



ENTREPRENEUR'S CORNER

Volume Six, Issue Three
April 2000

Let Customers Capitalize Your Company

by Jack Roseman, Contributing Columnist

With all the new money being thrown at entrepreneurs these days, somebody considering a new venture might think raising capital isn't an issue. Don't kid yourself. Even with all the newly minted millionaires and billionaires, most entrepreneurs without their own fortune or a well-heeled family are very likely to see their business plan go begging for capital. And that can be frustrating - especially when you're sure you've got the next Amazon.com.

If you're in that camp, and a reasonable number of seasoned investors have given you a hearing but no money - you have to consider the fact that maybe they're onto something. I know that's hard to hear, but you owe it to yourself to consider it.

But maybe too, you have the makings of a nice six-figure operation doing something you love and being your own person - but your investors don't see enough reward in it

for them to take the risk. In that case you'd have a perfectly satisfactory basis for a business, but it would be unlikely you would find any investors willing to help you.

Or maybe you've had offers of capital, but you don't want to dilute your ownership.

In either situation, here's a technique that has worked for me and for many of the entrepreneurs I have mentored. It puts your idea to a real-world test and keeps all the equity in your hands. In fact, it was how Jeff Pepper and Rajeve Enand financed their first commercial product at ServiceWare.

Why not get it from your customers?

It works like this. You go to your customers and get them excited about the benefits of the product and then tell them that it will sell for \$60,000. "Yes, Dr. Roseman, when we get this done we will charge \$60,000 for this software. And it's guaranteed to save you \$30,000 a year."

And this is a good deal. The customer recovers their expense in two years. "But," you say, "we're currently raising capital and we have a special arrangement for doctors who pre-buy. Avoiding investors has a lot of advantages for us, and if you will pay us upfront for your package, we will offer you a deep discount of 50 percent, free maintenance, and we'll design it with features that ensure it specifically meets the needs of your particular practice."

Now maybe this is a software-sophisticated doctor who has heard of vaporware. And she's read about how all those Windows versions went to market with tens of thousands of bugs in them. So she wants to know how she can be sure this program will get done and once done, that it will function.

And you tell her that Microsoft is a huge company and that Windows has many

authors writing for compatibility with many third-party applications. Your product, on the other hand, is a complete and inclusive system written by only a few people. Show her the specs, show her the business plan, let her know how passionate you are about the product. And then emphasize that you will custom tailor it to fit her specific needs.

Point out that you're committing a year of your life to this project, a year that once gone is lost. Whereas, her risk is limited to money - something she can always earn more of.

Even though this has worked for a lot of people, and you make a persuasive case, don't get discouraged if your first customer declines. Or even your first 10. I'm not saying it's a slam dunk. You won't get every customer, but you only need 10. Ten out of maybe 200. If you can't get 10 doctors out of 200, then I think you've got to go back and reconsider your market research. If you can't get 10 at half price, then maybe your market research wasn't good and those angel investors who walked away did in fact see something you are missing.

But if you do get your 10, then you've got \$300,000 and 100 percent of your company. And you've got something else. Since you're guaranteeing their satisfaction and you're building it to suit these 10 customers, you should also come away with a strong base of testimonials to begin your sales campaign. After all, your customer now has a vested

interest in the success of your company.

Jack Roseman is the Director of The Roseman Institute. He was the founder of two successful computer firms and was president of a third, On-Line Systems. Jack formerly was the associate director of the Donald H. Jones Center for Entrepreneurship at Carnegie Mellon University's Graduate School of Industrial Administration (GSIA). This column was written with Steven N. Czetti, former Executive Editor of T.E.Q.