THE TEN BIGGEST MISTAKES

The difference between a rut and a grave is only a few feet.

If venture capitalists and other professional investors have tons of money and are actively looking for deals to invest in, and if only one out of every hundred Business Plans they receive gets funded, then entrepreneurs must be making some mistakes. If you have an idea or a Plan that isn't receiving the attention you'd like from the investment community, chances are you're committing one of the top ten most common mistakes that entrepreneurs make when they look for funding. This top ten list is boiled down from more extensive information in my book KEYS TO THE VAULT: 274 Lessons From The Pros on Raising The Money and Igniting Your Business.

#1 It's Not About the Gizmo

Entrepreneurs have a tendency to fall in love with their ideas, just as parents fall in love with their babies. Any time we're in a creation mode, whether it's an idea for a new business or in a negotiation, we tend to believe that because it's ours, it's simply the best. We tend to be blinded by our own brilliance

Every investor knows that the concept is merely one of the ingredients that go into a successful business. Furthermore, they'll tell you that the product or service you're proposing is one of the least important ingredients in the mix. Nevertheless, inventors' and entrepreneurs' fixation on the product remains largely undaunted. They think that because it's faster, cheaper, stronger, longer lasting, lighter, tastier, or more convenient, that it will automatically be a smash hit. Nothing could be further from the truth.

Numerous very successful companies have been built around products that are none of the above. Direct competitors, such as Apple and Microsoft, have very similar products (I know Mr. Jobs and Mr. Gates would probably dispute this), and yet one company completely dominates the marketplace while the other languishes and struggles to survive. The difference between the success of Microsoft versus Apple is NOT about the product. It's about the business acumen of the people running the companies. It's about the niche and the positioning and the marketing and the systems.

Dreaming up the idea is the easy part. Implementing it is where the real work begins. **It's about Execution.**

#2 You Don't Know Your Market

Products don't sell themselves. There's no such thing as "If you build it, they will come." That was a clever line from a movie, but in the business world, figuring out who your market is, how big it is, and how you'll talk to them is everything.

My formula for success is in three simple steps: Find out what they want, go and get it, give it to them. I call it TUFFS -- The Universal Formula For Success -- because no matter what business you're in, if you adhere to these principles you will succeed and prosper.

The first step is to figure out what they want. You must know where your customer is in pain and be able to prove to yourself and an investor that your product addresses the customer's problem. If you don't have a proof of concept, raising money will probably be relegated to your friends and family -- the only ones who don't want to hurt your feelings by telling you you don't have a clue. **No one will buy anything if it doesn't meet some need**.

If the market is too narrow or small, it limits the potential size of your company. The broader the potential market, the greater the likelihood you'll attract serious attention and competition once you get on the big boys' radar screens. If the market is <u>too</u> broad, it's hard to focus, especially in a startup mode. The key is to find a manageable, specific, targeted niche. **Without a focused niche, you'll find that attracting serious investment capital is difficult if not impossible.**

Southwest Airlines has peanuts, Singapore Airlines has caviar. Nike sells attitude. Wal-Mart sells "Everyday Low Prices" and "No Questions Asked, Money Back Guarantees." Kodak markets memories, and AT&T pitches "Reach out and touch someone." They all have successfully identified a niche in the market and have a focused marketing strategy. They all have potentially huge markets. They have differentiated themselves from their competitors with their positioning in the marketplace.

#3 You Haven't Been There, Done That

Too many entrepreneurs are all hat, no cattle. They talk a good game, but have never been there, done that**. Investors require that management have a track record**. Money does follow management. As a well-known venture capitalist in my town says: "It's always about the jockey, not the horse."

Investors know that the people who designed the car are not usually the same people who take it out to the Indy 500 to race it. These are two different skill sets. Investors are risk takers, but they like to quantify and mitigate as many of these risks as possible prior to making a bet.

Most investors will not compromise on the quality of the management team. If you're an entrepreneur and have no experience, it's incumbent on you to surround yourself with people who have been around the track before. Business people who have shown expertise in starting, building, growing and running a company are crucial for success.

All deals hit roadblocks and have problems. No Business Plan has ever been perfectly executed. **The management team is responsible for making the decisions that result in the financial performance of the company.** All other things being equal, if the team makes good decisions, the company will have good numbers. Bad decisions will turn into bad numbers.

#4 It's Not About the Projections

Projections are not facts and are therefore cause for healthy skepticism on the part of professional investors. As Charlie Munger, Warren Buffett's long-time partner has said, "Projections are put together by people who have an interest in a particular outcome, have a subconscious bias, and their apparent precision makes them fallacious. They remind me of Mark Twain's saying, 'A mine is a hole in the ground owned by a liar'." He goes on to say that projections are the worst kind of lie because the forecaster often believes them. If you believe your own lie, you have no chance of getting to the truth.

Many entrepreneurs spend more time working on the projections than they do on figuring out if anyone wants their product. Projections without good, detailed notes and well-founded assumptions are meaningless. And notes and assumptions are only as good as the management team who will be making decisions for the company.

Bottom line: market research and management are much more important than projections.

#5 You Thought Money Could Fix Your Problems

Money is the heat that's added only after everything else is in place. If the recipe calls for two cups of sugar, but you decide to use two cups of ground pepper instead, you can bake them all you want but you won't make a tasty dish. Money will not make a bad business recipe a winner. If the ingredients aren't right (i.e. the fifteen points in the Business Plan) no amount of heat (money) in the world will make it tasty (successful).

In my experience, money rarely solves a problem. Whatever fundamental problems are on the table prior to the money being invested will still be on the table the next day. In other words, money will not make a bad deal turn into a good one.

Money can, however, accelerate making a good deal even better – it will make your good deal cook.

#6 You Forgot About Making A Profit

To be successful in any business, you must provide the customer with some identifiable value-add. You must scratch some itch or alleviate some pain the consumer has. You must solve a problem.

However, simply solving the problem isn't the final answer. You must solve it so that consumers feel that their money is worth less to them than the value of your product. If consumers don't think your gizmo is more valuable than their money, they won't buy it. Value-add is what your product does for your customers. Remember, price is what they pay… Value is what they get.

The examples of the perception of lack of value are numerous in the dot com rage of the nineties. Napster had a great service. They supplied consumers with the ability to share music files over the Internet. Individuals could download their favorite songs from someone else. Despite having raised millions of dollars from savvy venture capitalists and ultimately having 80 million registered members, Napster never had any revenue in its brief four year life. They couldn't figure out a sustainable revenue model. People loved the service, but nobody wanted to pay for it. They solved a problem for the consumer, but consumers thought their money was worth more than Napster's service. Or course, it didn't help that Napster totally alienated the music recording industry by refusing to pay royalties on the music being swapped.

Your business model must do more than solve a problem. It must solve a problem profitably. This is called value creation. Value creation is the profits your business creates for the investors. No business can survive long-term without creating both a value-add for the customer and subsequent value creation for the investors.

#7 You Thought You Were on a Desert Island

Thinking you have no competition is the height of myopic arrogance and the kiss of death. Everyone has competition, whether direct or indirect, which competes for the consumer's dollars. Knowing who your competition is and what their strengths and weaknesses are will enable you to position your company in the marketplace.

Some entrepreneurs actually believe that since no one else is doing exactly what they're doing, they must have no competition. That's the wrong way to look at things. You <u>always</u> have competition for customers, even if the products aren't exactly the same.

Not only that, you want competition. Investors know that without competition, you also don't have a market that's educated about what you're selling. The job of informing a marketplace that you're open for business is one thing. Trying to explain to the marketplace a brand-new concept which has no parallels or similarities to anything else is another. Try explaining what a chair would look like if your knees bent the other way. Very difficult to do.

If you have competition, you know that somebody else has figured out a way to make money. Your job is to tell the marketplace how you have improved upon the solution for their pain.

Competition proves you're viable. Embrace it and assess it realistically.

#8 You Didn't Practice Your Pitch

Many entrepreneurs work hard to get the meetings they want in front of investors, only to show up unprepared. If you can't tell an investor in two minutes what you're doing and why the investor will make a ton of money by investing in your deal, you need to work on your pitch.

After I've been dialing for dollars on a venture and gotten the investor on the phone, I ask if he'd rather I send an Executive Summary of the project or a full Business Plan. More often than not the investor would like to hear a brief overview.

I now have two minutes to explain the problem, the solution (product), the market, the niche/value add, the competition, the management, the milestones, and the amount of money I'm looking for. Furthermore, I need to say all of this in a convincing and confident way. This is my sales pitch. It had better be good or I'll never get past the phone call.

If your pitch is clear, passionate, and concise, and if you can excite the investor about the prospects of making gobs of money, you will get your next meeting. Remember, your deal is never bought by an investor. You must sell it.

#9 You Thought You Were The "SMOP/SWOP" (Smartest Man/Woman on the Planet)

The skills, self-confidence, and raw determination required to launch a new company are immense. Entrepreneurs must make numerous gut level decisions during the birthing process of a new company. They must possess high reservoirs of courage and perseverance because most emerging young companies will face setback, disaster, and death several times before finally gaining a foothold in the marketplace. Unfortunately, these same positive entrepreneurial characteristics of self-confidence, determination, intuition, courage, and perseverance easily morph into arrogance.

The classic entrepreneurial flaw of believing in the perfection of their own idea leads to a tendency to dismiss criticism and not listen to legitimate concerns and questions from the marketplace and potential investors.

Starting a new company and raising the required capital to fuel its growth requires flexibility. Finding out what they want, whether "they" is the customer or the investor, requires the entrepreneur to suspend judging others and the need to be "right." It requires the entrepreneur to listen.

#10 They Needed Facts, You Gave Them Vapor

No one wants to be partners with somebody who is evasive, elusive or misleading. Too often, when entrepreneurs don't have the answer to a question, instead of acknowledging they don't know, they start talking, trying to skate on the issue.

Investors like hard data. They want the facts. Investors embrace risk, but they want that risk corralled and quantified. They want to know where they're exposed so they can deal with that exposure. **If you mislead with false hopes instead of facts, the sophisticated investor will smell your deception and be skeptical of your credibility**.

If you don't know all the answers to all the questions, say you don't know and go get the answers. If there's a major hole in your management team, admit it and ask for suggestions and help from the investor in filling that gap. Investors like smart people who face reality and are aware of their circumstances. They don't like dealing with people who are on the Yellow Brick Road to Oz.

At the end of the day, the best advice is the simplest: **You can't go wrong if you treat other people the way you'd like to be treated.**