Forget Venture Capital: Get Customers to Fund You! (Yes, You!)
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Let’s Face an Uncomfortable Fact

• Fred Wilson: Union Square Ventures
  – “The amount of money that start-ups raise in their Seed and Series A rounds is *inversely correlated* with success.”
Why Might This Be So?

– Talk with your neighbor
  • 2 minutes
  • 3 top reasons, please
Why Might This Be So?

- My take on it:
  - Too much money makes you sloppy, stupid
  - Plan A rarely works. But your funder wants you to (flawlessly) implement it anyway!

- Question: Might it be wiser to wait and seek to fund customer traction, instead of a plan?
So, What Should Entrepreneurs and Angels Do?

• Here’s what you probably should *not* do…
So, Would You Invest in Ali G?

• Fact: the vast majority of fast-growing businesses never raise venture capital (nor write business plans, either)
• Nor should they, at the outset, I argue: why?
• Raising capital too early – whether from angels or VCs – is a dangerous practice, on both sides of the table
The Killer Drawbacks of Raising Capital Too Early

- Distraction: takes the entrepreneur’s eye off the ball, now, and later, too
- Higher risk = lower stake for the founder
- And the baggage that comes with it in the shareholders’ agreement
- Is this good news for the investor in such a deal?
Let’s Consider Some Evidence: US Venture Fund Returns

Returns from inception to 12/31/11.
Source: Josh Lerner analysis of Thomson/Reuters data.
So, Is There an Alternative? The Customer-Funded Business

- Matchmaker Models
  - Service-to-Product Models
  - Pay-in-Advance Models
  - Scarcity-Based Models
  - Subscription Models

Your Customer
Is Anything New Here?

- Pay-in-advance models: Consultants, architects, Dell. Nearly all services, too.
- Matchmaker models: eBay, Expedia
- Subscription models: Periodicals, Netflix
- Scarcity models: Zara
- Service-to-product models: Microsoft
- But let’s look at some savvy 21st century entrepreneurs putting them to use
Vinay Gupta 2006: A Pay-in-Advance Model
Brian Chesky & Joe Gebbia 2007: A Matchmaker Model

airbnb
Travel like a human.
Krishnan Ganesh 2005: A Subscription Model

NO. YOU MAY NOT OUTSOURCE YOUR HOMEWORK TO INDIA.
Krishnan Ganesh 2005: A Subscription Model
Jacques-Antoine Granjon 2001: A Scarcity Model
These Examples Share Three Attributes in Common

• Negative working capital – love thy float!
• They required essentially *no* external capital to get started
• When they did raise capital *to grow* once the concept was proven, there was an eager queue of angels or VCs lined up at their doors
Not Just for Pioneers
So, What About You?

• Which one of the five models might be put to work in your new business?
  – Pay-in-advance models
  – Matchmaker models
  – Subscription models
  – Scarcity models
  – Service-to-product models

Talk with your neighbor

• 2 minutes
So, Which Did You Choose?

- Matchmaker Models
- Service-to-Product Models
- Pay-in-Advance Models
- Scarcity-Based Models
- Subscription Models

Your Customer
OK, “So What?”
As an Entrepreneur, What Should You Do?

• First, what NOT to do
• Prepare
  – Pages of prose
  – Reams of spreadsheets
  – All in support of the perfect Plan A (that probably won’t get you where you’d like to go!)
OK, “So What?”
As an Entrepreneur, What Should You Do?

• Mark Suster, Upfront Ventures
  – “I say ring the freaking cash register. I have said so for years!”
• Have I said it’s easy?
• Have we seen both goods and services, both B2B and B2C?
So, Is Venture Capital – from Angels or VCs – Bad for You?

• Not necessarily. It’s the timing that concerns me.
• And it concerns Mark Suster and Fred Wilson, too!
• If you’ve got a venture that’s firing on all cylinders, perhaps yours, that’s when to add fuel!
But Can You Get Funded by a Good Angel or VC?

• Consider the rejection rates
  – YCombinator 97.1%
  – Angel List 98.9%
  – Andreessen Horowitz 99.3%

• Is pursuing customer funding a better way to spend your precious time?
A Final Observation on Business Plans

“We believe that...
For the “When-to”, the “How-to” and the Pitfalls to Watch out for…

David Rose, NY Angels

“The Customer-Funded Business should be mandatory reading for every entrepreneur before even thinking about seeking angel or venture capital.”

In print and on Kindle at Amazon.com at al

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To Assess Your Opportunity
And to Gather Your Data, an App, for Apple and Android!
In a Nutshell…

“The customer is not just king. He can be your VC, too!”

Bernie Auyang
Angel Investor
Shanghai
Questions?

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