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Bootstrapping Your Business. Get Real. Get Started.

From Steven Mednick, Plenum Revenue Group

You don't have to wait for angel investors or venture capitalists to fund your business in order to start. Follow these tips to get going on your own.



Ditch the business plan and buy a lottery ticket. That's what I tell new entrepreneurs who seek angel or venture funding. The odds are probably better, you will save yourself a lot of time and grief and you'll get results sooner with the lottery. If you have a great idea that can change the world, then bootstrap your way until you can prove it. Funding will come just when you don't need it.

I've mentored and helped fund dozens of entrepreneurs over the past few years. There always seems to be a "catch-22" — you need seed financing but no one will give you a cent until you have a marketable product with paying customers. Ironically, raising millions of dollars is always easier than raising thousands. Why? Because venture capitalists are drawn to those who have done it in the past. If you don't have a documented track record, it is hard to convince someone you have what it takes to be successful.

BEYOND IDEAS. A myth taught and propagated by many top business schools is that the way to build a venture is to create a comprehensive in-depth business plan, perfect your elevator pitch and then present your PowerPoint slides to venture capitalists. If that doesn't work, you knock on the door(s) of angel investors – both organized groups and high-wealth individuals - and pitch them.

Ask any entrepreneur who has called on venture capitalists, and they will likely tell you it is almost impossible to even get calls returned. If you get lucky and are invited to present your idea, the due-diligence process will drag on for many months while you mortgage your assets, ruin your marriage and survive on hope. If you do hit the jackpot, the venture capitalists will require you to trade away your first born in exchange for an investment. And, guess what, you now have a "partner" looking over your shoulder on a regular basis – more often if you do not hit your milestones.

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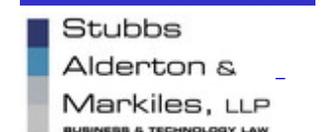
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In reality, most business plans don't deserve funding. Most business plans are poorly written, contain spelling and grammatical errors and read more like science fiction novels. Venture capitalists receive hundreds of plans every month, and few are worth the paper they are printed on. Everyone jumps on the same new trend, or the ideas are so far out that they have no chance for success.

Additionally, most entrepreneurs don't take the time to understand what venture capitalists are looking for. Entrepreneurs don't know that most venture capitalists are only seeking companies that can demonstrate a large market opportunity in a fast-growing sector. Plus, they want a company scale to a \$100 million to \$300 million revenue stream within five years. This means the market potential has to be at least \$500 million or more, and eventually the company needs to achieve at least a 25 percent market share. Therefore, great ideas won't do it; it takes an experienced, proven entrepreneur and management team, outstanding execution and a receptive market that is both large and growing. It's hard for even the best venture capitalists to separate the wheat from the chaff.

So what should an entrepreneur do?

My advice to the very few with realistic, well thought-out business plans is to bootstrap. That is, go it alone, without angel or venture capital funding. Just get going. Focus on validating your idea, building your business and always selling for survival. You need to raise enough money to get started by begging and borrowing from family and friends. And be prepared to dip into your savings and credit cards, obtain second mortgages, and perhaps look for part-time work, consulting work or customer advances. Or better yet, you may want to keep your "day job" while you launch your idea.

There is no single formula for bootstrapping a company, but there are some essential ingredients.

- Don't Fool Thy Self.** Always be truthful to yourself. Understand the risk you can withstand. Listen to what your trusted advisers are saying to you. Do your homework. Continually research, learn, revise and ask questions. Be "coachable." Believe it or not, you may not know everything. Never blame others. Do it yourself. If you have a spouse, keep them informed.

- Network. Network. Network.** Did I mention you should network? You can learn a lot from the experiences of seasoned entrepreneurs, and they are much more approachable than you think. Find a mentor. Talk to 50 strangers. No, talk to 250 strangers. Ask the advice of angels and respected service providers. If you can't find anyone who is excited about your idea, chances are it isn't worth being excited about. This may be time to reflect deeply and come up with another idea. Even if your first idea does not pan out, you have learned much in the process and, maybe, have uncovered a new idea that will make you rich.

Date	Company	Amount in \$M
1/31/07	Advanced Warning Systems	\$0.0
1/31/07	Troxen	\$0.0
1/31/07	Foundation 9	\$0.0
1/31/07	Cylene Pharmaceuticals	\$0.0
1/29/07	VentiRx	\$0.0
1/25/07	SEMDirector	\$0.0
1/25/07	Biosensors International	\$0.0
1/24/07	Procore Technologies	\$2.0
1/24/07	Areae	\$0.0
1/23/07	SmartDrive	\$0.0
1/23/07	Luvoo	\$0.0
1/23/07	Avera Pharmaceuticals	\$0.0
1/23/07	Kaenon	\$0.0
1/23/07	Vootage	\$0.0
1/22/07	Vertiflex	\$20.0
1/22/07	ReferNow	\$0.0
1/20/07	Tasty Eats	\$0.0
1/18/07	Targa Therapeutics	\$0.0
1/18/07	Innovate Technology	\$0.0
1/18/07	Evolver Project	\$0.0

- **Prepare to work long hours in the beginning, the middle and maybe later on.** Remember, it's your baby. This means working evenings, weekends and even holidays. Your customers should determine your schedule. Not vice versa.
- **Find a way to connect with your market.** Speak to potential customers, analysts, business partners, suppliers and competitors — anyone who can help you understand your target market. If you can sell customers on your concept, maybe they'll help you fund it or agree to be a test site or a valuable reference. Customers don't usually know what they want, but they always know what they don't need. Make sure that there is a real market for your product or service.
- **Start small and scale.** Your idea may be terrific and have the potential to change the world, but you are only going to do this one step at a time. Look for simple solutions, test them, ask questions and learn from the feedback. Get your first customer. Realize revenue. Get your second, third, fourth, etc. customers. If possible, work for someone else first in your target industry. Carefully observe. Take notes. Ask questions about everything. If you're creating a software program, learn by doing some consulting assignments or create some utilities. You don't have to start with the ultimate product.
- **Focus on revenue and profitability from the beginning.** Watch every penny. Find creative ways to earn cash by selling tactical products, prepaid licenses or royalties. Pay employees partially in stock, if possible. And sweep the floors yourself. Look for free or leased hardware and lab facilities - from universities, government subsidized incubators, friends - any which way to avoid capital costs. Barter. Swallow your pride and ask for favors.
- **Cash flow is everything.** Cash flow is like the blood that flows in our veins. Without it, we are dead! It's as simple as that. That's why happiness is positive cash flow. Manage your cash flow on a daily basis to ensure that your life-blood is sufficient for your short term survival. This means setting aside the big opportunities while you complete small deals with a short sales cycle and recurring revenue. Know when you will get paid.
- **Think innovation.** There is always a better way to solve a problem. There is no value in following the path of others — you're simply going to be battling established competitors on their turf. If you want to compete against Muhammad Ali, don't compete with him in the ring. He will defeat you every time. Change the landscape, change the rules and compete against him on your own turf and under your rules.
- **Entrepreneurial Solution Selling.** For your business to succeed you have to persuade people to give you what you want (i.e., a sale), and you achieve this by convincing them you're offering something that benefits them. As an entrepreneur, you're always selling — whether you are marketing your product, recruiting talent, or raising capital. Find a way to incorporate your product or service into a

customer solution. Therefore, learn about the customer's needs first. Find the customer pain and cure it. If your product can't do it alone, find a partner to complete the solution. If your product doesn't work for the customer, let them know. Then kindly ask for a referral to another potential customer. Become the industry expert; the "go-to" person. Talk benefits, not features. If you are selling to large enterprises, speak their language. Get in step with their goals and buying cycles. Don't ask them to do something they are not capable of, such as attempting to close on a capital acquisition today when it requires board approval next month. Quantify customer benefits and document them for future reference. Get on the same side of the table with your customer and innovate for success. Finally, create a selling environment in your firm. Everyone sells. Everyone views the world through the eyes of your customers.

- **Entrepreneurial business development.** You don't have to do it alone. Look to team-up with larger established companies that have ready sales and distribution channels. Find a way to add value to their product or service. Find a way to motivate their sales representatives to bring you in on a deal. Focus on the customer and the solution. Maybe your product or service can be the catalyst to get the deal done. Become valuable to others. Find ways to give back. Always think "what's in it for them."

- **Prepare for the worst.** Truth be told - it's going to take longer than you think. Two to three times longer, maybe longer. There will likely be product problems, unhappy customers, employee turnover and lots of financial challenges. You may even fail a number of times before you achieve your goals. In fact, entrepreneurs typically fail a little more than twice before launching a successful business. By learning from each success and failure alike, you increase the odds that you eventually make it.

With a lot of luck and hard work you may build a successful company that markets products and/or services customers really want and are willing to pay for. It is very likely that by this stage, you will receive the phone calls from angels and venture capitalists. This is the time to think of exit strategies and decide if you want to own a small piece of a big pie or a large piece of a small pie.

Good luck and good venturing!

Steven Mednick is founder and president of Plenum Revenue Group, LLC, Newport Beach, CA. Plenum is a sales and revenue development firm for start-ups to complex global enterprises. Steve has more than 20 years experience growing early stage to complex, global organizations in the information technology, finance and health care industries.

Steve established the corporate ventures office for Silicon Graphics, Inc. in 2000, where he led its global strategic acquisition, investment and licensing activity. He is currently a member of Tech Coast Angels and is on the TriTech Small

Business Development Center Advisory Board. He is also an adjunct faculty member with the Lloyd Greif Center for Entrepreneurial Studies, Marshall School of Business, University of Southern California, where he teaches entrepreneurship to both MBA and undergraduate students.

Steve is a frequent speaker in the early stage business and investment community and is the author of Corporate Venturing for Emerging Growth Companies, Revenue Growth Through Alliances, and Developing Your Growth Strategy. You can contact Steven at smednick@plenumrevenuegroup.com.

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