Khalil Tawil (Yale Law School 2019) was frustrated. His startup venture, Umi Kitchen, was experiencing turbulence and flagging. With funds running out from his venture capital raise, Tawil had to confront the reality that Umi was struggling and possibly unviable, and that he might have to begin to wind up operations.

Umi was conceived in 2014 when Tawil entered Yale Law School. Two years later, in December 2016, the journey might come to an end, unless Tawil could pivot the venture to a new tenable strategy. As Tawil looked at the operating results from Umi’s first nine months he wrestled with the best path forward for his venture, his investors, and himself. Additionally, Tawil could not help but replay the many decisions he made that propelled him from 127 Wall Street in New Haven, home to the Yale Law School, to Brooklyn, New York, where Umi was headquartered. The Umi concept was about creating a new marketplace for peer-to-peer food preparation and consumption — a business opportunity Tawil thought of as the Airbnb for food.

After yet another month of disappointing results, Tawil began to compose an email to his investor group to lay out options for what Umi should do next. As he began to type, Tawil leaned back in his chair and thought about the Umi journey and the numerous choices he made to move from idea to embryonic enterprise.

Tawil was frustrated because he thought that he made every possible right step and decision for an aspiring startup entrepreneur, even if he was inexperienced in food service, technology, and startups. Tawil had a compelling story for his project. He drew inspiration from his grandmother and mother, who had started a small bread-baking business in Montana as immigrants from Lebanon. Umi was a nod to this legacy, and the company name, in Arabic, meant “my mother.” With Tawil’s pedigreed background — West Point, Goldman Sachs, and Yale Law School — and his vision of a peer-to-peer food marketplace, Tawil could passionately tell a compelling story about Umi. This important skill had helped attract both talent and capital. Unfortunately, he was beginning to understand that there was a gulf between the story and the vision, and the gritty reality of building and operating a startup.

Through Umi, Tawil set out to create a marketplace (akin to eBay) where independent producers of home-cooked meals could sell to consumers. The concept hit several major investment themes that appealed to entrepreneurs and investors. Umi created and operated a virtual peer-to-peer marketplace — meaning Umi did not produce or own anything, but instead matched buyers and sellers. The company also tapped into the sharing economy by allowing consumers to access the unused capacity of producers’ kitchens and free time.
Tawil engaged in entrepreneurial best practices. He tested his concept locally in New Haven in multiple iterations to assess viability. He won and participated in a summer fellowship at the Yale Entrepreneurial Institute — a key opportunity to incubate the fledgling project — with cash to deploy. He attracted talented early employees and co-founders with technology and food credentials to supplement his own lack of experience. He smoothly raised $1.3625 million in venture capital, in an oversubscribed round, from early-stage investors led by BoxGroup, a distinguished New York-based investor and a crucial endorsement. Another first-round investor of note was celebrity food and restaurant entrepreneur Davis Marks, a multiple hit success story.

To launch Umi, Tawil left law school and relocated to Brooklyn, which seemed like the ideal starting market. This population-dense area was rich in potential candidates, on both sides of the Umi platform — cooks and consumers.

Tawil twisted every decision over in his head. What perplexed him was that it seemed like every choice was indeed the right choice. Umi actually looked like a startup cliché — it checked every box. Tawil was puzzled by what had gone wrong. Was it the delivery strategy — the “last mile” conundrum? Was it the pricing strategy, at approximately $15 per meal? Were the partners — Gary, Debbie, and Dwayne had appeared so ideal at the time — the wrong people? Was it the competition in Brooklyn or, as hard as it was to conceive, the idea itself?

Regardless of what happened to Umi, Tawil had learned more in the 24 months than he could have ever imagined. He was hooked on being an entrepreneur. Despite the rollercoaster ride, false starts, disappointing results, and relentless work, it was all fun and exhilarating. The experience with Umi provided the opportunity for non-linear emotional and financial reward that Tawil so craved.

Tawil did contemplate whether this was the ideal and only form and type of entrepreneurship — the technology-centric, venture capital, create a new market and industry, go-big-or-go-home model had become romanticized and idealized in the popular media. He wondered whether there were different, perhaps less risky, entrepreneurial models that could increase the probability of success and maybe even have different types of investors — or no external investors. But he decided that investigating other forms of entrepreneurship was a future challenge and opportunity. At this point, he was still all-in on Umi.

Tawil leaned forward to jot out his investor communication. What exactly should he communicate and how?

**The Umi Kitchen Story, as Shared by Khalil Tawil**

**Introduction**

Umi began as a simple idea: Home Cooking, Delivered. The concept was inspired by my mother who, in 1976 at the age of 16, emigrated from Beirut, Lebanon to Missoula, Montana with her siblings and my grandmother. My grandmother is illiterate — she cannot read or write in Arabic or English — but she is
the toughest woman that I know. A single mother tasked with raising nine kids on her own, she had
developed an unassailable grit and entrepreneurial spirit by the time she arrived in the United States.
What she lacked in formal education, she had learned through repeated hardship. She possessed — in
spades — the emotional intelligence, work ethic, and resilience that has fueled the success of so many
immigrants.

Once they arrived in Missoula, my grandmother quickly set to work to figure out how to provide some
income for her family in their new community. She is an incredible cook, and she taught my mother her
secrets of preparing Lebanese cuisine. Harnessing these talents, my mother and grandmother
established a small food venture in Missoula, very quickly turning it into a going concern. My mother’s
family comes from a small village in the Bekaa Valley of Lebanon. In this village, there is a tradition of
baking a particular type of Lebanese flatbread, and my grandmother brought the family recipe to
Missoula. She and my mother baked 150 lbs. of this bread twice a week, selling it to their community in
Missoula. This small business provided financial stability for my mother’s family in their earliest days in
the United States.*

After graduating from high school and attending college and pharmacy school in Montana, my mother
moved to Arizona, where she and my father raised my younger brother and me in the idyllic Phoenix
suburbs. Despite working overtime during our childhood, my mother put a home-cooked meal on our
dinner table every night. Cooking for others was how she showed affection to her family and friends,
and nothing gave her more joy than to see the look on the faces of guests savoring their first bite of her
cooking. My fondest childhood memories are of weekly dinners where my mother invited dozens of my
friends over for a traditional Lebanese BBQ with delicacies such as kebabs, humus, baba ghanooj,
tabouli, and more.

Prior to starting Umi, I spent six years as an infantry officer in the United States Army, attending the
United States Military Academy at West Point, undergoing extensive infantry training and deploying
three times to Afghanistan. Like so many children, I never truly appreciated my mother’s cooking until I
left home. But luckily, she continued to provide me sustenance — both literally and emotionally — by
vacuum-sealing and shipping her home cooking to wherever I was stationed or deployed, from Ranger
School in Florida, to far-flung locales including Egypt, Italy, and Afghanistan.

I share this background and history because it is crucial to understand the story that compelled venture
capitalists (VCs) and Angel Investors to bet on me — a twenty-something Juris Doctor candidate and
former military officer with little business and no entrepreneurial experience — and Umi, with our lofty
vision of empowering local culinary entrepreneurs to bring home cooking to everyone.

After completing my military service in the spring of 2014, I spent five months as an intern in the private
equity arm of Goldman Sachs & Company. The internship was a baptism by fire into the business world.

* A YouTube video of my mother baking this bread had some 100,000 views:
Before Goldman, I couldn’t distinguish a balance sheet from an income statement, and I thought that EBITDA sounded like a poorly named military weapons system. But I learned quickly, and appreciated the opportunity to study and evaluate businesses, come up with theses about management teams, industry headwinds and tailwinds, and ultimately to allocate capital when there was conviction about a particular thesis. For me, the most attractive characteristic of investing is that investors are held accountable. If a set of theses proved true, the firm makes money; if theses proved false, the firm loses money. Yet, I possessed a higher-than-normal appetite for risk. During my time at Goldman, I came to realize that the job I loved most in the military was serving as an infantry platoon leader in combat. This job had two defining characteristics: (1) non-linear emotional upside when a mission was successful, and (2) full accountability when a mission failed. I resolved that, when possible, I would endeavor to pursue opportunities that possessed those two characteristics. In the near term, entrepreneurship seemed to be the most likely path towards that goal.

I entered Yale Law School in the fall of 2014 with the goal of using my time there to explore nontraditional endeavors in the private sector. During my first semester, I fortuitously met a classmate, Gary Gilliland, who had similar aspirations. We quickly began brainstorming how to start a venture in which we would (1) be in control of our own destinies, (2) flex our creative muscles, (3) have full accountability for failure, and (4) achieve non-linear emotional and financial upside in case of success. We kicked around several ideas throughout the fall, including starting a search fund, launching an investment fund, or creating a startup with the intent of raising venture capital. In December of 2014, we settled on launching a startup.

There were many definitions of startups, but entrepreneur Eric Ries captured it best: “[a] startup is a human institution designed to create a new product or service under conditions of extreme uncertainty.” By 2014, startups had become something of a cottage industry with a dizzying number of books, blogposts, startup incubators, and startup accelerators available as resources for the aspiring entrepreneur. Correspondingly, the amount of venture capital available to entrepreneurs was unprecedented. Globally, according to an Ernst and Young report, $55 billion was invested in 2013, $96 billion in 2014, and $148 billion in 2015 — U.S. investment in startups was $36 billion in 2013, $58.2 billion in 2014, and $72.3 billion in 2015. Young, hungry, and credentialed fledgling entrepreneurs with a knack for storytelling and a penchant for hustle could find ample support.

Vision and Concept

Neither Gary nor I were technologists, and we did not have deep technical expertise. We knew that it was highly unlikely for us to create a product that innovated on difficult technical problems such as machine learning, artificial intelligence, or robotics. As we narrowed our focus, we became enamored with the sharing economy, where people rent or buy assets directly from each other, coordinating through the internet. In 2014, Uber had just arrived in Connecticut; RelayRides was displacing traditional car rental agencies; and Airbnb was well on its way to becoming more valuable than Marriott, Hilton, and Hyatt. None of these ventures owned any physical assets; instead, they leveraged technology to decrease transaction costs, increase transparency, and aggregate and display enormous amounts of
data, allowing consumers to transact with each other in a sort of second coming of the peer-to-peer economy (with eBay representing the first wave). We became fascinated with the asset-light model and began exploring how we could bring it to other consumer categories.

One obvious category was food. Americans spent $1.46 trillion on food in 2014, according to USDA statistics, and for the first time spent more on food outside the home (50.1%) than on food at home (49.9%). For comparison, USDA reported that Americans spent $308.4 billion on food in 1980 — 39% outside the home, and 61% at home. Additionally, during the time we were ideating, a number of highly capitalized startups were attempting to use the internet to innovate on food consumption. In 2014, investors invested $1.2 billion into U.S.-based food tech companies, and in the first half of 2015 alone, investors invested $750 million in U.S.-based food tech companies. These companies were leveraging the internet to innovate on how Americans and the world eat.

By 2015, companies were taking different approaches with the same goal: capture a portion of U.S. consumer food spend. Munchery (raised $85 million Series C in 2015) and others like it (e.g., Sprig, Maple) were attempting to build “full-stack” delivery-only restaurants. Blue Apron ($135 million Series D in 2015) and others (e.g., HelloFresh, Plated) were building meal-kit delivery businesses. Postmates ($80 million Series D in 2015) and others (e.g., DoorDash, Caviar) were building the delivery layer to service existing restaurants looking to reach consumers who wanted on-demand food delivery. And Instacart ($220 million Series C in 2015) was building the delivery layer for consumers who wanted grocery delivery. Yet, despite all of this activity, there were no seriously capitalized startups attempting to empower neighbors to feed each other.

We initially conceived of a peer-to-peer model in which neighbors would open up their homes to strangers to dine with them. Two venture-backed companies (“EatWith” and “Feastly”) were pursuing a similar model. After doing extensive diligence, we were not confident that the opportunity was big enough; we didn’t believe the assumption that consumers would eat at a stranger’s house more than once or twice a month. We did, however, still believe that a successful business model should exist at the intersection of food, peer-to-peer, and the sharing economy. Rather than create a novelty business that consumers used once a month, we wanted to build a utility that consumers used several times a week. The idea that we arrived at was actually quite simple in concept: home cooking, for everyone. We would build a platform that allowed people like my mother to build their own home cooking delivery businesses. The crux of our idea rested on the following assumptions:

(1) There is consumer demand (albeit, unrealized) for home-cooked meals prepared in small batches by local home cooks. In startup parlance, there was a “pain point” for busy families — they do not have the time or know-how to fix their families a home-cooked meal every night;

(2) There was an ample supply of cooks who have (i) a skill (cooking) that they are unable to monetize, and (ii) access to an existing piece of fixed capital (i.e., their home kitchens) that allow them to begin producing with little to no initial investment;

(3) Society is ready to overcome the trust and safety issues associated with ordering food from a stranger; and,
We could navigate the complex regulatory environment restricting selling food prepared in home kitchens.

Though Gary and I were neophytes in the startup ecosystem, we quickly recognized that we were endeavoring to build one of the most difficult, but attractive, startup models: a two-sided online marketplace. A VC guide by Version One defined online marketplaces as “a type of e-commerce site that connects those looking to provide a product or service (sellers) with those looking to buy that product or service (buyers).”9 The ubiquity of the internet encouraged investors to view online marketplaces as true examples of greenfield opportunities, bringing together buyers and sellers in ways not previously possible. When a marketplace achieves liquidity, there are massive competitive moats and potential for long-term profits at scale. However, this guide continued, online marketplaces were complex, requiring careful choreography to ramp up sellers (the supply side) and buyers (the demand side) in unison. In essence, online marketplaces were almost impossible to build, but once they achieved liquidity, there was a hugely defensible upside.

In 2010, one prominent VC published a simple graphic highlighting the many online marketplace startups attempting to dismantle various Craigslist categories. This chart remains a helpful and fun visual representation of the power of online marketplaces:
The archetype for a seller on the Umi platform was a stay-at-home mom (or dad) and our value proposition to them was simple: make extra money doing what you love, from the comfort of your own home, while feeding your neighbors.

The archetypes for Umi buyers were (i) a student or young professional for whom cooking a single meal was too wasteful, or much of a burden, and who would buy a home-cooked meal several times a week; and (ii) a busy parent (dual-income households or otherwise) who were unable to regularly provide their family the wholesomeness, healthiness, and warmth of a home-cooked meal.

Marketplaces perform two primary functions: aggregating sellers and their inventory, and facilitating the transaction associated with the exchange of goods or services between buyers and sellers. One crucial
aspect we had to think through was what business model we should choose for our marketplace: how would we make money? The Version One guide outlined several ways to monetize a marketplace, including listing fees (Craigslist), transaction fees (Airbnb), subscription fees (Angie’s List), enhanced seller services (Etsy), and lead-generation fees (Thumbtack).

We elected to monetize in the simplest manner, by charging a simple transaction fee on every sale. To jumpstart our marketplace, we needed sellers and we wanted their barrier to entry to be as low as possible. Charging an upfront subscription or listing fee might deter a seller before they even created an Umi account, let alone sold a single meal. Later, as the model matured, we could begin experimenting with other monetization strategies.

By January 2015, we had landed on the basics of our startup. The goal was an online marketplace for home cooking, connecting busy families with home cooks in their community who would prepare signature dishes for them. It would be called “Umi Kitchen,” and we would charge a fee for every meal sold on the platform. “Umi,” the Arabic word for “my mother,” was a nod to the hard work of my mother and grandmother, who relied on the universal language of food to build relationships and a family business when they emigrated to the United States.

Our next big step was influenced by a looming January 21, 2015 deadline for an application to the Yale Entrepreneurial Institute (YEI) Fellowship, an 8-week “intensive summer boot camp” with the purpose of incubating ventures during the summer to be ready to launch by summer’s end.* The most critical component of the Fellowship was a $15,000 unrestricted grant designed to support Fellows in their incubation/ideation. Having done no real work beyond conceptualizing the model, we crafted a simple business model for the application and received a final-round invitation to pitch the YEI selection committee on February 13, 2015.

Testing the Idea

Armed with an idea, a business name, and a basic business model, we set out to validate our vision. Every startup needs a scrappy origin story — ours began with tests using Craigslist to see if there were potential sellers in New Haven. In February 2015, we posted an ad on Craigslist New Haven and Craigslist NYC in the “gigs offered” section, asking if anyone would be willing to prepare home-cooked meals for a family of four. Within 48 hours, we had received 18 New Haven responses and 24 NYC responses from people willing to try this. We were pumped — if not a bit naïve — that there was at least some interest from sellers motivated to cook for their neighbors.

In preparation for our YEI Fellowship interview, we followed up on one of the most compelling responses to the Craigslist ads:

* For details on Yale University’s YEI Fellowship, see http://dwighthall.org/yei-fellowship (accessed August 2, 2019).
Hi good afternoon,
My name is Janett, I'm from Wallingford (15-20 min away) And I was very interested in your add.

My mom is a caterer and makes home made meals to many families daily. She always makes wholesome foods with it’s main dish, side and a salad on a regular bases. Half of her meals are Mexican bases food but primarily cooks international foods. My mother 25 years ago once worked as a personal chef for a wealthy family in Mexico and had traveled many places with the do cater their parties. So she has a lot of experience.

I know my mom would enjoy making a little extra to earn a little extra since she is a stay at home mom... (And the fact the she can feed people real food)

If you are interested or have further questions: feel free to contact me at my email xxxx@gmail.com

[...]

Hope to hear from you soon
Janett

Spelling was far less important than cooking ability, we figured — here was a heartfelt message from the ideal supplier, in our own backyard! A stay-at-home mother with previous catering experience who was motivated by feeding people real food while making a bit of extra money. We only had 15 minutes for our YEI pitch, and recognized that that it would be powerful to bring this woman’s cooking — ultimately our “product” — to the selection committee. On the morning of the pitch, I met Janett in the parking lot of a Best Buy in Hamden, CT and gave her $50 for 40 tamales, transferring them from the back of her car to mine in a tinfoil pan. Standing outside the YEI venue, we frantically packaged the tamales into individual packaging we bought from a pizza shop down the road. We slapped some hastily designed stickers on the packaging, and served up the very first Umi meal to the YEI selection committee. We were the first Yale Law students to apply for the Fellowship, and while the committee was skeptical about regulatory barriers, total addressable market, and the notion that neighbors would order food from strangers, they praised our resourcefulness. Two days later, the committee offered us one of the 10 YEI Fellowships. We had until February 23, 2015, to respond. Here are some pictures of our hastily arranged home-cooked tamale lunches:
Adding a New Co-founder

Gary and I knew we had little experience in the world of food and food service. We, of course, appreciated the opportunity to eat a delicious home-cooked meal prepared with love, but we were not cooks, and had no subject matter expertise in the hospitality business. In early February 2015, I pitched the Umi concept to a friend who was a Yale undergrad, and she immediately referred me to her classmate, a Yale College senior named Debbie Marks who had been running her own underground catering business since freshman year. Debbie, we soon learned, had hospitality baked into her DNA. Her father is famed New York restaurateur Danny Marks, and she grew up in the hospitality business. Creating delightful experiences for people through food was her passion. She was also an incredible cook, having won Yale’s undergrad culinary competition, “The Final Cut,” two years in a row. We pitched Debbie on the idea, and she loved it. Luckily, she hadn’t yet decided what to do after graduation, and we resolved to spend time together to see how we worked with each other. Gary and I were comfortable becoming partners because we had become friends over the course of the school year, whereas Debbie was a complete stranger. We all agreed that we would “founder date” by working together on the Umi pilots throughout the semester, and then evaluate our working relationship once the school year concluded. If things went well, we would move forward as a team. If we ended up not working well together there would be no hard feelings and we could part ways amicably.


Satisfied that there was enough interest from potential sellers to move forward, we turned to validating consumer demand. Our model had many moving pieces, so our tests sought to isolate one piece at a time to learn as effectively as possible. In this case, because we were testing demand, we wanted to ensure smooth execution of other aspects of the model — in particular, the supply side. Fortunately, we had the perfect cook in mind — my mother. After all, the business was inspired by her, and we knew she could prepare large volumes of delicious food without stressing about her operations. Plus, flying my
mother out to New Haven to test the model would provide a convincing example of our creativity and resourcefulness — a crucial component for the story we would later pitch to investors.

We set February 20-24, 2015 as the week to run our demand-side trial, a test to see whether there was any buyer demand for home cooking. We realized this test would not be conclusive, but we wanted to understand whether the model was worth pursuing. Before my mom could starting feeding the New Haven community, we had to build a bare-bones operation. Using off-the-shelf technology, we strung together an operational system consisting of a website for telling our story and posting menus (Squarespace), a reservations system for ordering (YouCanBookMe.com), and a mailing list for communicating with customers (Mailchimp). We also built the framework for a brand — logo, color palette, brand values, etc. During this first trial, we suggested that buyers donate $10 per meal via Venmo or cash.

It was also during this time that we made the crucial decision that delivery would be a key component to our model. While we were excited about building a community around home cooking and providing a unique product, we also felt very strongly that the most compelling aspect of our value proposition was convenience. In an era of delivered-to-your-doorstep commerce, both in food and other verticals, we felt that delivery was table stakes. So, our tagline became “Home Cooking, Delivered.” The tagline begged an important question — who would do the delivery? Gary and I wanted to understand every single piece of our model, so for the next few months we did all deliveries ourselves, becoming New Haven’s most educated delivery guys.

One week out, we had completed meticulous planning for the first trial, but we were missing the crucial component: customers. We constructed a rudimentary customer acquisition plan, asking our friends at local grad schools and undergraduate colleges to get their friends to sign up. By the week’s end, we had 74 potential customers subscribed to our mailing list. On February 20th, we served the first-ever Umi meal. Over the next four days, my mom cooked 80 meals (20 per night) out of my studio apartment, and Gary and I delivered those meals to hungry students, young professionals, and even a few families around New Haven. The response was overwhelmingly positive: 95% of buyers voluntarily donated the $10, and 80% said they would order home cooking again. In addition to testing consumer demand, we also learned valuable lessons about delivery logistics for our model. And because my mother was our first test cook, we were able to witness first-hand the experience of a supplier on the platform. We learned that it was possible to cook 20-30 meals in a studio apartment and to make money cooking at that volume by smartly sourcing ingredients (e.g., Costco), and packaging (e.g., Restaurant Depot).

Below are some pictures from Pilot 1:
It’s worth noting here that at this point, Gary and I were not all-in on the venture. One of the purposes of capturing this history is to provide an honest accounting of our journey. Too often, aspiring startup entrepreneurs read lionized accounts of visionary founders who had an epiphany, dropped everything else in their lives, and ran 100% at a business idea. In most cases, the reality is less glamorous. Gary and I approached Umi by setting up progressive experiments that would allow us to better understand the model by testing various components of the venture. These tests were not so robust to tell us with perfect certainty that we had a billion-dollar idea on our hands — no test could be so certain. Instead, the purpose of the tests was to determine if the model was compelling enough to overcome our personal thresholds to go all-in, burn ships, and take a real swing at the crazy idea. Although we had secured the YEI Fellowship, the deadline to accept was February 23, 2015, the second-to-last day of our initial trial. At the beginning of the trial, we were still considering foregoing Umi for some other summer opportunity and we requested a few extra days from YEI to make a final decision.

By the end of February 2015, Gary and I had run two experiments: (1) we lightly tested supply-side interest in a home cooking marketplace via Craigslist; (2) we rudimentarily tested (i) demand for a home cooking marketplace and delivery service, (ii) our ability to work together and execute operations of non-trivial complexity, and (iii) the ability for an Umi supplier to cook at scale and make money. Based on the results of these first two experiments, we decided to move forward to the next step: accept the YEI Fellowship and commit to working on the idea through the summer and running several more tests of increasing complexity.

We knew there would be challenges. The companies whose models and trajectories we hoped to emulate — Uber, Airbnb, Thumbtack — all were based on the West Coast and benefited from a culture and ecosystem that championed innovation and questioned cumbersome first principles — particularly
those that involved regulation. It’s hard to imagine Airbnb or Uber — companies that took on arcane and archaic regulatory regimes — sprouting up in an environment like New Haven, Connecticut. The weirdness around sharing personal things like homes and vehicles was also a challenge for Umi, so we faced regulatory challenges similar in nature and magnitude to those faced by Uber and Airbnb. Uber and Airbnb had unleashed the power of the internet to revolutionize how strangers exchanged or rented their own goods and services. And by 2015, it was perfectly normal to get from point A to point B in a stranger’s car, or vacation in a stranger’s home.

Given our commitment to further exploring the venture, it made sense to gain some first-hand exposure to the startup culture. I spent the 2015 spring recess visiting the Bay Area, with three main goals:

1. Meet venture capitalists;
2. Meet operators in food technology; and
3. Spend time with venture-backed entrepreneurs to get a better understanding of the nitty gritty of founding early-stage startups.

A friend put me in touch with the famed VC Andreessen Horowitz (also known as “a16z”) and I scheduled a meeting with their marketplaces team on the first day of my trip. This was my VC meeting and I shudder to think about the sophomoric pitch deck I sent in advance of our meeting. The meeting itself was incredibly helpful — I got a crash course in how VCs communicate, what gets them excited, what they look for in founders, and I learned specifically how a fund like a16z evaluates marketplace businesses. The investors at a16z also made a number of introductions: to the head of operations at a well-funded food tech startup as well as to a number of early-stage founders. After a week in San Francisco and Silicon Valley, I returned to New Haven energized to run the next Umi pilot.


Marketplaces are significantly more challenging than normal e-commerce startups or SaaS (Software as a Service) businesses due to the complex two-sided nature of the model. To achieve liquidity, “network effects” can be critical — Facebook is the ultimate example of network effects. Every additional user who joins Facebook and shares content that is of interest to other users increases the amount of utility Facebook provides for all users, helping to boost the amount of time users spend on the platform. In a two-sided marketplace like Airbnb, the network effect comes from both sides of the network — more hosts means more guests, and vice versa.\(^\text{10}\)

Importantly, the network effect is only realized once liquidity is achieved and the chicken-and-egg problem is solved — in this case, which comes first, supply or demand? A marketplace achieves liquidity when supply and demand are attracted to the same place. In order for this to happen, customers need suppliers and suppliers need customers, but ramping up both sides concurrently is nearly impossible.\(^\text{11}\)

So, founders must pick which side to focus on — demand or supply. In a marketplace, solving this
problem and achieving liquidity can take months or years. Most marketplaces, we learned, ultimately fail because of a failure to achieve liquidity and product market fit.

According to a16z, when founders are in the earliest stages of building a marketplace, the key questions to ask were (1) how do we build liquidity in the marketplace/solve the chicken-and-egg problem? and (2) which is the money side vs. the subsidy side of the marketplace? Given our experience at Umi, I would also add: (3) is supply or demand more crucial for achieving liquidity? And most importantly, (4) are we facilitating transactions in a vertical that sellers and buyers actually want to transact in? In simple terms, was there even a market for the buying and selling of home-cooked food?

One additional complication was that a marketplace for home cooking was inherently local — the perishability of a home-cooked meal meant sellers had to sell to buyers who were nearby. So the added value of an additional user (increase in network effect) might not increase with the overall size of our user base. The network effect of an additional supplier or buyer would be relevant only to the smaller geographic subset of users who were physically proximate to the new user.

After examining our model and studying comparable models, we concluded that to build liquidity in our marketplace, we would have to artificially seed the supply side. In practice, this meant that we would provide subsidies — guaranteed sales — for the initial suppliers on our platform. Yet, we believed that the success of Umi would hinge on creating real demand on the buyer side. We were confident that people would want to use the Umi platform to sell their food. The toughest question was whether buyers would find value in a home cooking delivery service. If we could find demand, we were confident that the suppliers would flock to the platform. Therefore, we resolved that the supply side would become our subsidy side, and the demand side would be our money side; we would “fix” the supply side and concentrate on creating real demand on the buyer side.

After spring recess, we began an earnest search for home cooks (suppliers) in New Haven. We pursued leads from our Craigslist experiment and also partnered with a local refugee resettlement non-profit, IRIS. We felt this gave us a perfect supplier base: recently settled refugees (mostly women) who were cooking unique food and who had few other options to generate much-needed income for their families — quite like the situation my mother and grandmother found themselves in when they arrived in Missoula in 1976. By the second week in April, we had identified six home cooks, taste-tested their food, sponsored their food safety training and certification, provided them with branded packaging, and trained them on the Umi model and operations. We also grew our mailing list to 200 subscribers by asking friends and existing customers to refer others in the area. We ran a second pilot on April 27-20, 2015. The types of food offered by the six home cooks in Pilot 2 ranged from Iraqi to Italian. We delivered 119 meals on four different nights and generated $1,785 in Gross Merchandise Value (GMV). We upgraded our technology so that buyers conducted all transactions using a secure third-party payment processor directly on our website.

For simplicity’s sake, we charged customers $15/meal, including delivery. We paid home cooks $10/meal and guaranteed that they would sell at least 20 meals, paying them $200 each night they
cooked. Providing this subsidy guaranteed that there would be enough meals on the platform for buyers to purchase. We experimented with offering lunch and found that demand was significantly greater during dinner hours. The main purposes of Pilot 2 were to (1) gain an understanding for how to educate and onboard new suppliers, and (2) test how complex our operations would become by going from one home cook to many home cooks. Each cook we added to the platform added increased complexity. Unlike a restaurant that delivers from point A to points B, C, D, and E, our model required food to be delivered from many locations to many other locations. Eventually we could solve this problem by outsourcing delivery to a third-party last mile logistics provider, but for the time being, we would have to handle deliveries ourselves. Pilot 2 also allowed us to develop our operational standard operating procedures and gave us confidence that we could run successful operations throughout the summer with the model that we envisioned.

A quick aside: The two-key metrics for any marketplace are (1) gross merchandise value (GMV) — the total monies the marketplace takes in— and (2) take rate — what the marketplace collected in fees. We planned to do a crude calculation of the platform’s revenue by multiplying GMV by the take rate.

**Pilot 3: New Haven, Summer 2015**

Flush with a $15,000 unrestricted grant from YEI, we ran Pilot 3 over eight weeks in June and July, delivering twice a week for 20 days total. We used less than one-third of the cash to create liquidity in the market by providing subsidies to New Haven cooks. The only additional complexity we introduced was retaining two outside drivers who would fulfill approximately half of the deliveries. Our objectives for Pilot 3 were threefold:

1. Prove that we could deliver meals week over week and gain insight into customer purchasing behavior over time;
2. Achieve more clarity regarding the feasibility of building our own delivery fleet versus outsourcing delivery to a third party; and
3. Generate more operating data to support raising a round of venture capital.

By the end of the summer, nine cooks had sold 368 meals and had generated $5,120 in GMV for the platform. We had a lot of repeat customers: 88% of orders were multi-meal orders and 82% of customers who ordered once ordered at least one other time.

We came to several important conclusions at the end of the summer. First, we proved that we could deliver meals week over week and that there was at least some stickiness (i.e., repeat purchasing behavior) in our small sample of customers. Second, we realized that building out our own delivery fleet would require us to build an entirely different business that would limit our ability to scale — any future version of Umi would feature outsourced delivery. And there was a bittersweet conclusion: Gary and I decided to take different paths with the venture.
From the outset, Gary had shown more hesitation about the Umi concept. However, I encouraged him to continue until the end of the summer, arguing that we could test our ability to work together. We knew we would eventually have to make a decision about going all-in on the venture, and make tough decisions about pursuing the venture at the expense of other endeavors. I made the decision to drop out of Yale Law School. Like me, Gary had an entrepreneurial streak and embraced risk, but he grew less comfortable about leaving school to pursue the venture.

We began winding down his involvement after July. I’m particularly proud of how we navigated this period. We had become the best of friends over the previous year and we enjoyed working together. Because we communicated openly, honestly, and in a timely manner, our friendship never suffered — a difficult transition that, for others, has shattered friendships and relationships, left me convinced we could embark on future ventures together.

By August, my path had become clear. I would spend the fall raising venture capital to give Umi a meaningful chance to take off. Debbie, who was completing her undergraduate degree at the time, had been less involved in the New Haven pilots. However, she was involved enough for us to be confident about working together, and she committed to work on the venture full-time when she graduated in December 2015. I spent the remainder of August trying to figure out exactly how to go out and raise $1 million+ from investors — a mind-boggling proposition for a middle-class kid from Arizona who had been in government service for the entirety of his professional life.

**Trust, Safety, and the 10,000 Pound Regulatory Gorilla**

Regulatory issues played a huge role in the Umi business model — the concept revolved around kitchens and food, after all. When pitching Umi to classmates at Yale Law School, this was a typical response: How are you going to do this when selling food prepared in an unlicensed kitchen is illegal? My answer was simple: I don’t care, we’re going to do it. To be clear, I did care, and I had spent hours researching regulatory compliance issues. I viewed the reflexive reaction of my classmates as a good thing in the short term. Regulatory concerns would scare off other entrepreneurs who would otherwise try to build a home cooking marketplace. Ultimately, I believed the regulatory challenge to be technical rather than existential in nature. In the near term, factors more important than regulation were ensuring food safety and providing liability protections for all participants on the platform — Umi, cooks, and consumers alike.

It’s crucial to understand that individual states, not the federal government, have the primary power when it comes to regulating food production and protecting the health and welfare of residents. In colloquial terms, we faced “cottage food” regulation — rules specific to food produced outside of traditional food establishments and facilities such as restaurants and commissary kitchens. Some states and local governments regulate cottage foods through legislation, while others do so via regulations only. North Carolina, for instance, simply posted guidelines on the state website without reference to such guidelines in code or regulation.¹²
Existing cottage food regulations could be overly broad, yet not tailored to effectively achieve their most crucial function: protecting public safety. One state — Wyoming — embraced a more narrowly tailored, common-sense approach that allowed for the commercial sale and distribution of home cooking. The purpose of Wyoming’s Food Freedom Act, passed in 2015 and amended in July 2017, is to:

Allow for a producer’s production and sale of homemade food or drink products for an informed end consumer’s home consumption and to encourage the expansion of agricultural sales at farmers markets, ranches, farms, and producer’s homes ....13

The Act exempted certain homemade food products sold and consumed under the law from the regulatory requirements normally required for food and drink products produced at scale. Importantly, the Act did not impede Wyoming health authorities from investigating food-borne illnesses or preclude any state agency from providing consultation, guidance, or assistance at the request of a producer. In case of food-borne illness or a safety incident, Wyoming’s regulatory authorities retained the right to investigate.

We believed this approach made sense. Home kitchens produced tens (if not hundreds) of millions of meals every night without apocalyptic food safety outcomes. People generally know how to cook safely and in small batches. A reasonable regulatory approach — similar to the Wyoming model — would be to allow for the commercialization of this activity within common sense guidelines, and to permit regulatory authorities to step in in case of incident.

In the Umi model, several factors acted to mitigate widespread health risk. First, reputational risk and the existence of peer ratings and reviews dis-incentivized a home cook from acting sloppily or nefariously when preparing food. The technology allowed a consumer to view a profile with the face and name of every cook. Cooks knew that their community would be ordering their food and they would not want their reputations tarnished by sending out a bad batch of chicken parmigiana. Second, the distributed and small-scale nature of production in the Umi model meant that any cases of food poisoning resulting from an upstream contamination of ingredients (e.g., E. coli in meat or listeria in spinach) would be contained to the ingredients used by a single kitchen. Contrast this with the widespread harm that resulted from contamination in a massive supply chain, in the case of Chipotle’s E. coli outbreak in 2015, which sickened scores of customers in six states.14 Finally, Umi as a platform possessed all of the necessary information needed to take action in case of any incident. If a customer complained of food poisoning, Umi would know exactly who produced the meal and where the meal was produced.

The Umi Food Safety Approach
One primary concern was how to provide food safety and liability protection for all parties involved in any Umi transaction. As such, we developed a robust food safety program for home cooks, who had to go through a step-by-step process before offering food for sale on Umi:

1. Prospective cooks filled out an extensive application to run their own Umi kitchen;
2. The Umi culinary team evaluated and approved the cook application;
3. Umi verified that all cooks had undergone food safety training and certification. This training was administered by ServSafe, an industry leader in food safety training and certification. If a cook did not have training and certification, Umi sponsored a training and certification course;
4. By signing the Umi Terms of Use, cooks represented and warranted that they would adhere to the Umi Kitchen Food Safety Standards and Umi Kitchen Standards and Checklist. We developed this set of common-sense standards with an expert food safety consultant. The standards were adapted from the requirements for operating a commercial kitchen;
5. On the Umi site, cooks were required to list out every ingredient for customers to view before purchase; and
6. Customers rated and reviewed the cooks after every meal service. Umi closely monitored these reviews to immediately identify and take action on any reported quality or service issues.

Using this food safety program, we were able to secure an insurance policy that protected Umi, cooks, and consumers. This process took months, however, as it was difficult to find an insurer willing to underwrite the risks associated with a peer-to-peer home cooking marketplace. Thankfully, we never had to use the policy — a testament to the effectiveness of the food safety program and operational model in which all parties were incentivized to behave responsibly.

**Fundraising**

First-time fundraising is intimidating. At the outset, there seemed to be an innumerable number of tasks and things to do: Who do I talk to? How do I contact them? What am I supposed to bring to them? How will they take me seriously? How much money should I be trying to raise? To calm my mind and bring some structure, I decided to break down my tasks into the following subtasks:

1. Create the documents to support the fundraise; and
2. Research the venture capital landscape, including the various sources of capital and how to get to them, and come up with a plan to target them.

**Creating Fundraising Documents and Developing our Story**

My guiding principle during fundraising was to keep things simple, and start with the basics. With just a little bit of research and discussions with previous founders, we settled on developing four core fundraising assets:
(1) Fundraising deck;
(2) One-page executive summary;
(3) Financial model; and
(4) A quick email “blurb” including the business summary and backgrounds of the founders that we
could quickly mail out to gauge interest without overwhelming potential investors;

We had developed a rudimentary pitch deck during the YEI Summer Fellowship, but we needed to take
that deck to a level commensurate with the seriousness of investors from whom we hoped to raise
money. I stumbled across a study of pitch decks that was helpful for determining the length, content,
and ordering of pages in the deck. We used online templates to create a one-page executive summary
with the following sections: Summary, Progress, Offering and Go To Market Strategy, Trust and Safety,
Team, Milestones, Contact Info. Gary built a simple financial model with three different fundraising
scenarios and I came up with a pithy email to send to interested parties. Importantly, we kept the
fundraising scenarios to ourselves and never mentioned the amount of capital we were trying to raise in
any written materials. We learned that there was such a wide range of potential outcomes that we need
not constrain ourselves by putting anything in writing.

Raising money was going to be a tough sell. We were first-time founders with zero technical expertise
building a technology platform. We were also operating in a highly regulated and crowded market.
However, in chatting with initial investors, I realized that the only way we were going to raise money
was to harness the power of our collective story — so I became a very good storyteller.

We had to double down on our strengths and assure investors that we could mitigate our weaknesses.
Although we were first-time founders, Debbie and I were lucky to have incredible passion for the
business. The venture was inspired by my mother and it was normal for me to get so fired up about the
opportunity that I would become visibly flush pitching. Investors noticed. Debbie had been around food
and hospitality her entire life, and her passion for getting better food to more people was infectious.
Investors ate that up. While the delivery market was crowded and difficult, our New Haven pilots proved
that we were creative enough to innovate on the existing market and that we had the chutzpah to act
on our ideas and build something out of nothing. Further, our fancy degrees and non-traditional life
experience de-risked concerns about our intellect as well as our appetite for risk.

The lack of a technical co-founder was a huge gap in our team, but the bottom line was that the
technical product we were building wasn’t super sophisticated. It was true that we had to build
proprietary technology before we could launch, but I assured investors that the charisma and passion
Debbie and I exhibited during our pitch would allow us to recruit top talent and build an all-star
technical team in a relatively short period of time.

A final hurdle was the regulatory environment — the activity that we were pursuing was likely to be
deemed illegal in 49 of 50 states. But the meteoric rise of Uber and Airbnb demonstrated that there was
immense value to be unlocked by technology that upended existing regulatory regimes. I pitched our
trust and safety framework and emphasized how thoughtful we were in approaching the issue. It didn’t
hurt to remind investors that I was a second-year student at Yale Law School. But mostly, I asked investors: Did they really want to miss out on investing in the Uber/Airbnb for food?

Finding and Pitching Investors

I knew from speaking to previous founders that the best way to find investors was through a “warm intro” — basically, finding someone who would vouch for you with potential investors. I connected with approximately 50 investors between September 2015 when we started pitching and January 2016, when we accepted our last investment.

There are two primary types of investors in the venture world: angel investors and institutional VCs. Generally, the best course of action when raising a seed round is to get an anchor or “lead” investment from a traditional VC fund and then fill out the remainder of the round with investments from other VC funds as well as angels who would add value to the business. This “value” could take many forms, like added experience or simply the positive optics of having a well-known or famous investor associated with your product.16

One common refrain heard from founders in the fundraising stage is the story of a venture capital associate (usually the most junior position at a VC fund) who requests meeting after meeting over a period of weeks or months. At the end of every meeting, she might request a new document or a new model and might indicate that she and her partners are “still interested.” This was a total trap. VC associates get paid to have coffee with founders. I learned this lesson the hard way with one such associate at the first VC fund that I pitched. After six coffee meetings, I smartened up and asked for a final decision on whether or not the fund was interested. They were not.

Courting investors is a coordinated dance. In general, investors are risk-averse and often piggyback on the diligence of their peers, too unconfident to make a decision without validation from some other investor. During meetings with potential investors, founders will inevitably be asked “who else likes the deal?” Navigating this environment can be tricky, but it gets easier with practice. I found that I had a knack for pitching and delicately choreographing the interactions with investors.

By mid-October I had secured a few sizable angel commitments but had not yet found a lead investor. This changed on October 16, 2015, when a friend introduced us to BoxGroup, one of the top seed funds in New York City. One week and three meetings later, BoxGroup offered to lead our round with a $450,000 anchor investment. Originally, BoxGroup offered to invest $400,000 at a $4 million “post-money” valuation cap,* and we negotiated them up to investing $450,000 in a convertible note with a

* “Post Money” refers to a valuation after accounting for invested capital whereas “Pre Money” valuation refers to the cap before accounting for invested capital. Had we agreed to a $4.75mm pre-money cap, the total cap would be $4.75mm + the number of dollars that we raised in total.
$4.75 million post-money cap.* Setting a post-money cap on our note was incredibly important. This meant that every marginal dollar we raised was dilutive to our (management) ownership.

As other VCs got wind of the deal, several reached out in an attempt to “blow up” the term sheet — they proposed we renege on BoxGroup so they could instead lead the round on more favorable terms. We had built real trust and rapport with BoxGroup and they were the first investors to take a chance on us, so it seemed totally unethical to back out at the last minute. But what transpired simply validated an ongoing observation that many VCs are like lemmings following the herd and only acting when another investor has put their stamp of approval on a deal. I believe that VCs behave this way simply because it’s incredibly difficult to evaluate the potential of an early-stage investment. Many early-stage companies have no product, no revenue, and no profit — the “company” is just a few people with an idea. As such, the two main considerations for investors are (1) confidence in a founding team, and (2) a point of view on a particular industry or trend. The VC community is small, and if a respected investor decides to invest in a company, on-the-fence investors are tempted to piggyback on the respected investor’s diligence, justifying their own investment decisions on that initial decision.

With $450,000 officially committed and a term sheet signed, we drafted a Note Purchase Agreement (NPA), and we began filling out the rest of the Note with additional investments. In the NPA, we authorized a maximum raise of $1.25 million, which would result in a dilution of approximately 26.3% for the company. I didn’t want to give up more than 25% of the company but was willing to do so for quality investors and a bit more capital at the outset. We were a green team with no existing product and no real team, and I felt that we would need the money. With a committed lead investor, we soon found our seed round to be oversubscribed — a great problem to have, but one that was bittersweet because of the post-money nature of our valuation cap. Because of the high demand, we amended the NPA, authorizing a maximum fundraise of $1.4 million.

Because BoxGroup offered to invest more than we expected, and because another VC that we highly respected also offered to invest, we had to scale back the investments that previous angels had committed. This was a delicate process and gave me a taste for how sensitive investor relations could be. By the first week of January 2016 we had raised $1.3625 million in convertible debt from 21 investors — 2 institutional VCs and 19 angels. Three of the investments were over $250,000 and the remainder ranged from $5,000 to $75,000. Our investor roster included BoxGroup, Version One Ventures, Davis Marks, and YEI Innovation Fund; and a group of angels that included the founders of SoulCycle, SweetGreen, BirchBox, BarkBox, Flatiron Health, and GLG. We had a vision and we had cash. We were grateful for the vote of confidence and beyond excited about the successful fundraise. But raising money was not the objective — it was now time to build a team and execute and prove that we could be good stewards of our investors’ capital.

* BoxGroup normally does not “lead” in deals, usually they co-invest with another lead. However, they do lead in a handful of deals a year and when they do, they seek to target 10% ownership.
Convertible Debt — Background on Key Terms

There are two traditional means of financing a venture capital deal: equity and debt.* During our negotiations, BoxGroup left it up to us to decide which option to use. We elected to use convertible debt because it was an instrument that NYC investors were familiar with, and often used. At the time of our fundraise, the transaction costs (legal fees, etc.) associated with debt and equity were essentially the same, so we chose the instrument that would most easily facilitate a quick deal closing.

Convertible debt is essentially a loan that has the ability to convert to equity based on some future event — generally a financing event or the passage of some period of time.17 The two most important terms in a convertible debt deal are the discount and the valuation cap. The discount is meant to compensate early-stage investors with more upside (beyond the interest rate on a note) for the risk they are taking by investing in an early-stage startup. Our discount, set at 20%, was the market rate for venture deals in NYC. Here’s how the discount works: hypothetically, if we raised equity financing in a subsequent round from investors who pay $1.00 per share, the early-stage noteholders would receive the same shares at a 20% discount, or $.80 per share — a more favorable deal for them over the later-stage investors.

The valuation cap is an investor-friendly term that places a cap on the conversion price of the debt and is meant to assuage concerns of early-stage investors who are concerned that a high valuation of a company in a subsequent round of financing would not properly reward them for greater risk they took by investing in a company’s earliest stages. Determining when the valuation cap or the discount is triggered requires calculating when the discounted value goes above the valuation cap — when the discounted value surpasses the valuation cap, the valuation cap will apply.

In our case, we set our valuation cap at $4.75 million. In any subsequent round in which Umi is valued up to $5.9375 million† the discount would apply. In any round in which the valuation is greater than $5.9375 million, the valuation cap would apply — the note is structured such that noteholders capture the more favorable share price via the discount or the valuation cap based on the relative valuation of the company at a subsequent round.

The insistence by certain investors on the use of side letters — investor agreements that allow for deviations from the core terms of an offering as a condition for investment — has caused me to rethink

---

* The Y Combinator startup accelerator pioneered a third financing instrument called a “safe” — a simple agreement for future equity — as an alternative to the convertible note. The safe is meant to simplify and add clarity to the fundraising process, while protecting founders and investors alike. The safe is not a debt instrument, and as such does not have an expiration nor a maturity date. Therefore, it does not accrue interest or require principal payments. At the time of our fundraise, East Coast VCs were less comfortable with the instrument than West Coast VCs. More information is available at: http://www.ycombinator.com/documents/ (accessed August 2, 2019).
† $4.75 million divided by (1 – .20) equals $5.9375 million.
whether or not I compromised my personal business principles during our fundraise. Three investors required that we sign a side letter in exchange for investment. One wanted additional information rights, and the other two wanted pro-rata rights. At the time, I felt that I had to sign the side letter to get our deal done — the terms themselves were not super onerous to the business. Yet, personally, I felt it was important not to exhibit any favoritism for one investor over another, and if I did, to disclose so in documents available to every investor. For the Umi fundraise, I justified agreeing to the side letters for purely pragmatic reasons: it’s what I had to do to get the deal done. Yet, in hindsight, I think we could have refused to sign and instead placed all investors on the same level. This is a lesson that I will carry forward to my next venture.

The Launch Model

Over the previous eight months, we had taken a concept from idea to creation, we had tested that idea, and now we had secured venture capital to try that idea in earnest. So what was the specific model that we hoped to take to market? Based on the results of the New Haven pilots, we decided that the initial launch model would keep things as simple as possible:

1. **Geography**: Start in a small area of one big city. We chose a small part of Brooklyn in NYC. The plan was then to slowly add neighborhoods adjacent to the original launch area to take advantage of increasing network effects;
2. **Technology**: Launch with a native iOS application since we were targeting higher-income households accustomed to transacting on their mobile devices. We would then build a web-based platform after acquiring several months of operating data; and
3. **Logistics**: Outsource delivery to a third party. In NYC, the options were Uber (Uber RUSH) and Postmates — a number of delivery ventures offering logistics-as-a-service had failed.

Building a Team

When pitching investors, we told them that we hoped to launch in New York City by February 1, 2016. Now that we had funding, our biggest limiting factor was the lack of a full-time technical team capable of building a product quickly enough to meet the launch goal. In October, through Yale contacts, I recruited three student software engineers to begin building a Minimum Viable Product (MVP), essentially a bare-bones software solution that would get us to market and allow us to learn iteratively. I had negotiated a compensation structure that would allow us to defer payment to the engineers until we were funded. I had to quickly learn the basics of product management and technical decision making. I was acting as the company’s chief technology officer (CTO) and head of product. At the time, I felt in over my head and unprepared for the role, which likely made me rush the search for a highly qualified person to fill the CTO position.

* In the Note Purchase Agreement — a document every investor received and signed — we explicitly granted information rights to “each Lender holding a Note with a principal amount of at least $400,000” and pro rata rights to each Lender holding a Note with a principal amount of at least $200,000.
experienced technical leader. The sense of urgency meant I was more than willing to pay for that technical leader by giving up a significant portion of the company. In retrospect, I should not have felt so insecure — this wasn’t some novel technology. Instead, technology was an enabler for a novel service: peer-to-peer food sharing. The core of our business was a rather simple vision that leveraged technology. And I — as the CEO and visionary — had to own the product. We didn’t need a head of product or a chief technology officer. I was the head of product! Rather, we needed a good technical leader who could take my direction and build simple technology. In retrospect, this realization was obvious. Next time, I won’t let that insecurity lead to suboptimal hiring decisions.

By the time we had received our funding, my team of three student engineers had built approximately 70% of the MVP. After closing the round, I turned 60% of my attention to recruiting a CTO and an additional generalist for the team. Then 30% of my energy went towards business development tasks — recruiting cooks for the supply side in our launch area (Debbie took point on this effort); developing a demand-side customer acquisition plan; negotiating delivery partnerships; and informally meeting with members of state and city government, in order to understand the regulatory environment and build relationships in case we faced regulatory issues. The remaining 10% of my time was spent on the more mundane, but necessary, aspects of starting a business — applying for qualification to do business in New York, securing healthcare for our future employees, securing insurance coverage for operations, etc.

Debbie and I had so much work to do that we realized we would need to add a non-technical member of our team, as well as the technical leader. I conducted the CTO and generalist searches simultaneously. By the end of January 2016, I had interviewed eight people for the CTO role, three of whom we advanced to later stages but ultimately decided were not a good fit. In late January, a technical recruiter put me in touch with a very senior technical leader named Dwayne. Dwayne was formerly the VP of product and engineering at a NYC startup acquired by a large media company for more than $1 billion. Dwayne was the number two in command at the time of the acquisition.

Dwayne and I met three times in a week and immediately took a liking to each other. I appreciated his humility and willingness to do the most mundane tasks, but also his passion for leadership and product development. Also, he completely understood and was excited about the vision we hoped to create. I was, however, concerned that he had been operating at such a high level that working with a pre-launch startup would be underwhelming. Ultimately, he convinced me otherwise and we shook hands on a partnership the first week in February. Because I really wanted a true partner and technical leader who was totally aligned with the success or failure of our business, we made a very atypical offer: a 24% equity stake and the co-founder title. Dwayne was in a good financial position, so we paid him the minimum possible salary, to conserve cash. In retrospect, I should have thought more critically about defining Dwayne’s role. Dwayne started working the second week in February and we also hired two of the Yale engineers full time. We had to push our launch date to mid-March and Dwayne had four weeks to get the MVP launched and into the hands of consumers.
Filling the generalist role was less time sensitive as Debbie and I could continue to juggle multiple lines of effort before launch. I wasn’t in as much of a rush to hire for this position, but was ready and willing to move quickly if we found the right fit. For this role, I was looking for an “athlete”—someone with business experience who was also creative and flexible enough to withstand the ups and downs of a fast-moving under-resourced startup. Virtually all learning would take place on the job, and the individual needed to be competent and confident enough to operate and grow without the structural support of a large company. In early January, a friend at McKinsey and Company put me in touch with one of his subordinates, Aaron, who was looking to leave management consulting. I immediately realized that a junior McKinsey consultant could be the perfect addition to any early stage startup. Aaron had two years of professional development and experience at the world’s premier consulting firm. He had learned about ethics and culture at McKinsey and had also advised a wide variety of private sector clients. And because he had only been at McKinsey for two years, I felt that he still had the ability to operate in a more chaotic and less resourced environment. I introduced him to the team and within two weeks made him an offer. He would join as “Head of Operations,” with the promise of a promotion to COO within 18 months if he proved that he could be company leader.

By mid-February we had assembled a six-person full-time team — three co-founders and three employees, and a 50:50 split between non-technical members and software engineers. We were well positioned to hit our revised mid-March launch date and there was an intoxicating feeling of excitement and eagerness to get Umi out to market.

Compensation

Determining how and how much to compensate our first employees was a tricky, but important, task. I wanted to be thoughtful and deliberate about compensation since these early decisions would set a precedent. The two most important forms of compensation at an early stage startup are salary and equity. Less important forms of compensation include benefits such as medical insurance, dental insurance, gym memberships, catered meals, etc. There really was no playbook for seemingly endless set of early stage startup issues, so I fell back on my standard operating procedure for figuring things out: (1) Google, and (2) speaking to other founders.

Most founders I spoke with fell into one of two camps around compensation: the more generous and less generous. The more generous founders were willing to dilute their individual ownership in the early stage because they felt an obligation to reward and motivate early employees who we were building the company from the ground up alongside them. The less generous founders felt that the role of early employees was commoditized and that they could attract talent through their charisma and power of the company’s mission. Leading VCs also shared different philosophies, but I found some of their insights to be helpful, especially the observation that assembling a dream team of earliest employees (first 5-7) is more art and less science, but that a good rule of thumb is to give 10% of the company to the first 10 employees.20
In January 2016, with a relative abundance of equity and a relative shortage of cash, we opted to be more generous with equity grants. Because we were a startup, we were paying below-market salaries, and wanted our earliest employees to feel emotionally and economically vested in the success of the company. I decided that our first five hires would be “founding members” of Umi, that we would give them equity grants that were above market, and that their equity grants would take the form of Restricted Stock Units (RSUs) instead of the more traditional stock option grants. It was my opinion that at our stage RSUs represented a more favorable treatment for the employees. All RSUs were subject to a standard four-year vesting schedule. At an employee’s one-year mark with the company, 25% of the RSUs would vest, and the remaining 75% would vest 1/36th every month for the next three years.

We also had to think about our own compensation. As founders, Debbie, Dwayne, and I would retain a majority of control of the company. As the original founder, I retained the most equity, followed by Debbie, and then Dwayne. This equity arrangement mirrored virtually all other venture-backed startups. The issue of co-founder compensation was complicated, and somewhat awkward because we were all in different financial situations. And we also retained complete board control of the company — we were the only members of the Board of Directors and the control rights in the Note Purchase Agreement did not give investors a say in our compensation (in these earliest stages, the investors do not necessarily want these rights). As such, we were in the position of balancing the equity of the company with our own interests without an outside check on our power. I asked several investors and mentors about founder salaries and received wildly divergent advice. Our lead investor said that we should pay ourselves the minimum amount possible; other founders suggested that we should honestly evaluate our individual financial situations, and pay ourselves enough to not constantly be worried about money (personal financial anxiety could lead to suboptimal decision-making). We decided that Debbie and I would pay ourselves $62,500 and Dwayne would be paid the absolute minimum under federal law ($47,476). Given my situation, this was a poor decision: $62,500 was a pittance when it came to living in New York City without any outside assistance. This created anxiety in both my personal and professional life and in December 2016 I raised my salary to $90,000. Looking back (and looking forward), I should have been more confident about paying myself a sustainable income. Doing so would have been in the best interests of the company.

Launch and Umi V1

On March 17, 2017, we launched a private beta of the iOS app and then launched to the public on April 13, 2017. Our team was ecstatic at the prospect of an official launch. Finally, after weeks of tireless work on product and business development, we were releasing our product into the wild. Here are a few screenshots of the iOS app we launched:
Our launch service area covered much of North Brooklyn. We launched with 12 different kitchens serving cuisines as diverse as Indian, Paleo, Whole30, Italian, Thai, and Southern Comfort cooking. Keeping things simple remained a guiding principle, and we standardized pricing: cooks would choose to price their meals at $12, $14, or $16. We also standardized delivery windows: 5.30-6.30 PM, 6.30-7.30 PM, and 7.30-8.30PM. And we gave all the kitchens standardized, bio-degradable packaging stamped with Umi branding. Our goal was to create as unified a consumer experience as possible. We required consumers to order by noon of the day of service and encouraged them to order up to seven days in advance. Finally, just as in the New Haven pilots, we instituted a supply-side subsidy. To ensure liquidity — we needed a wide variety and number of meals on the platform for consumers to choose from each night — we instituted a guaranteed minimum amount of money a cook would earn per night. The metrics we focused on were: total number of kitchens, weekly meals sold, meals/kitchen sold, average order size, average order value, and retention. And of course, we ultimately focused on the unit economics associated with each order. In our model, we would start with the total order value (Umi revenue per order/unit) and subtract the cost of returns/damages, discounts, packaging, logistics, cost of payment processing, and customer acquisition. Umi’s revenue came from charging a 20% take rate on all GMV.
By launch, I had finalized a delivery partnership with Postmates, a consumer-facing last mile logistics startup that had raised over $200 million. At the time, Postmates’s core business was a consumer-facing mobile-ordering platform for ordering food and other consumer goods on demand. However, in the spring of 2016, Postmates began testing a Business-to-Business (B2B) logistics-as-a-service offering, providing local on-demand delivery fulfillment for businesses like Umi that wanted to provide delivery, but did not want to build in-house delivery capacity. Normally, Postmates charged an origination fee, plus a per-mile delivery fee for each delivery fulfilled. However, because they were eager to test out the new product line and also willing to lose money testing, I was able to negotiate a ridiculously unsustainable agreement with them: Postmates would provide a flat-rate per-order delivery charge regardless of distance traveled.* In our case, Postmates charged $5 per delivery, and we charged the customer $2.99 for each delivery. Therefore, we were subsidizing (losing) $2.01 on each delivery fulfilled. There were several assumptions I wanted to test with the outsourced delivery:

* This arrangement epitomized a broader attitude in the startup world at the time: lose money now to acquire customers, and worry about fixing upside-down unit economics later. To be clear, we also pursued the same strategy and absolutely lost money on every order.
Would our delivery partner actually be able to operationally fulfill our delivery requests?

Would the level of service and customer experience be high enough such that we were comfortable associating our brand with the delivery partner?

Did the delivery partner have enough scale in one particular market and across markets (e.g., NYC, Boston, Phoenix, Philadelphia, etc.) to accommodate our growth goals?

Even though we were initially losing money on each fulfilled delivery, I hoped that in the medium term, we could drive costs because (i) an increasing density of cooks across the delivery area would result in less distance traveled per delivery, and (ii) we eventually could batch deliveries together so that one delivery driver could pick up four orders from one location and deliver them to four different customers, say.

If any of the above assumptions proved to be untrue, we would be forced to either change delivery partners or change the model.

The First Six Months of Operations

By the first week of September 2017, we had six months of operating data. We had grown our supply side 4.5x from 12 kitchens to 54 kitchens. A total of 351 customers had purchased 1919 meals on the platform. And 42% of those customers had ordered more than once. The average order size was 1.79 meals, with an average order value of $24.80.

The first six months of operations were disappointing, but not a total failure. Launching into summer was unfortunate timing because many, if not a majority, of our target demographic — dual-income households with three or more members — escaped NYC for the summer months. Before the summer, we were consistently selling over 100 meals per week; during the summer, we averaged a dismal 76 meals a week. Customer acquisition was not the only challenge. We also faced supply side challenges in addition to more general difficulties.

In addition to general supply side issues (finding cooks, onboarding cooks, and managing existing cooks), the economics from a cook’s perspective were proving quite tough. The cost of groceries in NYC coupled with our mandated price points ($12, $14, $16 per meal) made it difficult for cooks to break even. This was especially true for cooks who were experiencing lackluster demand. While a handful of cooks sold out every night and felt great about their participation with the platform, there were a non-trivial number of cooks who felt demoralized because their meals were not selling. At the outset, we believed (and I still believe) that a cook’s motivation to cook for their neighbors was not solely economic. There’s also an important non-financial motivation: ego and the desire to provide hospitality. It could be emotionally exhilarating to know that people crave and are willing to pay money for something that you are creating. However, most cooks were not willing to lose money for the opportunity to cook for their neighbors, especially when their neighbors weren’t buying their cooking. To bolster the supply side, we ordered meals from underperforming kitchens on our own accounts and to maintain liquidity on the platform we incorporated new financial bonuses for cooks who cooked four days a week (this was in
addition to the existing minimum guarantee subsidy that we had already been implementing). These subsidies resulted in a significant increase to our monthly burn, or the grand total we were spending every month — an unsustainable state of affairs.

We were also experiencing difficulties differentiating our product from the seemingly endless alternatives. “Home cooking” as a category is broad and difficult to define and in NYC we were competing with a mind-boggling number of options: Blue Apron, UberEats, Seamless, amongst others. We weren’t winning on convenience or price, so we had to win on something else — namely quality and experience. By September, we were working through the feasibility of doing so with a model that necessarily gave up significant control over our suppliers and the experience they were providing. Importantly, we did institute certain standardized practices that highlighted the personal nature of our product. One such practice was mandating that every order had to come with a personalized handwritten note from the cook to the consumer. Here is an example of one such note:

![Image of a handwritten note]  

**Customer Acquisition**

Our greatest challenge, far and away, was customer acquisition. Before launch, we constructed an elaborate customer acquisition plan that included the following channels:

1. Influencer marketing: leveraging NYC-based “influencers” who had large followings on various social media platforms (e.g., Instagram, Facebook, Twitter, Snap, etc.);
2. Physical marketing: on-the-ground physical efforts that include distributing flyers to residential buildings, schools, gyms. This also included buying out-of-home advertising on subways, digital billboards, and on bus stops;
3. Paid digital marketing: paying for advertising on social networks (Facebook, Instagram, Pinterest) as well as other traditional digital market efforts (search ads, banner ads, etc.);
(4) Community-building: hosting quarterly potlucks showcasing Umi cooks and holding “best home cook” contests;
(5) Social Networks: posting in Facebook Groups, Yahoo Groups, MeetUp Groups, and NextDoor; and,
(6) Partnerships: establishing partnerships with PTA groups, gyms, wine shops, gyms, other companies, and any other organization that would partner with us.

Notably absent from this list was a public relations (PR) and media strategy. We initially shied away from pushing press opportunities because (1) we felt that building demand organically would build a more durable brand, but also (2) we didn’t want to put a regulatory target on our backs. After six months of operating, I realized that we had made a huge mistake in not engaging the press early on. In a place like New York, where consumers are bombarded with various brands and services on so many channels, being relevant and present is most important thing. PR is an incredible way to be relevant. Chastened, I hired a PR firm in August to do a full-court media press to gear up for the fall.

Next Steps

We knew that the results from the first six months of NYC operations were not inspiring. We had $760,000 left in the bank and, based on our burn rate, I projected that we had six to eight months of runway at current levels. If we needed to raise additional capital, we were young enough that I was confident in my ability to pitch a good story about eking out our way to product market fit. However, without a change in performance, I knew that I wouldn’t have the conviction to pitch such a story. That said, I was optimistic about the fall season. Summer had been understandably tough, and that the decision to not pursue a PR strategy initially could be remedied. We felt that we had three levers to manipulate to stimulate demand: (1) the beginning of fall and the return to school for families; (2) going all-in on PR, and (3) cranking up our marketing efforts.

Every PR push needs a “moment,” and we created one by launching Umi on the east side of Manhattan on September 13, 2017. Our PR agency landed us a number of incredible stories in popular regional and national publications.* Simultaneously, we began pushing hard on marketing with some more expensive channels. Here are some of the subway ads we ran across Manhattan and Brooklyn:

---

I was confident that we had a good grasp on our challenges and the options we had to solve them. I decided that we would re-evaluate the model at the end of November — three months would be plenty of time to determine if any of our efforts were working or if we needed to completely re-think the future of the company.
# Exhibit 1: Umi Financial Statements

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$21,484</td>
<td>$725</td>
<td>$0</td>
<td>$4,123</td>
<td>$3,760</td>
<td>$3,217</td>
<td>$4,559</td>
<td>$7,468</td>
<td>$5,194</td>
<td>$11,259</td>
<td>$10,807</td>
<td>$18,682</td>
<td>$5,124</td>
<td>$4,935</td>
</tr>
<tr>
<td><strong>Total COGS</strong></td>
<td>$20,758</td>
<td>$75</td>
<td>$1,535</td>
<td>$1,636</td>
<td>$2,042</td>
<td>$2,530</td>
<td>$4,865</td>
<td>$5,512</td>
<td>$3,853</td>
<td>$8,125</td>
<td>$13,559</td>
<td>$15,060</td>
<td>$15,785</td>
<td>$75,105</td>
</tr>
<tr>
<td><strong>Dress Profit</strong></td>
<td>$704</td>
<td>$1,080</td>
<td>$3,624</td>
<td>$1,124</td>
<td>$1,524</td>
<td>$1,717</td>
<td>$4,094</td>
<td>$1,642</td>
<td>$2,536</td>
<td>$5,022</td>
<td>$7,141</td>
<td>$9,996</td>
<td>$15,614</td>
<td>$85,513</td>
</tr>
<tr>
<td><strong>Total Spending</strong></td>
<td>$20,423</td>
<td>$4,195</td>
<td>$51,969</td>
<td>$26,788</td>
<td>$56,362</td>
<td>$61,666</td>
<td>$56,508</td>
<td>$79,961</td>
<td>$89,343</td>
<td>$96,660</td>
<td>$83,141</td>
<td>$95,694</td>
<td>$151,427</td>
<td>$895,913</td>
</tr>
<tr>
<td><strong>Net Profit</strong></td>
<td>($2,060)</td>
<td>($4,122)</td>
<td>($53,503)</td>
<td>($30,475)</td>
<td>($38,454)</td>
<td>($34,196)</td>
<td>($38,172)</td>
<td>($38,475)</td>
<td>($38,175)</td>
<td>($38,475)</td>
<td>($38,175)</td>
<td>($38,475)</td>
<td>($38,175)</td>
<td></td>
</tr>
</tbody>
</table>

33 Khalil Tawil and Umi Kitchen
This case has been developed for pedagogical purposes. The case is not intended to furnish primary data, serve as an endorsement of the organization in question, or illustrate either effective or ineffective management techniques or strategies.

Copyright 2019 © Yale University. All rights reserved. To order copies of this material or to receive permission to reprint any or all of this document, please contact the Yale SOM Case Study Research Team: email case.access@yale.edu.

Endnotes

1 Case writer. Yale Law School 2019

2 Eugene F. Williams, Jr. Lecturer in the Practice of Management

3 “A search fund is an investment vehicle, conceived in 1984, through which investors financially support an entrepreneur’s efforts to locate, acquire, manage, and grow a privately held company.” See, for instance, “Search Funds,” Stanford Graduate School of Business, https://www.gsb.stanford.edu/faculty-research/centers-initiatives/ces/research/search-funds (accessed June 6, 2017).


11 Wertz and Kingyens, p. 16.

The only meat products exempted by the Act are poultry and rabbit meat. The 2017 amendment added rabbit meat, and it is not inconceivable that future amendments would exempt other meats such as pork or beef.


“What We Learned from 200 Startups who Raised $360M,” p. 4.


Feld and Mendelson, p. 79: Information rights “define the type of information the VC legally has access to and the time frame in which the company is required to deliver it to the VC.” Also see Feld and Mendelson, p. 226: A pro rata right is “the right of a shareholder to purchase shares in a future financing equal to the percentage the shareholder currently holds at the time of such financing.”
