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Breaking Through the Financial Barrier

Selling the Entrepreneurial Idea, Part I

As you drive along Highway 101 in California's Santa Clara Valley, Route 128 near Boston, the Beltway around Washington D.C., the Carolina's Silicon Triangle, Washington State's Silicon Forest or nearly anywhere across the country, you almost can see the parched bones of entrepreneurial ideas that have died and been cast aside. They lie next to now healthy giants and soon-to-be-successful product and service organizations.

There seems to be a never-ending stream of great people with "the idea of the decade"—the one that was going to help them carve a place for themselves and their followers in the industry.

Some succeed beyond their wildest dreams. Some fail quickly, almost painlessly. Some take a long time to die. Others are acquired when they are in the painful throes of death. Some of the companies and ideas are never born because they can't acquire the necessary parental support … money.

A number of experts, particularly recruitment executives, feel that anyone in the environmental arena who has the desire and the idea should take the plunge and become an entrepreneur. They reason that even if the company fails, the individual has marketable skills that then can be sold to someone else. Others feel that you should be prepared for success as well as failure.

One recruiter said that given two candidates, the one who was involved in a start-up that failed compared to an individual with a growth track record in a single firm would probably have the edge in today's market. His reason was that the individual most certainly gained some valuable experience as to what works and what doesn't.

Generally, people who take the new venture plunge have been successful all of their lives. But anyone, regardless of past successes, has to be prepared for the bumpy road that lies ahead when starting a new product or service organization.

The start-up will consume all of your energy—and possibly your life savings. If it fails, it's more than a financial set back. It's a dramatic blow to your ego and self-esteem. But it is the successes that keep dreams alive and the reason more people try for the brass ring every year.

Money, Money, Money

A general partner at one venture capital firm recently said that good people and good ideas are key ingredients of a successful start-up. However, he points out that money is what makes the whole thing happen.

One entrepreneur reinforced this statement by saying that when you start a company and try to build it, "money is more important than your mother."

Venture capital often is thought of as the first method of raising money for a new company. However, venture capital actually comes quite a bit further down the line.

The first source of money is your own bankroll. It is encouraging to investors when they know that the entrepreneur believes so much in the concept that he will be the initial investor.

This is followed by money from friends, relatives, partners and the bank. After you have exhausted these sources, it is time to approach the group or organization that most likely will be your biggest backer—the venture capitalist.

Actually, you'll be doing these activities in parallel because none of the sources quickly sign the huge checks you need to grow your enterprise.

Venture Capitalists

Some people consider venture capitalists to be worse than loan sharks. Others picture them as angels. They are neither. They are business people. They invest in young firms and hope to make money when the company goes public or is acquired. They invest in those companies that they feel will provide an optimum return for their investors.

Different venture capital firms weigh the criteria for their investments differently, but they all spend considerable time looking at the people involved in the start-up. They invest in people who think big, are highly motivated, are willing to make substantial personal commitments and have a track record of success. They also look for products and/or programs that meet specific market needs in a high quality, cost-effective manner.

Some firms look for large, rapidly growing markets where there are significant opportunities. Others look for new, emerging markets where market leadership quickly can be established. Still others look for a smaller market in which the company can be the dominant factor.

Match your target venture group with your goals—just as you would if you were selling your products to a prospect.

Next, realize there are various categories of investments and selection criteria within each category. There is seed, bridge,
start-up, first-round and second-round financing. Each has its degree of risk for the venture capital firm. That means the equity it requires will vary.

Despite the well-covered demise of the dot.com era, there still is an estimated $120 billion in funding available for new enterprise investments this year. With that amount sitting in the bank, you may think that venture capital and R&D partnership firms are falling all over each other to fund the next wave of scientific and technological opportunities. Wrong.. Even in downturn periods like these, venture capital firms still receive an average of more than 100 technology and service/support new business proposals each month.

The Business Plan

Unfortunately, instead of paving the way for funding, the proposals often are more detrimental than helpful. In fact, the sad truth is that the majority of the business plans presented are not just badly written, they're *very* badly written. This makes the evaluation/decision period longer and more difficult for both parties.

Pyramid Your Plan

The business plan should be presented to the potential investor in the same manner that your products and services are presented to potential customers—quickly and effectively. A simple way to accomplish this is with a pyramid-style presentation. This type of proposal starts with a summary and sections are expanded toward the base.

After you get through the legalities and disclaimers, the most important part of your plan should be the executive summary. This one- to two-page summary clearly states what the company is going to do, what the market potential is, how the company plans to achieve market penetration, the time period involved, the product/service plans, the amount of money needed and how that money will be used.

The second most important section of the business plan is the business summary. This includes corporate objectives and strategy, a market summary with product/service objectives, unique technology involved, a plan of operation/action, a financial summary and investment requirements.

The executive and business summaries are the most important parts of your proposal because few senior funding officials will read beyond these areas.

The Product

The next section is the product or service description. This includes the product's, system's or service's features and capabilities as well as future plans. Too many entrepreneurs fall in love with their technology and view the marketing and sales programs/efforts as necessary evils.

However, most investment experts feel that marketing is as important as technology (if not more so). They reason that even the best technology has a prime life span of one to two years and then it will be usurped by another even better technology. Marketing and communications, on the other hand, set the company and its products/services apart from the masses of firms that wax on and on about their unique and special technology. Differentiate yourself by including an aggressive marketing and promotional program.

In short, marketing is where it's at.

Part II of this article will run in July.

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