SUMMARY

Sasha Belenko and Hayden Mendez are trying to secure seed funding for their start-up. Both have spent time living outside the United States and want an easy way to stay in touch with their friends and family abroad. Sasha, who recently earned a master’s degree in computer engineering, came up with the idea of a simple messaging application (app), free of advertising and other distractions, which users could just pay a small amount to download. Hayden, Sasha’s roommate and good friend from their undergrad days at Marquette, saw potential in the idea. After Hayden graduated with an MBA from the Stanford GSB, the two spent the past year developing an app and writing a business plan. They are calling their app “ChatChat.”

Unfortunately, Sasha and Hayden are running out of money. What they raised from friends and family has supported them during the past year, including hiring a part-time programmer to assist Sasha. The duo has been searching for seed funding and is in talks with Arrow Ventures, which has expressed interest. Since Sasha and Hayden have no other viable funding options at this point, they must either convince Arrow Ventures to provide funding or abandon ChatChat.

Sasha and Hayden have a 15-minute meeting with two partners from Arrow Ventures. The purpose is to answer outstanding questions about ChatChat and address any concerns that the VC team might have. The partners have indicated that they intend to make a recommendation regarding seed funding at the end of the meeting.
Squad Roles

<table>
<thead>
<tr>
<th>Character</th>
<th>Name</th>
<th>Played By:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-Founder: Software Engineer</td>
<td>Sasha Belenko</td>
<td>MBA Student 1</td>
</tr>
<tr>
<td>Co-Founder: MBA</td>
<td>Hayden Mendez</td>
<td>MBA Student 2</td>
</tr>
<tr>
<td>Arrow Ventures Partner #1</td>
<td>Casey Parker</td>
<td>MBA Student 3</td>
</tr>
<tr>
<td>Arrow Ventures Partner #2</td>
<td>Quinn Nguyen</td>
<td>Leadership Fellow</td>
</tr>
<tr>
<td>Observer of Sasha Belenko</td>
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<td>MBA Student 4</td>
</tr>
<tr>
<td>Observer of Hayden Mendez</td>
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<td>MBA Student 5</td>
</tr>
<tr>
<td>Observer of Casey Parker</td>
<td></td>
<td>MBA Student 6</td>
</tr>
</tbody>
</table>

Observers should read the case and formulate their own thoughts about the roles that they will be observing. Observers should be prepared to provide feedback about what worked well and what could have been handled differently at the end of the role-play.

Timeline

<table>
<thead>
<tr>
<th>Minutes</th>
<th>Activity</th>
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<tbody>
<tr>
<td>5</td>
<td>Student Strategy Session</td>
</tr>
<tr>
<td>15</td>
<td>Role-Play: Meeting between Co-Founders and Arrow Ventures</td>
</tr>
<tr>
<td>15</td>
<td>Feedback Session</td>
</tr>
<tr>
<td>35</td>
<td>Total</td>
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Challenge Task & Evaluation

Sasha Belenko and Hayden Mendez are meeting with Arrow Ventures to secure a recommendation for seed funding. The two co-founders have already met several times with Casey Parker and Quinn Nguyen. Sasha and Hayden’s primary goals for this meeting are to:

- Confirm that Arrow Ventures recognizes the viability and potential of their business proposal.
- Convince Arrow Ventures that they have the skills and ability to lead the start-up.
- Address any concerns that Casey and Quinn might have.

Sasha and Hayden must settle the question of funding at the meeting today. They have asked for $1 million. The two have tapped out their friends and family, and their own personal savings are draining. At this point, they do not have any other viable prospects for seed funding. They must either reach an agreement with Arrow Ventures or close down their start-up.

VC partners Casey Parker and Quinn Nguyen are completely up to speed on the business. This meeting will be focused on addressing questions and discussing any areas of concern. By the end of the meeting, the Arrow Venture representatives will convey their decision about whether to recommend ChatChat for seed funding.
**CHARACTER ROLES**

**Sasha Belenko: Software Engineer (MBA Student 1)**

Sasha was born in Ukraine and came to the United States when s/he was 11. In high school, s/he became a gamer, developing a passion for *World of Warcraft* and an interest in computer programming. Sasha founded a computer science club and began experimenting with Java programming language and HTML (HyperText Markup Language, the standard markup language to create web pages). S/he went on to attend Marquette University, earning a B.S. in information technology. Before entering graduate school, Sasha spent a year interning in the IT Management department of Porsche Consulting GmbH in Stuttgart, Germany, and then came back to the U.S. to take a job as an infrastructure engineer at Yahoo!. Sasha wanted to stay in touch with friends and family outside the United States and was frustrated with the options—e-mail felt cumbersome, Facebook and other social media included banner ads, game promotions, and various other features that Sasha found distracting and annoying. A bit disillusioned, Sasha left Yahoo! two years later to earn a master’s degree in computer science at San Jose State University. During her/his second year, Sasha realized that the infant Apple App Store was about to incite an app developing frenzy. S/he came up with the idea of developing a simple messaging app that people could just pay a few dollars for instead of having to tolerate various advertisements. Sasha chatted about the idea to her/his friend and roommate from undergrad years, Hayden Mendez, and Hayden convinced Sasha that the messaging app was worth pursuing. Sasha began developing what would become the basis for the ChatChat messaging app as s/he finished up the master’s degree.

**Hayden Mendez: MBA (MBA Student 2)**

Hayden attended a dual-language Spanish-English immersion program as a child, graduating from high school with a California Seal of Biliteracy. Wanting an experience far from home, s/he studied business economics and accounting at Marquette University, earning a B.A. It was at Marquette where Hayden met Sasha—the two were dorm roommates and became good friends. Hayden spent her/his junior year abroad, studying in Spain and traveling through much of Europe. After graduation, s/he worked at Ernst & Young in finance for three years, traveling both domestically and internationally. From there, Hayden entered the Stanford Graduate School of Business. During Hayden’s second year, Sasha shared her/his observation that the nascent Apple App Store was going to inspire a whole new app industry. Sasha explained her/his gripes about the difficulties in easily staying in touch with people internationally and described her/his idea for a messaging app. As the two continued to chat over the next few months, Hayden became convinced that Sasha was onto something. With Sasha’s software engineering experience and Hayden’s business background, Hayden was confident that the two could turn Sasha’s idea into a promising start-up.
Arrow Ventures:

**VC Partner: Casey Parker (MBA Student 3)**

Casey loves the risk and reward associated with transformational ideas. S/he earned a B.S. in physics from the University of the Pacific and an MBA from Duke University. Casey began as a research analyst for Guide Equities, where her/his coverage included client-server software and Internet 1.0 companies. In the 1990s, Casey was frequently quoted in the media on the emerging Internet 1.0 phenomenon, and in 2002 s/he was recognized as a top analyst by Fortune Magazine and named a Wall Street All-Star by the Wall Street Journal. S/he moved on to become a senior partner at AVE Partners, investing in the mobile web, technology, and health care spaces. Casey has also been an active angel investor, personally investing in almost 40 companies during the past decade. S/he joined Arrow Ventures in 2005 to nurture her/his interest in seed stage funding and help entrepreneurs with particularly transformational ideas build successful companies.

**VC Partner: Quinn Nguyen (Leadership Fellow)**

Quinn possesses a passion for international business. Born in France, s/he was subsequently educated in Israel and the United States. Holding a B.Sc. in computer engineering from Technion Israel Institute of Technology, and a M.Sc. and Ph.D. in computer engineering from Carnegie Mellon University, s/he has published several technical papers and holds one U.S. patent. Quinn has worked in large companies as well as start-ups. Prior to joining Arrow Ventures in 2010, s/he was CEO of a digital video start-up (IPO in 2008) after having served as the general manager of the European subsidiary of Compile Inc., a leading American electronic design automation firm. Over the course of her/his career, Quinn has held executive management, technical, and sales and marketing positions. S/he has tremendous respect for entrepreneurs, whom s/he sees as creative, brave, and constantly trying to beat the odds with their relentless conviction.

**COMPANY BACKGROUND**

**The Product**

The co-founders envisioned a messaging app that would allow users to easily communicate in real time with anyone around the world who had a capable device. After paying a small amount to purchase the app, users would not be subject to advertising and would not incur any additional charges. While the concept was simple, executing the idea was not.

ChatChat needed to be able to synch with any phone number worldwide. BlackBerry’s BBM was the only free texting service in the market, but it only worked among BlackBerries. While Google’s G-Talk and Skype were other options, both required additional logins. Because Sasha insisted that the app be easy to use, s/he was designing ChatChat so that the mobile phone number was the login—once the phone was turned on, the user would be logged in. Thus, the first major hurdle to overcome was creating an app that would work with any phone number and across any operating system.
Sasha had the basics of ChatChat’s back-end programmed. International prefixes and variations from one country to another were myriad—Sasha had recently begun sorting through regional differences but that would take months. Needing an iPhone developer to code the front-end, Sasha found a part-time programmer, Skyler Greer, through a friend from Carnegie Mellon. The hope was to have a private beta within the next three to four months to start collecting feedback on the app.

The Team

Sasha and Hayden had no trouble determining their roles when they launched ChatChat.

**Hayden** eagerly took on the CEO role (aka, the “hustler”). As s/he saw the Apple App Store evolve and heard more about Sasha’s idea for a messaging app, Hayden knew that the two should pursue the idea. Although Hayden could have explored a number of options upon graduating from the GSB, including returning to Ernst and Young (E&Y), Hayden liked the idea of leading a start-up. After three years at E&Y and earning an MBA from Stanford, Hayden was ready to apply her/his skills and be the key decision maker. With her/his credentials, Hayden could have followed a more traditional and predictable route at E&Y toward a promising career but instead turned down that option. Despite being relatively young, Hayden was eager to prove her/himself in something off the beaten path and a bit more risky—leading a successful start-up was just that. S/he liked the additional challenge but was also keenly aware of the compromises that s/he was making, especially financially. Hayden had already heard an earful about how silly s/he was for not going back to E&Y for just two years to have her/his GSB tuition forgiven—Hayden needed ChatChat to do well and felt that if s/he waited two years, it would be too late. And while Sasha had opportunities, including a promising position with Amazon web services, Hayden worked hard to convince Sasha to turn the messaging app from a side project into her/his main focus.

The first step Hayden took was to write a business plan. S/he spent considerable effort reaching out to friends and family to solicit investment and, with some help from Sasha, raised over $100,000. That, combined with savings that both Sasha and Hayden put into the start-up, got the team through the past year. Over the past four months, Hayden had focused on attracting seed funding and customer engagement, promoting ChatChat to potential users.

As the programmer, **Sasha** oversaw the concept creation and development of the product (aka, the “hacker”). S/he designed the architecture and did the coding. This set up worked well for Sasha, who thrived on tackling the technical issues and challenges. Originally, it had not been Sasha’s plan to pursue ChatChat full-time—s/he was going to take the job with Amazon and work on ChatChat on the side. However, Sasha did recognize that the timing made sense given the infancy of the App store. Between that and Hayden’s determination that the two pursue the idea full force, Sasha agreed.

Finding **Skyler** to do the iPhone programming provided more benefits than Sasha and Hayden had anticipated. Aside from the help with coding, Sasha was grateful to be able to discuss technical issues with Skyler—Skyler was a number of years older and had already worked for a start-up. Although that start-up was not successful, Sklyer’s practical knowledge was a great resource. Despite the fact that Sasha had been hesitant to pass up the job at Amazon, working
with Skyler had really helped to validate that decision. Over the past year, buoyed by Hayden’s enthusiasm and Skyler’s collaboration, Sasha knew that s/he had made the right choice and would do whatever it took to help ChatChat succeed.

**INTRODUCTION TO ARROW VENTURES**

Hayden met Casey Parker at a Silicon Valley Directors’ Exchange event where Casey was a panelist. Hayden approached Casey after the panel discussion and started talking about ChatChat. Intrigued, Casey agreed to meet with the co-founders over coffee to learn more. S/he immediately liked the messaging app concept, sensing that the two co-founders were potentially onto something.

Casey agreed that the establishment of Apple’s App Store would spur a frenzy in app development. Having followed the mobile web pretty much since its inception, Casey was excited about the possibilities for apps to further mobile web’s transformation of communication and access to information. As always, the challenge was to identify what initiatives had real potential.

Casey, Quinn, Sasha, and Hayden have had several detailed conversations about feasibility and ideas for overcoming obstacles. As CEO, Hayden saw it as her/his responsibility to maintain focus and keep the discussions on track. At one meeting, Quinn discussed the technical details in depth with Sasha and Skyler. Realizing the importance of Sasha winning Quinn’s confidence and support for the technology, Hayden gave them some space to talk. After a few hours, however, Hayden felt that it was time to bring the conversation back, inserting her/himself and encouraging Sasha to shift to funding. Another time towards the end of a meeting with Casey and Quinn at a café, the conversation shifted to personal lives and interests. In an attempt to wrap things up, Hayden repeatedly steered the conversation towards next steps for seed funding.

The co-founders and VC team had already come to agreement on ChatChat’s product vision and business plan (see [Exhibit 1](#) for highlights) at a previous meeting. The one area where Casey and Quinn were cautious was around the lack of advertising. Sasha had explained her/his extreme annoyance with advertising and how that in large part had inspired the ChatChat concept. After additional assessment, the VCs accepted that the following factors created a sufficient competitive advantage to overcome lost advertising revenue: (1) unique positioning achieved by lack of distractions, (2) appropriate upfront pricing, (3) potential to attract customers away from texting plans offered by phone service providers.

**ADDITIONAL INFORMATION FOR CO-FOUNDERS**

*Use this information to guide the motivations and approach of your role during the meeting:*

**Sasha Belenko’s Thoughts**

Over the course of the past year, Sasha has become staunchly dedicated to doing what it takes to launch ChatChat. S/he is passionate about ChatChat and its potential to shake up communication, especially internationally. Turning down Amazon was the right choice and both Sasha and Hayden have invested so much in ChatChat—$100,000 from friends and family,
almost 1.5 years, and their heart and soul. While Sasha has enjoyed working with Hayden, the experience has presented challenges. The most difficult issue for Sasha was getting Hayden’s agreement on the revenue model. Sasha’s inspiration for ChatChat largely came out of her/his severe annoyance with banner ads, game promotions, and other distractions. ChatChat would not include any advertising. Hayden, however, apparently did not see it that way. S/he instead felt that any reasonable opportunity to generate revenue had to be explored and considered. Sasha thought that it had been clear when the two were first discussing the idea and contemplating a start-up that advertising was off the table. Sasha felt somewhat misled, even betrayed by Hayden. The two had argued intensely about the issue over the course of a few weeks; although Sasha eventually prevailed, the issue created a rift between the two co-founders. Feeling that s/he could not necessarily trust Hayden, Sasha decided to learn more about the business side going forward to better analyze and make the case for doing the right thing. While this tension had not been fully resolved, Sasha and Hayden had come to an understanding and were able stay on the same page when discussing the revenue model with Casey and Quinn. Even though the VCs had already agreed to no advertising, Sasha was concerned that the topic might arise at the upcoming meeting.

What Sasha and Hayden both adamantly agree upon is the need to secure Arrow Venture’s investment. Sasha likes Casey and Quinn and, in talking with both, feels that they are extremely knowledgeable and respects their perspectives.

**Hayden Mendez’s Thoughts**

Both Casey and Quinn appear to be quite optimistic about the ChatChat app and the potential for success. Hayden feels that s/he has done everything possible to demonstrate ChatChat’s viability to the Arrow VCs and that s/he and Sasha are capable of taking the start-up to the next level. S/he has done her best to keep previous meetings focused on seed funding. Past discussions with angel funders got bogged down in technology, and Hayden was determined not to let that happen again. Although Sasha had the idea and was the technical expert, Hayden was the one who pushed to launch ChatChat and who brought the business experience and momentum. While Hayden has thrived over the past year, s/he was surprised about how stubborn Sasha was about no advertising. The two had invested basically everything in ChatChat, and Sasha had been unwilling to consider something that could potentially make or break the business. Hayden finally relented for two reasons: (1) Sasha’s arguments about competitive advantage and attracting customers away from traditional texting services were compelling, and (2) Sasha was in charge of developing the app, and without the app, the revenue model was irrelevant. Despite resolving this issue, Hayden senses that things just have not been the same between the two since—Sasha does not seem to trust Hayden like s/he did before.

Hayden has put her/his all into ChatChat and is determined to make it succeed. S/he walked away from E&Y and still needs to finish paying off her/his GSB tuition. S/he has dedicated her/his entire life for the past year to this start-up and just could not imagine having to walk away and start from scratch again. Hayden has loved being an entrepreneur and would have a tough time returning to a traditional job. S/he is very optimistic about obtaining seed funding from Arrow and is committed to finding a way to lead the start-up forward.
Exhibit 1
ChatChat Business Plan Highlights

- **Product:** easy to use messaging app that works internationally and is compatible across all phones and platforms.

- **Strategy:**
  - Volume
  - High penetration/adoption

- **Revenue Model:**
  - Small upfront cost to purchase the app (estimate $4.99 - $9.99)
  - No additional usage charges or advertising

- **Market Potential**

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<thead>
<tr>
<th></th>
<th>YR 1</th>
<th>YR 2</th>
<th>YR 3</th>
<th>YR 4</th>
<th>YR 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global smartphone shipments</td>
<td>300 million</td>
<td>500 million</td>
<td>725 million</td>
<td>1 billion</td>
<td>1.2 billion</td>
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</table>

  - Highest areas of growth are emerging markets such as Russia, India, Indonesia, and Latin America
  - Growth in smartphone shipments begins to level off after YR 5
  - Alternative to purchasing texting plans from phone service providers

- **Competitive Advantages**
  - First mover advantage
  - Ease of use
  - Works across phones/platforms
  - International communication
  - Lack of advertising and distractions
  - One upfront cost vs. ongoing charges