ANGEL ASSOCIATION NEW ZEALAND

Supporting Startups For Better Offshore Success

Lessons Learned From GlassJar's 'Negative Exit'

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Thanks to GlassJar's Founder, George Smith, for use of this photo

This is the first in a series of articles exploring in-depth lessons of early-stage investments into companies that did not result in a successful exit for founders or investors. They are based on detailed interviews with founders and investors, summarising a company's trajectory before- and after- funding, & drawing specific insights which we can build on for future investments. Whilst much of angel investors' focus is pushing towards positive outcomes, there are still solid lessons to be learned from those that did not come to fruition. We thank the contributors for their honesty, candour, and willingness to share these insights back into the community.

This is the story of GlassJar - a startup designed to help flatmates split their shared bills and expenses whilst living together. The venture was dreamed up by founder George Smith whilst studying at the University of Canterbury and flatting with friends.

GlassJar had a great starting trajectory: led by a young, charismatic, and energetic entrepreneur, focussed on a problem which the founders had experienced themselves, and clearly a problem felt by many in the New Zealand market. The team came out of University, winning entrepreneurship awards for the idea, then straight into startup accelerator, Lightning Lab, with $18K seed funding for a great start. After raising $450K from local angels, that start was quickly built on with the accolade of being the first Kiwi company to be accepted into YCombinator (YC), the top startup accelerator in the world. With such a launchpad, it certainly sounds like George and the team lived the 'startup dream' that many founders aspire to.

But outside of that New Zealand box, with so many directions to go, and so little experience in foreign markets, the team and direction ultimately floundered with new investors and advisors experienced in a different type of consumer-focussed market. After failing to validate their product in a market with ageing banking infrastructure (which still uses paper cheques today), the team decided to pivot their product, but never really found a viable alternative.

After losing momentum and focus during the YC programme, and not being ready to present at YC's final investor showcase, the team eventually never had the runway to continue discovering the right product for the US market, forcing them to close their doors soon after.

Their journey is the execution of the classic and default narrative we often tell companies here in New Zealand - to go global from day one; to look for bigger markets early; to raise local money; then to get offshore fast, and scale to an ultimate exit.

Whilst in many ways, GlassJar's journey was a personal success for the founders in terms of having learned and achieved so much at such young ages, it never resulted in a positive venture outcome for them or investors. Their 'failure' to achieve this outcome can be argued to point to a failure of our support system rather than any specific flaws of investors or founders.

This article will explore some of the insights and lessons learned in more detail. It's not a full in-depth case study, but does surface some of their lessons and opportunities to help other early-stage companies looking towards a similar early-offshore trajectory.

Early-Stage Acceleration

The first time I personally ran into George was as founding programme director of the Lightning Lab accelerator programme. It was clear to me that George had the ability to build a strong team aligned to a vision; had the right level of coachability to take advice and question his assumptions; and would often get out of the building to talk to customers.

Overall George made good progress during the three month accelerator programme in terms of the product he was building. By the end of the programme, he had managed to develop a stable product, get usage, and ramped up the number of transactions through that platform in a very short time from barely nothing to millions of dollars of transaction data.

Early-stage investor and Lightning Lab mentor-in-residence, Geoff Nixon, remembers working closely with GlassJar in the 'Lab, remembering how George took on board the feedback about the customer segmentation being wrong and pivoting quickly into a professional market. He remembers George being great at making personal connections and setting up and running an early-board really well.

Geoff doesn't recall if they'd considered the global proposition early during the lab, but the global message certainly was impressed on them by the handful of investors who worked closely with the company towards the end of the Lightning Lab programme.

By the time they came to pitch investors at 'Demo Day', they had a compelling story for a local product that looked really good, had good traction markers, and made an interesting investment proposition as the payments market was on the edge of disruption at that time.

First Investment Round

Like many startups at the start of their journey, there were so many possible directions to take, and figuring out which one was the best was the hardest decision. So GlassJar's biggest challenge came right off the bat during their first investment round.

What mattered more - traction in New Zealand, or evidence of success in bigger markets? Investors could see the limited size of the opportunity in New Zealand, but investors were split, especially given the pitch was for a local product rather than a product focussed on a US marketplace.

Many of the investors who were engaged with the pitch from Demo Day were keen for George to pursue a 'safer' strategy: proof of concept and revenue in New Zealand or Australia, then test similar markets with developed banking infrastructure like the UK. But George had also been attracted by the allure of the Global from Day 1 Seed Fund (GD1) model too, of getting into the US market and failing fast, which was a new direction from that pitched to many of the investors at Demo Day.

Geoff, a New York financial markets veteran himself, reflects that the US fast-fail approach seemed really hardcore at the time. "Any New Zealand company trying to compete in a super-hot space like payments where hundreds of millions of dollars were going into the space in the US at the time, is going to fail fast!" He comments that payments is like ground zero of the startup world in the US, and whilst there's a lot of thoughtful people in New Zealand, it's a hard ask to find someone here who can help them get up into US and set up for early success.

After demo day, Wellington angel, Mike Caird, lined up to be lead investor during this period. He recounts that upon reflection sending guys straight out of university into the US just didn't work. He says that "for the founders it was amazing, almost a lotto ticket to come out of university, get fifty thousand dollars, straight up to Silicon Valley, and a big equity upside if successful, but it was clear their product wasn't US centric and the US payments space was very different to New Zealand".

After seeing a lack of certainty and momentum from local investors on which strategy was best, George had built up a lot of confidence in the GD1 approach and the US opportunity. At that time, Mike reflects it was just too hard for local investors and the angel groups to compete with the 'seduction' of the GD1 message.

Whilst the GD1 approach works well for more experienced and resourced entrepreneurs who have clearer market validation; for GlassJar, a few interviewees criticized that success was to aggressively get a US term-sheet as proof of market, rather than validation and customer-proof being the success criteria.

It's a subtle difference that Marcel van den Assum, investor, and a proponent of the US strategy discussed further. "A more disciplined approach and mature mindset would have been to test the market; if that failed, see the rationale, then come back and work on plan B, but George never really saw the US trip as a validation or 'test-the-market' trip' with no obvious plan B.

Marcel puts some of this failure down to governance and suggests they could have done a better job around that, reflecting that setting parameters around US validation and checkpoints should have been driven by a more robust process, and done before George was 'captured' by the American dream. Ultimately, because of the lack of clearly encapsulated success criteria, the company ended up being unleashed too early into the US market.

George had more negative sentiments during this first round, feeling that no-one really understood the startup journey and could empathise with what they needed as an early-stage company. They were told they needed the longest runway possible, but he thinks the misinterpretation of that by many investors is to tell companies to raise as much capital as possible.

He said that much of the advice locally at the time was to hire more people and go faster, all incentivised by the amount of capital raised rather than how much value was being added to the 'core' of the company (i.e. the value proposition, evidence of the right product, people paying you, etc.) which ultimately leads to premature scale and failure.

The now wiser George compares much of the early dealings with local investors as only adding to the 'shell' of a company (branding, office-space, capital strategy) rather than it's more valuable core and raises an interesting question about whether we're pushing companies' actual progress closer to proof points of a business worth building, or just vanity metrics such as dollars raised and the perception of progress and success?

George felt that GD1 lead, Chintaka Ranatunga's, view was more realistic than other investors in terms of the international trajectory, reflecting that no-one else was saying the same thing at the time. The memories of George's experiences fundraising locally, reflected that local investors were happy to invest if you were planning to stay local, but were little help for global plays. Whilst there is some truth in George's words, some of this may also be George's entrepreneurial confidence and own bias, since it doesn't necessarily align with the considered thoughts from other accounts. It is, however, a useful outward perception that local investors and angel groups may wish to reflect upon.

Under-Capitalisation?

Many of the investors spoken to and George himself, noted that for a trajectory like GlassJar's to work, with a fast US entry, it needed significantly more capital than they had, as they'd immediately lose 30% on the exchange rate on the way through.

George commented that NZ investors like to have equity and go through priced round discussions for these early stage companies, but after six months of initial failed negotiation, found the GD1 convertible loan process much smoother. He reflects that priced rounds do give investors more control over what the company is doing, but at that early stage they don't need much control or money.

He instead thinks that founders on an early US entry strategy should try to make things work for a maximum of $150K when they come out of local accelerators, and spend the next year solidly focussing on product strategy and how to make the transition up to the US. He wishes he'd spent six months working on the market, with some of that time in-market.

Dave Booth, who was the main operational lead for GD1 at the time (and who now works with AngelList and 500Startups in London), states that most NZ companies underestimate how hard it is to break into the US market, saying "it is so competitive, especially going from a $30-40K salary environment into a $100K+ USD environment, just to keep people motivated."

Dave has spent the last two years overseas and now sees the contrast to the New Zealand startup ecosystem. He comments that the New Zealand startup mentality sets companies up to be 'playing' at startups rather than going at it seriously - we still have the 9-5 mentality with weekends off, compared to those he's worked with in the US who are all in, weekends-and-all, living on planes if they have to. The isolated Kiwi mindset often makes them naive about what they're competing up against.

Whilst there's a certain counter-argument about that naivety being what makes New Zealand startups different as Dave agrees, he also points out that when you're thinking global from day one, you're competing against those types of all-in companies, maybe not on customers, but on VC's mindspace and attention - if you're underfunded or not working the hours compared to others, you're just never going to be setup for the win.

Geoff Nixon also talked about this in terms of both investors and founders not realising what they're going up against by taking on one of the hottest growth areas in the US, "it was like being dropped into the starting line of the Olympics, not Wellington track day, and on day one!"

Based on what Dave sees in UK and echoing George's thoughts, Dave now works to a model of the first investment round being around $150K, taking no more than 10-12% of equity, locking in a $1.5M pre-money valuation. This then gives companies a 9-12 month's very lean runway into their target market (e.g. US), with side goals to get an international lead investor to facilitate a proper US seed round ($1MM @ $4-5MM pre-money valuation), but critically, then coming back to your market to execute. It's a model 500Startups have had lots of success with taking this 'lean VC' approach, and one NZ investors could learn a lot from, but it does require a $20-30MM fund and something like 200 investments across a broad-base before guaranteeing a return.

Going Global

The team eventually were successful in raising just under $500K from local investors with good syndication from other angel groups. GD1 and SparkBox helped them to get into market, but the team found the flatting and banking culture in the US was still in the stone age (i.e. paper-based), a story that Wellington investor Dave Moskovitz had already warned them about.

But George being a great connector, managed to find his way into the purview of the upcoming cohort of YCombinator, and whilst he was travelling to and from the market, had managed to put Glassjar successfully on their radar.

YC is known as the top accelerator in the world for a reason - having invested only $12MM and a portfolio valued at over $1B on paper, that's a huge 86x valuation that makes most VC funds' eyes water. So it was no wonder that local investors started getting excited that YC had started to show interest in GlassJar, which was an amazing opportunity to launch George's product into the US market. It gave the company a huge lift.

YCombinator

George remembers being so excited when they got into YC - they thought that once they'd gotten in, that a lot of their job was done, since according to popular tech press, having the YC 'badge' appeared to be a signal for US investors to almost automatically invest in the next round.

George reflects that the level of hands-on support they received from YC has significant compared to the support they had in NZ. But they suffered a lot of conflicting advice and 'mentor-whiplash' - similar to what they had in New Zealand, but with a whole new level of experience and insight into the US market. They had fifteen high-profile people strongly advising them that the shared-banking product wouldn't work in the US and to do something generic across the board like a payments platform play - the upside of which would be much bigger, but the risk would be larger too.

As soon as they got into YC they realized things weren't going to go well. On the back of a product that already felt like it wasn't ready for the US market, the advice from YC's partners and their inexperience in the market really played on their minds.

To be successful in an accelerator environment like

YC, the pace and level of execution required is intense, and often means that if your idea isn't going to work, you have to find another, more feasible idea, quickly to still get value from such programmes.

Ideally George and the team would have realised this sooner, and completed more in-market validation before the programme started, but they were understandably excited about the YC offer to turn it down in hopes of never getting into the prestigious programme again. It's a good reminder that as founders it's hard to see through the entrepreneurs' reality distortion field to what real progress often looks like, and to Marcel's point, underlines the importance for quality external governance to support people through those processes, even at an early stage.

Matt Galloway, George Smith's technical co-founder at GlassJar, looks back on their experiences in YC as being ambitious but just so naive and inexperienced in the product space.

After quickly invalidating their product for the US market, and following YC's advice, they pivoted into a more generic product that allowed anyone, anywhere, to split payments; in some ways the US version of our own go fast and offshore strategy (go wide, scale to everyone), a hugely different approach than what our more capital-constrained environment allows.

Matt reflects that they should have considered the advice more carefully, and iterated their original product rather than throwing it away. He says that since YC, two years on, there's now a raft of similar products competing for the space that they originally were playing in, which they would have been perfectly placed to be at the forefront of in today's terms.

Matt felt like they had to pivot to get into YC, really feeling the lure of the programme rather than the lure of the market, but they were just completely blind to the US market from New Zealand. Matt reflects that the realities of talking to a few people on skype or doing a few weeks worth of busy travel, was wholly different to being in-market. After working and living in the US since the company closed, he now understands that there's such a complex ecosystem in the US that founders can't get their head around it until their part of it.

Matt also discussed the amount of competitive pressure they felt in the US. They had the hype and expectations coming out of New Zealand where they'd been put on a pedestal, but when they got to the US, they had the stark realisation of being a tiny fish in a very big pond and that was hard to deal with.

Similar to George's point around the shell and core, Matt also realized that all that mattered was numbers on paper: progress, growth, revenue, and funding. He also felt bad that to take a US trajectory meant having to become a US company and taking a lot of that income, taxation, and mentorship away from the New Zealand community.

YC Investment

Before being accepted into YC, George and Matt remarked that the amount of equity that GlassJar had effectively given away to raise their first round of investment in New Zealand meant that the chances of YC's investors being interested down the line would be negligible due to too much founder dilution. GlassJar was already diluted by the usual 30-40% seen in New Zealand angel rounds for their first round of funding, compared to many of his counterparts in the US having given away only 10% for similar levels of investment. The upshot of this was a perception of more motivated founders, and giving YC's investors more motivation to invest in others.

Thus George had to go through some tricky negotiations with New Zealand investors to reduce their draw-down commitments and equity allocations so they could accept YC's offer. This meant not taking the further tranched investment previously agreed to under GD1's convertible note.

Understandably this was a huge positive and negative for New Zealand investors who had backed George's early journey. A big upside that one of your investments just got into the top accelerator in the world, known for its huge mentor, investor, and success network. But on the other hand, not being able to take the rest of your allocation just reduced your future upside! The situation did lead to some consternation with shareholders at the time, but YC pushed back and made that a requirement, so shareholders had to give in if they wanted to proceed.

Dave Booth reminds us that as angel investors, our investments should not be about valuation or owning a lot of an early company - it's a simple binary decision that investors are either going to win or lose, and an early valuation of $1M or $5M is no real difference to investors if the company wins, but it is materially important to the company if they're not capitalised enough to make it work.

It's almost an unsolvable dilemma: if we don't fund these companies enough, they don't have the runway to prove anything; if they can get into US without NZ money that's best for the founders, but too unrealistic. George's opinion is that there's just no answer to it, other than to keep your burn rate low and raise at as low a valuation as possible in NZ.

Dave Moskovitz also notes that GlassJar highlights a conundrum we have here in NZ: our smaller market, less heat, and less-experienced talent pool, means our companies have a much lower valuation as a company doing the same thing in Palo Alto, but often, by NZ standards, raising follow-on US VC is near impossible with the levels of equity we often take out of those companies.

Post-YC

Co-founder Matt notes that after the start of the YC programme, they quickly realized that they were running around in circles, which became very mentally taxing. Every second week, they'd reboot with a new product, and a new set of customers to interview, and it became disheartening to see other companies in similar positions being much more focussed in the face of pivots. For example, one of the companies that came into their YC cohort with a blood pressure monitor, and quickly invalidated their market in the US too, turned into an on-demand text messaging service and raised $10MM at their YC Demo Day!

But ultimately, their lack of progress, and an unfortunate delay working with payments partner Stripe, led them to decide not to pitch at the YC Demo Day 12 weeks after the programme start.

That lack of progress, and decision not to pitch for the vital life-sustaining capital, brought around the end for GlassJar, after which, the team fell apart. Both Matt and George thought that deciding not to pitch was the correct decision, but it's easy to speculate whether they had pitched an unfinished product, and subsequently raised, would it have given them the runway to figure out the right product direction in time?

Looking back, Matt commented that YC wasn't right for GlassJar for the stage they were at: they listened to their mostly, consumer-market-focussed feedback too much, taking it too negatively and that really affected their progress during YC as well as their certainty of direction. Ultimately, this left them starting from day one, in a new ecosystem and industry that they hadn't understood the complexities of yet, and where they weren't capitalized enough to execute on.

Conclusions

There's many lessons that entrepreneurs and investors can take from GlassJar's journey, particularly around the need for good governance and a more measured approach to tackling offshore markets, rather than rushing to them unprepared without alternative plans.

GlassJar had an opportunity locally, but abandoned it for a shinier opportunity elsewhere. Many early entrepreneurs fall into the trap of being passionate about their product rather than being passionate about the problem they are solving and why. With the latter, if your product is invalidated, your problem still exists, but the former can often leave you at a loss where to go next.

Perhaps the biggest learning from GlassJar is that we need a different model of supporting, mentoring, and capitalising companies who have a real opportunity to get offshore - it feels like the 'system' failed them, rather than they having failed themselves. GlassJar had the potential to be one of those success stories, but didn't have the necessary support to get there.

George's story also reminds us that it's easy for founders to get intoxicated with the Silicon Valley story too soon. As founders and investors advising them, we have to ask ourselves, 'glamour aside, are we really ready for that journey?'

We need to give startups a clearer pathway of how to assess going to markets like the US, a better picture of the challenges, and then a pathway to come back. Is 'global from day one' the right approach? Or should we take a more measured approach, and replace going global from day one with *thinking globally* from day one, but acting locally instead, being ready to 'scale' overseas in considered ways rather than lurching after shiny-looking opportunities?

Do we glorify going offshore too much here in New Zealand? Our default narrative can sometimes set up our ventures for a fall if this is the story from day one, pushing hard to prove an international market quickly, and stretching already limited resources to get into those markets before they've even got basic proof of product and market on this side of the world.

We must make sure those entrepreneurs on an early trajectory have a lean enough runway and supporting capital to do it, but not forget about plans B, C, and D. We need to have more reality checks about what the journey ahead is about to entail and robust processes for helping entrepreneurs figure it out. Collectively as an ecosystem we should sell a more realistic story, so entrepreneurs can temper their ambition with the reality of their chances of success in going offshore too soon.

Whilst the upside of offshore programmes can be attractive, we must remember that just like investment, it really is a false validator to actual progress and learning about the market. GlassJar's story reminds us just how blind we can be to real market insight until we're deeply embedded within it.

If we're serious about sending our founders to foreign markets, then the whole team needs to spend time in-market to understand the competition and what they're up against (not just customers, but for the mindspace of offshore investors).

GlassJar makes it clear that any entrepreneur education initiatives need to focus not just on venture building, but squarely on in-market experience. This is a huge gap in our ecosystem, and given that's our route to high-scale and growth, it's remarkably missing from all of our capability-building stacks. Certainly our accelerator and incubator programmes aren't designed for rapid market entry, and it's an area of support that government capability- and export- programmes are overlooking for companies at GlassJar's stage.

What would an early-stage offshore support programme look like, where high-potential 'George Smith's' are funded to spend time in market, not to stay in market, but to be educated to build ventures back home, with a strong connection to offshore money, networks, and industry-insight?

Does GlassJar's run-in with YC around valuation and dilution highlight a possible misalignment with how angel investors invest currently here in NZ for follow-on venture expectations offshore? Maybe there's a useful follow up here for the Angel Association on whether that gap is real and what collectively we can do about it, but that feels like a secondary-discussion to getting companies to think about being smarter about taking on foreign markets.

Post-YC, George talked a lot about New Zealand companies and investors needing more of a focus on evidence-based entrepreneurship, following YC's mantra of 'building products people want', or building the core rather than shell as George put it. GlassJar's validation was too intuitive, and should have had a more robust focus around the milestones needed to prove there's a real business worth building.

As Geoff reminded us, we must be mindful about taking on hot areas in the US. Whilst of course they're attractive to us from the view of potentially disruptive returns, we really need to seriously question our ability to compete in those markets. AgTech, BioTech, CleanTech, and Education we do have legitimate chops in but against others we'll always fall short.

Angel investor and FinTech expert Serge Van Dam added that failing to convince someone deep in domain like himself to invest was a big red flag. Maybe we need to find these domain experts sooner and be honest about the opportunity, even if it means failing enthusiastic founders faster? Do we need to do more diligence on brand new teams, and cross check the blind faith of founders' own biases or charismatic 'charms'?

Whilst the GD1 approach didn't lead to success this time for GlassJar, there are many companies who it has worked well for, particularly those with more experience, planning, and clearer market validation. Thus, for a different company, the GD1 approach still offers a significant entry path into those markets and shouldn't be discounted on George's experience.

Many investors marked down GlassJar as a fast-fail, and think we should have more of those. Whilst this is purely a portfolio approach to looking at investment, we must not forget that there's an emotional outcome for founders to be mindful of too. Whilst angels might be happy with a 'cheap' fast-fail, we don't often set up our founders, especially younger ones, that this is an okay outcome. Whilst both George and Matt took a lot of positive experiences away from GlassJar, it's obvious the journey and failure affected them personally too.

Whilst there's a lot to learn from GlassJar's journey, we must also remember that their story is a really positive one outside of the emotional journey by the founders. A talented young team, out of university, into a top startup accelerator in NZ, global from day one, syndicated investment across New Zealand, and into YCombinator within the year! It's a dream ride that any founder should be proud of, and from an investor's perspective to get to a fast-fail with no sunk follow-on-capital is a positive result.

And at the end of it, we now have three or four experienced entrepreneurs whose next ventures will be amazing to watch. But the upshot of our immaturity in dealing with companies like GlassJar does means that their next ventures will likely be in San Francisco so that would be a collective loss to New Zealand. Although both founders talked about a commitment to support New Zealand and return forward value to their supporters if the opportunity arose in future.

If investors are willing to see the philanthropic side of educating the ecosystem, then maybe it's a win, but only if we institutionalise the learning so at some point we stop buying lessons and start buying returns.

The bigger challenge we collectively have now, is that as an ecosystem we proved with can launch a company like GlassJar onto the highest echelons of the world stage; now how do we make a company like that sticky when it gets there so we turn that early support into a realistic chance of success (well, as much as any other native in-market team anyway!)

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