Funding Start-Ups

By Chas Klivans

The secret recipe to obtain start-up funding.

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After two painful start-ups of my own that did not get funded, I realised that I'd done battle with many who out-gunned me. It was a lousy and humbling experience, which I don't want you to repeat, so I'm writing to you as a fellow CEO.

With that hard-fought know-how gained after these two funding failures, I learned the 'correct recipe' to get financing. The outcome saw my third start-up obtaining US$20 million from Goldman Sachs, and my fourth start-up received US$20 million from Wedbush Securities.

Navigating the funding jungle

It occurred to me that the funding pathway your group is navigating may diverge from the standard recipe we discovered in the funding jungle. In my experience, this may well explain why after a year or a half-year of activity, your team cannot get financing. The funding quest usually takes six to nine months. There is hope, but currently it might feel like you are walking through butterscotch. In the spirit of serving you and your team, here are some random thoughts.

Is this a hobby or a business?

You have looked through your inventor's eyes to pull this out of the dirt.

I get it. Great. Now stop it.

Going forward, *only* look through the eyes of investors and customers. When I ask you how investors and customers are going to make a good profit from your invention, you might reply, 'That's a good question. I don't know.' But you need to know! Ask your team, 'Is this a hobby or a business?' Investors need to see the profit math for themselves, and customers need to know you are in the wealth-creation business too.

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Your funding answer is external

The funding rejections you have received are golden nuggets, telling your team where your proposal veers from the universal recipe. Investors are speaking as loudly as they can. You have learned that investors want an economic transaction, so give them what they want. You love your dream; they never need to.

The 70/30 recipe unknown to many

Having been both funded and not funded, I can say with confidence the more a group adopts the usual recipe, the more capital is received, fewer founders' stock is diluted, and less daily control is relinquished to investors. The formula means your group demonstrates 70 per cent how the investors' money is safer with your management, and 30 per cent how sales will take off. Green teams unknowingly get this backwards—selling 70 per cent to investors how sales will go through the roof and only 30 per cent on capital safety.

An investor receives about 300 proposals a month. Professionals know 80 per cent to 90 per cent of their financed start-ups crater. Therefore, investors who survive in their jobs use a similar formula to lower their risk. For you to beat the other 299 proposals the investor receives that month, here are additional parts of the recipe:

- Get the right leaders—use the established 'people prototype'. The ceiling of this venture is the ceiling of the leaders.
- Get the right executive summary—there is a 'book prototype' that is funded more often.
- Get the right numbers—your pro forma is the first thing an investor scans for interest, and it will be the last thing they check before funding you.

Getting funded is about beating competitive proposals. It is *not* about the intrinsic worth of your product.

Do you want to be right or rich?

Zeal can destroy a start-up. The investor is wise enough to know that products will evolve and the business will be different in one year. Investors need start-up executives with a certain amount of self-worth to produce results. However, when leaders show too much ego strength, they aren't showing humility and vulnerability. Investors need to know: 'Are you, the CEO, trainable?' and 'Do you want to be right—or rich?'

Show your lovable side

Investors invest in people they like. I have observed you speak in less than stellar terms about potential investors and customers. I'm not your personal therapist, but if you want to get funded, this does not work. Investors can read people, and if they read this attitude, they will run away. My suggestion is that you treat people you meet as equal to you, and see yourself as an equal to them. I would also suggest that you stop talking about the past regarding this invention. Every conversation about the past draws you into the past, and every time you talk about going forward you're pushed into the future.

Risk/reward/control in harmony

Because you have something special, people are attracted to you like a magnet. A word of caution—in the funding jungle, you will meet people who are built without a conscience. So we need to travel safely. To protect your start-up dream, I suggest the funding structure has risk/reward/control in equal harmony. This makes for a fair deal for both sides that will last over time. When the deal level of risk escalates, the need for more reward rises proportionally, and the level of control will need to increase accordingly.

There is always more money than good deals

Many make this business of obtaining capital a mysterious black box. It's not. The recipe is open for everyone to activate. Any start-up team can get funded. It just takes experience, discipline, and not letting the bozos knock you down.

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About Chas Klivans
Chas Klivans is a builder of businesses. He is a former company founder, turnaround CEO, psychotherapist, and survivalist in places off the map. Chas is a frequent trusted adviser to corporations, a keynote speaker, and a published author. For more information, visit *innovationtwo.us.*