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The Smart Startup™

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Special Report

How to Think Like a Successful Entrepreneur

Lessons for Rookies from the Founders of
America's Fastest Growing Startups.

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Introduction

The AVC Smart Startup Guide was written for start-up entrepreneurs who need to create cashflow quickly and with minimal up-front investment.

The Guide introduces a systematic new way of thinking about start-ups called the Smart Start-up Model™. The Smart Start-up Model applies the latest in business modeling research to help you create a “**transition phase strategy**” whose objective is to quickly create positive cashflow for you. Once you have cashflow life becomes much simpler. Cashflow not only enables you to pay your bills but it places your company into the “stream of opportunities” that established businesses enjoy.

The Smart Start-up Model is derived from the strategies used by America’s most successful small private companies which launched *without* outside capital.

The objective of the model is to help you to discover how to get into a cashflow positive situation first. That pet project requiring investor capital may, therefore, have to wait six months or even a year. First things, first, as they say. Shoot for cashflow immediately. Do not make the traditional mistake of wasting 6 to 12 months writing a business plan and then shopping it around to investors. Very few companies succeed at raising capital from outsiders.

Think of entrepreneurs as being a bit like chefs. Some chefs are very **rigid** in their style requiring that a specific list of ingredients be made available to them before they can start cooking. This is fine as long as you are not too hungry and can wait for the required ingredients to arrive. However, if you are hungry now and lack the cash to buy more groceries, you will need to be **flexible** and work with what you have.

Other chefs, the more entrepreneurial ones, will not wait for someone else to deliver a bag of groceries to them, but will instead immediately begin to search the pantry, refrigerator, and vegetable garden for what’s available. They then use the items at hand to create a feast.

This is what true entrepreneurship is all about.

The AVC Smart Startup Guide defines two basic start-up models:

1. the rigid **Sitting Duck Model** wherein nothing can happen until a specified sum of money is raised,
2. the flexible **Smart Start-up Model**, a **transitional model**, which helps you to get started with whatever you have at hand.

In entrepreneurship it's all about cashflow and paying your bills. It's not about wasting a half year or more of your life shopping a business plan around to strangers as the bills stack up at home and your spouse fumes. Take my word for it, you may love a certain widget which you want to introduce to the world, but you will love positive cashflow even more. If your widget requires a lot of money to launch, focus on cashflow first and launching the widget second.

Peter Ireland

How to Think Like a Successful Entrepreneur

Launching a new business has always been a major challenge. In the current economic climate, it is even tougher to do because of the lack of both personal and investor capital that an entrepreneur can tap into for funding a start-up. So it becomes imperative to design your start-up in such a way as to maximize your chances for a successful launch with minimal capital. So how can this be accomplished?

From over two decades of personal experience as an entrepreneur, I have come to divide start-ups into two groups with easily predictable results in six months' time. The first group weds itself to a particular product which requires a certain sum of capital to launch. This group then takes the traditional approach to start-ups by first writing a business plan and then looking for investors to provide funding. The problem with this approach is that most start-ups never raise the necessary capital and, therefore, either die on the vine or morph into something else more do-able without a lot of cash after six months of a futile capital quest. The second group is led by entrepreneurs who announce their intention to go after a given market opportunity and are, seemingly magically, in business a month later with bona fide customers and sales revenues despite not raising a dime of outside money.

What is the difference between these two types of entrepreneurs? What is the magic used by the second group? Being a student of entrepreneurship, I have come to the conclusion that the second group is a subset of entrepreneurs which instinctively understands that a start-up strategy based on first raising outside capital means, almost assuredly, a delay of six months or more and frequently abandonment of the project. As a result, they adopt an entirely different approach to start-up which does not rely on raising capital. Instead they substitute hustle, creativity, and the sheer determination to succeed for money. Equally important, they understand which market conditions and points of management focus, when combined, maximize the odds for their start-up's success.

These conditions and focus points are summarized as follows.

- **Smart entrepreneurs ask themselves whether they are proposing, in the parlance of Silicon Valley, to sell an "aspirin" or "vitamin" type product or service.** Aspirins reduce or eliminate pain that a business or consumer is experiencing. Conversely, vitamins are things which would be nice to have if any money is left over once the pain is dealt with. For example, an entrepreneur who has developed a solution which will eliminate a manufacturing or logistical problem in a particular industry has an "aspirin" to sell. A returning vacationer who wants to import and sell the arts and crafts she saw in Cabo San Lucas has a "vitamin". Start-ups which focus on selling aspirins do far better than those attempting to sell vitamins. A fatal mistake made all too often by rookie entrepreneurs is in mistaking a vitamin for an aspirin.
- **Successful entrepreneurs understand that emerging industries provide far more favorable conditions to start-ups than stagnant mature industries.** Not only is demand out-pacing supply in the former, but more importantly from the start-up's perspective, purchasing criteria and relationships are still fuzzy making it easier for a start-up to win customers. In mature industries purchasing criteria and relationships become so entrenched over time that it's next to impossible for a new company to break into the vendors' club. On the other hand, all that it often takes in emerging markets to win business is to be one step ahead of the customers in terms of know-how. As the old saying goes, "In the land of the blind, the one-eyed man is king."
- **Savvy entrepreneurs also know that they enjoy a much higher probability of success by entering a growth industry with little more than a "me-too" aspirin-type product than they do by latching their dreams onto a new product without an existing market.** They understand that the ability to organize and execute effective marketing, financial, and operating strategies is far more important than having a unique product. Not so savvy aspiring entrepreneurs waste years waiting for the breakthrough technology that will supposedly guarantee their success. The ability to effectively execute a business strategy is far more important than the product for success in business.
- **Smart entrepreneurs also focus on building a selling machine.** They do not rely on others to sell for them. Instead they handle sales personally because they

understand two important facts about business. First, middlemen such as distributors will not have any enthusiasm for a new product until customers start asking for it. The only way that this will come about is if the entrepreneur creates market awareness first through personal selling. Second, direct selling enables the start-up to stay in touch with its customers and gather valuable feedback on what works and what doesn't work about its offerings in the customer's eyes. It's of critical importance for start-ups to continuously fine-tune their offerings to match market needs.

- **Smart entrepreneurs also know that in most cases they can go further with less cash if they initially target their me-too aspirin at a business market.** Going after a consumer market initially is very difficult if the dollars are not there to support the large inventory and advertising campaign that retailers will want to see before picking up a new line. Conversely, going after a business market often requires little more than a telephone, local phonebook, and the willingness to start calling prospects for appointments in which to demonstrate the "aspirin".

Obviously, the Internet offers direct to consumer marketing possibilities but e-commerce can still be very costly compared to pursuing business customers via direct selling methods.

- **Finally, savvy entrepreneurs devise a financial strategy which can be summarized as, "Heads I win, tails I lose very little."** They achieve this ideal entrepreneurial state of both minimal personal risk and capital requirements with three tactics.

First, they replace fixed costs with variable costs. Fixed costs, such as lease payments, continue uninterrupted even if sales plummet or stop completely. Conversely, variable costs, such as Costs of Goods Sold, rise and fall with sales revenue. Fixed costs can be converted into variable ones through the use of a "virtual corporation" approach at the beginning. With a virtual corporation, every business function--except the core one--is outsourced to specialists. This eliminates the need to invest in facilities and hard assets at the beginning.

Typically, the entrepreneur handles the critical sales and marketing functions while contracting out design, production, and fulfillment.

Second, entrepreneurs avoid large up-front investments in the business.

They do so by adopting a self-priming approach to building the company. To understand self-priming, think of those hungry New York street vendors who scrape together a start-up budget of \$50. With the \$50 they buy a carton of watches and sell them for \$100. Then exercising self-discipline and not spending the profits, they reinvest the \$100 into two cartons of watches which they sell for \$200. Then they invest the \$200 into four cartons, and so on and so on. **The principle behind self-priming is to only invest in whatever will you give more cash back *immediately*.**

It sounds simplistic, but this basic self-priming formula has launched and grown thousands of great companies over the years.

It's main benefit is in allowing the entrepreneur to avoid a big investment up-front in inventory and other assets until they know their concept will fly. Starbucks used self-priming early on to add stores. A national company used it to build a fleet of carpet-cleaning vans. A local food market, which began as a tiny roadside vegetable stand, used it to accumulate additional profit centers selling seafood, meat, ice-cream, and espresso.

Third, entrepreneurs further reduce their risk and start-up budget requirements by utilizing a business model which creates a "cash float".

Cashflow models run the gamut from the traditional manufacturing model wherein a lot of cash goes out initially to pay for production inputs, labor, and overhead before any cash starts coming back, to the Dell Computers model where you make nothing until you have first received an order along with payment. Amazon and many others use cash floats. If at all possible design a cash flow model where your customers pay you 30 to 60 days before you have to pay your suppliers. A cash float will significantly reduce your start-up cash requirements.

What is the main lesson from all of this for someone looking to start-up a business in these tough times? It's that your start-up business model is far more

important than your product. Forget the old school product focused thinking in favor of the new school cashflow focused thinking. Don't commit to a specific product or service but rather to the start-up strategy which offers the best possible odds of generating cashflow quickly.

The above insights, won through 20 years of entrepreneurial experience, observing other successful entrepreneurs, as well as research conducted at *Harvard Business School* on fast growing private companies can help you to screen out the best situations and focus on the right things. Once you have positive cashflow, you are in the "stream of opportunities" wherein all sorts of doors for further growth and profitability begin to open. The launch of that pet project which requires a lot of capital can follow six or 12 months down the road after you have established cash flow.

Ask yourself, "In six months, do I still want to be trying to fund my start-up or do I want to be running a company with positive cashflow?"

The call is yours.

Peter Ireland, is an entrepreneur, former CEO of a public company, and investor. More information on smart start-up strategies can be found in ***The AVC Smart Startup Guide*** at <http://www.antiventurecapital.com/>

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The AVC Smart Startup Guide

The above lessons are distilled from *The AVC Smart Startup Guide* a creative financing manual for entrepreneurs who need to launch their company now without venture or angel capital. The *Guide* offers a start-up model based on the author's personal entrepreneurial experience of almost two decades and research conducted at **Harvard Business School** on un-funded companies which qualified for the annual **500 Fastest Growing Companies** list.

Chapter Descriptions

The *Guide* contains 200 information packed pages on creative financing strategies and tactics used by start-up entrepreneurs who could not or did not want to access outside capital. The chapters also contain illustrative "war stories".

Chapter 1 So, You Need Other People's Money?

The first chapter describes the invariably fatal Sitting Duck business model for start-ups which most rookie entrepreneurs use. The chapter also covers the downside of raising and accepting venture capital, as well as providing advice on protecting yourself against money-raising scams and dead-ends. **20 pages**

Chapter 2 The Smart Start-up™

Introduces a new start-up model. The Smart Start-up™ model was developed from research conducted into fast growth companies over the past decade. Explores traditional start-up strategies and explains why they usually don't work. Describes the new Smart Start-up™ method for start-up and fast growth during the first year. This model can be looked at as a transitional business model which will assist the entrepreneur in quickly generating positive cashflow. Includes startup model building section which allows you to deconstruct your current business model for evaluation. **33 pages**

Chapter 3 Fake It, Till You Make It

Entrepreneurial impression management techniques. Covers how to have yourself and your business taken seriously from day one. Reveals creative techniques used by small start-ups to win large prestigious corporate customers quickly. Contains stories of "smoke and mirrors" tactics used by successful entrepreneurs to turn ideas into profitable businesses quickly and cheaply. Lists dozens of methods used by entrepreneurs to make their companies look bigger than they actually were in the early days. **16 pages**

Chapter 4 Cash Floats: Getting Customers to Finance Your Start-up

More Smart Start-up™ methods. Shows you how to persuade customers to provide start-up capital with pre-payment for services and products which will be delivered later. Also covers little-known tactics such as the use of "mobilization capital", mail order and direct response marketing to generate pre-payment from customers. Reveals the "vaporware" strategy for test marketing your idea before you spend any serious money on your business. **11 pages**

Chapter 5 Cash Floats: Free Inventory

How to obtain free inventory for your business as well as other types of assistance from suppliers. Covers lessons on the power of distribution channel control. Cooperation with suppliers. Accounts receivable management. **10 pages**

Chapter 6 Cash Floats: Asset-Based Borrowing

Explains in depth how new enterprises lacking a credit history can piggy-back on their customer's good trade credit standing. In addition, the use of a little known asset known as "pre-receivables" for launching start-ups is revealed and explained. **14 pages**

Chapter 7 The Bootstrapper's Hidden Sources of Cash & Credit

Covers dozens of creative financing techniques for accessing cash and credit without surrendering equity or assuming debt. **9 pages**

Chapter 8 Successful Strategies for Attracting Investors

How to save valuable time and energy by determining before you approach angel investors if they will be interested in your venture. How to work like a detective to

track down the angel elusive investor. How to use innovative deal structures to close the investor. Finally, how not to be taken advantage of by venture capitalists if you finally decide take their money. Strategies for avoiding the "Classic Venture Capital Trap" and other traps are explained. **18 pages**

Chapter 9 Business Modeling for Startups

This chapter ties everything taught by the Guide together. It introduces the entrepreneur to one of the most important startup planning tools available. Business modeling is used to engineer maximum value for the startup to sell as well as to minimize the cash required to launch. This chapter will teach you how to think like a savvy and successful entrepreneurial pro. **36 pages**

Appendix A - Entrepreneurial Finance 101 Review

Finally, an easy to understand overview of the financial concepts relevant to entrepreneurs. Covers break-even analysis and cashflow. **10 pages**

Appendix B - Calculating How Much Money You Really Need

Shows you how veteran entrepreneurs estimate their capital needs during the start-up phase. **5 pages**

Appendix C - The Entrepreneur's Financial Glossary

Let's you sound like a seasoned pro in the great game of entrepreneurship. **6 pages**

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