THE FUNDING GURU

HOW TO START, FUND AND GROW VISIONARY COMPANIES

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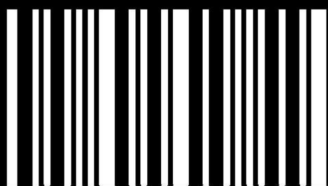
HOW-TO AVOID STARTING UP DOA

4 CRITICAL INGREDIENTS FOR GETTING YOUR OWN INVESTOR!

STRATEGIC ALLIANCES FOR FUN & PROFIT

HOW-TO AVOID STARTING UP DOA



JEFF JOSEPH
Venture Populist

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4 Critical Ingredients for getting Your Own Investor!

By: Jeff Joseph

For entrepreneurs starting new ventures the prerequisite questions around obtaining venture financing typically assume priority so it's helpful to know how investors tend to look at, and evaluate early-stage opportunities.

One of the few commonalities among the thousands of VCs and angel investors is the consensus that the process of identifying an attractive private venture investment is "part art, part science". The *art* part speaks to the inherent absence of certainty with respect to any venture's viability. There are no absolute truths…no bankable checklist to follow that ensures a successful outcome for a private venture investor.

The *science* part?

That's simply hindsight, which of course is an exact science. Of the ways that I have derived knowledge as a private venture investor, hindsight is the most expensive, the least merciful and the most valuable.

When it comes to separating the wheat from the chaff, my primary screen is simple. For a private venture investment (PVI) to be worthy of the costly, time-consuming, bandwidth-bogarting process of evaluation, consideration, due diligence and deal term negotiation, it must initially meet these four criteria;

1. ***There is a large market for the firm's products or services***

The size of the market must be material for a PVI to potentially achieve a high cash flow or high-multiple (*positive asymmetric*) outcome. The success of category-killer app, product or service in a small market lacks the potential of an exponential payoff and does not proportionately offset the risk of a loss.

Ideally, the market should not be merely *mature*—it should be *growing*. The market can be newly-emerging (alternative energy, for example) or non-existent (Twitter) at the point of the venture's introduction of its product or service, but its potential must be measurable and meaningful.

The values set forth in the modern business classic *Blue Ocean Strategy* often come to mind. Blue oceans denote industries untainted by competition. In blue oceans, demand is created rather than fought over…competition is irrelevant

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because the rules of the game are waiting to be set.

I am predisposed to the notion that the initially contemplated product, service or business model rarely succeeds, and consequently ventures are frequently forced to adapt to new data points. This requires the room to manoeuvre that a large market provides.

2. The firm has a sustainable competitive advantage

The venture must have a sustainable *edge* to attract and retain its market share. The location or lease of a real estate development can be an edge. The celebrity chef to a restaurant, the IP portfolio of a technology or medical device company or a strong distribution channel relationship can be a critical edge to a consumer product.

The more *tangible*, *unique*, *defensible* and *proprietary* the edge (such as patents)…the better.

The competitive advantage should discourage competition and create a barrier to entry. The edge will vary according to the venture's industry. *First-mover* status is often meaningless (like many others I prefer second-mover) and certainly not sustainable in a market of compelling size.

A sustainable edge to compete in a large market is critical to potential acquirers or public markets and the objective of realizing compelling multiples on an exit.

3. The management team has compelling expertise in the contemplated market

You must have a great execution team. Visionary founders may be inspiring but they alone cannot bring a great idea home. Get an experienced and accomplished operator in early.

In a couple of my early investments I failed to hone this rule to its proper endpoint. Naively, I believed that the serial entrepreneur with prior liquidity events was a proven winner and worthy of the wager. The first time that formula fell short I failed to make the proper connection, the second time I learned the lesson. There will not be a third time.

Successful entrepreneurs too often become deal junkies fuelled by the fumes of their prior triumph. Some become self-anointed business "generalist" experts (contradictory, eh?) that no longer feel restricted by the limitations of their actual core competencies.

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The founding partners and management team must include an accomplished C-level executive or highly accomplished operator with a track record of proven experience with the specific business model and target market. Moreover, the operator must have the authority and discretion to execute the business plan. Serial entrepreneurial ego in the absence of domain expertise is a formula for failure.

4. The deal terms are no less than fair, and ideally—favorable

Valuation, investor rights, board representation, management discretion and transparency with respect to material events, protective provisions, anti-dilution protection, liquidation preferences and *optionality* issues must incentivize and respect the source of the capital. The investor's capital is the great enabler… the *sine qua non* for any venture.

Few things are as humbling as the successful venture that does not translate into a successful investment. I respect the often repeated axiom that a *fair deal* is one where both parties feel that they got a bad deal, but the end game should always be to negotiate *favorable* deal terms.

The probability of an attractive outcome is diminished if a private venture investment cannot meet these initial thresholds. In VC-speak you are nursing a newborn "zombie"…a walking dead venture…the ship is already sinking and it has not even left the port.

Jeff Joseph, angel investor, venture catalyst, financier and blogger at www.venturepopulist.com

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How-to Avoid Starting Up DOA

By: Erik Luhrs

Once folks decide to start a business they get excited. They want to get their incorporation papers done, bank accounts set up, website done, logo designed, business cards printed, office space rented…etc. It's a mad dash to be "started."

And yet, nine out of ten new businesses will fail within three years.

So what happens? How do all the piss and vinegar, hopes and dreams, blood, sweat and tears of the start-up time go so wrong?

> ***"The answer is simple: We forgot about customers."***

Obviously, getting someone to buy what you're looking to sell is the essence of the business. And yet, many a would-be millionaire figures that clients will magically appear as soon as they throw up a shingle and say to the world "I'm here now! Please come and buy!"

So how do we do it? How do we get the first, second, twelfth and four-hundredth client to sign the purchase order of give us that credit card number? Well, there is a much to the process, but I can tell you what step one is: Effective Marketing.

Now, before you run out and start buying ad space in magazines or banner ads on websites, there are some things to consider. Just buying ad space and putting your company's name on it is the same thing as throwing up a shingle and saying "come buy." It just doesn't work.

If you don't believe me, ask yourself if you went out and purchased every product you saw advertised on TV last night. In fact, did you even go out and buy ANY of them?

Probably not.

This type of marketing is called "commercial advertising" and in today's world it's a waste of time and money.

To get the attention and eventual business of today's buyers you need three key things:

1. A super focused niche – You need to break down your target audience to the smallest possible level. "Men" are not a niche. "Men with brown cars" is a focused niche. "Men with brown cars that want to trade them in

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for red sports cars" is a super focused niche.

2. A compelling message – You need to speak to the client's current reality. "We sell dog biscuits" doesn't speak to anyone's current reality. "Do you have a really good dog that deserves a treat more often then you give it to him" does speak to someone's current reality.

3. A simple call to action – You need to make it easy for someone to connect with you. "Fill out this form. Then write out an envelope and mail it along with postage you pay for and wait three weeks to hear from us" is far too complicated for anyone. "Fill out this simple form right here on our website and we'll call you back within 30 minutes" is fast, simple and low risk.

CAVEAT: Obviously, the examples I gave are specific and these three concepts need to be adjusted according to what you sell and who your sell it to. Further, once you've got the customer there you still have to work with them to get the actual sale. But at least you'll get the opportunity to engage them in a sales process, which is more than most people. So, in short, if you get these three steps right you'll be off to a great start!

Erik Luhrs, Founder of The GURUS Selling System (www.guruselling.com)

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How to Prepare to Raise A Million Dollars in Early Stage Capital.

By: Karen Rands

You're sitting in a meeting with investors eager to hear your pitch. You've got great industry experience and credentials. You've got a patent and a prototype. You're hoping to raise enough money to bring your great idea to market, create jobs, and create wealth…and lots of it. You ask for an initial investment of a million dollars.

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The investors smile and then the questions begin.

- “How do you know what your profit will be if you haven’t built the first one?”
- “How do you know that your target market will buy it at the price forecasted?”
- “What are you going to spend the Million Dollars on?”
- “What is your offering, how much do I get for $50,000?”
- "Do you have any existing statements?”
- “Is your patent pending or granted?”
- “How are you actually going to sell the product?
- “What is the timeline from prospect, sold, delivered?”
- “How can you say there is no competition? Isn’t status quo a competitor?”
- "What are the bases for your projections?”
- "How did you develop the income statement and balance sheet?”
- "What have you invested so far, how much from other investors and what have you done with that money exactly?”

These investors want to know that you have a solid plan, a road map, and a strategy for how every penny in and out of your business is going to create revenue in the company….and increased value in their investment. But you’re an idea person, not a bean-counter. You’re an action-oriented entrepreneur, not a stuffy accountant.

Can’t you just hire someone to answer these questions for you? Can’t they just see the potential of your vision and trust you? You are so committed and you have such passion….isn’t that enough?

Yes, you can hire experts to help you find the answers and build your road map…but make sure you aren’t just hiring people and leaving them to come up with what they think the answers should be. Get involved and stay involved in the process of building you plan, your strategy, and your financial forecast.

Understand why they determined or decided what needed to be there and make sure it is consistent with your

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vision and if not, know why and agree with it or change it. When you personally don't know the answer to these questions, one of two bad things can happen. Either you don't get the money, or you get taken advantage of.

Not getting the money is bad. But getting taken advantage of can be much worse. You can't defend your valuation so you sell too much stock or the interested investor walks away. You don't know exactly how much you need to get to cashflow positive so you have to go raise more money midstream or you have to slow things down that impact your proposed timeline to market. Here's what that can look like:

- You apply for a loan with your patent as collateral. The lender may try to give you a loan of 50% LTV instead of 75%. That extra 25% was necessary to get the product fully launched. Now they can take your asset and sell it if you fail. Your ignorance has contributed to a situation where it's in your lender's interest to underfund you so you *do* fail.
- Your investor knows you have a great idea and you're naïve or ignorant about the financials. They might offer you $1 million in exchange for 50% of your company. The better you understand the financial implications of your business, the more of it you get to keep.
- A shark investor can deliberately underfund you so they can cut you out of your management position down the road. They can blame the lack of profitability on your management skills rather than their own deliberate choking of your financials.

Think this can't happen to you? After all, you deal with honorable people… But keep in mind… the investor's intention is to get the best deal possible to increase their potential ROI. The question is, whose job is it to look out for your interests? Whose job is it to understand the financial potential and implications of your ideas and your efforts? You as the CEO of your company are ultimately responsible for all strategies, forecasts, and decisions affecting the viability of the company.

Karen Rands is a Venture Catalyst, a Compassionate Capitalist- and a dominant force in the entrepreneur and

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investor markets with her blogs, published articles, frequent speaking engagements and her weekly radio show. Entrepreneurs are helped through expert knowledge and strategic services offered by Launch Funding Network (LAUNCHfn), and investors join the Network of Business Angels & Investors (NBAI) to learn, collaborate and prosper (2009 Top 50 Angel Groups by Inc Mag).

Listen to Karen's radio show broadcast at http://tinyurl.com/btrkyr and follow Karen on Twitter @karenrands . Sign up for her free investor tips email series at http://launchfn.com

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Strategic Alliances for Fun & Profit

By: Tom Halle

Of all the tools in your tool box to drive rapid growth on a shoestring, few are more powerful or cost-effective than forming a strategic alliance or two. I'm not talking about reseller relationships here – companies that simply add your product to their line card and fulfil orders for you (not particularly useful when your product does not already have significant market presence or a groundswell of demand) - but partnerships where each of you fulfil a unique requirement for the other that is not easily replaced with a competitor.

For the early-stage company, strategic alliances can confer a number of breakthrough benefits – market access, sales leverage, press and analyst recognition, technical expertise, competitive shut-out, access to corporate venture cash, and the Holy Grail – massive demand generation and sales 'pull'. Strategic alliances take many forms – technical collaborations, sales collaborations, technology licensing deals, and many others, and are used in many industries – information & communications technology and pharma/biotech are the

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grand-daddies of partnering, and strategic partnerships are increasingly being seen in other markets, most notably consumer products, financial services, energy (particularly clean/green), and insurance.

Size Matters

Goliaths like to partner with other Goliaths (think Oracle and HP, Abbott and AstraZeneca, etc.) in order to accelerate innovation, pre-package “whole solution” customer offers, and generally leverage their respective strengths to further solidify their market positions. From an entrepreneur’s perspective these Goliath-Goliath alliances are interesting to learn from, but beyond that they simply serve as a competitive barrier to entry for the small company trying to break in – I’ve seen many Goliaths decline to partner with a small upstart because “my existing partner X is thinking of moving into that area” (although they never reveal this quite as directly as that).

Davids also like to partner with other Davids – particularly when the two companies have highly complementary products and are selling into the same buyer. The motivation behind these partnerships is often based on the desire to share leads, marketing costs, customer/deal intelligence, mutual installed-base walk-ins, etc., and on the surface they seem to make a lot of sense. However, I would strongly caution early-stage companies away from these – other Davids will rarely have more market power than you, nor does the combination truly create a “whole product”, and so these alliances mostly suck precious time without creating any real sales pull. Unless you are looking for a drinking buddy to commiserate with, your time is better spent elsewhere.

For the early-stage company, the most powerful type of alliance is the David-Goliath alliance, where your product is added to the solution portfolio of an existing market giant. The dynamic that has given rise to these alliances is that the Goliaths are seeing increasing constraints on R&D budgets, and corporate M&A groups are becoming a bit more risk-averse & like to see a few more proof points of product and market viability before plunking down the cash – however, their sales reps still need a steady stream of new products and new offers in their briefcase that they can leverage to generate new customer conversations and new budget lines to sell against, and a portfolio of small, innovative partners

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with complementary products can provide just this product stream.

Execution is Everything

Getting the right conversations with the right folks at prospective Goliath partners is tough – but getting the resulting alliance to bear fruit for you is much, much tougher. To pull it off you'll need to put yourself in their shoes and (often radically) alter your positioning, messaging, sales style, and often even the design of your presentations and product collateral to neatly drop in to their existing story and sales efforts. Remember – they have hundreds of their own products, and likely dozens (if not hundreds) of other partner products in their portfolio – your partner's sales reps and marketing department are not going to spend more than five minutes learning about your product and modifying your materials to meet their needs.

And don't expect much help from them getting all of this done – over the years I've built alliances with more than 70 companies, and I can count on one finger the number of companies that had a comprehensive partner on-boarding process & offered meaningful coaching on the behaviors and materials that will support the success of an alliance with them. Even if you are three guys in a garage, Goliaths expect you to come to the table with sufficient skills and bandwidth to do this for yourself.

Also, don't expect red-carpet access to their sales and marketing organizations – despite their strategic importance, alliance efforts are perennially understaffed within Goliath companies, and outside of the dev and BD groups nobody REALLY wants to partner (unless their comp and/or bonus plans are specifically tied to partnering results).

> ***"You'll have to use every guerrilla tactic imaginable to get the access and investment you want at the pace that you need to produce breakthrough results. "***

Take heart – despite these inherent difficulties, putting together an extremely productive partnership with a Goliath in your space is possible. I've seen some incredible results over the years – in one case, a David invested six weeks of negotiation, two weeks of dev, and a month of marketing, and returned 60,000 highly-qualified leads in the first 100 days, with a lead-to-close conversion rate better than 10% - and NONE of what they accomplished was

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part of the Goliath's standard partnering program. In another case, I've seen a Goliath drive an outbound call & email campaign into their 18,000-strong installed base specifically promoting the smaller partner's product, generating the fastest revenue ramp in the history of their partner program. Again, NOT part of their standard approach – this was accomplished through breakthrough guerrilla tactics, skillful relationship development, and perfect product positioning.

There's no need to wing it in this area – there are a good number of seasoned strategic alliances pros around the world that are available on a consulting basis to help build your partnering plans and support your execution – ask your board members and/or investors for referrals, and feel free to reach out to me for assistance or recommendations as well – I'm part of a consortium of top-tier, highly-credentialed alliance service providers, and can point you toward folks seasoned in your industry, your geography, and your technology. Happy partnering!

Tom Halle, CSAP is a veteran of the high-tech industry with eighteen years as a technologist and successful entrepreneur, and an additional ten years building high-growth commercial and technical alliances. Tom has created groundbreaking David-Goliath and Goliath-Goliath partnerships with companies such as IBM, Microsoft, Nokia, Motorola, VMware, BMC, Unisys, EDS, CSC, Siebel, Check Point, and Symantec, delivering a wealth of new products and customer value, breaking into new geographies and vertical markets, shutting out market and portfolio competitors, intensifying press and analyst coverage, and facilitating hundreds of millions of dollars in new revenue. Tom can be reached at tom@tomhalle.com.

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FOR FOUNDERS STARTING, FUNDING, GROWING VISIONARY COMPANIES

ABOUT THE FUNDING GURU

Andrew is an in-demand Coach and Speaker focused on helping startup founders and entrepreneurs launch, grow and fund their startups across the globe. Andrew has experience with his own startups, raising over $20M of funds but his real passion has been helping companies start and lock in funding. In fact, during a recent four year project in the United Kingdom, Andrew helped the UK Government by working alongside other funding leaders as part of the Investment Taskforce focused on creating a better new Business Start-Up environment. Selected from over 2000 entrepreneurial candidates, Andrew joined the Department of Trade and Industries' Board of the Small Business Council, and while sitting on the board, Andrew began to realize that some great businesses and their founders were failing because they were not 'investment ready'.

Frustrated that good young businesses were hitting funding obstacles which sometimes caused catastrophic consequences for the start-ups – Andrew set out with a passion to work with other leaders and start-up founders to solve this issue and began The Funding Guru and Advisor Garage (Creators of **Funding Academy**) with a commitment to delivering resources to help start-up founders effectively and efficiently raise funds and execute their vision for their start-ups success. Despite being a Harvard MBA – Andrew is far from being an academic, bringing real world start-up and fund raising experience to his coaching, his speaking, his webinars and tools – all with one mission - to helping start-up founders launch visionary, business building, job creating companies. Meet Andrew at TheFundingGuru.com and reach out if Andrew can help you.

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