Podcast Episode #25 – How to benefit for your startup from the one and only hardware accelerator of Southern California, with Shaun Arora of Make in LA, USA

RAW TRANSCRIPT OF INTERVIEW

Balint: Talking to Shaun Arora of Make in LA, which I am very excited about. To start with, welcome Shaun to the podcast.

Shaun: Yeah. Thank you. It's great to be here and this is my podcast in debut. So please, bear with me.

Balint: An extra thanks for being available as a first-timer. I got introduced to you through a common friend, from Lebanon, who's at the same time a listener to this podcast. I'm glad that we have this opportunity to talk, as you're one of the notable accelerators in the U.S., which is concentrating on hardware. I'd say let's jump right into what Make in LA is all about. So…

Shaun: All right.

Balint: Shaun, can you describe briefly Make in LA and what are its offers, the main offers, its strengths?

Shaun: Yeah, sure. So, Make in LA is a hardware accelerator. It's a four-month program that takes place one or two times per year. We invest in companies and entrepreneurs that are trying to build a physical product, a hardware product. It could be a business-to-business product or a business-to-consumer product. It could be a medical device or a rocket, or a wearable, or IoT, or robots. That doesn't matter. What matters is that all these entrepreneurs share the same hardship in this early stage. That until you get past the series A, having an early-stage hardware startup is really hard and no one wants to fund you. People are scared.

And I saw this huge need in the market for a hardware accelerator. I kept on seeing hardware startups, I kept on seeing Kickstarter projects that would go out and try to do manufacturing and they fumbled, they stumbled, they tripped, and they made mistake after mistake that I've seen before. I spent the past 12 years doing manufacturing and helping big companies bring their products from idea to mass manufacturing. So I knew how to help some of these entrepreneurs. So I started to do some investments in as an angel investor, four years ago, and then two years ago formalized it in Make in LA.

And I was a little naive at first to think that the experiences of a mature company would transfer to a startup. And over the past four years I've been learning as much as I've been giving back. So it's been a very rewarding journey building Make in LA and having a chance to invest in these startups and support them.

Balint: Thanks for giving us an overview about how you got to this point that you had this background in manufacturing and so it was a logical progression, and also as an angel investor. And what are its offers, its strengths?

Shaun: Oh, yes.

Balint: Including the verticals or the hardware topics you concentrate on?

Shaun: Yes. So there are a lot of hardware accelerators out there. But when I have to look at them as a broad category, a handful of them are trying to support venture capital style businesses and we are structured with a VC fund. So we're very selective in the type of companies that we want to work with. And then, we work with our partners to really help those companies achieve some of milestones.

One is understanding what your works-like prototype should be in terms of minimum features, what your looks-like prototype should be. We really encourage entrepreneurs to figure out if their product has a market before they actually ever solder a part on. So before they even get to the works-like prototype, they're really working on this looks-like and trying to understand how the customers are going to interact, and that customer could be a business, it could be an individual.

So, month one - a lot of product market pre-testing, month two is a lot of product development. Month three is really focused on go-to-market strategy and month four is focused on sustainability and fundraising.

And I don't know any program that tries to cram all that into four months but it is essential. So one of our strengths is that we do this, we are very hands-on to try to accomplish so much in that four-month period. Very quickly we realized that we had to implement something called a Grip score. And we also had to implement a Flakey score with our entrepreneurs. So during the first few weeks twice a day the entrepreneurs are standing in front of the white board and talking about various metrics that they are measuring, various hypotheses that they're testing, and then they talk about their Grid score. And if they aren't charging full speed ahead at any given moment, then they aren't maximizing their time during the four-month period. So this is really a high-intensity, very high-touch accelerator program.

So in terms of offering, we offer them the hands-on program for the four-month period. We also offer them office space, access to our maker space, which is one of the biggest maker spaces in the world. We encourage them to prototype on our mass

manufacturing equipment, and I don't think a lot of maker spaces have mass-manufacturing equipment. We encourage that because it starts to build a sense of empathy for their contract manufacturers. So if you understand all the nuances with the printed circuit board assembly line, then six months from now or twelve months from now you have a problem with your supplier, you'll be in a better position to address it and you can move a lot quicker. And same goes with injection molding or CNC work.

Balint: And what about the focus in your accelerator in terms of hardware topics? Because you mentioned at the beginning that you have a lot of hardware topics, hardware in general is rather broad. But do you have some uniqueness? Because you're in L.A., which is known for SpaceX being there, and other similar companies like Hyperloop.

Shaun: Right, yeah, and I'm glad you mentioned those two. We also have companies like Medtronic, making medical devices, Dexcom just south of us in San Diego. We have a company called Ring doorbell that's doing amazing things in IoT. We have a company called Ubeam that is experimenting with ultrasound technology to deliver wireless power. And so we have an incredibly broad array of experiences. Oh, I forgot to mention optical. So, Santa Barbara's home to some of the best optical engineers in the country.

So we have a very broad skill set in Los Angeles that is able to address many different types of products.

Balint: And does it mean that in your program you concentrate on some hardware topics or…?

Shaun: No, no, not at all. No, because we're able to address all of these problems with the resources that are in Los Angeles.

Balint: Yeah. I see. And what is your further offering in your program in terms of finances to the startups that join your program? Your business model also for the accelerator?

Shaun: Right. So the way that we look at it, early-stage companies are always short on cash and so we made sure that everyone that we brought into the program was going to offer their services either for free or for equity. And so, for our program we offer a $75000 first check and a $75000 second check into the company and then we also reserve about $600000 for follow-on funding for later rounds. In exchange for the amount of money that we give we end up with approximately 10% equity by the end of the seed round. In addition to the capital, we do have 80 mentors that are active and hands-on with the program. I mentioned the space itself, which is very im-

pressive, the access and the equipment. And if you don't understand how to use the equipment, we have training for that.

We also have a number of perks thanks to partners like U.P.S. and Amazon, and Microsoft, and Autodesk, and Solidworks. So we offer quite a bit of services from our partners where they're not charging any money or they're charging extremely reduced fees for these incredibly powerful tools.

Balint: And what about your startup graduates that graduated from your program? Because you've already had a few cohorts that it took place this program. And what was the most successful one or the most notable one in your eyes?

Shaun: So there's three companies that have really done well in terms of receiving venture capital financing and moving a business forward. One of them is making a wearable device that integrates with a company's ERP system, ERP stands for enterprise resource planning, and it's basically the backbone of any type of manufacturing or logistics business, it helps with managing inventory, with scheduling work orders and jobs, and in some cases it even goes down to managing everyone's hours and what activities people are working on, what transactions people are making in a factory or in a logistics facility. They came to us with a product that they were actually designing for consumers and we help them to pivot to a B2B model. And they are looking like they are going to close their series A towards the end of this year.

We have another company that went from a concept all the way to an actual prototype in our program.

And so, there's all these accomplishments that we've had that were still fairly new and we didn't expect any of the companies to actually have an IPO or have a major M&A for at least another five years.

Balint: Yeah, it's a long game, basically, it takes some time. Especially with hardware. Anyway, the development is longer than for software.

Shaun: Right.

Balint: On your website I saw, and you also now in the interview you mentioned that you help even with further funding steps after the program. And how does that happen? And the scaling? For example, coming to mass manufacturing.

Shaun: Yes, absolutely. So, our second check is $75000. Half the company is in our program and qualifying for that second check. And it's interesting because it's enough to give a green light to go forward but it's not enough to go through mass manufacturing. And that's intentional because we want the entrepreneurs to start to build al-

liances, to start to develop capital partners on their own and not be so dependent on us as being the sole provider.

The follow-on funding is generally structured to maintain our parada and support them as they're growing. In terms of actually getting all the capital needed for mass manufacturing, we do our best to support the entrepreneurs. For example, after this call I'm going to be introducing one of our entrepreneurs to a person who helps with financing for inventory. This entrepreneur, she built up this incredible business that is trying to provide electricity to people who are completely off the grid, living in sub-Saharan Africa on a couple of dollars a day. And these are people who are powering their lives, who are reading books by light of kerosene, which has numerous health hazards, it's dangerous, it's inefficient. And she found a way to design a product that would get the price of electricity down to the same price of kerosene. So all these people, all these energy companies are eager to switch over to her system. So she had such a huge demand for her product that she needed some way to finance the inventory.

As a hardware startup, there's several ways to do it. But when you go to investors and say, "I'm raising money to cover my inventory costs, most investors would say "no." It's not a good use of the capital. You generally get a line of credit, some working capital. And so we've scoured the world looking for some of these people that could support entrepreneurs and we have great relationships with many of them.

Balint: That was an interesting example with the social impact as well because you said that it's for supporting the poor regarding their electricity needs.

Shaun: Exactly. We're also a greedy venture capitalist so it's not completely altruistic. They are a for-profit company registered as a B corp. B corp is a new classification of companies where you have a goal to make a profit but you also have these other metrics that you measure yourself with. And so it allows you to defer some of your profit to some sort of other benefit and we help them with navigating that and they set up as a B corporation, which is great.

But I believe that this company is really filling the gap that so many appliance companies built about 100 years ago when our entire Western civilization was just starting to modernize. And in the United States you can get your dishwasher, you can get your telephone not by going to a store and buying it by leasing it or renting it. And through having access to electricity, first off, they could charge their cell phones which is vital and many African countries for just doing business and survival. But it also gives them access to a refrigerator. They can now say add 10 cents a month to their bill and get a refrigerator. And if they design their refrigerator themselves and they have a talented designer for extreme affordability, they can become as big as a General Electric. They can basically become the next appliance business because

every single appliance business – Samsung, Whirlpool - all these companies have moved upstream, higher, like they've all moved to supporting people who are willing to pay $800 for a washing machine or a dishwasher.

It's ridiculous that we've neglected over a billion potential customers just because they don't have electricity. So this company has a huge potential. Yeah, like that there is a social component to it but this could also be a really strong business.

Balint: Yeah. It reminds me a little bit of the interview I had with Alan Klement in… I think it was episode 18, when we talked about why not to out-innovate your customer. And we're talking about the Job To Be Done concept and there one thing was, one example that we analyzed, was this company called Godrej, this manufacturer from India, and that they had a product called chotuKool. And there they noticed that basically one of the issues that they ran into is that people in India, the poor, they didn't have electricity and this product was supposed to be a fridge that they buy for home usage. And this is one of the big issues that if you don't have electricity or you don't have any other electrical appliances, how can you take on a new innovation if you don't have the right facility.

Shaun: Absolutely.

Balint: Yeah, that's vital. So let me ask you this now that we're talking about such, let's say, inspiring things, so empowering people and giving electricity. What is your personal inspiration for your work?

Shaun: Oh, I could go and start a business and I could have…. I could spend as much effort as I'm doing now in building that business. And it could be great. I much prefer to have a bigger impact. I much prefer to be a resource matchmaker. And so by being able to impact not just one company but tens of companies or hundreds of companies, I am able to cast a bigger shadow, to be able to help more companies. If you remember this story *The Catcher in the Rye*, he was standing on the cliff trying to prevent people from falling off. And I feel like I see mistake after mistake after mistake in product development, in marketing and fundraising. And I want to capture all these people, I want to shake them up and say, "Don't make this mistake again. I've seen this done before. Learn from this guy over here who made the same exact mistake. Go talk to him right now and he'll tell you why you shouldn't do what you're thinking of doing right now. Or maybe he will give you some insight so that you can come to that decision yourself. Or maybe he'll do his best to scare you but you know that you didn't do something completely different and you're going to be just fine."

Balint: You have this new cohort application happening. Can you tell us when the deadline is and if there's anything noteworthy with regard to that?

Shaun: Oh, yes. So a previous application we received about 264 applicants and we only took in two companies, and that was a huge mistake. We were almost too picky when we chose our last cohort. This time we know the value of having a cohort where you see people next to you who are hustling and you get inspired to work hard. So our target is to have 8 to 10 companies in this cohort. The deadline is May 14. So it's coming up in a few weeks and we are hoping to find these eight companies. I'm looking through the applications and we still haven't reached that magic number of eight, eight amazing companies. So there's still opportunity for companies to apply if they're interested. If you're building a hardware startup and you're before series A and you're after the prototype level, please consider applying at makeinla.com/apply.

Balint: I encourage people to do that. I think you're unique also because in Southern California you're the only one.

Shaun: Yeah, yeah. And it's unfortunate because there's so many great things about being in Southern California. For example, our mayor likes to say that you can arrive from anywhere in the world to Los Angeles and within 20 minutes you could be in a place that feels like home. We have over 224 languages spoken in the city of L.A. And so it's very much an international city where you could find your tribe, find your culture. It also opens you up to customer discovery on a more global level. And so it's a very exciting place to be if you're trying to build a global hardware business.

Balint: You very briefly mentioned now one mistake that you took on two companies versus now that you're striving to get 8 to 10 excellent companies. What other mistakes have you made along your journey? I think we can all learn from mistakes and we usually learn from mistakes.

Shaun: I have made so many mistakes that it won't be covered in a podcast. We will need years to talk about my thousands and thousands of mistakes. So I don't even know where to begin with that type of question.

I think that one thing that I still struggle with today is time management. And it's so easy, especially for Americans, to put full time 80-100 hours into your business. And I think that's a mistake because that doesn't give you enough of a buffer to weather the hard times when you really need to put in those hundred hours.

For example, I was building a business, I was running the supply chain team, and all of a sudden we were implementing a new ERP system and things went bad. And a lot of people from the company started to leave and everything fell apart. It was at that moment where I started to work over 100 hours a week to save the whole system and to bring the company back to life. And it was hard work but it was incredibly rewarding.

And I was only able to do that because I had freed myself up to afford myself that. And I see so many entrepreneurs say, “I have an extra minute in my day, I'm going to squeeze out a little bit more.” I'm going to add some more stuff to my to-do list because there's an endless number of things that you could add to your to-do list.

And so I would encourage entrepreneurs to hustle but also find a way to find balance, to prioritize, to create these moments where maybe they may take on another hobby like exercising or they say, “I'm going to spend four hours per day with my family.” And have it as a force factor to really cut out the things that don't matter because there's so much that we can do to waste our time in a day.

Balint: This is something that you would highlight definitely?

Shaun: Absolutely.

Balint: Yeah. I would say let's move on to the last round of questions, there’s four big questions where maybe some of the questions will also relate back to some things like the mistakes question that I've just had.

Shaun: Okay.

Balint: So this means Shaun I will ask you four short questions and it would be great if I could get a short answer.

Shaun: Okay.

Balint: So the first question. If you could time travel to the time when you were younger, when you were in your 20s, what notes would you give yourself?

Shaun: So the biggest thing I would say to myself is that try not to measure yourself to someone else's expectations of yourself. That you're an individual and so don't try to fit the mold that someone else is making for you.

Balint: That's good because every life is individual and different. So it doesn't make sense to measure yourself up with somebody else who had a different life and different references. And also what's important for that person. So I agree.

Shaun: Absolutely. And just on that note, I know you wanted a short answer, but a lot of times people graduate with a certain major and they say, “Okay, I got this this degree in biomedical engineering, I need to be a biomedical engineer, I need to put that to use.” And so often they are miserable because they throw themselves for years into a career that they're not passionate about.

Balint: Yeah. I also saw it, just still keeping it rather short, that you have a very interesting background. So you got to see many things, to experience many topics.

Shaun: I did and it goes back to that… The Steve Jobs motivation speech, he talked about all these dots in our lives. You don't really get a chance to connect the dots except for in hindsight. So he talked about some class that he took when he dropped out of college where he was just playing on topography and that became instrumental when he was building the desktop platform for the Mac. I had no idea that my cultural anthropology experience would be relevant in manufacturing but it turns out to be incredibly relevant in a manufacturing focused accelerator.

Balint: In what way?

Shaun: Oh. So as an entrepreneur you go on and you try to figure out if people are going to want to buy a product. You can design your surveys to basically bias you and slow you down or you can design your surveys to really be inquisitive. And being a cultural anthropologist you have to figure out how people are thinking without any bias because you are there to learn, you are there to grow, to understand how people are going to interact with the product, how they're going to buy it, how they're going to open it, what sound they expect to hear when they click that button. All these little nuances of the product.

Balint: Yeah. All right. The second question: if you had to name one book, which one had the biggest impact on your career?

Shaun: Oh, this is a really tough one. So I have had many careers in my life and each of those careers have had a different book that has helped me. So in my first job I didn't know how to be a manager. And so it's a cheesy book but Dale Carnegie's *How to Win Friends And Influence People* was really helpful in just getting out the engineering and the business mindset and getting more comfortable with people.

In my advertising background, there was a number of books that were really helpful. And in the manufacturing background, there were some great books about process flow. But I think in the startup world one of my favorite books is *The Lean Startup* and that really teaches you how to move fast, how to make experiments and that things don't have to be pretty. You could build ugly prototypes and perhaps you should, that you should never fall in love with your prototype because you want it to change, you want it to evolve. And if you do make a pretty prototype, you're going to be less open to ideas and criticism. Am I doing better with the short answers? I'm really trying here.

Balint: Yeah, yeah, yeah. It's good. It's very good. I like it. It should be short but it should also make sense and trying to be complete. So the first book, I read it. It was one of the first books that I've read which is in connection with soft skills I think it's a really good book. *The Lean Startup,* Eric Reis*,* also I read it. It's a good book, very good book.

The third question: habits. What kind of habits do you have? We mentioned now, we talked a little bit about time management which was regarding the question mistakes, but do you have some habits, even time management habits, where you could optimize your day?

Shaun: So I'm in no position to give advice on time management because I'm not the best at it. My schedules are completely erratic. But I've been doing a number of things. I've been experimenting with Trello to basically move my emails into Trello, manage it that way.

One of the habits that I have had for pretty much my whole life is measuring. Like I would have… In college I would measure my happiness score. And at first it was a 0 to 10 on a daily basis. And then I started doing plus one, minus one or zero for every single day. And then I started to apply that to different activities. So let's say I wanted to learn a new language. I wanted to learn French. Then every single day that I practiced, I put the plus one. Every single day that I could have practiced but I didn't, I put a minus one. And over the course of time you see your score go plus or minus based on how hard you're working. And if you measure, you're going to improve. So, yeah, that's one of my favorite habits.

Balint: Yeah. That's important to keep track of your steps, of your progress, even if they are small. But if you keep track of them, then you see the progress and how they adapt and by small steps you will get to your bigger goal.

The Trello. I also use it. It's more and more heavily. I love it, this pull system that is also used in manufacturing. Instead of pushing on you, on yourself, the huge amount of tasks and then you're flooded, instead you pull the next task when you have the resources for it. Yeah.

The last question. In your work, if you had to name one or two critical cultural differences, because you work also, I mean you mentioned it that applicants are coming from the whole world, so what kind of cultural differences have you run into that you could overcome?

Shaun: Yes. So one thing is that people are generally shy, that they don't want to go out and talk to people and get their opinions. I would say it's for any one particular culture, although I do see it quite a bit in Japan, in India, where people are reluctant to show their prototypes to the world but even in America people are reluctant. If you're an engineer, you want things to be perfect and pretty and functional, and so everyone really fights that. And that's a cultural difference between typically the inventor engineer and the business person, mass manufacturing, mass product person.

Balint: Yeah, I've seen this as well even from interviewees. I heard it from one interviewer, Mattias Lepp from Click and Grow that he is from Estonia and that he could see the same thing, especially Estonians. He emphasized that they are shy talking to people and customers and so on.

Shaun: Yes, but I know some very unshy Estonians out there. So it's not a universal trait in one particular culture. It's really the more you throw yourself out there, the more you're open to feedback, the more you have a learning mentality and you're curious, the faster you're going to learn, the faster you're going to grow.

Balint: Yeah, that's an important thing to mention. So now before we conclude this interview, there is this point regarding availability and reachability. What is the best way, Shaun, for the listeners to reach you, by email, social media?

Shaun: Yeah. So my Twitter account is @ShaunFromLA and Shaun spelled S-H-A-U-N. My email address is shaun@makeinla.com. And there's times when I do get overwhelmed with email but I do try to reply to all the emails, and if you are succinct in email, you will get a reply. Yeah, those are probably the two best ways to reach me.

Balint: Yeah. Thanks for the interview. It was awesome to hear about Make in LA in such details. I encourage the people to visit the website because you describe in steps and in quite some details the program, how it's made up in different months, during these four months. But of course we discussed such topics, which are between the lines so I hope that the listeners could get some valuable information out of it. At least me, for sure I got. Thanks again.

Shaun: Hey, thank you. It's been great talking with you.