

EARLY SALES KEY TO EARLY-STAGE FUNDING

By Marilyn J. Holt, CMC

It's the top line that tells the story.

Getting financing has nothing to do with the written business plan or dog and pony show you present to the financier. While the business plan should represent an overview of your business operations, what will get you financed is how you run your business every day.

CUSTOMER ACQUISITION IS THE TOP PRIORITY

Even the most bleeding edge venture funded companies usually have sold product to their targeted customers. This is considered "proof-of-concept" as well as a sign of a great management team. Investors look at early sales an indication of the value that a company will have in three to five years. The quality of those sales, including the incremental increase of those sales on a weekly or monthly basis forms the cornerstone of the investment decision.

A company that makes a minimum 40% sales increase each month, with a 70% or greater customer retention is going to win out over a company that had three marginal customers total in January, and has only those three, still marginal,

customers in May. The promise of sales does not count unless the company has a good track record of turning prospects into completed sales.

Investors put their money into companies that understand the business they are in, what their customers will buy, and have the ability to convert the promise to reality. To that end, over 85% of all venture capital financing is used to finance growth.

DO NOT SELL PRODUCT ON PRICE

Price cutting for early sales and commodity pricing are simply unattractive to investors. Base your marketing strategy on an in-depth knowledge of your customer's needs, and, in most cases, how your product helps their bottom line. With this knowledge, you can propel your company into an advisory role as well as a supplier role. In an advisory role, you can move the customer through the decision-making process to "yes" on any issue except price. Price cutting puts you into the position of being a commodity, which psychologically tells the

customer that anyone can deliver it, and this will, simply put, kill your business.

MAKE EARLY SALES

For a new company, early sales are extremely difficult, and more so if they include complicated or on-going product or service purchases. Potential customers, even early adopters, fear that the young company will go out of business and leave the product orphaned. The following three strategies will help you sell your first products.

- One: since implementation is the greatest cost of new technology products, select new products that have low implementation costs, including learning time.
- Two: make your first commercialized products stand-alone products that can continue to do their tasks without you.
- Three: structure your sales and support contracts so that while your customers are encouraged to purchase on the monthly or quarterly basis, they are not paying ahead for services and products that have not been delivered, yet giving you cash flow.

UNDERSTAND THE BOTTOM LINE

Understand how everything contributes to the bottom line. An assertively successful entrepreneur knows how each piece of his/her company contributes to its growth, and he/she manages to make the company work as an operational whole, rather than independent parts.

In every company there are two aspects that contribute to its health and well-being: the goods and services sold, and goodwill.

The direct contribution to the bottom line of your goods and services sold is fairly straight forward. However, the profit or loss of your operation is often an after-the-fact report, not an on-going process. An assertive entrepreneur will drill deeper and understand how well the business operates by understanding why each person, action, and expenditure adds value to the bottom line. To do this, you need to take each micro activity in your company, such as implementation of ISO 9000 standards and guidelines for quality, and understand how it increases your bottom line. By doing this, you will gain an intimate understanding of your business that will give you greater control.

CULTIVATE YOUR BRAND

The goodwill contribution to your company recognizes that not every aspect of a company can be a profit center. You need to provide service to support a product, maintain older products to retain customers, or be a generous donor to community charities to make your employees, your customers and yourself acknowledge whom you really are. However, you need to understand how these goodwill activities contribute to the success of your company, and are reflected in your bottom line. Often, goodwill activities are recognized as part of making and sustaining your brand.

MISS ALL YOUR FORECASTS EXCEPT ONE

Forecasts provide two pieces of information: revenues and burn rate. If you hit all of your forecasts except revenues, you have failed. Revenues reflect growth rate, product acceptance, and how many customers are hungry for what you have. Burn rate simply logs how much money you spend each month. While high-growth costs money, revenues need to increase at a greater rate than you burn to get them. When revenues increase at a greater rate than projected, but so does the burn rate, find out why the operating costs are higher, and adjust either costs or expectations.

If you intend to raise outside capital, this process can make you stand out from your competitors for that investment dollar. Even this process should contribute positively to your bottom line. As you detail every aspect of your business, you are building a document that you can use as your business plan.

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