Here is the "Stanford Slugfest" that I had told you folks about: [Nature vs. Nurture in Entrepreneurship](). It's one hour long, but we discuss "samosa" vendors in India, the dearth of women entrepreneurs and the "innovation" on Wall Street. You can judge who won the debate! ☺

Regards,

Vivek

TechCrunch

[Ditch the Biz Plan, Buy a Lottery Ticket]()

by [Vivek Wadhwa]() on Apr 24, 2010

Hardly a day goes by when I don't have a rookie entrepreneur ask for advice on raising money from VCs. They usually have a fancy-looking business plan with detailed spreadsheets showing how their company will be worth billions by capturing just 1% of a market. All they need is some financing, and they'll take the world by storm. My advice is always the same: ditch the business plan, and buy a lottery ticket. Your odds are better, and you'll suffer less stress.

Most of the young entrepreneurs I meet have grown up reading stories about how, during the dot-com days, all you needed was a PowerPoint and a geeky smile to get a venture capitalist to throw millions your way. True, some really dumb companies were funded during those days, but nearly all of these companies (and their investors) went down in flames. It was just the few, random, successes that reaped the fortunes. Investors have grown much wiser since then (and will probably stay this way until the next bubble).

The reality is that the vast majority of startups don't receive any VC or angel funding. Ask any VC about how many business plans they receive every month; it is in the thousands. And how many of those companies do they fund? Maybe one or two. Not great odds, are they? My research team did a [study]() of *successful* companies in a variety of high-growth industries (in which VCs like to invest): those that made it out of the garage and had real products and revenue. We [found]() that only 10.8% of them raised venture capital at any stage of their growth. In other words, nine out of ten didn't get venture financing. Similarly, only 9.2% received angel financing. Here is another interesting statistic: according to the Venture Economics database, only 4.6% of venture capital went, over the last decade, to startup/seed-stage companies. So even the one in ten that received venture financing likely got this in later stages of its growth, not at the seed stage.

Where did successful companies' founders get their financing from? Seventy percent used personal savings, 15% took bank loans (probably on their credit cards), and 14% relied on friends and family. (Note: they typically use more than one source for financing.)

The way the system works is that if you build something of value, the money will find you. Yes, there is a catch-22: you need seed financing, but no one will give you a cent until you have a marketable product and your company is producing revenue—which means that you don't really need the money. But that's the way it goes. Ironically, raising millions of dollars is usually easier than raising thousands.

I've founded two tech companies, and we raised close to $100 million in private and public financing over the years. I bootstrapped my second startup up to the point that I had VCs tripping over each other to fund it. My advice for entrepreneurs in industries with relatively low capital costs (like internet/software) is to bootstrap. Of course, you can start by trying raising venture or angel capital when you have just an idea (you never know, you might get lucky); but don't waste too much time on it. And don't get discouraged if they turn you down; you are in the majority. Instead, focus on validating your idea, building it, and selling for survival. You'll have to raise the money to get started by begging and borrowing from family and friends. Be prepared to dip into your savings and credit cards, obtain second mortgages, and perhaps look for consulting work or customer advances.

There is no single recipe for bootstrapping a company, but there are some essential ingredients. Here are some pointers:

- **Share your ideas with those who have done it before**. You can learn a lot from the experiences of seasoned entrepreneurs, and they are much more approachable than you would think.. If you can't find anyone who is excited about your idea, the chances are it isn't worth being excited about. It may be time to reflect deeply and come up with another.

- **Find a way to connect with your market**. Speak to potential customers, analysts, business partners—anyone who can help you understand your target market. If you can sell customers on your concept, maybe they'll help you fund it or agree to be a test site or a valuable reference. Customers don't usually know what they want, but they always know what they don't need. Make sure that there is a real market for your product.

- **Start small.** Your idea may be grand and have the potential to change the world, but you are only going to do that one step at a time. Look for simple solutions, test them, and learn from the feedback. If you're starting a restaurant, work for someone else first. If you're creating a software product, learn by doing some consulting assignments or create some utilities. You don't have to start with the ultimate product.

- **Focus on revenue and profitability from the start.** Watch every penny. Find creative ways to earn cash by selling tactical products, prepaid licenses, or royalties. Pay employees partially in stock. And sweep the floors yourself. Look for free or leased hardware and lab facilities—from universities, government subsidized incubators, friends—any which way to avoid capital costs.

- **Remember the importance of cash flow.** This means setting aside the big opportunities while you complete small deals with a short sales cycle and recurring revenue.

- **Think outside the box.** There is always a better way to solve a problem. There is no point in following the path of others; you'll find yourself battling established competitors on their turf.

- **Learn to sell.** To succeed in life, you have to persuade people to give you what you want, and you achieve this by convincing them you're offering something good for them. As an entrepreneur, you're always selling—whether you are marketing your product, recruiting talent, or raising capital (read this).

- **Prepare for the worst.** It's going to take longer than you think. There will likely be product problems, unhappy customers, employee turnover, and lots of financial challenges. You may even fail a number of times before you achieve your goals. By learning from each success and failure alike, you increase the odds that you eventually make it.

- **Never forget the importance of ethics and integrity**. Ethics need to be carefully sown into the fabric of any startup (read this). Once you sell your soul for short-term gain, you never get it back. Also, focus on customer success. The only way to reach long-term success is by achieving outstanding customer satisfaction.

You'll find that it is much easier to raise capital after you've had success. In our research, the percentage of company founders who raised venture capital increased from 10.8% to 26.3% after they had started a few companies. This isn't surprising: by this time, you have experience and, with luck, some savings; you're street-savvy and have good industry contacts; and you don't need venture capital—that's when you become most attractive to VCs and they come knocking on your door.

Editor's note: *Guest writer Vivek Wadhwa is an entrepreneur turned academic. He is a Visiting Scholar at UC-Berkeley, Senior Research Associate at Harvard Law School and Director of Research at the Center for Entrepreneurship and Research Commercialization at Duke University. Follow him on Twitter at @vwadhwa.*

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