Growth Insights

Select Strategies

Issue 5

The start-up investment paradox

Why less is more

by Paul O'Dea and Emer O'Donnell.

In 1998 serial entrepreneur, Greg Gianforte had a 'crazy idea' that the internet was changing how businesses communicated with their customers. Instead of consumers going to retailers about products, they were going direct to businesses. Greg figured this increase in consumer communication was going to be a big cost for companies, and wondered if he could create a company to solve the problem.

With just $50,000 he started RightNow in the spare bedroom of his house in Montana. He bootstrapped the company until it reached $6m in revenue. Today RightNow is a market leader in web-based customer experience management, with over $100m in revenue and 2000 customers.

Investors in start-ups want their investee companies to grow but paradoxically investment often holds the business back. Too much time is wasted crafting business plans, defending expectations that were set too high, and debating the next move.

Given that many business investors are on their way to the poor house, most start-ups are not going to secure investment until they become real companies. Here are five reasons why they may be better off.

INSIGHT IN BRIEF

Most start-ups are not going to secure investment until they become real companies. They are better off this way. Too much investment, too soon, provides a false sense of security, holds businesses back, and leads to bad habits.

Bootstrapping encourages businesses to develop viable value propositions in the real world, rather than hiding away in their comfort zone. In the start-up stage, focus on raising customers, not raising cash.

The truth is less is often more. Prove your business with real customers before you seek the fuel from investors to accelerate growth.

1. Get real - there is no hiding place

Too much funding gives you a place to hide. You can be fooled into thinking you have a business because you have a website and you're paying rent.

Limited cash forces you to build your business in the real world. To survive, you focus on customer needs, and build a proposition to solve their problems. Focus on making or saving customers money.

Greg Gianforte probed customers' needs before he built his product. He kicked off by making 400 prospect calls. Then he built his initial product, which took just 45 days because he knew the critical pieces customers wanted.

2. In at the deep end - raise money from customers

With limited cash, your customer is your funder. This forces you to learn how to sell at a much earlier stage. Selling is the hardest job of all. To survive, you hone your sales techniques quicker than investor-funded businesses. RightNow had 6 sales folks before they hired an engineer, and 30 sales people before they hired someone for marketing.

If you have too much cash, you can hide away in your comfort zone and put off asking for that critical first purchase order. Start-ups sell as if their business depends on it - because it does.

3. Spoilt little rich kids - frugality forces focus

If you have funding, what do you do? You go and spend it. Too much funding encourages money to be wasted before a viable business is proven. Like a spoilt little rich kid, the splurging habits you form in your youth are hard to break - and could even lead to overdose. Too much money results in too many choices and bad decisions. Frugality forces focus.

4. It's hard to be flexible in an investor straight jacket

You can't know the answers before you start. Great start-up founders thrive in uncertainty. They have the wit and hustle to spot an opportunity fast and need the freedom to twist and turn without investors on their back. You have more freedom and flexibility without external funding. You don't have to justify every learning step (or mistake.)

INSIGHT IN ACTION

1. Put your start-up time into finding urgent customer problems before you build your first products.
2. Keep the scope of your initial product tight and focused on the main customer pain point.
3. Hone your sales skills to raise customer cash to fund your business until you have a critical number of customers.
4. Learn how to do more with less so that when you secure investment, you can use it wisely to accelerate growth.

5. Necessity is the mother of invention

If you have limited cash, you have to solve problems creatively. It clears away the clutter. It forces innovative, outside-the-box approaches to everything from design to sales.

Like Greg Gianforte, master the art of doing more with less. The truth is that less is often more. Prove your business with real customers before you seek the fuel from investors to accelerate growth.

Select Strategies

Select Strategies is a boutique consulting practice, which helps companies make growth happen. In our series, *Growth Insights*, we draw on experience from client engagements to look at issues which accelerate or inhibit company growth.

Select Strategies
7 Butler's Court,
77 Sir John Rogerson's Quay,
Dublin 2. Ireland

T: +353 1 633 7702
W: > www.selectstrategies.com >
E: growthinsights@selectstrategies.com