

Chapter 2

SELF-HELP, THE ENTREPRENEUR'S SOURCES

INTRODUCTION

In this chapter we discuss the difficulties entrepreneurs have raising start-up capital. The problem is that banks and most professional investors only want to supply capital to businesses with a track record and start-up businesses have short records, if they have any at all. In this chapter we discuss seven strategies entrepreneurs can use to get start-up capital and build a financial track record that will give them access to other sources of capital.

SELF-RELIANCE

One of the key characteristics of a successful entrepreneur is self reliance. Many people are frustrated from the outset of their venture because they rely upon banks and others for resources. Mark Twain is reported to have said, "A banker is a person who will lend you an umbrella on a sunny day, and take it back when it rains." Most institutional investors are like bankers. Some take back the umbrella at the first cloud, others in the midst of a thunderstorm. When they take back the umbrella that means the investor's perception of risk outweighs the likely reward. When a bank lending officer, angel investor or venture capitalist looks at an entrepreneur's business plan, most see only rain. And in the face of that rain, the entrepreneur's hopes and dreams carry no weight.

Why? Institutional investors look for (i) a revenue stream, from a demonstrable product or service, (ii) satisfied customers - which give them some assurance the revenue stream will continue, (iii) profits which give investors confidence that the enterprise's costs are under control, and (iv) assets which are a secondary source of repayment if the enterprise fails. In short, institutional investors' perception of risk, at the beginning of an enterprise, far outweighs any reward they are likely to receive because a start-up enterprise usually lacks some or all of the aforementioned indicia of success. The problems for the entrepreneur are getting started, developing a product, finding the first customers, and establishing a financial track record. So where should the entrepreneur begin? Before we answer that question, let us examine how much is needed to start a company.

HOW MUCH CAPITAL IS NECESSARY?

Inc. magazine focuses on small, emerging companies and the *Inc.* 500 is a list of the fastest growing small companies in the country. Figure 2-1, *Inc.*'s Analysis of Start-up Funding indicates that many of the fastest growing companies started with relatively little capital.¹

Figure 2.1 Analysis of Start-up Funding

Amount	Percent	Cumulative Percentage
Under \$1,000	14%	14%
\$1,000 to \$10,000	27%	41%
\$10,000 to \$20,000	10%	51%
\$20,000 to \$50,000	15%	66%
\$50,000 to \$100,000	12%	78%
Over \$100,000	22%	100%

Two thirds of companies in this survey started with less than \$50,000, which is well within the reach of most individuals who have been working a few years and can employ the seven self-help strategies discussed in this chapter.