



Growing Through Rants and Raves

by Barry Moltz, 11/22/2005

The following are excerpts from Barry's e-book entitled, *Growing Through Rants and Raves*. You can view this book in its entirety. Barry is also the author of a book entitled *You Have to Be a Little Crazy*, which delivers irreverent, straight talk about the complex intersection of start-up business, financial health, physical well-being, spiritual wholeness and family life. More information about this title and Barry's other publications can be found at his website, <http://www.barrymoltz.com>.

Is Your Business Investor-Ready?

The first start in funding your business is with the four F's of source capital for the seed round: FOUNDER, FAMILY, FRIENDS and FOOLS. As the founder, you need to put most of your money and time toward making this venture a success. Any outside investor will insist on this. You should next go to family and friends (and fools, if there are any). There isn't anyone that will value your business plan more than they will. Just remember that you can make money for them or lose it all! Ask yourself if you could face these people if your venture failed.

What does it take to get professional investment?

You need two things:

- A management team consisting of individuals with a track record of having done other successful "go to market" projects or similar adventures.
- A prototype or "proven concept" that has shown revenue that can be scaled with additional funds. Investors favor providing expansion capital not capital to prove out something an entrepreneur thinks.

Beyond that, this is what investors look at when rating whether your business plan may be a good investment (1 Low to 10 High):

The management team

How experienced is your management team in the domain where you are working? Have they run or grown successful businesses before? How much passion and vision do you have? At the same time, how much flexibility do you have to change direction and heed others' advice? Who do you have as an outside board of advisors or a board of directors? What are the holes in your management team and how will you fill them?

(Rate yourself a "1" if this is your first business venture on your own, have only done consulting work or you are still at your current job. Give yourself a "10" if this is the 4th business you or your management team have managed where two of them were sold and the other two went public.)

The market place

How big is the market for your product or service you plan to sell and the potential customers? How will you specific address that particular market?

(Rate your plan a "1" if it's less than \$25 million. Rate your plan a "10" if it is over \$100 billion. If reasonably you can capture 5% of the market, it has to be big.)

Your product

Does your product or solution solve a problem that people will pay money to fix? If you build your solution, who will care?

(Rate your plan a "1" if you are unable to find the cost to the problem you are solving or your solution would be "nice to have". Rate your plan a "10" if you know exactly how much potential customers already spend on solving this problem with fragmented or poorly executed solutions.)

Prototype or proven concept

Is this just a theoretical business idea that you think will work? Or have you already built a product, have web traffic and customers with a revenue stream?

(Rate yourself a "1" if your business only exists on paper. Rate yourself a "10" if you have a working product with customers that pay money for to use it. Give yourself bonus points if these customers are not a cousin or family member.)

Strategic alliances

Who else has bought into your vision? What companies have you signed significant agreements to partner with either technologically or from as a marketing strategy? What will your sales and marketing strategy be?

(Rate your plan a "1" if the answer to this question is "no one". Rate your plan a "10" if Microsoft , Yahoo, Google or EBay has given you an "exclusive" relationship.)

Sustainable competitive advantage

If someone came into your market after launch with a heck of a lot more money than both you and I have, would your business revenue model survive? Do you have a technology, key alliances or community that are not easily duplicated?

(Rate your plan a "1" if your only response is that "you had the idea first" and besides "you have no competition". Rate your plan a "10" if you have obtained a patent for your secret technology and have wrapped up all of the key players in the industry in exclusive strategic relationships.)

Pro forma cash flow model

How much cash will you need to attract the first institutional investors? When will you be cash flow positive? What do the future round requirements look like? What does your gross margin look like? Do you have a repeatable revenue stream?

(Rate your plan a "1" if you need to attract \$5 million from angels and you won't be cash flow

positive until the Chicago Cubs win the World Series. Rate your self a "10" if you need less than \$1 million and you'll be cash flow positive within a year of launch.)

Exit strategy

Forget the IPO, who will you sell your business to? Every investor wants to know the shortest path to realizing a gain from their investment. Who are the likely candidates that can afford to buy your business at probably 10 to 20 times your valuation today?

(Rate your plan a "1" if your response to the question is, "I don't care about the market, we are going to IPO this thing in 6 months from launch". Rate yourself a "10" if you have already have had bona fide offers to buy your company even before angel investments.)

Pre-money valuation

The average pre money valuation for seed round investing is less than \$2 million. All investors will want an appropriate step up in value at every capital raising round.

(Rate your plan based on the reasonableness of your valuation method and the justification you have built based on the factors mentioned here. Rate your plan a "1" if you valued you are a "1" in every section of the criteria established here and gave your plan a \$20 million valuation. Rate your plan a "10" if you are a "10" in every section listed here and have valued your business at \$2 million.)

No business opportunity is perfect. There is a lot of risk and unknowns in every venture. The key is to know where your strengths are and to begin to build the areas where you are weak.

What Not To Say in a Business Plan

Sometimes I find that the company's founder is so far 'outside the box' that they 'stretch the envelope.' As an angel investor, I review more than 500 business plans each year. Unfortunately, many are so riddled with economy lingo, business jargon and clichés, that they do not communicate any real business value. In my opinion, terminology, such as disintermediation, sweet spot, ASP, best of breed, and win-win should be outlawed for the next 100 years. For building a real business, these terms are meaningless. Another challenge when reviewing business plans is that the introductory sentences sometimes stretch for an entire paragraph as the entrepreneur looks for that all-encompassing way to describe their business. Forget it! There isn't one. Many times I want to strangle the writer to simply tell me what they do in five words or less. Poor choice of words: This business makes mechanical gasoline fueled devices used for transportation more efficient by periodically sending them through an applied for patent machine to loosen the terra firma from these vehicles to make them more conducive at performing their task. Solid choice of words: We run a car wash. Another frequently used practice is to create a business plan using template software or by working from an existing plan. I do not recommend this practice and like to refer to William Sahlman in his Harvard Business case study "Some Thoughts on Business Plans." This case study has continuously inspired me to see beyond clichés and catch-phrases and better interpret misleading statements within business plans.

If the plan says: "Our numbers are conservative." I read: "I know I better show a growing profitable company. This is my best case scenario. Is it good enough?" Since all numbers are based on assumptions, projections in business plans are by their very nature a guess and are not conservative.

If the plan says: "We'll give you a 100 percent internal rate of return on your money." I read: "If everything goes perfectly right, the planets align, and we get lucky, you might get your money back. Actually, we have no idea if this idea will even work." No one can predict what an investor's return will be. Let them decide.

If the plan says: "We project a 10 percent margin." I read: "We kept the same assumptions that the business plan software template came with and did not change a thing. Should we make any changes?" Ensure you have developed your financial projections from the ground up.

If the plan says: "We only need a 5 percent market share to make our conservative projections." I read: "We were too lazy to figure out exactly how our business will ramp up." Know what it will cost to acquire customers. Gaining 5 percent market share is not an easy task in a large market.

If the plan says: "Customers really need our product." I read: " We haven't yet asked anyone to pay for it." or "All our current customers are our relatives" or "We paid for an expensive survey and the people we interviewed said they needed our product". The definition of a business is when people pay you money to solve their problems. This is the only way to prove people "need it".

If the plan says: "We have no competition". I read: Actually... I stop reading the plan. Always beware of entrepreneurs that claim they have no competitors. If they are right, it's a problem and if they are wrong, it is also a problem. Every business has competitors or else there is a current solution to this customer need. If there are no competitors for what the entrepreneur wants to do, there is a good chance there also is no business. So what should an entrepreneur do? Write the plan in plain and proper English. Please understand that the reader comes to the plan with no knowledge of your business. No fancy words, clichés or graphs will make them want to invest. Understand every part of your plan and be able to defend it. Use your own passion to describe your plan. Make your plan your own.

The 11 things that matter in a business plan:

- What problem exists that your business is trying to solve. Where is the pain?
- What does it cost to solve that problem now? How deep and compelling is the pain?
- What solutions does your business have that solve this problem?
- What will the customer pay you to solve this problem? How solving this problem will make the company a lot of money.
- What alliances can you leverage with other companies to help your company?
- How big can this business get if given the right capital?
- How much cash do you need to find a path to profitability?
- How the skills of your management team, their specialized knowledge, and track record of execution will make this happen.
- What is the investors' exit strategy?

Please remember, the business plan is basically an "argument" where you need to state the problem and pain, then provide your solution with supporting data and analogies.

Common Entrepreneurial Mistakes

Depending on building a viable business through funding from an Angel or VC.

Your chances are actually .5% to 4% depending on who you talk to. It is rare that someone will come in and "save you". Learn to bootstrap your business the first year so you can get customers,

revenue and prove your model. Establish a proven track record.

Projected revenues are based on market size

You need to show how you can build your revenues from the ground up with the appropriate sales and marketing strategy. To say that you will capture .5% of the market is not a good answer. Don't compare yourself to other publicly traded companies in the market place. Remember, most of them have more capital than you ever will to support their business.

Competitive advantage based on "quality" of product or "first to market".

You need to assume that someone can always build a better mouse trap than you. Don't bank on the fact that you are the best game in town for a long term competitive advantage...remember a thing called "reverse engineering"? All of the time...

Talking to any investor about your plan.

Talk to only those who are truly interested and are able to fund your plan. Don't over shop your plan. Don't be afraid to ask for the order (will you invest in my business?).

Waiting until you are out of money until you start to raise capital.

Remember that if you run out of cash, you are out of business. Many call this a "near death " experience. It is best to always have 6 months of working capital in the bank to cover any contingency. This will prevent you from having to negotiate investment terms when you are desperate and the investor feels "pushed" or has an extreme advantage. Remember how banks love to lend people money that do not need it? The risk is perceived to be lower.

Not focusing on the investors return.

Be able to answer simple questions like: How much money is required to make a profit? What is my return on investment? What is the exit strategy? Be able to appreciate that the investor has alternative places to put their cash.

Thanks to Lori King from Seraph Capital for her help on this page.

Ten Tips on Finding Funding

Despite the current economic downturn that seems to be lasting longer than expected, angel funding and venture capital dollars are still available to companies that can prove they have revenue generating potential, have a strong management team, etc.

Venture capital and angels investing received a lot of attention in the 1990's as new economy entrepreneurs were building "designer" companies that were built to be sold. **But throughout business history, real companies have been built from funds found in many places:**

Look in your own bank account

As in the past, entrepreneurs will expect to fund part of their new business from their own wallet. It is the only way to truly get started. It does not matter how much it is, only that it is significant

to you. It also enables you to respect other peoples' money too when you take theirs.

Talk to your friends and family

This is the all time favorite place for funding of start up businesses. The good news is that they will invest because they love and care about you. The bad news is that it's not a lot of fun to lose their money and may change your relationship with them forever. On a bad business day, you will never be able to truly answer their question "How is the company doing?".

Find a customer that believes in your product and you

Traditionally, businesses have started because someone asked someone another person to do something and was willing to pay for it. Find that person who will pay you to solve their problem. You will have an instant business. And put you in business.

Talk to your accountant or attorney, but only if they know what they're talking about!!!

If they're connected, they will be able to give you excellent referrals since they deal with "money" people (if they don't know money people, don't ask them!). They should be your first referral source. Ask those referrals to give you three more names and so on.

Find a mentor

Find someone that will help you spread the word about your business. They should share your passion and vision and be your evangelist to the world.

Network

Attend seminars, go to events, and talk to anyone that will talk to you. A strong referral is the best way to get in front of the right people. Also, keep these people up to date on your progress even if you do not need resources from them at this time.

Submit your business plan to business competitions

There are many groups that allow you to post your business plan on their Web site, utilize their webs site for review by allowing potential investors. They can give feedback on the business plan and/or learn about your company for investment consideration.

Contact angel groups and other area resources

There are several excellent groups that are national and regional. There are an endless number of resources online to help you learn more about attracting capital and funding such as TannedFeet.com (<http://www.tannedfeet.com/financial.htm>), StartUpBiz.com (<http://www.startupbiz.com>), and BarryMoltz.com (<http://www.barrymoltz.com>) (my personal favorite!). A national list of angel groups can be seen at a Kauffman foundation sponsored web site, (www.angelsummit.org).

Achieve business milestones

Nothing gets money like business success. Investors want to put their money in businesses that have achieved their targeted milestones and show a promising future.

Attract an excellent management team

Investors put their money in people not a business. The better team you have, the more money you will be able to attract. Get people on your team that have industry expertise and that have been there before. Investors want track records.

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