyone who wants to come. Digital October is a member of the Startup Federation, which is a network of these incubators around the world and includes 1871 in Chicago, Capital Factory in Austin, CIC in Boston, Galvenize in Denver, General Assembly in New York City, and 1776 in Washington, DC. Other hubs and incubators include RocketSpace in San Francisco and MassChallenge in Boston. Becoming an active member of one of these hubs is a great way to accelerate your connections in your city and industry.

ACCELERATORS

Accelerator programs are another way to accelerate your success in building the relationships in the US necessary for success. Accelerators are competitive programs, usually for a defined period of time, which almost always include some kind of investment program. While YCombinator, 500 Startups, and TechStars have global brands, marquee successes, and massive numbers of applicants, there are credible accelerator programs in every major American city. A great source for learning more about accelerator programs is the Global Accelerator Network, which was established by TechStars to share best practices and resources across accelerator programs.

INDUSTRY ACCELERATORS

While Y Combinator, 500 Startups, and TechStars have pioneered accelerator models for consumer web startups, an emerging trend is accelerator programs focused on startups within a particular industry or technology domain. These programs bring deep connections within that industry and often tend to have extensive corporate relationships. TechStars has also adapted their program to have an industry focus in certain cities.

VISAS

A final note on visas. You have carefully built a network of mentors in the US. You have leverage your partnerships with multinational corporations into relationships with their US operations. You have raised capital from American angel investors. You have been accepted by a prominent accelerator program. Unfortunately, challenges remain before your startup can scale within US markets: visas. There is no avoiding the complexity and confusion that surrounds the process of getting business visas to visit or work in the US. While a full exploration of the process of obtaining US visas is outside the scope of this guide, working with groups that have prior experience successfully navigating the process with startups is important. As a first step, you can find information on the U.S. Embassy Moscow's website:

ACCELERATORS

Y Combinator

500 Startups

TechStars

DreamIT Ventures

Launchpad LA

INDUSTRY ACCELERATORS

Rock Health (San Francisco)

Socrata Labs (NYC)

Blueprint Health (NYC)

SURGE (Houston)

Brandery (Cincinnati)

Kaplan EdTech Accelerator
(NYC)

Nike+ Accelerator (Portland)

www.ustraveldocs.com/ru. You should talk with your legal advisors to fully understand the process and risks in advance of planning any trips. Certain accelerator programs, particularly 500 Startups, actively cultivate applications from startups in countries like Russia and are at least familiar with the challenges.

GLOBAL CHAMPIONS

The global opportunities available to an entrepreneur with creativity, talent, and a desire for hard work have never been greater. Russian founders are seizing these opportunities. While the Russian startup ecosystem is becoming increasingly sophisticated—with angel capital, incubators, and accelerators, many Russian founders want to engage with ideas, mentors, investors, partners, and markets in the United States. The American startup ecosystem may seem confusing from a distance, but by carefully building a network and using partnerships Russian entrepreneurs can successfully build a presence in the US and become global champions.

Good luck!