Getting Money to Start Your Business, Show 2

1 - Envision a pathway to funding

Start by re-visiting your vision of success. It's great to begin with the end in mind. Make sure you get there by planning a pathway to finance, called becoming fundable.

Steps to becoming fundable

- Having a well-articulated vision of success

- Having a clearly identified pain need or gap and a defined attractive market

- Having an obvious market advantage

  We discussed those three steps when we discussed secrets of success.

- Having a robust personal business network. This is important for two reasons - you will start building your contacts and the community will learn about, and take an interest in you. I experienced this personally when we started our business

- Having a barrier-free personal background (minimum personal debt, no tax issues, no financial crimes). This might sound unfair but it's just common sense. If you are asking someone to trust you with their money, that financier will be interested in how you have handled money in the past. If you have challenges here, add "clean it up!" to your path to becoming fundable

- Having a revenue history and a customer list — we'll talk about how to get those things when we wrap up today

2 - Break it up into smaller pieces

Might be the next biggest mistake startups make - expecting a single source of financing.

Far too many of my clients over the years gave up when they couldn't finance their business idea with a single source of financing. These clients forgot to think of the road to get there.

Accept the gift of this difficulty, the challenges of financing help you sharpen your axe.

In your first finance course in Business school, you learn about capital structure or the capital mix. Firms finance operations and growth by using a mix of different sources of funds.

For most small business startups, that mix includes

- Your own money, called owner contributed capital

- Personal debt in the form of money borrowed from family and friends - and we'll talk about a way to make that much more palatable more next week

- Commercial debt, in the form of leases or collateralized equipment loans - the one commercial loan a startup could consider, again, more about that next week

- Working capital, in the form of cash on hand or short term credit. Short term credit can come from trade accounts or business credit cards.

    I warn businesses **not** to use credit cards for startup capital. Credit cards are useful when serving clients, however…

> If you need a bag of grass seed for a project and you can get paid by the client within the credit card billing cycle, the card is working for you.
>
> *If you start paying interest on a credit card balance out of your own pocket, you are working for the card.*

3 - The next step in your pathway is to take the shortest path to revenue.

When I asked a group of early stage investors to define the word "Entrepreneur," I learned that a financier's definition is very straightforward.

"An entrepreneur is someone with <u>paying</u> <u>customers</u>!" (emphasis theirs!)

The customer insights, industry contacts and revenue history gained from even a summer at an outdoor market will make you a *genuine* entrepreneur.

How? Start where you are, use what you have, do what you can.

- If your vision of success is to run a successful landscaping company, you could start by doing yard care for people who already have a garden shed full of equipment.

- If you want to own a restaurant, you could start as a personal chef

- If you want to run an auto repair shop, you could start offering oil changes at the customer's home or office

If you take the time to think about it, you can probably envision a "phase one" to almost any business venture. Imagine the knowledge you would gain, working one-on-one with your customers in your "phase one."

Your revenue experiences, even when limited, can be extrapolated to project the potential of a larger venture.

Social media and email marketing make documenting customers so much easier than it used to be.

What if I already have the money I need, do I need to enter the market in minimum viable form?

Sadly, I have worked with startups who had all the capital they needed to get started. Why do I say "sadly?" Because I usually met these people when they were struggling — after they'd rushed to invest all that startup capital in the wrong location, the wrong equipment and the wrong inventory.

If only they had entered the market in *minimum viable form!*

Minimum viable form means the startup does the absolute minimum needed to start working with customers in the chosen market. These experiences provide the opportunity to learn about the right location, equipment, and inventory from real customers in real time.

Instead, those who have available capital tend to skip steps and enter the market malformed.

Elizabeth Holmes was handed a mountain of cash to start Theranos, and she's getting ready to go to prison…

As we are a retirement community, I will share that this fate is all too common in what we call *encore entrepreneurs.* With a nest egg in hand, those eager to be their own boss in the next stage of life are in great danger of leaping before they look.

We've talked about how to get money to start, next time, we'll talk about *where* to go to ask for money.