ABRAHAM 201

THE ULTIMATE BUSINESS GROWTH STRATEGY

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USES OTHER BUSINESSES RESOURCES, ASSETS AND ACCESS INSTEAD OF MONEY.
REQUIRES NO CAPITAL, NO RISK AND WORKS ON EVERY PART OF THE BUSINESS.
WRITE "UNLIMITED CHECKS" THAT ONLY GET CASHED –WHEN, IF AND AFTER THAT EXPENSE PAYS OFF.

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CHAPTER 1:

Why I Wrote This Book

When aspiring or existing entrepreneurs tell me they can't get the money they need to fund, grow, and build a successful business, I surprise them with a question.

I always ask, "How much do you need - and what would you do with that money if you had it?" They normally go quiet for a moment, since few of them have ever created a detailed, integrated, reverse-engineered strategic implementation plan, that actually allocates capital usage, time usage, human resource usage, opportunity cost allocation, and the corresponding results that capital expenditure (money) is expected to produce.

In other words, they are oblivious about why they REALLY want the capital and how exactly they plan on utilizing each dollar, if they receive it. Even the ones who *have* macro ideas of how this capital could be used rarely know how to safely maximize every penny they put into their marketing, selling, positioning, competitive-advantage-getting business model, distribution channels, expertise they retain, etc.

I originally wrote this book to open the eyes of every start-up, pre-start-up, and stuck existing entrepreneur out there; this is for everyone who thinks a *lack of capital* is the restriction/constraint keeping them from proceeding.

Nothing could be further from the truth.

I've devoted 30 years of research, discovery, implementation, refinement, and fresh new thinking, along with front-lines of capitalism validation and proof, to create an entire system that replaces a lack of capital by teaching you how to use OPR (Other People's Resources: companies, organizations, media, sales forces, brands, etc.) to achieve your outcome, goal, and financial need - instead of relying on cash.

An Almost Unlimited Business Checkbook

I've expanded this process into an extensive alternative financing system that - when used properly - gives your business the *equivalent* of an almost unlimited checkbook you can use to accomplish, achieve, and acquire an unimaginable scope of resources to grow your business.

You can take this process to a level of sublime accomplishment and use a variation to start, buy, build, joint venture, or license lucrative successful businesses from almost any kind of industry you choose. Think of it as the ultimate wonder drug for entrepreneurial achievement – one that can finance, advance, enhance, accelerate, and elevate the performance and success levels of ANY size or type of business, anywhere in the world.

Seriously, there are no geographic restrictions: one of my greater success stories comes from China!

This book is designed to instill in you a number of powerful capabilities:

1. You'll no longer be stopped because you think lack of capital is your limitation.

2. You'll vastly broaden your scope of what, how, and where your business can grow and keep growing.

3. You'll learn 43 different ways to grow the success and profitability of your business - none of which require ANY capital or risk.

4. You'll learn how to master influence, motivation, negotiation, favorable results from investors, potential equity or marketing partners, angels, landlords, vendors, resource providers, potential distribution, technical or service partners and sales whizzes, who will all wholeheartedly provide their resources to you - and with you - for NO money initially changing hands on your part!

You'll learn how to get just about every form of expertise you may be missing - marketing, PPC (Pay-Per-Click), Facebook, Twitter, technology, consultative selling, trust-building, distribution mastery, inventory management, quality control, production and service outsourcing, financing - all provided on a pure *"performance basis"* that's tied specifically and exclusively to results! You only pay these experts for the successful results their talents, contacts, resources, and efforts add to your bottom line.

This book shares first-hand accounts of how over 100 entrepreneurs of all stages of progress used these same strategies, tactics, and mindsets to generate multi-billions of combined sales and profits (worldwide) - **all without capital** or major risk.

You'll study 40 simulated presentation pitches our hypothetical start-up entrepreneurs have made to persuade prospective investors to invest. I've provided a constructive critique on what's wrong (or right) about each simulated element of every facet of every pitch. You'll learn what to focus on: what's critical and why (and why few others understand how and when to make these moves and maneuvers). You'll learn how to connect meaningfully and ultra-positively with any investor or prospective marketing, sales, or distribution partner you ever decide to go after. Besides being supremely well prepared (in advance) for any meeting and completely well-versed in knowing the most compelling thing to say, do, know, and prove, you'll know the questions to ask and the answers to give; the investor will be vividly impressed by all the profitable ways you've used OPR (Other People's Resources) instead of dissipating his or her potential cash investment to get your business going and growing.

You may start the book hoping that I really can provide you with the rock-solid ideas and strategic knowledge that I promise here. My commitment to you is that the person completing this book will be a transformed into a much more innovative, capable, and resourceful entrepreneur. You'll think totally differently; you'll act and transact business totally differently. Your business "world-view" will be forever redefined. Your attitude, altitude of possibilities, and "actitude" (my word for a prejudice towards correct and meaningful action) will rise, widen, and deepen. I'll "burnish" your mindset and turn you into an unstoppable business growth machine.

Bottom line: your business and your entrepreneurial mind will be forever changed, and obstacles will amazingly now be seen as opportunities.

It's an audacious promise to make in the first few pages perhaps, but a true and undeniably well-documented achievement I've accomplished for tens of thousands of others, worldwide.

I will serve (throughout this journey) as your masterful thinking partner, providing "far-ranging" insights, critical-thinking commentary, detailed overview explanation, and case study/real-world examples galore to demonstrate any given concepts.

My goal here is to help you see your business world through a far more expansive lens (the press calls it "funnel-vision" instead of "tunnel-vision") so you fully grasp all the powerful instruction, guidance, and recommendations I share here. I aim to make your success probability, your growth possibilities, and your prosperity quotient easier, faster, and more achievable - no matter the circumstances, situation, or place you and your business, idea, or start-up are at now.

My goal is to see you complete a given chapter, then immediately put one or more of the non-theoretical, no-nonsense ideas I taught to work, producing meaningful results that you can take to the bank. Receiving validation by producing tangible "wins" is key to making this book the propellant to more meaningful and stratospheric business growth possibilities that you've been seeking.

Don't let it be merely stimulating *"intellectual entertainment."* Remember, more happens in life through forward, upward movement than ever happens through meditation. A final word about ACTION: nothing happens in any aspect of life or business until something (or someone) moves.

Uncovering Your Overlooked "OPR" Opportunities

I'm sure you've heard the statement that most people live lives of quiet desperation. I believe that about most entrepreneurs, but I'd like to modify it. Most entrepreneurs "self-limit" the amount of joy, happiness, enrichment, fulfillment, achievement, and financial success they are fully entitled to. And, far worse, they expend enormous effort - but deny themselves the "rich rewards" these efforts, opportunities, and access to their marketplace could deliver, if approached and applied by them in a more optimal way.

One of my goals in deciding to go forward and share the "OPR Business Boosting Principle" with you is that I want to move entrepreneurs like you to a point in your business life where you repossess that almost child-like innocence - the near-infinite-possibility freshness, the natural, uninhibited curiosity, passion, and self-belief - where you are able to see opportunities and possibilities you CAN achieve where others see impossibilities, or nothing.

In this book, *I lay out my most powerful strategies and methods for achieving business success and financial prosperity* - ***without risk or capital investment.***

My hope is that you will be able to "harness and harvest" the same level of mammoth success that I was able to uncover for Noel, who worked for a large computer company as a supervisor and who, within 90 days of learning what his OPR opportunity was, left and partnered with a great technology service company that was a terrible marketer - and in the process got an instant $10 million increase in his net worth, ***all without investing a penny!***

My hope is that you can be like Roger, who used my OPR opportunity strategy and recognized how to combine two opportunities - and went from being a commissioned salesperson to an owner of an $8-million-a-year, highly profitable business, with no money invested on Roger's part whatsoever.

Or you may be like Larry, the owner of a small software company who, day in and day out, sent sales letters and ran trade journal ads, trying to get new clients. Once HE discovered his OPR business opportunity, he added one stunningly obvious, yet previously overlooked twist to the selling proposal - and increased the profit power of all his activities. And his results and profits multiplied 800%. All this from no more expense, no more time, no more staff, and no more risk or additional investment on his part. He made a shocking amount of money on the people who originally turned down his sales efforts.

My wish for YOU in this book is that whatever you think your financial or resource limitations may be, they will now transform into OPR opportunities of the highest magnitude. If I can get you to start thinking beyond your previous sense of limitations and experiencing all that is possible - using other people's businesses, organizations, brand currency, distribution channels and resources, and utilizing your gifts and the abilities I'll share to the maximum extent - utterly unimaginable newfound business success will be yours.

You'll become the best business mind in your category. That's because I will cultivate in you the unique understanding and ability to find (and then fully capitalize on) hidden opportunities to create astounding wealth and profits. It will all come from OPR, as I show you how to prosper from the underperforming assets and outside opportunities other enterprises possess that you can gain access to and benefit from.

There's nothing I want more than to share the lessons I've learned with you that have generated $9.5 billion sales and profit growth for other ambitious entrepreneurs like yourself. I want you to "smash free" of that glass ceiling that's been holding you and your vision for your business back.

I offer my experience and expertise in many different forms, including one-on-one consulting at a price of $100,000 a day and seminars that cost up to $25,000 per participant. But I'm charging you absolutely nothing to share my knowledge, wisdom, and expertise; I see this as my investment in the future of entrepreneurship.

As you'll soon discover, you have access to everything and everyone you need *RIGHT NOW* to bring greater business success, wealth, financial freedom, growth, control, satisfaction, and joy to your life.

Every entrepreneur or start-up entrepreneur I have ever met (irrespective of the business, industry, or the stage of life situation they are in), possesses at least one, and normally multiple, instant ***OPR jackpots*** that are within their immediate grasp. All you have to do is identify them, recognize how they can work for you, believe that they are there, and learn how to mine them. ***You must consistently believe that you are entitled to harvest these jackpots and the financial and personal wealth and richness that come along with them.*** Once you do, you have within your possession - within 90 days or less in most cases - incredible treasure troves of rapid business sales/profits and earning improvement, whether you raise a penny or not.

I want to help you recognize your biggest growth opportunities. My goal is to help you not only identify, but immediately start to harvest, at least one – and preferably multiple - OPR opportunities each week for yourself and your business.

The concept of the ***"endless checkbook"*** I'll teach in this book is based upon your recognition that virtually nobody takes full advantage of the efforts, activities, opportunities, relationships, influence, or assets they have available to them - both inside and outside their business. Whatever your current, seemingly *insurmountable* business problem or challenge might be, it is frequently an unrealized solution to another larger company's unrecognized problem. Your job, when you want to collect and sustain an instant OPR jackpot (and you can do it as often as you desire) is to become an "overlooked value detector."

An overlooked value detector is the flip side of being a value creator or generator, but it all ties together. Being an *OPR* opportunity detector simply means that you identify overlooked or hidden value in everything from other companies' clientele, distribution channels, direct and indirect products or services, operational elements, and even their non-direct competitors in other businesses, and you understand the concept of underperformance as it relates to ***highest and best use theory.*** This is tremendously important. Once you've figured out what to do to meaningfully monetize that other business' value, you can mine it for yourself and for your business' continuous prosperity and growth. You'll possess the unlimited checkbook and the infinite resources I've been referring to.

Remember, you either grow or die. Businesses and entrepreneurs that aren't committed to grow their enterprise as well as themselves are (implicitly) accepting regression, stagnation, and mediocrity, ultimately leading to failure.

The key here is mining the hidden, under-recognized value that exists in every business, every enterprise, every organization, and every media company out there. It does no good to know you have or possess huge oil reserves, for example, or mineral deposits under the ground IF you don't know how to (or you can't) get them out of the ground and sell/monetize them. So YOUR job as an entrepreneur is not only to identify, *but to mine, monetize, maximize, and profitably (and productively) utilize* the hidden values/assets/opportunities you'll identify in each chapter. To do this, you start out by saying, **"What would I do if my business had an unlimited check book?"**

For example, perhaps you can't afford an accounting department. Or perhaps you can't afford first-rate sales or marketing people to sell your products/services better than you're doing now. Or perhaps you aren't comfortable cold calling and need to get new prospects at a more rapid and successful rate. Or perhaps you need help to organize your office to operate it more efficiently and effectively. Or perhaps you need a better, more effective business strategy, revenue model, marketing approach, or way to motivate employees to work harder, longer, or produce better results.

Make an extensive list about what you need, want, and how you'd use an unlimited checkbook, IF you had one to grow your business yourself, first.

Then, focus on five or six other companies (outside of your direct business) who could provide whatever assets, resources, products, influence, connections or services you've listed above that you are lacking due to limited cash. This is step *one* in harvesting your OPR opportunities.

As you read through this book, you will start realizing all the resources, potential profit partners, and marketplace opportunities you have at your disposal! And you will recognize, finally, that you need never feel limited, restricted, or stuck again.

Before I tell you in each chapter the options you have available, I MUST make a point: you've got to believe not only in your own business value and entitlement to harvest the profound opportunities available, but you MUST believe in the fact that *until and unless* that realization is made known to other people you power partner with, they won't appreciate, benefit, and capitalize on anywhere close to the level THEY are entitled to either. So it's very essential that (as I take you down the path to harvesting your own OPR opportunities) you recognize your responsibility, your obligation, and your commitment to do this - not just for yourself, but for your business and the people who support your vision.

As you start to see the value you've got that you can offer other OPR partners - which you've always had, but never recognized - your own business WILL start to explode. *It's exciting, isn't it?*

Now, you might be saying: "Well, that's fine if you can sell and present and inspire and negotiate. But what if I'm an introvert, or low on my skill of relationship building, or more of a technical person? What do I do then?"

It's exactly the same. You identify an OPR partner to do the heavy lifting of OPR deal-making, or selling, or negotiating, or relationship-building FOR you, totally on a result-and-performance-based/success-based financial compensation. I teach you these strategies later on in the book.

By merely valuing themselves more highly, most entrepreneurs I teach the jackpot theory to receive an almost instant financial uptick. Their businesses get far greater loyalty, far larger-sized client purchases, far more repeat sales from those clients, and far more referrals. Plus, applying OPR thinking to your personal life is extraordinary. *And that's only the first part!*

At the same time as your business grows, you'll grow too, in unimaginable ways.

One of the byproducts (which I personally find very rewarding) is that the entrepreneurs who use the OPR jackpot theory receive a far greater degree of respect and appreciation from their OPR partners than ever imagined. Why? Because, once YOU revere yourself and identify, understand, and accept the enormous value you have to other entities that you'll partner with, everyone - clients, vendors, investors, and marketing partners - will respect and revere you at a higher level. So much so, that it may be shocking at first.

You can and you *absolutely must* do this for yourself, because if your business product or service *has* "real value" and you don't do this, you will not be contributing the way you should to the betterment of others. *Until and unless* your potential OPR partners can appreciate not only the value you offer them (and will continue to offer), but also the leverage they've got available to themselves in various aspects of their businesses - leverage they are not yet taking full advantage of either - THEY can't enjoy the true potential *their* business holds for them, either.

Let me share with you probably the greatest instant leverage you have here; it's achievable just by a shift in thinking.

Everybody else you work with, live with, and compete against, looks at life more drudgingly, more mundanely, and monotonously than you will. By simply changing your focus from the moment you get up in the morning to looking at the person next to you, or the company you're building, or the clients you're dealing with, and recognizing the enormous and continuous value you are contributing, you gain a powerful instant advantage - a competitive edge over everybody else in business that you will ever compete against. We'll go into what I call **"The Strategy of Preeminence"** later on.

If you're confused about what value or contribution you are making to your relationships, your organization, or your clients, you MUST ***this very moment*** get out your paper and pencil and invest (invest is a very appropriate word) the time and the energy to recognize, inventory, and discover the real fact that you DO (believe me) render great value - probably many different kinds of values to your current and future business relationships.

It is critically important to identify and believe in your unique value, from this very moment! So please, please, please...stop right now if you're at all confused. Sit down. Think about what you do. Who you do it for. What they get from you doing it for them. Think about what, who, and how it impacts others. Think about the significance - no matter what your product/service/market may be - and the advantage your business efforts, actions, and contributions/products/services mean to other people you'll be benefitting.

Let me add another important point at this junction, then let's get this adventure "on-the-road." I've shown you that you MUST become a value detector, to really utilize and maximize your own business' OPR opportunities - and in doing so, claim your own OPR jackpots.

A lot of people, when I first explain this concept, get very queasy and apprehensive. They say, "Well, I don't know that I have anything within myself I can detect." Believe me, your business - be it existing or pre-startup - has value.

But the key here is actually the stored value you will find in "other" places where you will become a value detector. If you study ALL great wealth, ALL great fortunes, and ALL great achievements that have been realized in business and in life, you will see it came (by and large) because people were able to detect and discover gaping opportunities and overlooked possibilities that no one else saw.

I'm giving you the 3D glasses that no one else possesses in the pages of this book. All you've got to do is start focusing your attention on wherever OPR opportunity lies. So, where is that? OPR opportunity lies on the flip side of obstacles or problems. A slight mind shift is required - one tiny little shift for you, the newly anointed OPR value detector. You really DO possess business-building skills that don't require any capital or risk to apply, monetize, and profit from.

I'm planting these powerful methods and high-performance ways of thinking, acting, and transacting into your head right now, at a time when you need them the most.

Please remember, the only thing I am selling here is YOU on yourself. Incalculable business achievement is possible - no matter what your circumstance, no matter where you are in the business cycle or continuum - all without capital or risk!

I hope you find the next chapters enormously rewarding. Most importantly, I hope you are someone who will take the wisdom imparted and put it to continuously profitable work in your business life.

Now, let the adventure begin...

CHAPTER 2:

Robert Hargrove On Bootstrapping

How To Create A Startup With Massive Potential And Fund It With Customer Revenue

I don't know who you are or what your business idea is. What I do know is that, if you want to make your passion your profession or rev up your startup, you don't have to wait for some venture capitalist to give you a lot of money. You can begin the exciting journey of birthing a business on your own by bootstrapping with whatever resources you have.

You can start by sharing your idea with your network. This might mean even finding a partner who wants to take the journey with you.

You need to start with a big business plan. You need to get close to your ideal customer, understand their unmet needs, create a product or service, and tweak it until people are willing to buy from you.

In the process of bootstrapping your business, you will use constraints as a source of innovation, experience a lot of emotions, and have the ultimate self-development and growth experience.

This chapter is for the passionate entrepreneur who wants to create a successful startup, whether you are as rich as Croesus, or as poor as a church mouse. One of the most important things to understand is that a startup is not a smaller version of a big company. A startup is a temporary organization in search of a repeatable business model, which is profitable and scalable. There are no customers or income.

The founder of the company—whether it's a company with the potential of Google, Facebook, or Amazon, or if it's a Katy's Cupcakes, Moe's Motor Scooters, or Toni's Take-Out—must go on a hero's journey to find the path to an epiphany, where he or she can develop customers and generate revenue. This is distinctly different from the path to disaster, which many startups face today. This path is focused entirely on formal business plans, funding, product launches, and ship dates.

In the beginning, every startup is a "bootstrap" funded by the founder's commitment, passion, and determination. This chapter provides you with the "masterful mindset" you need to successfully bootstrap your company. It also contains a step-by-step process for reaching your goals. It's important to point out that bootstrapping is a process of creating a successful startup, where the constraints you experience will cause you to be innovative, as well as focused on your most important priorities.

The following five questions express these priorities:

- **Have you made a decision to cash in on your passion?**
- **Is your startup idea a problem worth solving?**
- **Have you found a product customers will buy?**
- **What do you need to do to sell and create revenue?**
- **How much time do you have before you run out of passion or cash?**

Is Boothstrapping right for you?

The term "bootstrapping" comes from the German legend of Baron Munchhausen, who was crossing a swamp on his horse and was sucked down into the muck. When he called for help, no one answered. He was left to his own devices. He reached his arms out to his feet, which were still on solid ground, and pulled himself out by his bootstraps. This story is a good metaphor for anyone who wants to start a business and has to rely on his or her own devices.

Today, if you want to become an entrepreneur, you have several paths open to you. If you go to a place like Harvard Business School, Stanford, or Wharton to learn about business, they will teach you how to run a big company. If you take a course on entrepreneurship, the courses will be based on running a startup like a big company. There is a heavy emphasis on business planning (guesses) and seeking venture funding to help you execute, even if you don't really know what to execute on. If you go to Silicon Valley or read magazines like Fortune, Inc., and Fast Company, you'll see this approach validated.

What's fascinating is that the vast majority of companies in America, including approximately 350 out of the Fortune 500 list, came into existence without a formal business plan, business model, or external funding. Sam Walton of Walmart, Bill Gates of Microsoft, Larry Ellison of Oracle, Michael Dell of Dell Computers, and John Mackey of Whole Foods all successfully bootstrapped their companies, as did the founders of many successful web- based companies like Zynga, Braintree, Storm8, and Curiously. Yet bootstrapping is not taught in any course at Harvard, Stanford, or Wharton, and there are few books or articles on the process. Even though many great founders bootstrapped their business, the management technology they used has never been extracted.

I saw this as a wonderful opportunity to make a distinctive contribution to the field of business, given that almost 10 million entrepreneurs start up new companies every year, relying primarily on bootstrapping. Most entrepreneurs commence the startup journey believing that, to bootstrap, they will have to proceed without a roadmap, that no one who's come before them can offer any insight of value.

They are wrong. There is a well-worn path. The problem is, until now, no one has written it down.

Busting the Bootstrap Myths

In this chapter, as a service to entrepreneurs in companies of all sizes, I will aim to bust the prevailing myths of bootstrapping that obscure the path to starting a successful business. Next, I will provide you with a dynamic new mindset about bootstrapping your business that will allow you to think about it in ways you never have before—a mindset which can be practically and immediately applied.

MYTH 1: Bootstrapping is for small people with small companies and small prospects.

This myth may describe some people who've funded their own companies. But in reality, entrepreneurs who bootstrap their own companies are often those who take what the master of myths, Joseph Campbell, calls "the hero's journey," leaving the old behind and discovering the next new frontier. This journey often results in creating monster companies without external funding, which turn out to be very innovative and make a big impact. Some examples are the following:

• **Michael Arrington founded TechCrunch,** which became one of the most widely read tech websites in the world. He owned 85 percent of his bootstrapped company when AOL purchased it in 2010 for $32 million.

• **Scott Belsky created Behance,** a design website where anyone with a passion for a new project can publish. The results after 6 years of bootstrapping are impressive: 1 million projects have been published on Behance in the last 6 months, 2 million published projects have been viewed more than 1 billion times, and 75 million views occur every 30 days.

• **Sophia Amoruso bootstrapped Nasty Gal** for 5 years to profitability and more than $30 million in revenues.

• **Markus Frind bootstrapped Plenty of Fish,** one of the largest dating sites in the world, from his apartment. His site now has more than 38 million users and 6 billion monthly page views.

Why do entrepreneurs celebrate the act of funding? My grandfather told me that if you have to ask someone for a loan, that's the worst day of your life.

MYTH 2: Entrepreneurs who get venture funding are winners, and bootstrappers are losers.

The business press—such as Fortune, Inc. Magazines or TechCrunch—tends to immortalize entrepreneur's acts of fundraising, while considering bootstrappers losers. Yet the truth is often just the opposite, as venture-funded companies fail much more often than bootstrappers' companies. Netscape, Webvan, and Furniture.com are examples of companies that raised hundreds of millions of dollars during the dot com boom, but then went bankrupt. Now they are forgotten in the dustbin of history.

Today, the top stories about entrepreneurs in the Tech Press are still about how much money was raised, how many employees a company has, and how many new products are in the pipeline. But these metrics don't matter at all. To find out what matters, answer the following questions: Does the company have a great team? Are they building something great? Are customers buying the stuff that they make? Are they profitable?

Bootstrapping is funding a business with customer revenue.

MYTH 3: Bootstrapping is about self-funding a business.

The myth is that bootstrapping means funding a startup without outside investment. But the truth is that bootstrapping means funding a business with revenue from customers. As previously mentioned, there are two paths that entrepreneurs and startups take. One is a path to disaster based on VC money, business plans, and focusing on product launch without customer interaction—think Iridium, Webvan, and Segway. The other is a path to an epiphany, which focuses on customer development. This approach involves leaving the office and the guesswork behind so as to engage in a customer discovery process. In 2006, Procter & Gamble sent a single co-design team to move in with customers and figure out their problems. They discovered that people wanted to mop the floor, but didn't want to deal with water. The result was a "waterless mop" called the Swiffer, which is now a $4 billion dollar business.

To avoid wasted time and effort, pair customer engagement with agile product development.

MYTH 4: Entrepreneurs who bootstrap always scrimp and save, work like dogs, and have nothing to look forward to but struggle.

I have developed an interesting concept called "the highest and best use" of your time and resources. The problem with many startups—bootstrapped or not—is that they don't have a roadmap, so they wind up stuck in limbo, or wasting their time and resources. I'll show you the four stages of the bootstrapping process. Each requires focusing on a single priority or key action. If you focus on that priority and ignore others, your chances of breaking through and creating a successful business will rise infinitely.

BUSTING THE BOOTSTRAPPING MYTHS

MYTH	BUSTED
Myth 1: Bootstrapping is for small people with small companies and small prospects.	**Busted:** Bootstrappers take the "hero's journey," often discovering the next new sensation and creating monster companies that are innovative and have a big impact.
Myth 2: Entrepreneurs who get venture funding are winners, and bootstrappers are losers.	**Busted:** Venture funded companies fail much more frequently than bootstrappers.
Myth 3: Bootstrapping means self-funding a business.	**Busted:** Bootstrapping means funding a company with revenue from customers.
Myth 4: Bootstrappers scrimp and save, work like dogs, and have no rest on the horizon.	**Busted:** There are four stages to the bootstrapping process; each requires focusing on a simple priority or key action.

Bootstrapping Redefined

Bootstrapping used to be considered the path you took if you didn't get funded. Today it's the path you take if you have a passion for a problem you want to work on for a long time.

Simon Sinek, a friend I met when consulting in the Pentagon, wrote a powerful short book called Start With Why. According to Sinek, the question every entrepreneur needs to ask themselves before starting their business is: what kind of person are you and why are you starting a business? Being able to answer this question determines which path you choose as an entrepreneur. Or, to put it more accurately, which path chooses you.

Are you a freshly-minted MBA who has a great idea for a business but is primarily motivated by money? Are you looking to get funded by some VC firm so you can build a company like a machine? Are you looking to hit the jackpot and make a quick exit? If so, you should stop reading this and fly to Silicon Valley to seek out angel investors.

If, on the other hand, you are the kind of entrepreneur who has a passion for solving a problem that is so fascinating to you that you're motivated to work on it for the next ten years, then you definitely ought to consider the art of the bootstrap. Sure, the idea of having a venture capitalist or angel investor fund your business with enough money that you can buy a Super Bowl ad, may have its appeal. But remember, the moment you accept funding, you lose control. You stop being an entrepreneur and you start being an employee.

"The number one reason three out of four startups fail is too much funding."
- Harvard Senior Lecturer Shikhar Ghosh's conclusion after studying 2000 companies that received venture funding between 2004 and 2010

Not All Startups Are Alike: Bootstrapping Is The Third Way

Entrepreneurship has been driven by three great waves in human history. In order to help you better understand what I call "Colossal Bootstrapping," I will explain each of the three paths.

1. The Venture Funding Or Outcome-Driven Path

This is the path taught in business schools and one that relies heavily on business planning. Venture funded high-tech startups tend to take business models that are unproven and use capital to execute them. While this model has its successes—Google, Amazon, Cisco—a 2012 study conducted by Shikhar Ghosh of 2000 companies showed that 75 percent of these businesses fail. According to Ghosh, one of the main reasons they fail is because they wildly exaggerate the market and build products without interacting with customers. A second reason for failure is "just too much money." A good example was Webvan, an online grocery store that traveled the country building warehouses before they discovered the lack of customer interest in web-based grocery shopping.

The cookie-cutter path followed by most small businesses in America is one where you don't need to be creative and innovative, just good at implementing.

2. The Cookie-Cutter Path

Cookie-cutter ventures implement business models that are already successful. Most small businesses in the United States take this path: doctors, dentists, lawyers, franchises, pizza places, laundromats. Cookie-cutter businesses are attractive because they have a low barrier to competitor entry, relatively low startup costs, and little economic impact. These businesses suffer from the fact that, rather than competing in a "blue ocean" based on innovation, they wind up competing in a "red ocean" with many other "me too" competitors, based on price. Often the founder is left to spend their whole life stressed out, focused on generating enough cash flow to meet mortgage payments, payroll, and other bills. Cookie-cutter business owners often feel they are hanging from a cliff by their fingernails.

You build brand equity by following your passion and bootstrapping.
If you love your company, you will win.

3. The Bootstrapping Path

Bootstrapping is the third way to build a company, and integrates the best features of both worlds. Bootstrapping is grounded in the founder's passions, talents, and interests. The process of bootstrapping sparks game-changing innovation. The business model emerges from interacting with customers' unmet needs and tweaking the product through many iterations until people are ready to buy. Bootstrapped companies don't lack opportunities for venture funding, they just don't accept funding. If they do accept funding, they accept it at the right time, after they've crossed the "Valley of Death." An increasing number of VC's are following in this direction.

Colossal Bootstrapping

Is Colossal Bootstrapping coming up with an idea for a $3,100 digital espresso coffeemaker that you fund for ten years from your $70,000 job at Starbucks, hoping to gather enough customers to get a volume discount with the manufacturer, who'll bring the price down to an affordable $350? No!

Does Colossal Bootstrapping mean following your passion to create an eco-friendly business by spending eighteen months building a wonderful website or developing a product without ever testing your hypothesis by talking to actual customers? No again!

Is bootstrapping scrimping and saving to invest in a corner store where you sell bread and milk, struggling to meet the payroll, suppliers, and mortgage payments? Absolutely not!

Entrepreneurs create successful startups by using the process of Colossal Bootstrapping I've been describing. They base their decisions not just on vain, glorious ideas, but on customer discovery.

Colossal Bootstrapping acknowledges that a startup is a temporary organization in search of a business model innovation that solves a big problem for the customer. Colossal Bootstrapping is: **1)** repeatable, **2)** profitable, and **3)** scalable. It is funded not by some external investor or entrepreneur scrimping and saving, but by customer revenues. Colossal Bootstrapping is like a quest for the Holy Grail, except instead of searching for a cup of mystical powers, the entrepreneur is searching for a business model that will lead to success.

Colossal Bootstrapping is a journey where an entrepreneur takes his idea for a business, develops a rapid prototype, puts the prototype into the customer's hands to test the response, and keeps tweaking until enough revenue pours in that he knows, without any shadow of a doubt, that he has a business.

Colossal Bootstrapping takes into account that a startup is a temporary organization in search of...

A Business Model Innovation: Solving a big problem for the customer

The typical entrepreneur success story starts like this: Mr. X has a brilliant idea in the bath one morning. He calls a friend and together they build an invention in a garage. They go out and sell it from the back of Mr. X's car, and before you know it, they are both millionaires. If you look at a hundred or so of these entrepreneurial success stories where bootstrapping is involved, you notice a pattern.

These companies are rarely so attached to their original business idea that they go down with the ship if it fails to create customers. They recognize that a startup is a temporary organization. Their secret is to leave the guess work behind, and instead test their startup hypothesis with the customer in order to gain the insights to do more pivots and iterations than the next guy.

These successful entrepreneurs use their constraints (caused by either failing to secure or declining venture funding) to drive innovation and to force themselves to focus on the most important goals and priorities in each stage of the process.

Reed Hastings Of Netfix's Quest For The Path To Epiphany

Once you go through a customer discovery process and create a demo that the customer wants to buy, the next step is to create merchandise and a repeatable sales process so that customers will stand in line at the mall for your product.

Reed Hastings, founder of Netflix, is a good example of this principle. He loved watching movies, and had rented thousands by the time he was thirty. One day, Hastings got a late fee of forty dollars for Apollo 13. He was embarrassed about it, but came up with an idea. To test it, he ran out to Tower Records in Santa Cruz and mailed DVDs to himself in envelopes. It was a long twenty-four hours until the mail arrived at his house, and when he ripped it open, the videos were in great shape. He was filled with excitement.

Early on, the first Netflix concept was rental by mail. It was not yet subscription-based, so it worked more like Blockbuster. Some people liked it, but it wasn't that popular. Hastings thought to himself, "This whole thing could go down," and he and his team came up with the more radical subscription idea. He knew the idea wouldn't be terrible, but he didn't know if it would be great. Hastings tells how Netflix launched the service on Sept. 23, 1999 with a free trial to see if the customer would buy into it. He knew that they could tell within a month if people would become paying subscribers. He was elated when 80 percent of his customers went from the free trial to the paid subscription. (Netflix still uses the free trial with up to a 90 percent renewal.)

In 2003, Hastings was down in Arizona visiting one of the distribution centers on the outskirts of Phoenix. It was raining, and his umbrella wasn't working, so he walked the half mile from the distribution center to the hotel in the rain. On the way, he got the message on his BlackBerry that Netflix had hit a million subscribers. According to Hastings, "It was this beautiful moment where I was just so elated that we were going to make it. It also was the first quarter that we turned profitable. It was a magical walk."

Successful startups are almost always bootstrapped,
at least in the beginning.

Colossal Bootstrapping Is A Context, Not Just An Alternative Financing Technique

When I first started investigating entrepreneur startups, I thought of Colossal Bootstrapping as how you fund your company without investors. Yet the more I investigated, the more I saw bootstrapping as the context or place that shaped the way I could think and interact. Just as the Venture Funding model is a context that causes people to put on a suit, Colossal Bootstrapping is a context that causes people to think and interact with the world in a certain way.

If content is king, context is God.

Colossal Bootstrapping starts with taking your idea for a business and adopting an experimental mindset. The process involves getting out of the building and testing your hypothesis by talking to customers. It involves using constraints caused by lack of money, time, and people, as a way to create focus and drive innovation. It involves figuring out your business model, not in advance, but over time by interacting with customers. It involves taking a demo and tweaking it until you have a colossal number of people who want to buy it. It involves coming to that magic moment where you say to yourself, "Aha! I found an innovative business model that is repeatable, profitable, and scalable. I am now able to finance my business with revenue from real customers. And on top of that, I have more VC and angel investors knocking on my door than I can shake a stick at."

The Five Key Principles of Colossal Bootstrapping

If you are the kind of person who likes talking (or reading about) entrepreneurs and successful startups, you could probably make a list of 1,001 things that one could do to be successful. Yet once you have that list of 1,001 things to do, you discover that there is a pattern. That pattern can be boiled down to five transformational principles that make up the context of Colossal Bootstrapping, and everything on that list of 1,001 fits into them. The five principles have the power to not only transform who you are—an entrepreneur—but they can also fundamentally change the way you think about startups or businesses in general.

The point is, once you are standing inside this context, being a successful entrepreneur who can bootstrap a company from scratch becomes a natural self-expression. It then becomes a matter of learning how to be effective, whether you are working on your business idea, engaging in a customer discovery process, building a product demo, or getting out from behind your desk and selling.

The Context Of Colossal Bootstrapping Is Made Up Of Five Key Principles:

- Follow your passion, but test your hypothesis
- Build social capital by sharing your passion and inspiring others to help
- Use constraints to create focus and drive innovation
- Discover your business model through customer interaction

- Get out and hustle, but have patience

"I never wanted to be an entrepreneur, to build a giant company, or become a billionaire." -Richard Branson

1. Follow Your Passion, But Test Your Hypothesis

"Do you have a hobby that you wish you could do all day? Do you have an obsession that keeps you up at night? Do you have a business idea that fills you with missionary zeal?" asks Gary Vaynerchuk in his book, CRUSH IT! Why NOW Is the Time to Cash In on Your Passion. Gary spent years helping his father in their family business, a local wine shop. He came to realize that collecting wine could be like collecting baseball cards, a passion he had as a kid. He was not sure that he could sell the idea, so he started looking for a way to test his hypothesis.

Then one day he turned on a flip-phone video camera and helped transform the business into a national leader in the wholesale wine industry. It's true that Gary, the first YouTube wine guru, didn't build his business—which started as the "Wine Library"—from scratch. But using Facebook, Twitter, and YouTube videos of his wine tastings, he bootstrapped what amounted to a multi-million dollar national advertising campaign for free. Ten years ago, many people could never have become entrepreneurs, because of the cost of newspaper, TV, and radio advertising. Traditional media no longer has control—today everyone has a shot.

Gary exudes passion in all his YouTube videos. He's a force of nature on any stage. He would stay up until one in the morning posting on Facebook and Twitter, as well as recording videos for the Wine Library (over 1,000 in five years). He would then wake up in the morning and answer all his email, just like everyone else. .

It's impossible to watch his YouTube videos without wanting some of whatever it is Gary's got in terms of passion, hustle, and horse sense. "You're unhappy?" Gary asks. "Is it time to change your life?" People would call Gary after watching his wine videos and ask him to consult their companies on social media.

Today Gary is not only a partner in a $20 million wine business, he is also a very active angel investor with a fast growing consulting company. According to Gary, "When I am in the investor role, I only want to know two things. Do they care about the customer? And are they solving a really big problem?"

2. Build Social Capital By Sharing Your Passion, Inspiring Others To Help

The secret of exponential growth both for a person and a business isn't venture capital, but human connectivity. Think of it this way: every time you reach out and make a connection with someone, you build social capital, which later could be transformed into economic value.

Today, companies that offer crowd funding, like Kickstarter and Quirky, make it possible to use social financing so you don't have to look to VCs, Angels, or rich uncles. This route gives you the opportunity to reach out to a crowd of people who may share your passion for your product idea and who can offer both their expertise and material assistance.

You can start a business by being passionate about your idea and sharing your passion with others, inspiring them to help. Scott Cook, founder of Intuit Software, talks about how he founded his company based on a passion he had for applying readily available technology to solving human problems.

One night he observed his wife doing income taxes and paying the bills with financial software. He noticed that, while his wife was usually good at home finances, she was getting angrier and angrier. He got the idea that there might be a simpler software program that could solve the problem and make his wife happy. His proposal to the VC community for Quicken was rejected almost thirty-four times.

After receiving his final rejection, he left the building undaunted, only to bump into Tom Proulx, a friend who was a great software designer. Cook and his friend got into a conversation and the designer was clearly captivated by Cook's passion and his idea for Quicken. The designer offered to build the program. The rest is history.

If one expects to succeed as an entrepreneur, one had better hope to be born with the tenacity gene.

3. Use Constraints To Create Focus And Drive Innovation

As aspiring entrepreneurs, we face real barriers to achieving our goals. There's never enough to go around: not enough time, not enough money, and not enough people. But that's a good thing. Instead of freaking out about these constraints, embrace them. The most successful entrepreneurs embrace these constraints as positives that kick creativity into gear and result in smart solutions.

The CEO or founder can play a pivotal role in this. Ratan Tata, CEO of Tata Motors in

India, was driving through Calcutta when he saw a terrible motor scooter crash involving four members of a family. In an interview with a reporter that same day, he made an on-the-spot commitment to create a new startup at Tata that was going to build a passenger car with a cap of $2,500. At the time, he didn't even know this was possible. He left in place all the style, fuel, and safety requirements. Can you imagine all of the innovations that had to happen to be able to actually build that car at a profit? The Tata Nano was built in eighteen months and is the most popular car in India today.

Yeah, you may be thinking, but I'm the entrepreneur of a small bootstrap with minimal resources. How does the idea of using constraints to drive innovation apply to me? Start with reducing the scope of your product or service's development project. Get together with your customer and ask them what the single most important feature of your proposed product is and then focus only on that aspect in the first version. This could lead to innovative product development features, which will result in sales and customer revenue.

Time is another constraint entrepreneurs have to deal with. In coaching entrepreneurs, I often ask them: if this conversation were taking place three months from now, what would have to happen for you to be happy with your progress? This question elicits their highest priorities. They might say that they would want to have tested the business model with customers, put up a smashing website, built a demo that makes customers want to buy, and so on. The next step is to create deadlines, which are a highly effective way of getting people to focus on priorities and make more effective use of their time.

Insight drives pivots and iterations.

4. Discover The Business Model In The Process Of Engaging Customers

Entrepreneurs who bootstrap are very passionate about their product or service, but they are less committed to their original idea than they are to discovering a business model in the process of interacting with customers over time. Their idea is not a one-shot deal, but a process of iteration, which the following story tells.

When Alberto (Beto) Perez, co-founder of Zumba Fitness, was a wiry teenager impersonating Michael Jackson's moves on the streets of Colombia, tonight would have been beyond his wildest dreams. A crack of thunder and bolt of lightning ignites the sky outside the Miami Convention Center as Beto, in a yellow muscle shirt, shining with sweat, struts across the stage. For over ninety minutes, he dances to a saxophone and electric guitar. Like flower children at Woodstock with eyes glued on him in hypnotic fashion, 8,000 dancers sing, slam, and undulate in unison with him.

Based in an upscale neighborhood near Miami, Zumba Fitness has close to 200 employees and a reported market cap of more than $500 million. CEO Alberto Perlman says it grew 4,000 percent from 2007 to 2010 and 750 percent in the past three years. In an era of social division and fitness specialization, Zumba has become an amazing mass-market phenomenon.

With Zumba dancing, everyone—your grandmother, your wife, your chubby kid, your shy niece—can become super cool. Almost 15 million people in 150 countries partake in Zumba classes on a weekly basis. Eighty countries are represented at this year's instructors' get-together, a gathering that is part professional training and part tent-revival meeting. Less than a decade ago, Zumba was a startup. Today the company has seventy thousand locations in the United States, including roughly 95 percent of major gym chains offering its programs. TV characters toss off references and classes even take place in venues like the Pentagon.

Did Zumba get any VC money to start its business? Absolutely not! It's a totally bootstrapped company. The seeds for the company were planted when Beto Perez, who had a passion for dancing, met the son of one of his students, Alberto Perlman, a technology entrepreneur who had just lost his job in the dot.com bust. Perlman watched one of Beto's classes and came up with the idea to produce a fitness video that had infomercial potential. Going through the alphabet to come up with a name that matched rumba, Perlman and Perez at last settled on "Zumba." They first tried to launch Zumba as a business by selling tapes of classes. Perlman and others recorded Beto and 200 of his students dancing on a beach and played it for the CEO of a business called Fitness Quest, a company that sold Total Gyms and similar products. Fitness Quest produced a collection of tapes and DVDs and marketed them through an infomercial.

Perlman and Perez hired call centers by the hour to push the tapes. They were selling a few hundred thousand units on TV, according to Perlman, but their call centers kept hearing from people who said, "I don't want to buy a video. I want to take a class." The Zumba team realized that—even though they were succeeding at their current sales model—it was time to radically change their business and focus on instruction. (They later bought back the DVD video rights.)

The partners expected 30 or 40 people to show up for their first training session in a Miami hotel in 2003. Instead, they drew more than 200 customers from as far away as Boston, Houston, Los Angeles, and Kansas City. By 2005, the company had trained roughly 700 Zumba instructors, who were pollinating the country. 300,000 instructors across the world have since been trained in Zumba for $250 each.

The next iteration came about when many instructors kept returning to Miami. “They wanted to meet with Beto and get a new routine or film his class or talk to him about new music,” says Perlman. The next iteration of the business model was to turn these instructors into entrepreneurs. They needed students. They needed ongoing education. They needed music and choreography. So Beto created the Zumba Instructor Network, or ZIN, a community and educational platform. New infomercials were produced and the company began plowing money into media outlets, designed to drive consumers to classes. The instructors began to sell Zumba clothes, Zumba videos, and other paraphernalia.

But how to make Zumba stand out from the classes already installed in fitness centers in every town? Up to that point, the Zumba taglines had focused on losing weight. One day, Perez had an epiphany. It happened when he caught sight of a poster for “Rise,” a David LaChapelle movie. It showed a man and a woman lost in an ecstasy of dance. He took a picture of it with his phone and showed the Zumba partners. Instant insight! Zumba was all about emotion, not just dropping pounds. Joy. Release. The company captured its new dramatic differentiator:

Ditch the workout. Join the party.

5. Get Out And Hustle, But Have Patience

When our ancestors came over on the boat, they didn’t sit around thinking about the magic formula for starting a business. They hustled and went to work in factories to make money to keep the wolf from the door, but later went on to become entrepreneurs and bootstrap businesses they could be passionate about.

One of the reasons I am excited about Colossal Bootstrapping is that today, anyone can make a living doing what they love, because what is possible today just wasn’t possible five years ago. Today, with a website, social media, and ubiquitous technology, you can be your own advertising company, publishing firm, recording studio, even 3D manufacturing plant.

That said, while it’s great to have passion for a product, hustle is more important. The most important thing about a business is that you can execute it. Everyone is born with passion, but not everyone is lucky enough to be born with hustle. The good news is that hustle can be learned. Hustle means playing 100 percent, doing everything with a commitment to excellence, devoting yourself to marketing, and never forgetting that your job is to sell, sell, sell.

It’s great that you have a website, use social media, and go to conferences; but the point of all these things is that you can make the cash register go ka-ching. Yes, you have to care about your customer by solving a problem for them, but you also have to monetize everything so you can pay the bills and live to fight another day.

It's important to hustle, not just by hanging out with customers, but by building brand equity and positioning yourself so that you can hang out with the customers who write big checks. As an experiment, think of three venues you could attend where you could fish where the big fish swim. These venues could be fundraisers, company retreats, or keystone conferences—anyplace where the big companies hang out and, even better, where people relax a little and hang loose.

Patience is another essential factor. While most people go into business looking for a short sprint, business is a marathon. You have to start the race being prepared to endure. Gary Vaynerchuk says it took him months of posting on social media before anyone responded by actually buying his product. If he hadn't had patience, he would have given up.

If you read the history of the great entrepreneurs we all admire—such as Reed Hastings, Steve Jobs, and John Mackey—all of them talk about vision, values, hustle and patience. "We scraped the bottom of the pond for more than a year," says Scott Cook of Intuit. "Then we bounced up and started breathing fresh air, growing 30 percent, 40 percent, and 60 percent a year for the next three years."

> *"The legendary hero is usually the founder of something: the founder of a new age, the founder of a new religion, the founder of a city, the founder of a business. In order to 'found' something new, one has to leave the old and go on a quest for the seed idea that will have the potential of bringing forth something new." -Joseph Campbell, The Hero with a Thousand Faces*

The Four Stages of Colossal Bootstrapping

Bijoy Goswami, a Stanford Business School graduate and founder of Bootstrap Network, has written about the four stages of bootstrapping. These stages are evolutionary and do not necessarily happen linearly. It's also important to know that for each stage, there is only one priority or key action that you need to focus on, and if you accomplish that action, you will move to the next stage. In effect, bootstrapping means doing the right thing at the right time.

1. THE "FUTURE YOU" STAGE

Key Action: Don't follow the secure path society would have you take; follow your passion, talents, and interests.

While Steve Jobs was attending Reed College, he realized that he wasn't getting much out of the experience of earning a degree. He felt guilty that his lower-middle-class parents were sinking all of their retirement income into his tuition. He was so poor that he returned coke bottles he found in the garbage to get enough money to buy lunch, and walked five miles to the Hare Krishna temple on Sundays for the free dinner buffet.

He dropped out of college, but decided to hang around and sit in on classes he was interested in. One of them was a class on calligraphy, which he later said was the source of his interest in creating the most beautifully designed products in the world. Another was a course on typefaces, which fascinated him to no end. Beautiful typefaces now show up in the design of all Apple products and all Apple marketing.

The key action to take in the "Future You" Stage is to have the courage to step away from the path society would have you take, whether it's a nine-to-five job, a college degree, or a pension, and to follow your passions, talents, and interests. As Gary Vaynerchuk says, "There is simply no reason today, with all the entrepreneurial opportunity out there, for anyone to stick with a nine-to-five desk job that they hate." Look in the mirror and ask yourself what you want to do with the rest of your life and do it. Once you make that commitment, you enter the Ideation Stage.

2. THE IDEATION STAGE

Key Action: Create a demo.

Great ideas for starting a business can come from anywhere: from pursuing your passion, whether it's for high tech or cupcakes; from "connecting the dots" from customer problems or a new technology; from empathizing with customers; or from casual conversations with people you network with.

Once you have an idea for a business, you need to share it with your potential customers in order to find out whether it represents a problem worth solving and whether or not people will buy it. The best way to do this when you are bootstrapping is not go to the time and expense of a product launch, but to create a demo and get it into the customers' hands so you can get feedback. If the customer seems inclined to buy the product, then build the first version.

Brainstorm ways to prepare your first demo that you'll share with your lead customers. For example, provide a free consult, a sample chapter of a book, a download of an iPhone app, or a pilot of a seminar. Once you have tested your idea with customers through a successful demo, you will find yourself in the Valley of Death Stage.

3. THE VALLEY OF DEATH STAGE

Key Action: Sell.

The challenge now is to use the scarce resources at your disposal to get your product to market so you can start making sales before you run out of cash. This stage is stressful for every entrepreneur and has been called crossing the Valley of Death.

It's important in this stage to stop trying to perfect your product, which can waste time and consume financial resources in the process. Try to get a first iteration of the product out the door by focusing on a single feature that is most important to solving the customer's problem.

Entrepreneurs often have a certain degree of "call reluctance," which is the fear of being rejected. Self-monitor your reasons and excuses for avoiding making sales calls. You can only overcome call reluctance by picking up the phone and taking action, not over-analyzing your fears. You're like a swimmer standing on a diving board, afraid to dive. The only option is to pinch your nose and dive into the pool. Stop reading this and go sell.

4. THE GROW STAGE

Key Action: Build a professional team, organization, and key processes.

Jeff Bezos talks about starting Amazon. He was inundated with so many orders that the company didn't know what to do. He would get his whole team to the warehouse, packing boxes on their hands and knees in a great fury, trying to meet the midnight FedEx deadline. One day he said to the team member next to him, "We need knee pads." "No," the guy said. "We need packing tables."

In the Grow Stage, it becomes obvious that your idea has become a business. Growth is starting to occur at a furious rate and you are not sure how you are going to be able to deliver the product and create a profitable business model at the same time. In order to pull off this slight-of-hand, you need to bring in the MBAs and professional managers and create an organization with different departments and a focused mission. It's important to design key processes for the jobs that need to be done on a regular basis, such as marketing, a supply chain, and order fulfillment.

In Conclusion

I recently read a fascinating study called the Startup Genome report. It was based on the research of about 33,000 companies. It revealed that a founder who has an attitude of learning versus knowing, studies startup thought-leaders, and is a helpful mentor, is the distinguishing difference between startups that fail and those that succeed.

I believe it was a desire to learn that brought you to this book in the first place. I hope this chapter has provided you with the thought leadership that will guide you in your everyday actions. If I could give one last word of advice, it would be to find a business mentor for your bootstrap journey. You may not be able to afford the best, but if you keep your eyes peeled, you will find people who are well-qualified in your area.

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Peter Einstein on Crowdfunding

I know what you're thinking.

Having read this far, you are no doubt excited about the possibilities that lie ahead. You have a concept, you're ready to take the next steps to turn it into a business, and—thanks to Robert—you are prepared to pull yourself up by the bootstraps.

"That's all well and good," you're thinking. "But without an investor, where in the world do I get the money to do this?"

There are many ways to fund your business when first starting out. It's not all about financial investment. There are many forms of investment that are much more important, initially. Anyone dedicating time, money, assets, or attention to your business approximates investment. Funding can be someone putting sweat equity into your business, or giving you access to his or her distribution or back office. When a store agrees to take your goods, that is an investment. You may not be earning actual dollars, but you should take the decision as a compliment. They are casting a vote of confidence in you, choosing to display your product in place of something else. Any salesperson who mentions or pushes your product creates an organic marketing avenue.

In the beginning, when you need cash to create the first mold, prototype, or concept, approach your friends and family. They may be able to help you with the first $1,000, $5,000, or $10,000. You might also consider leveraging credit cards or mortgaging your house.

However, taking affordable next steps doesn't have to mean a mortgage or maxing out the credit card. I will help you examine, evaluate, and explore your options, uncovering the most practical and plausible ways for you to further the growth of your enterprise. One of the most dynamic new methods of raising capital for startup businesses is "Crowdfunding." I'll turn this chapter over to Peter Einstein, Co-founder/President/Chief Visionary Officer of The CrowdFunding Network, Inc. (LaunchIPO.com and CF4ALL.com), a leading expert on Crowdfunding. He will illuminate the possibilities and pathways available to you.

What Is Crowdfunding?

"Crowdfunding" is the hottest buzzword in the entrepreneurial community these days - and for good reason. It just may be the game-changer that opens access to capital for millions of startup businesses. Some experts predict the global Crowdfunding market could exceed $500 billion a year by 2025, from hundreds of millions of supporters and investors looking to get in during the early stages of the next big thing.

For those of you who haven't already heard of this social-media-fueled phenomenon, Crowdfunding (CF) is the collective effort of individuals who pool their resources - usually via the Internet - to support anything from disaster relief and other charitable causes to artistic projects, political campaigns, small businesses, and high-growth-potential entrepreneurial ventures.

As new as the Crowdfunding concept may seem, the basic idea has been around for a while - as long as people have been chipping in to support a common goal or worthy project, whether in their own community or halfway around the world. Even the Statue of Liberty was Crowdfunded. (Lady Liberty didn't just swim here from France and prop herself up on an empty pedestal in New York Harbor.)

Humanitarian and philanthropic projects form the basis of what is known as donation-based Crowdfunding, which gives contributors a way to donate to causes without expectation of financial compensation. Sites like Kiva were among the first to use the Internet to attract large numbers of small donations for worthy donation-based CF projects.

Internet Crowdfunding started to demonstrate its entrepreneurial potential in 2009 when Indiegogo - followed by other innovative Reward-based sites like Kickstarter and RocketHub - successfully combined the growing influence of social media with Crowdfunding to launch a wider selection of uniquely "creative" and entrepreneurial ventures. The non-monetary "rewards" or "perks" they offered contributors were essentially tokens of appreciation or the ability to pre-purchase certain "cool" goods or services before they went on sale to the general public (i.e. DVDs of the independent films the CF program helped fund).

Within a few short years, a handful of notable Reward-based Crowdfunding projects had collected six and seven figures - some in just a few weeks and a few in a mere matter of days! One of the most well-known examples is the Pebble Watch, a high-tech "smart-watch" whose founders couldn't get the time of day from investors, after burning through their initial "angel round." Its founders raised over $10,250,000 - reaching the $1 million level in their first twenty-eight hours on Kickstarter from over 10,600 supporters. And they did it again in the Spring of 2015, raising over $20 million for an updated version - just prior to launch of the new Apple Watch.

By early March of 2014, Kickstarter had successfully raised $1 billion for over 55,000 successful projects, over 1000 of which raised $100,000 or more, with about one in every 1000 successful projects raising $1 million or more. By the end of 2015, they had more than doubled that figure, raising almost $2.15 billion (from over 10 million different backers) for approximately 100,000 projects. (Before you get too excited, you should know that almost

60% of Reward-based Crowdfunding projects have historically failed to reach their original funding targets on Kickstarter. Of the ones that do succeed, the vast majority raise under $10,000. A recent survey indicates that Kickstarter's success rate is declining. In 2015, fewer than one-third of their projects actually reached their goals.)

The Roots of Equity-Based Crowdfunding

Flashback to early 2011...

Inspired by the early successes in modern day Crowdfunding, a small but incredibly determined group (led by Jason Best, Sherwood Neiss, and Zak Cassady-Dorion) began lobbying Congress to change some of the antiquated US Federal Securities Laws that prevented entrepreneurs from engaging in what is now called Equity (-based) Crowdfunding. This kind of Crowdfunding allows a virtually unlimited number of small investors (aka "CrowdInvestors") to receive a financial interest in the form of Equity (shares) in a company.

Many of those long-established securities laws dated back to the Great Depression, when they were originated to protect small investors from the kinds of financial abuses that were causing so many of the era's economic problems. But in the years since, these otherwise well-meaning protections had an unintended side effect: they greatly restricted access to capital, making it very difficult (especially for startups with no revenue) to attract investment dollars from anyone outside a relatively small circle of their own "friends and family."

Of course, no one in the 1930s could have foreseen the invention of the Internet and social media to potentially fund the struggling business community of the early 21st century - let alone the ability of the "wisdom of the crowd" to protect small investors. Until now, at least, the degree of fraud in "CrowdInvesting" has been virtually nonexistent in those countries where it has been legal for a while. In fact, in Australia – where Equity-based Crowdfunding has been going on since 2005 – the Australian Small Scale Offerings Board (the largest such platform Down Under) reported no cases of fraud in any of its investment-based Crowdfunding efforts. In addition, over 70% of the companies they helped get funded were still in business, which is a far higher rate than average.

In the U.S., the transparency required in Equity Crowdfunding will force con artists to subject themselves to thorough background checks, which will weed out a lot of potential bad actors. (As they say, sunshine is the best disinfectant.)

The "Founding Founders" of Equity Crowdfunding (my term, not theirs) believed that Equity Crowdfunding might have been just what our economy needed to finally shake the effects of the Great Recession. Their thinking was quite simple: if individuals are willing to contribute money to Crowdfund projects simply in exchange for 'perks,' just imagine how much money might pour into the economy if Crowdfunders could actually share in the success of the startups they supported.

Thanks to the legislative leadership of Rep. Patrick McHenry (R-NC), the "Startup Exemption" for Equity-based Crowdfunding was included in the JOBS Act (Jumpstart Our Business Startups) – and the rest is history.

To the surprise of almost everyone, the normally dysfunctional Congress - which generally couldn't agree on the day of the week, let alone something as controversial and innovative as this – passed the JOBS Act with an overwhelmingly bipartisan vote.

On April 5, 2012, President Obama made the JOBS Act the law of the land,

allowing private companies (pending compliance with SEC's eventual regulations) to raise up to $1 million a year through Equity-based Crowdfunding via registered Equity Crowdfunding Platforms (CFPs).

But when you're dealing with such a major change in longstanding securities law, nothing is that simple. It took over three and a half years (until late October of 2015) for the SEC to finally hand down its "final" rules (pending commentary by the public and various industry groups and other interested parties) on what is now known as "Regulation CF."

In fact, the law won't actually go into effect until May 16, 2016. And since the original provisions of Title III of the JOBS Act were the result of a series of legislative compromises, the final result will inevitably be less than perfect - requiring another act of Congress (aka a "JOBS Act 2.0" or its equivalent) to fix some of the potential problem areas that the SEC was unable to address in Regulation CF.

Other Forms of Equity Crowdfunding

Loosely defined, there were three types of Equity-based Crowdfunding introduced by the JOBS Act (under Titles II, III, and IV) in which companies can legally attract investors using social media and other Crowdfunding/marketing techniques.

Title II of the JOBS Act established what many refer to as "accredited Crowdfunding" - allowing companies to utilize "general solicitation" (i.e., advertising) to promote their "offerings" to the general public. However, they can only accept investments from so-called "accredited investors" - high-net worth individuals (aka "angel investors") representing the top 2% of the U.S. population). While accredited Crowdfunding was an important step in making investment capital available to entrepreneurs, it was hardly the game changer that Title III is expected to be.

Under Title IV (under what is commonly called “Regulation A+”), companies can not only advertise their offerings (and even “test the waters” prior to having their offering “qualified” by the SEC), but actually go public via “mini-IPOs” - raising up to $50 million a year without much of the cost and paperwork associated with a standard IPO.

However, a “Reg A+” mini-IPO is generally not a viable, near-term funding option for most small and/or very early stage companies, given the greater costs, time, and effort of successfully navigating the Reg A+ compliance/Crowdfunding process, which includes the expense of having to market their shares.

That’s not to say that Reg A+ won’t be a viable option for many companies once they’re a little more mature. In fact, a Reg CF Crowdfunding effort is a great first step towards a mini-IPO (for more details on “crowd-powered” mini-IPOs, check out LaunchIPO.com).

“Reg CF” Equity Crowdfunding will not only help consumer-oriented companies that have traditionally done well in Reward-based Crowdfunding (with a cool gadget, computer game, etc.) but it will be a lifesaver for companies which might have a challenge in the Reward CF space.

As long as your company has an interesting story to tell and a business model that can make sense to the average “CrowdInvestor,” Reg CF Crowdfunding is definitely worth considering. And not just for high-growth potential start-ups. Many local, “mom-and-pop” retail stores will be able to use it turn their loyal customers into investor/consumers. (Some in our industry refer to these Equity CF investors/consumers as “investumers,” but that term hasn’t quite caught on.)

While this chapter will focus largely on Equity Crowdfunding as originally envisioned in Title III of the JOBS Act - and subsequently defined under Regulation CF - we’ll also explore certain aspects of Reward-based Crowdfunding; you may be able to use it as a way to build your crowd, test your concepts, and gain valuable experience in the Crowdfunding space. And since accredited Crowdfunding and “Reg A+” mini-IPOs are also forms of Equity Crowdfunding, many of the concepts discussed in this chapter will apply to them as well.

Regulation CF: SEC Compliance and Next Steps

Before a company can utilize Regulation CF and start selling shares, it will need to go through an SEC compliance process, which will be addressed later in this chapter. Hopefully the process won't be too onerous (from both a paperwork and financial perspective) after the SEC has responded to comments and refines some of the language in its final version of its regulations.

If some of the key Crowdfunding industry groups (such as CFIRA (Crowdfunding Industry Regulatory Advocates) and CFPA (Crowdfunding Professional Association) get their way, the rules will be revised to allow companies to raise $3 million - and possibly even $5 million - a year (versus the current $1 million annual cap). In addition, there are discussions about easing certain restrictions on the ability of companies to test the waters and/or market their offerings.

Other Types of Crowd-Powered Funding

Equity-based Crowdfunding isn't the only source of crowd-powered capital formation. There's also Lending/Debt-based Crowdfunding, Revenue-based, Royalty-based, and Real Estate-based Crowdfunding (all of which are described briefly at the end of this chapter).

But unless your business is already generating sufficient revenue- or has tremendous growth potential, a large social media following, or a loyal customer base - Equity Crowdfunding (via Regulation CF) will probably be your best bet for securing any kind of serious capital. However, if you need short-term financing, you may be able to borrow money at pretty decent rates from one of the popular lending/debt-based platforms.

Is Crowdfunding for You? If So, Which Kind(s)?

As a tool, Crowdfunding is hardly one-size-fits-all. You need a solid (and hopefully innovative and scalable) business idea, a good story to tell, and basic comfort with social media. If you have those qualities and are truly passionate about your project, then Crowdfunding is definitely worth looking into.

But even if you think Crowdfunding is a good fit for you, you still need to decide which kind(s) of Crowdfunding make the most sense for your particular situation. You may want to try more than one category. Some funding types may make sense now, while others may be more appropriate later.

Keep in mind, the key to success in Crowdfunding is your "crowd." You can have a great business idea with a solid revenue model, but if you can't attract a strong social network (one that believes in you and your idea) from which to raise capital, your business may never get funded.

To start, you'll need to understand a bit more about the different kinds of Crowdfunding and the key pros and cons of each. Along the way, I'll cover some of the basics and provide you with key insights and strategies from some of the true pioneers of this rapidly-evolving industry.

The Fundamentals of Crowdfunding

Before we jump into the details of Equity-based Crowdfunding, you might want to consider - or at least better understand - Reward-based Crowdfunding.

Under the right conditions, (i.e. the right kind of company or product, the right kinds of rewards, etc.), Reward Crowdfunding could be a terrific way to test how you might attract and build a web-based crowd (i.e. your "social capital"), gain proof of concept, and generate working capital. It's a lot easier to mount a Reward-based campaign than an Equity-based effort, which will require months of filling out forms, accounting, and legal work to make your business SEC-compliant.

In addition, a highly successful Reward-based campaign might enable you to attract angel or VC investment dollars - and bypass the whole compliance process. (Of course, you may have to give up more Equity. Those VCs aren't called sharks for nothing.)

Whether or not you decide to use Reward-based CF, it's helpful to understand the basics, since many of the concepts, tips, strategies, and insights I cover here will apply to any CF campaign you decide to launch in the future. So keep an open mind as you read through this material, and consider ways to adapt the information to whatever form of Crowdfunding you decide is best.

Reward-Based Platforms

Since the SEC doesn't regulate Reward-based Crowdfunding platforms, they have a lot more leeway in how they run their businesses. They can vary greatly in the kinds of projects or businesses they'll accept, the fees they might charge, and the levels of support and guidance they may give. (Equity-based CFPs cannot provide any investment advice unless they're operated by broker-dealers). Some of these sites are much more flexible than others when it comes to working with a "real business" versus someone with a "cool" idea for a creative project, tech gadget, or computer game. (In fact, Kickstarter frequently rejects projects that are essentially business launches rather than "creative" projects with a distinct beginning and end.)

Some Reward-based CFPs let you keep almost all the money you raise (minus their fees) even if you don't reach your original target - while others (like their Equity-based counterparts) are strictly "all-or-nothing" (i.e. you only collect money IF and WHEN you reach a certain pre-determined level that you select upfront).

Both models have their pros and cons, along with their proponents and detractors. But don't be misled by "comparisons" of the so-called "success rates" of "all-or-nothing" sites like Kickstarter, with platforms offering more flexible funding options. Do the research and decide for yourself. And be sure to check out some of the interesting hybrid funding models at platforms like StartSomeGood – a socially-responsible Reward-based CFP with locations in many different countries. They use a "tipping point" approach that only releases pledged funds after they've reached an agreed-to level, allowing enough money to be applied towards achieving a related but less ambitious goal.

Before deciding on any CF platform (whether in the Reward or Equity CF space), you'll need to browse through their site, check out their campaigns, and view their site through various mobile devices. (Since a good deal of Crowdfunding activity and the associated social media activities that support it are mobile-based, your CF platform should be as mobile-friendly as possible.)

Then you'll need to get clear answers to some key questions:

- What are their fees?
- Do they offer all the services you need - and are they charging extra for services you don't really need?
- What is their success rate - and what are their success stories?
- What happens if you miss your funding target?
- What sort of expertise and support do they offer - and is that expertise relevant to your business?
- Do they offer a pre-launch/preview mode to give you a chance to gain feedback and build up your crowd prior to launch?
- Do they work with third-parties such as Crowdfunding search engines and other aggregators who can help increase the visibility of your project?
- What kind of data/analytics and insights can they (or the third-parties they work with) provide to help you better understand, engage, and motivate your audience?

Is the data restricted to just their platform or do they provide cross-platform tracking of hard (funding) and soft (attitudinal) data?

- How can they help you improve your chances of long-term success?
- How well do other project creators and backers who have used them in the past rate their platform on CFP review sites?

General Interest Vs. Special Interest

In the Reward CF space, the most popular Crowdfunding platforms or portals are what you might call "general interest" sites. Slava Rubin, co-founder or CEO of Indiegogo (originally launched in 2008 as a platform for independent filmmakers, and later expanded in 2009 to include other categories) feels the larger CFPs can potentially offer an advantage in exposure:

"Whether it's a small business, a film, a theatre production, or an electronics product, the first 30-40 percent of your funding will typically come from your fans, inner circle, or your own friends and family," Mr. Rubin says. "The question is whether or not you can then get exposure to strangers to fund you. We're getting millions of page views and dollars transacted every month. So you get the benefit of having many strangers see your campaign, and us putting it in front of others."

For projects on Indiegogo, he says: "On average, 20 percent of your funding will come from complete and utter strangers," though occasional numbers can increase dramatically. "Some campaigns get over 95 percent of their funding from strangers. This includes for-profit small businesses."

Theoretically, that's what's supposed to happen. But don't bet on your campaign "going viral" all by itself. Unless you're a celebrity, it generally takes a lot of long days to become an overnight success.

One thing the larger, general-interest Reward-based CFPs have in common is an active, Crowdfund-friendly user base of potential backers. But they also have a lot more projects vying for those backers' attention. So you have to do your part first, otherwise you'll literally get lost in the crowd and most of that untapped funding potential will simply go to waste.

Less than one-third of Kickstarter funders are "repeat backers" (i.e. those who have previously funded two or more projects). That means the vast majority only support one specific project – which they were probably directed to by the actual project creators or someone very close to them. And once they come to the site, they may just go about their business and leave. You may have work very hard to even get their attention, let alone their money.

Once Equity Crowdfunding catches on, that will probably change. Most potential investors will actively seek out the best new Crowdfunding campaigns - regardless of what platform they'll be on. That will become even clearer when we discuss the role of Crowdfunding search engines (a subject obviously very near and dear to my heart, as the co-founder of CF4ALL).

Special Interest Crowdfunding Platforms

In some cases, smaller special interest CFPs, which focus on certain niche markets, may be a better fit - or can serve as an adjunct to your general interest campaign. Their highly-targeted audience, plus their greater experience and proficiency in your particular field, could be a significant advantage, and also offer a greater accessibility to key thought-leaders and their followings.

One thing you can bet on: there will be a lot less competition for featured status on smaller, specialized platforms. (On Equity Crowdfunding platforms, your offering will not be vying for featured status, since they are not permitted to promote one offering over another. That would be construed as offering investment advice, which they are not permitted to do.)

Even Kickstarter will tell you they're not for every project creator - and especially NOT for certain "real" businesses. They're not interested in helping you pay your rent, salaries, and utility bills. You'll need to have a "creative" project that fits into one of their acceptable categories. You'd be surprised how many great business ideas they've rejected that have gone on to launch successful campaigns on other platforms.

Ideally, a special-interest platform will provide you with a far greater range of support and "hand-holding." Rather than simply send you out into a veritable sea of competing campaigns, they'll not only help your company stand out from the crowd, but they can help you make a stronger case for reaching your fundraising targets as well as your ultimate business goals.

Hopefully, you will convince one of them there is something special about your project that deserves attention and promotion on their part. It doesn't hurt to ask. With their support, there's a better chance of taking advantage of their more targeted audience and marketing approach.

Since you are the one mainly responsible for driving traffic to your campaign page, never choose a CFP solely on the basis of its overall popularity (in terms of sheer funding volume or overall traffic numbers). If and when your project starts to gain momentum - and the CFP and its visitors start to notice your campaign's rising popularity - then their overall traffic and funding levels could become a factor.

Doubling Down

You can always launch campaigns on a second (or even a third) platform (or even on your own website with "do-it-yourself" CF software - under certain circumstances), but you shouldn't have more than one CF campaign active at any one time. You'll risk diffusing your efforts and basically competing against yourself, falling short of your funding targets and losing credibility with your crowd and CFPs. In addition, if you are doing a Reg CF Equity raise – or using any form of investment-based Crowdfunding - being on more than one platform at a time could get you in trouble with the SEC. Needless to say, it is important to stay within the law when selling securities of any kind.

You might want to test the waters - and gain valuable experience - with a Reward-based campaign while laying the groundwork for a much more extensive Equity CF campaign later on. But you can't link the two by offering the ability to purchase future Equity (shares) in your company as a reward for contributing to your Reward-based effort.

"Crowd" Comes Before "Funding"

There's a popular mantra in the Crowdfunding industry: "crowd" comes before "funding." Translation: you won't get Crowdfunded without first attracting - and motivating - the crowd. And by "the crowd" they mean "your crowd": your family, friends (both Facebook friends and real-life friends), followers (Twitter and otherwise), and contacts (LinkedIn, etc.).

Your immediate goal on a Reward platform is to demonstrate that your project deserves to be featured on their home page, in their blogs, or via any other form of content, promotion, or social media they have at their disposal. Many established Reward sites have developed and refined their own approaches, tips, and techniques - and it really pays to check them out.

For example, Fundrazr, the #1 platform in Canada, uses a sophisticated "deep integration" system with Facebook that is far more effective at building and motivating a crowd than simple Facebook "likes." They also have a relationship with a TV show on Crowdfunding that could prove helpful to their project creators.

Likewise, the #3 Rewards-based CF platform in the U.S. behind Kickstarter and Indiegogo, formed a relationship with Ovation, the arts-oriented cable TV network that reaches 50 million viewers. In addition, RocketHub was recently acquired by EFactor, a leading online resource center for services for entrepreneurs - allowing it to provide additional support beyond that of a typical, stand-alone funding platform.

Without some kind of support by the CFP, their user base may never be activated on your behalf. To get their cooperation, you generally have to show them that you can attract a crowd on your own - and as quickly as possible. Demonstrating a lot of funding activity (or even potential funder support) during the first week or so of your launch is critical.

When it comes to choosing which campaigns to feature on its home page, every Reward platform has its own system. Some are very subjective, while others try very hard to avoid charges of favoritism. In fact, Indiegogo actually uses an algorithm called the “gogofactor” which objectively measures how hard you’re working to build your crowd, how often you respond to questions and update your campaign, how many videos you post, the media support you receive, etc. - to determine if, and when, you get featured on their coveted home page.

Every new contribution counts, no matter how small, and it doesn’t only have to be financial. Find out the minimum level of support your friends, family, and contacts are willing to provide BEFORE you launch (they can always increase their contributions later). If it’s not enough to get you some decent momentum, maybe you need more time before your launch. Better to re-group and re-think your plans than to face almost certain failure. This is even more true in Equity Crowdfunding under Reg CF, where failure to reach your funding target (even by one dollar) will send you back to the drawing board with nothing to show (financially) for your efforts.

Setting Your Funding Targets

When setting your funding goal, try to be as realistic as possible - even if it means asking for less than what you really want, especially if you’ve chosen an “all-or-nothing” CFP like Kickstarter. You could still potentially collect much more than you originally wanted, since most Reward-based CFPs allow you to exceed your funding target. On the other hand, if you’re using a Reward-based CFP with a flexible funding option, you should factor in the higher fees into your final funding target.

With any “all-or-nothing” funding model - including Equity-based CF - it’s better to reach a lower target amount and keep the funds, then to fall a little short and not get anything at all. If practical, consider breaking your project into smaller parts. With each step easier than the last, you'll have less tension about deadlines as you gradually build credibility and a fan base.

Speaking of money, keep in mind that, on average, Reward-based CF campaigns only raise about 5 percent of typical Equity-based efforts. So, unless your project has all the elements it needs to "go viral," don't expect an avalanche of cash.

Think of your Reward-based CF campaign as more than just a fundraising effort - it's a way to test-market your early-stage ideas, create a following, engage with consumers and potential investors, build up your "crowd cred," and above all, develop your Crowdfunding "chops."

Creating Your Rewards

While there are a number of variables that will determine the success or failure of any Reward-based CF campaign, the one essential element is the nature of the various rewards (or "perks") you offer in exchange for your supporters' contributions. It's as critical as your overall business concept or your entire social media/PR/promotional effort.

At each contribution level, you should offer your backers a tangible reward. It's the only thing they will get in return, besides the warm, fuzzy feeling of helping you live out your dream - so you have to make it enticing.

Ideally, rewards should be closely associated with your business, its goods or services, and - whenever possible - something that your supporters' contributions will help make possible.

The most logical rewards are the specific products your business will be creating. (This is called "pre-tailing" of a soon-to-be-created product, as opposed to retailing of an existing item.)

If your product is too expensive to offer at the lower reward levels, you'll just have get more creative. Perhaps a series of downloadable discount coupons ("Save $5.00 on every $20 you spend for the next 12 months"). Or perhaps an invitation to your cool launch party (Oh, you weren't thinking of having one? Think again...).

A whole science has been built around the designing of Reward programs. The major Reward CF Platforms all have lots of valuable tips based on their real-world experiences and there are dozens of helpful articles online.

The Reward/Equity Hybrid Model

As Equity Crowdfunding becomes more popular in the U.S., I envision a hybrid Reward/ Equity approach becoming very attractive in some cases - especially when the company's product line appeals to early adopters who may also want to become investors.

No doubt, many entrepreneurs will prefer to offer discounts on their products in exchange for keeping more equity in their companies.

(Please note: this approach will probably require the creation of a special class of stock for consumer/investors, but that shouldn't be a problem.)

The Growing Importance of Data

As the industry evolves, the use of hard (funding) data, as well as "soft" (behavioral and attitudinal) data gathered from a wide variety of sources (funding platforms, search engines, media sites, company websites, etc.) will undoubtedly prove to be invaluable - helping companies better identify their primary and secondary target audiences and the associated messaging required to engage and motivate investors.

Data-driven marketing efforts will be so critical to the success of Equity Crowdfunding campaigns: they're the only way to cost-effectively hyper-target the various segments of your audience and refine your messaging. Going with your gut in determining who your core target market is and how to reach them will be as out-of-date as a beeper on your belt.

Tweeting your butt off and hoping for the best might be a workable strategy when you're trying to raise $10,000 in the Reward space - but there's usually much at stake with Equity Crowdfunding. You're trying to fund - if not launch - a business, not just a hobby. And in today's world, data is king.

As of this writing (in early 2016), my LaunchIPO.com partners and I are developing a crowd-powered, data-based marketing/aggregation model for helping Reg A+ candidates successfully test the waters and launch multi-million-dollar mini-IPO Crowdfunding efforts. Once we've worked out the Reg A+ model, we'll be adapting it for the less challenging (i.e. lower funding target) Reg CF market.

If you're looking at a Reg CF equity raise as a steppingstone towards a Reg A+ mini-IPO - or if you simply have ambitious plans for promoting your company and/or its products in the future (whether via social media marketing or a more broadly-based effort), you should treat every Crowdfunding campaign as an opportunity to gather invaluable user data, refine your strategy, engage and understand your crowd, build your brand and your following, and test (and retest) your messaging.

That said, don't fall for every data-based Crowdfunding service - especially ones that promise to solve all your targeting needs while only gathering top-line funding data.

The Evolving Equity Crowdfunding Ecosystem

Equity Crowdfunding is a whole new world (at least in the U.S.) - and it will take a while for a rich ecosystem of funding platforms and providers of data/analytics, legal, accounting, marketing, and other services to evolve and mature. Some players will be in it for the long-haul - providing real value to entrepreneurs and/or investors - while others may be simply looking to make a quick buck. With enough support, the wisdom of the crowd should help keep the industry growing in the right direction.

It's important to stay abreast of who's who and what's what by becoming an active member of the Crowdfunding community, joining online forums and LinkedIn discussion groups, signing up for Google Alerts, and visiting the websites of the two key industry groups: CfPA (Crowdfunding Professional Association) and CFIRA (Crowdfund Intermediary Regulatory Advocates.

Crowdfunding Search Engines & Aggregators

A few years ago, a handful of Crowdfunding search engines appeared in "beta" form in anticipation of Equity Crowdfunding becoming legal as early as 2013, based on the fact that Congress had (somewhat optimistically) set Dec. 31, 2012 as the deadline for the SEC to publish its initial rules for Title III of the JOBS Act.

Very early on, it became obvious to me and my fellow co-founders at CrowdFunding4All (aka CF4ALL.com), that Crowdfunding search engines and similar data-driven aggregation sites would become critical as the Equity Crowdfunding space grew increasingly crowded and competitive.

While the primary role of these search/aggregation sites is to help potential backers/investors more easily find, follow, and fund Crowdfunding opportunities, we realized that the search data would be tremendously valuable. Search engines may not be so important in the Reward space, but once CrowdInvesting catches on with the mainstream, potential investors will want to know that they have access to ALL the possible investment opportunities available at any given time. And they'll be looking for simple ways to compare them and keep track of them.

Well-designed Crowdfunding search engines will offer users multiple ways to locate and compare their Crowdfunding options and opportunities based on their specific interests, the CF categories and sub-categories they're exploring, the type of CF platform(s) those projects/offerings are on, geographic location, and a myriad of other variables.

So, make certain your campaign page employs all the appropriate keywords, tags, standard category/sub-category types, etc. - especially in your headline and opening sentence. It won't be too long before Crowdfunding search engine optimization (CSEO) will become a common buzzword in the industry, just as "SEO" is in the larger world of digital marketing.

A good CF search engine should also help you readily identify opportunities in the marketplace via historical project searches of closed projects, whether they were successful or not. Check the filtering options to make sure you're able to do your research thoroughly. (Most search engines don't bother warehousing that data, since it's harder to monetize.)

For example, you might find that there are very few strong offerings in a particularly interesting sub-category - and that there is a hole in that market just waiting to be filled. But this requires the ability to not simply help you find active campaigns, but to search through old projects that may no longer be available on the platforms.

The Power of Crowd-Powered Search

Since Crowdfunding is all about harnessing the power of the crowd, a good Crowdfunding search engine should factor in the "wisdom of the crowd" in determining the rank ing of its search results.

At CF4ALL.com, we have developed a "crowd-powered" search and data network model which will eventually encompass all funding types (reward, equity, donation, lending, etc.) - providing both entrepreneurs and investors/backers with the ability to "find it, fund it, smarter and faster."

The heart of our crowd-powered network is a proprietary technology called CrowdCredits™, which gauges the level of support the crowd has demonstrated for specific projects, using an exclusive cross-platform form of social currency. Potential backers/investors can earn CrowdCredits through their normal search activity and other Crowdfunding-related efforts - and then donate them to their favorite campaigns.

The crowd's support of a project (as demonstrated by the number of CrowdCredits it has earned) will then be reflected in its search rankings - and the highest trending projects will then be featured on CF4ALL's home page. This can obviously be a very helpful tool for project creators/entrepreneurs looking to build up their visibility as well as their social capital, both before and after launch. (It's especially important in the 7-10 days following launch, to demonstrate traction while the funding levels may still be low.)

The attitudinal and behavioral data CF4ALL gathers as a result of its CrowdCredits and Crowd-Powered Project Search - along with the wealth of analytics on user and funding activity it gathers from its network of platforms and media/industry partners - are invaluable to entrepreneurs and platforms in creating (and executing) effective strategies in this ever-evolving, highly-competitive environment.

Having relevant, reliable, up-to-date and actionable information on Crowdfunding activity is crucial to virtually every aspect of your Crowdfunding efforts. It will help you decide on what kind of project to create, the story you tell, the strategies you develop, the strategic and tactical adjustments you make - all the way through the final stages of your project. You never know when good information will lead to an insight that can dramatically increase your chances of success.

You can't rely solely on the data about Crowdfunding activity on your CF platform to make intelligent decisions. You need a true 360-degree view of cross-platform activity of potential and actual funders. So try to learn everything you can about the specific CF ecosystem in which you will be competing.

As the industry continues to mature, there will be many more valuable resources available. Try to keep abreast of the latest trends and news. Google Alerts and LinkedIn make it easy. But you have to actually read what's popping up in your inbox - otherwise you'll be operating at a real disadvantage.

Social Responsibility and The "Cool" Factor

Whether you're trying to Crowdfund a Reward-based project or an Equity-based offering, you'll generally be more likely to succeed if you're seen as being socially-responsible/cause-driven, or having some sort of built-in "cool factor" (i.e. a "must-have" tech gadget or computer game). In other words, you'll need a powerful emotional hook that will attract and engage people outside your own circle of friends and family.

So don't just base your Crowdfund decisions on your mother's opinion. Chances are, she already thinks your business idea is the "next big thing" - so she may not be the most objective person in the world.

Be aware that Reward-based CFPs may be filled with very compelling projects and great selections of non-monetary perks - including some very cool, one-of-a-kind product ideas. Don't expect to test out your Equity-based offering on a Reward-based platform using the same basic campaign. It could easily tank in a more emotionally-driven, Reward-based environment.

"People just don't make investment decisions the same way they make donations," says Jason Best, who - along with his fellow founding fathers of Crowdfunding - went on to create Crowdfund Capital Advisors, the leading consulting organization in the industry.

You will have to tailor your pitches - in both text and video - to the type of funding platform you're on and kind of audience you're trying to reach. Equity and Reward-based Crowdfunding are two very different animals.

Focus on the "Why" - Not Just the "What" or the "How"

You must do more than address the "what" in your pitch (what your business does, what your revenue model is, what your strategy is, etc.). You need to follow through with the "why" - describe why you are doing this, why it will make a difference, why your audience should care, and why this product or service is your passion.

Take a long, hard look at your mission statement. If it's filled with MBA business-speak and lacking in actual inspiration, give it a bit of heart. In fact, even if you're going to use Equity Crowdfunding, you might want to balance the "what" with a healthy dose of "why."

Visionary startup leaders are supposed to be in love with their ideas. Don't hide your motivation behind a jumble of facts and figures. The crowd may interpret that as being phony - or as a smoke-and-mirrors effort whose primary function is to get them to part with their money. Ideally, there should be something personal, compelling, and/or important about your project and your pitch - and you're inviting your audience to be part of it.

Learn from the Experiences of Others

Before you develop your Crowdfunding strategy, write your video pitch, upload your business plan, or choose the right platform, you must first familiarize yourself with the current Crowdfunding landscape. Many of the better platforms provide invaluable tools, insights, tips, and in-depth advice about this fast-moving, ever-evolving industry. There is a great deal you can learn from them.

As previously noted, you need to study both successful and unsuccessful campaigns

- especially in (but not limited to) areas related to your particular industry. You can probably adapt elements of successful campaigns and learn valuable lessons from those that failed to meet their goals. Were the better operations based more on the process or actual product? How were the videos? What were the qualities and frequencies of updates? (Again, this is where a good Crowdfunding search engine that stores historical data can be very helpful. Searching only for active campaigns will severely limit your ability to learn from the real-world experiences of others.)

Your (All-Important) Video Pitch

The need for having a short, at least halfway-decent video on your campaign page cannot be over-emphasized. Numerous studies in the Reward CF space demonstrate that it is an essential element in your campaign. But the video needn't be fancy or ex pensive. It's simply a way for your potential contributors (or investors, in the case of an Equity CF offering) to meet you - and for you to make a meaningful connection with them. They want to know why you are so passionate about your business and why it will be successful.

Remember, they're investing their trust (if not their money) in you and your team, so make sure you come across as honest and compelling as you can to your crowd. Don't overload it with facts and figures. There's plenty of time (and room) for that in the written materials (especially in the SEC-mandated materials you will provide in Equity CF). Your pitch video needs to build both trust and curiosity. It's an indispensable first step in establishing your professional appeal.

Prior to writing your video script, watch at least a dozen or so videos that were part of successful campaigns. Focus on the videos that are as relevant to your industry as possible. Please don't try to memorize your script - or try to read it word-for-word off "cue cards." Once you have your story down, deconstruct it back into a series of key points. It's better that you appear confident and poised than to get every single word right

(Please note: statements made in Equity-based campaigns - whether in your video or in your written materials - will be subject to much greater scrutiny, as they will be considered part of your offering materials by the SEC. You will literally be required to tell the whole truth and nothing but the truth.)

Thank You Notes and Updates

Having gotten your backers to part with their money, your job is far from over. You've just entered the “investor relations” phase of your Crowdfunding relationship.

Acknowledging and thanking your backers in a timely fashion isn’t just proper manners, it’s good business. Sending personal e-mails to say “thanks” will not only make your supporters feel appreciated and more personally connected, but it could lead to more dollars coming in. If you know their Twitter handle, a timely thankyou tweet can serve as a public acknowledgment and also encourage the spreading of your name within their crowd of followers. If you’re friends with your backers on Facebook, you could also choose to thank them there.

But don’t overwhelm them. One good public “thanks” is enough. Two or more makes it look like you’re simply using thankfulness as a form of marketing. That’s like making a large anonymous charitable contribution - and then publicizing it all over town. Maintain these relationships with as much dignity as possible.

Providing short updates during the life of your venture is just as important, if not more so. Updates will help keep your backers involved, while showing new campaign page visitors that you’re committed to your business - feeding potential supporters/investors additional “inside” information that could help convince them to back your business. Your current backers might even be encouraged to give you more money - or will encourage their friends and family to join in supporting your business. Keeping them updated also helps keep you organized and accountable.

Once you’ve (hopefully) reached your funding target, you should continue giving backers some basic information. Tell them what you are doing, how you’re using their money, when they can see their Rewards (including early production models), and when to expect any potential return on investment (in the case of Equity-based Crowdfunding or any other form of investment-based CF). Such communication will keep backers aboard and feeling like they’re part of the progress. This could feed into further funding - whether in a follow-up campaign for your existing venture or with your next great business idea.

Responding to Questions

Sending clear, timely replies to questions from potential investors is critically important. Letting too much time pass makes you look uninterested. Try to respond within five or six hours - even if you have to provide a follow-up later.

If you’re starting to see a pattern in the kinds of questions or comments you’re getting, you may need to address that issue in your basic campaign materials. And make an effort to approach your FAQs in a concise, kind, and intelligent manner. Make interacting with you as easy as possible for all interested parties. The less time people spend on the negatives and ambiguities of your campaign, the more they can focus on the positive aspects of supporting you and your business.

Joining the Crowd

When brainstorming on who your target audience will be and to reach them, try looking for similar audiences who have already helped successful Crowdfunded efforts - whether or not it was in the same CF space. And, surely you will be able to learn from the examples of active key players. They - or someone else - may have posted an article about their experiences. Set up a Google Alert for news about that category as well as for Crowdfunding in general. You'll be amazed and gratified with the amount of beneficial information coming through your email.

Also, as mentioned previously, check out leading industry groups like CFIRA (Crowdfund Intermediaries Regulatory Advocates) and the CfPA (Crowdfunding Professional Association). Feel free to ask for help at some of the more popular Crowdfunding-oriented groups on LinkedIn. Chances are, there's a crowd (or at least a person) out there willing to help you!

If you're not comfortable with social media marketing, you might want to hire someone who has been successful in the Crowdfunding space. (Be sure to ask for specific examples of successful campaigns they've been actively involved with and what their specific role was. And don't be shy about asking for references!) Which brings us to the larger issue of...

Getting Professional Help

No, I'm not talking about psychological counseling (although I wouldn't rule that out for anyone who decides to launch a Crowdfunding campaign - especially an equity CF effort - without giving the matter serious consideration). I'm talking about hiring a Crowdfunding Consultant, a self-described "Crowdfunding Expert" or some sort of Crowdfunding Agency or PR firm.

Even if you can afford to use outside experts on a full-time basis, you shouldn't rely on them entirely. You can't expect complete strangers to fully represent you and your organization in the kind of authentic, credible, and time-sensitive manner required in Crowdfunding.

Whenever possible, try to learn and do as much as you can - and then, where need be, supplement your efforts and/or strengthen your areas of weakness by hiring professionals with proven expertise in Crowdfunding on some sort of partially-deferred, semi-performance-based compensation basis (i.e. part upfront fees, payable in stages, and part percentage of funds raised).

It's unlikely you'll find anyone with proven credentials willing to work solely on the basis of a percentage of the funds they'll help you raise - due to the many variables involved in a Crowdfunding effort, over which they'll have little or no control. (Of course, you can always try offering them some Equity to sweeten the offer. But check with your attorney first - including the cost of any legal fees involved.)

One final word on the subject of CF experts, as well as expensive training programs, free articles on sure-fire tips, and the like: despite claims to the contrary, NOTHING or NO ONE can truly guarantee success in Crowdfunding. (Well, at least nothing short of having an army of wealthy friends ready to throw money at you, in which case, you won't need a Crowdfunding campaign in the first place.)

Bloggers & Press Coverage

If you can't afford to hire an experienced PR professional or agency with a track record in the CF space, don't despair. Plenty of Crowdfunding campaigns have gotten tons of exposure on their own. But don't think you can get away with simply sending out free online press releases - even if you have a high-profile partner, previous Crowdfunding success, or some other "can't miss" media hook.

Your best bet is to target like-minded bloggers - and even some mainstream media reporters - to write about your campaign. Do your research in identifying those who have covered topics related to your product and/or company - and especially those who have helped successful Crowdfunding projects in the past. (There are some online tools that may help you target the most influential bloggers in your specific area of interest.)

Establish relationships with the most popular and/or most active bloggers (those with the largest followings and the most frequent posts) long before you need their help. Comment on their posts. Let them know you appreciate their work, without obviously trying to ingratiate yourself. You might even offer to do guest posts on specific subjects of interest in which you have personal experience and expertise.

When the time is right, send them a personalized pitch letter and your press release. You'll have a better chance of getting your story picked up this way than by simply sending out a general free press release through a news wire service.

If at First You Don't Succeed...

You'll be in good company. Some incredibly successful Crowdfunding projects didn't make much of a ripple the first time out. One of the most successful campaigns on Kickstarter - for "The Coolest" Cooler" - is a perfect example. It raised $13,283,275, after the original campaign failed to raise a penny. But the project creator, Ryan Grepper, didn't give up. He reconnected with his backers, improved the prototype - adding a USB connection, waterproof speakers, and a blender - and relaunched in the summer of 2014, passing his $50,000 goal by just over 26,000%!

Reflecting on his success, Ryan noted that "there's never been an easier time to be an inventor or a person with an idea. The Crowdfunding platform gives you a way to connect with your potential customers to see if there really is a value, and see if people understand and really resonate with that idea. And there's also never been a better time to connect with sourcing experts and manufacturing experts. If your product does have legs, they can help you take it to market."

Where to Start?

So, should you start out in the Reward Crowdfunding space, or is an Equity Crowdfunding effort your first logical step? And is Reg CF right for you, or are you ready for a Reg A+ Mini-IPO?

Let's assume your company's products are really cool, designed to help save the planet, or provide some life-changing benefit to a not insignificant portion of humanity. Let's say the "perks" seem to make sense. And let's assume that you can readily convey your passion in a completing and authentic manner. If you've got all that going for you, then you really should give Reward-based CF a shot. You might even go viral and create the next big thing without giving away any equity.

There are great benefits to this route. Plus, it will provide you with great experience in the CF space and proof-of-concept for future investors. With a built-in crowd behind you, you could go straight to a Reg A+ mini-IPO - or even self-fund your own growth.

On the other hand, if your company profile doesn't resemble what I've described above, you might be much better off with Equity Crowdfunding. If it's a tough call, ask people who are familiar with the industry. If you don't have a personal contact, try posting a question on some Crowdfunding groups on LinkedIn - and/or talk to people at the different funding platforms you're considering. (Keeping in mind they may have their own subjective viewpoints and agendas.)

Equity Crowdfunding

As noted previously, Equity Crowdfunding for private companies (under Reg CF) is where most of the start-up action is going to be. Instead of asking for money from wealthy investors who are in a position of power, you'll be looking to raise small amounts of money from a lot of people like yourself. And now you'll be calling the shots.

Rather than simply offering your potential investors a token of your appreciation, now you'll be giving them a chance to share in the success of an exciting new company on the verge of success. Otherwise, they probably wouldn't be studying your online business plan and other detailed materials - published facts that the SEC requires you to provide as per their painstaking Equity-based Crowdfunding compliance process.

Reg CF vs Reg A+ Mini-IPO

Compared to Reg A+ mini-IPOs, the cost of mounting a Reg CF campaign (from a legal/accounting/compliance standpoint) is much lower - as is the cost of the Crowdfunding effort to sell your shares.

Of course, the amount you can raise with a Reg A+ public offering is (currently) up to 50 times greater ($50 million per year versus $1 million year). That said, in many ways Reg CF and Reg A+ Equity Crowdfunding are more alike than they are different.

So while we'll be largely focusing the rest of this chapter on Reg CF Equity Crowdfunding (aka "retail Equity Crowdfunding") keep Reg A+ in the back of your mind as you read on. Because if you've got big plans for your company, Reg CF could be a great first step towards a Reg A+ offering - where you'll be able to apply many of the key things you'll learn and do to your first public offering.

The CrowdInvestor Mindset

Imagine the typical mindset of millions of potential Retail (aka Unaccredited) CrowdInvestors in the not-too-distant future as they search through thousands of Equity-based CrowdInvestment offerings, looking for exciting new opportunities – whether under Regulation CF or Regulation A+.

Wouldn't they be a lot more receptive to your pitch than some loan officer at a bank who only wants to hear about your (non-existent) revenue? And wouldn't you rather be trying to pitch them via video than meeting a VC who is only interested in getting a 1,000% return? Here, your audience will be far more sympathetic and you'll be operating on a far more level playing field.

The fact that Equity Crowdfunding will allow you to offer your investors equity will be a major game-changer - especially for businesses that don't fit the typical Reward Crowdfunding profile, such as B2B (business-to-business) models. (As mentioned earlier, you will be allowed to offer both equity AND a "Reward"- or even multiple Rewards. For example, you could include an upfront incentive - such as an invitation to an upcoming celebration - at no significant cost to you, and then another incentive later on - like a discount on a limited production model.)

In any event, the mindsets of your potential Equity-based Crowdfund investors are something for you to consider as you develop your pitch and overall strategy. Here are some basic investor types you're likely to interact with:

The "Go with Your Gut" Investor

Social psychologists have conducted research indicating that (surprise, surprise) certain types of Equity-based Crowdfunding investors won't always do their due diligence. Their lack of research will no doubt result in investment decisions that are based more (but not solely) on emotion or intuition, rather than on sound financial logic.

Combine that with the fact that these potential funders will be dealing with significantly smaller sums of money than in traditional early stage investing could mean that these types may more frequently be "going with their gut." If they really connect with you and your story, most of the numbers and assumptions you've slaved over may only be secondary considerations.

Your numbers will still important to them, but more as a rationale for the decision they've already made, or are pretty much planning to make. Like many Reward-based Crowdfunders, they'll respond more to the "why" of your pitch - and your follow-up communications - and will require a bit less emphasis on the "what" and the "how."

An interesting study found that 80 percent of people believe they are above-average drivers. The same kind of mindset may also hold true for a certain percentage of these investors. While they may not rationally believe they are better stock pickers than 80 percent of everyone else on the planet, some of them will probably be more likely to trust their "inner VC" and swing for the fences - again, betting less on evidence and more on instinct.

It's possible that some of these "go with your gut" investors may actually finish with a better track record than the logic-based number crunchers. No doubt this type of

CrowdInvestor will become the "low-hanging fruit" of the industry. But never base your strategy around these emotionally-driven investors. Targeting them exclusively - or basing your pitch on their non-linear, don't-confuse-me-with-too-many-facts-and-figures approach to investing - is a recipe for failure. On the other hand, you can't afford to ignore the need to connect with your potential investors - and for them to relate to you and your mission.

The Fence-Sitter

On the other side of the spectrum are the perennial fence-sitters - the overly logical, super-analytical types who will agonize obsessively over every $100 investment like a Type-A hedge fund manager with a $10 billion portfolio for the Orphans and Widows Fund. Although they may exhaust you with their questions and painfully drawn-out decision-making process, you can probably learn how to strengthen your pitch by practicing patience with their needs. Just don't take their concerns personally. At a certain point, you have to weigh the amount of time and effort it takes to deal with them - with no guarantee it will ever pay off.

The Risk-Spreader

This is the sweet spot! Based on market research in the US and real-world user data in both Great Britain and Australia (where Equity-based CF has been legal for a while), most CrowdInvestors will spread their risk around like any smart VC - making small investments in a handful of high-growth potential startups. (Remember, the SEC will limit the amount a person can invest based on their income, so a person earning less than $100,000 will only be able to invest 5 percent of their income per year.)

Equity CF investors should be clearly informed of the risks of investing in Crowdfunded startups by the Equity Crowdfunding platforms - as well as by industry groups (such as CfPA and CFIRA) and various aggregators of content and/or offerings. But, human nature being what it is - and given their mini-VC mindset - many investors will no doubt hope that, by intelligently picking high-growth potential companies (and by spreading their risk around), they just might get in on the ground floor of "the next big thing" (or at least "a pretty good thing"). And, in the process, they will be stimulating the economy and creating lots of jobs. (Hence the name, the "JOBS Act.")

Obviously you can't promise that your business will make up for all of their other investments that went south. But it's helpful to know that they are looking for a special opportunity. This is the crux of their mini-VC strategy. And they are willing to take "prudent risks" in hopes that the odds will eventually work out in their favor.

The Wisdom of the Crowd

The Securities and Exchange Commission, along with certain industry groups and securities organizations, will be on the lookout for misinformation, fraudulent marketing, and less-than-ethical behavior. But the "wisdom of the crowd" may actually help police the industry even better than the SEC. The power of social media is both the secret to success for Crowdfunding companies that have a real story to tell, and the kiss of death for anyone attempting to defraud the public.

When a hundred different people are looking into deals from a hundred different directions, they are more likely to uncover a potentially fraudulent transaction before a single, over-worked investigator at the SEC.

With so many inexperienced entrepreneurs entering the Equity CF space, the odds of running into cases of incompetence will undoubtedly be much higher than that of outright criminal activity.

At LaunchIPO, we're planning to use various "crowd-powered" techniques to help tap the wisdom of the crowd in identifying both early indications of both possible fraudulent activity as well as obvious incompetence by Reg A+ candidates. If the candidates are simply in over their heads - which should become apparent from their responses to questions on our forums or via other online interactions - we'll help them get the advice/mentoring they need from one of our on-site Thought Leaders. Once we've tested out these techniques in the Reg A+ space, we plan to apply them to the newer crop of Reg CF offerings.

On the Reward side, which is not regulated by the SEC, the matter of consumer protection basically relies on the collective wisdom of Crowdfunders to flag potential cases of fraud - although the platforms often give tips for identifying potential "bad actors." For example, Indiegogo informs you that legitimate campaign pages will tend to have more details and updates, readily provide links to the project creator's social media profile pages, and are more forthcoming with prompt, clear answers to questions. Also, they caution users to beware of campaigns that can't seem to generate an almost immediate bump of support in the first few days. In other words, a project with very few friends showing support early on could spell trouble.

From your perspective as a project creator, these are things to keep in mind while trying to build trust with your audience.

Strategic Goal Setting and Fundraising

Those who say that Equity Crowdfunding will pour a lot of money into failed companies are forgetting that a key reason so many startups fail is lack of capital. Crowdfunding won't keep fundamentally flawed companies from failing - but it will significantly alter the equation.

Companies that go through the retail Equity-based Crowdfunding process in the US are expected to raise well over $100,000 - with some of them reaching their annual limit (of $1 million to as much as $5 million, depending on new legislation) although not necessarily all at once.

Remember: retail (Reg CF) Equity Crowdfunding will be an all-or-nothing proposition. (The mini-IPOs will be treated differently). As of the publication date, the SEC has not agreed to a more flexible system for the release of funds from campaigns that fail to reach their targets. So, if you really want to shoot for that annual cap, it might be wise to establish a series of more achievable funding targets - after your company has used its initial funding to build value in the business.

The use of escalating funding rounds will tend to reduce the relative amount of Equity you will have to give up by allowing you to raise your company's share, while increasing the chances of successfully reaching your ultimate funding goal. Of course, after one or two Reg CF raises, you may decide to go for a Reg A+ mini-IPO - or at least pre-test the waters on LaunchIPO.com. (In fact, the more experience - and the more of a following - you have in Reg CF, the better chance you'll have of succeeding in Reg A+.)

Once you've raised enough capital to create a healthy cash flow, you might want to consider debt-based, revenue-based, or-royalty-based Crowdfunding - so you don't give up any more equity than you have to.

Free Enterprise in Action

Equity Crowdfunding may have its risks (and even a few detractors, some of whom seem to prefer the status quo) but when handled intelligently - from both the investor side and the entrepreneurial side - it has the potential to be a perfect expression of the free enterprise system in action. Pitching your business via the Internet - with the help of a relatively simple video aimed at highly receptive small investors - is a truly democratized and enlightened form of capitalism.

Equity CF will allow you to set your own terms (according to the SEC guidelines, of course) and raise the capital you need, while maintaining control and Equity that you might otherwise surrender. Instead of going into the real-world Shark Tank with a VC who will do everything to lower his risk and maximize his upside potential, you'll be playing in much safer waters, as long as you play by the rules. Which brings us to...

The SEC Compliance Process

As mentioned previously, at the time of this writing, the final SEC rules and regulations regarding Equity-Crowdfunding (under title/regulation CF) are scheduled to go into effect on May 16, 2016, following a six-month waiting period. As the "go-live" date approaches, there will no doubt there be a number of online articles on the subject - some more informative and objective than others. For the most balanced perspective, check out sec.gov; industry sites like CFPA.org, CFIRA.org, LaunchIPO.com, CF4ALL.com; and Crowdfunding publications such as Crowdfundinsider.com and Crowdfundbeat.com for updates and details.

Since this is the most legally-sensitive section of the chapter, I have invited Samuel S. Guzik, Esq. to provide a brief overview of the SEC compliance/registration process. Sam is one of the most well-known and respected securities attorneys in the Crowdfunding industry, as well the current president of the Crowdfunding Professional Association (CfPA).

SEC Registration

For the sake of investor protection, the SEC requires every company engaging in Equity Crowdfunding to file a detailed investor disclosure document - Form C - with the SEC before it can begin its Crowdfunded financing. Form C must be provided to the Equity Crowdfunding platforms/portals (CFPs) and available for review by potential investors. In addition, CFPs must also be registered with the SEC. Just because a popular CFP is operating in the Reward or donation CF space doesn't mean it will be legally able to operate in the Equity CF space. (Currently, Kickstarter claims it will not be going into Equity CF.)

Incorporation

Every business raising capital via Reg CF Equity Crowdfunding must be a legally formed entity under state law so that it has the ability to deliver the investment it is promising (stock, an LLC member interest or even a promissory note). Your company can be an S-corp., C-corp., or an LLC, as long as it is legally formed under the laws of one of the 50 states, a U.S. territory or the District of Columbia.

Business Plan, Financial & Other Disclosure Documents

You would be well-advised to have a solid, well-researched, and detailed plan of what you're doing and where you're headed with your business. Investors want to know where their money is going and how it will be managed. Your business plan will not only force you to analyze and present your business in a concise and disciplined manner, but it will also serve as a useful foundation for preparing the required investor disclosures.

The law stipulates that a description of the principal elements of your business, financial statements, and related information be filed with the SEC and made available to the funding portal/platform (CFP) and investors, in order for your business to legally engage in Equity Crowdfunding. Though there are a number of formats by which this information may be presented - including videos - the contents must include the information required by SEC Form C. And for a company that has successfully completed an Equity Crowdfunding campaign, it will be required to make ongoing annual filings with the SEC containing updated business and financial information.

It is important that the information presented by the company be both accurate and complete. The legal penalty for failing to meet this requirement under SEC rules is the right of the investor to the return of his or her investment. This legal obligation to return the investor's money is not limited to the company. It is also imposed upon the company's officers, directors, and others engaged in the selling process on behalf of the company. So, any company engaging in Equity Crowdfunding should be assisted by competent business advisors.

Apart from the legal concerns of making accurate and complete disclosure, keep in mind that the materials you're creating for investors will also introduce your business model and your story to the crowd - and first impressions matter. You may not get a second chance. If your materials are not complete, accurate, concise, and professional, you will not only lose possible fans and followers, but your chances of getting funded will dramatically decrease.

Creating a detailed business plan and the required investor disclosure will also help you quantify how much money to ask for. You don't want to run out of money before you accomplish your stated goals. And if additional funding will be required following successful completion of your Crowdfunding campaign, your investors need to know this before they decide to invest in your company. You will be held responsible by the crowd - if not potentially by the SEC - if this is not well thought out and accurately disclosed.

There are certain requirements for companies seeking to utilize the Crowdfunding exemption. For instance, financial statements of the issuer must be certified by the principal executive officer of the issuer to be true and complete in all material respects. If you're raising more than $100,000 - but not more than $500,000 - financial statements must be reviewed by a public accountant who is independent of the issuer (your company), using professional accounting standards and procedures established by the SEC.

If you're raising more than $500,000, you will also need to provide reviewed financial statements. And if this is not your first Equity Crowdfunding transaction, offerings above $500,000 require audited financial statements. Keep in mind that if reviewed or audited financial statements are required, there will be some lead time for this. So, this piece is not something you'll want to put off.

The whole process can be daunting to startups and early-stage companies, and could also be expensive, relative to the amount planned to be raised. Hopefully, the next version of the JOBS Act (or whatever they'll call the new legislation) will simplify some of the current legal requirements and keep those costs under control.

Exemption from Audit Requirement

The SEC's new rules include an exemption from the audit requirement for first-time Crowdfunding issuers. Companies raising less than $500,000 are permitted to provide specific information from their tax returns that have been "reviewed" by an independent tax accountant. Those raising between $500,000 and $1 million for the first time are also permitted to submit "reviewed" financial documents, as opposed to the more formal (and more expensive) process of going through a full financial audit.

Cap on Individual Investments

Regulation CF puts a limit on the amount that investors can put into offerings through registered online portals. If a potential investor's annual income or net worth is less than $100,000, then the investor can invest either 5 percent of his or her combined net worth or a maximum of $2,000 in a 12-month period, whichever is greater. Meanwhile, if an investor's annual income and net worth are equal to or more than $100,000, then the individual can invest no more than 10 percent of the lesser of their annual income or net worth. No matter how wealthy an individual is, the maximum amount an investor can put into online Equity Crowdfunding in any given year is $100,000. Note that for purposes of calculating net worth, the net value of your principal residence is excluded. Also, keep in mind that the investor limits are not per investment: they are the total amount that can be invested in any Equity Crowdfunding campaign over a 12-month period.

Legal & Due Diligence Services

Offering your company's securities to investors is always a serious undertaking, requiring a great deal of thought and preparation. Equity Crowdfunding is no exception. Due to the detailed rules and regulations which must be followed for Equity Crowdfunding, and the legal consequences of not doing it the right way, it is important for a company engaging in an Equity Crowdfunding campaign to receive proper advice from professional advisors who have expertise in this area. Some of the areas where you will benefit from professional advice include the following:

Has your company been properly formed under state law and has it complied with the proper state legal formalities to form and operate it?

What is the best type of security to offer to your investors? This could be common stock or Equity with special rights or preferences, such as preferred stock. Some companies may simply wish to offer promissory notes (debt) instead of an ownership interest (equity).

Do your offering materials meet all applicable legal requirements? The penalties for making a mistake can be severe.

Many - perhaps most - of the CFPs will either offer these services or can refer you to qualified third parties. And there will be a cost for these services, which can be expected to vary significantly. So you should do your homework and be prepared to ask the right questions. For example, if the services are provided directly by the CFP or a third party recommended by a CFP, you will need to understand the qualifications of the personnel who will be assisting you. SEC rules do not require many traditional legal services to be performed by licensed attorneys - instead they can be performed by the CFP. And especially when it comes to legal services, you need to be clear as to who the service provider is representing. Do not assume that the service provider is representing you, and you alone. In some instances, the person providing legal services may not be your attorney, but rather the attorney for the CFP. And this same person may not be available to you down the road, after you complete your Equity Crowdfunding raise.

Costs will vary widely for professional advisors as well. If you do not have an accountant, for example, and are a startup or early stage company, you may want to seek out an accounting firm that specializes in Equity Crowdfunding and assisting early stage companies, as costs are likely to be more competitive. The same holds true for legal advice as well. And don't forget to budget for marketing assistance, again from an advisor experienced in the Crowdfunding area. Well prepared and effective materials must not only be legally compliant, but they must also tell your story in an effective and engaging way.

How much will all of this cost? That is difficult to say. But plan to budget at least $10 - $15 thousand for the costs of preparing for an Equity Crowdfunding raise. There will be fees to pay to the CFP as well at the conclusion of a successful campaign - typically a percentage of the amount you actually raise.

Intellectual Property

One potential drawback of Equity Crowdfunding is the requirement for the company to disclose - to the public - important aspects of your company's business. This requirement exposes entrepreneurs to the possible risk of having their ideas copied and developed ahead of them by better-financed competitors.

If this is a concern, let potential investors know that you cannot reveal certain proprietary information without first having them sign an NDA (Non-Disclosure Agreement). Ideally, put your pitch on a funding portal that has a data room which requires potential investors to sign NDAs prior to viewing. And before you upload anything having to do with your "secret sauce," contact a good Intellectual Property (IP) attorney.

Entrepreneurship in the Age of Crowdfunding

Don't think for a second that, because you'll be dealing with small, relatively unsophisticated investors, you won't have to think like a true entrepreneur. In fact, you'll have to stay on your toes and be more aware than ever - using tools like social media and finding whole new ways to present your business as well as yourself to an entirely different audience. You'll need to concentrate as much on the "why" of your business as on the "what" - balancing both the practical and emotional reactions of your potential supporters.

Serious Crowdfunding Requires Serious Commitment

By now, you've no doubt figured out that Crowdfunding isn't some kind of magical money machine. Otherwise, LinkedIn would be filled with runaway successes stories rather than desperate pleas for help from creators of "sure-fire" campaigns which fizzled out within a few days of their launch dates. ("Where did I go wrong? I created a Twitter account and a video. What else am I supposed to do?")

Although this chapter covers a lot of ground, it only scratches the surface of all the little things you need to know and do to truly succeed in any serious Crowdfunding effort - especially in Equity Crowdfunding. So if you're thinking of creating any kind of Crowdfunding campaign of $50,000 or more for a new or existing business, first consider whether you and your team are ready to make the kind of commitment (of both time and effort) it will truly require. (I mention "your team" because Crowdfunding is definitely not a solo effort. Studies have shown your odds of success are far greater when you have three or more members pitching in - rather than one, over-worked, over-whelmed, solo-preneur.

That doesn't mean that everyone has to give up their day jobs for six months. But it does mean that, as part of this commitment, at least one key member of your team should learn all he/she can about the many concepts I've presented here. There are new articles, blog posts, and online press releases with great tips, techniques, and resources being written all the time. But someone has to read through them, put them into context, and share the gems with your team.

I literally spend at least 90 minutes each day checking out all my Google Alerts and LinkedIn discussion groups in search of nuggets of insights and information to share with my team. The Crowdfunding industry is growing and evolving at such a rapid pace - and it's attracting scores of smart, creative people with fresh new ideas that are helping make your job as a project creator easier. You never know where you're going to stumble across something that could have a major impact on your business. So keep your eyes, ears, and mind open. And don't be afraid to ask for advice and feedback. The industry's thought leaders can often be very generous in helping newcomers navigate the CF space -because it wasn't so long ago that they were newcomers to this nascent industry.

And if you are seriously considering launching an Equity Crowdfunding effort (whether it's a Reg CF campaign or a Reg A+ mini-IPO effort), I strongly suggest you carefully reread the section on Reward-based Crowdfunding and note how many of those general tips and insights could easily apply to Equity Crowdfunding. Pay particular attention to anything about building a crowd, not letting sheer popularity and/or traffic rankings determine your choice of a platform, the need for setting realistic funding targets, and the need for studying the landscape.

At its most basic level, Equity Crowdfunding is still Crowdfunding - and there's a lot you can learn from the prior successes and failures in this exciting new industry. That said, don't dismiss data on Reward-based Crowdfunding simply because it's from a different funding type. Until Equity Crowdfunding has been around for a while, some of that historical Reward CF data may still be useful in identifying potential business opportunities.

Higher Stakes Call for More Patience

As the Crowdfunding space continues to expand and evolve, significant and growing differences will emerge between Reward-based and Equity-based Crowdfunding (aside from the obvious difference in the rules and regulations involving the sale of securities). Since the stakes will generally be higher for investors (they have far more to gain - and lose - with Equity CF), they tend to be more deliberate in their decision-making process.

Your potential investors need to be pampered. Keep them comfortable and give them proper, detailed updates. Answer their questions (whether via forums, Q&As, or emails) logically, promptly, and - most of all - patiently. There could be plenty of perfectly good reasons why they may not be ready to make an immediate commitment of their hard-earned dollars. After all, they may be looking at a wide variety of offerings all vying for the same investment dollars.

Even if they're only thinking of investing a few hundred dollars with you, they have a lot to consider. Don't forget, the SEC's rules restrict them to only investing a small percent of their income or net worth. So, while some CrowdInvestors may just go with their gut, others may be carefully waiting for a very specific opportunity presented in just the right way - addressing an entire checklist of factors uniquely relevant to their individual needs and interests.

Your job is to subtly and professionally - without hype, exaggeration (and definitely free from misleading statements) help them come to the conclusion that you are offering them the opportunity they've been waiting for. Give them the hope that you might be the next big thing, without actually using that phrase. Try to be as direct and sincere as possible, without looking like you're trying too hard.

By keeping your them interested and engaged throughout the entire process, you'll make their decision to invest in your company a lot easier for both of you. Once they've decided you're a good risk, there's always the chance they'll tell their friends and family about you. (Everyone likes sharing a great stock tip.)

Other Forms of Investment-Based Crowdfunding

Generally, a company has to be generating sufficient revenue in order to take advantage of these CrowdInvestment alternatives to Equity Crowdfunding. As you will see, they do not require you to give up equity in your company - so, even if you can't utilize these methods of Crowdfunding now, you may want to keep them in mind for the future.

Revenue–Based and Royalty-Based Crowdfunding

Revenue-based Crowdfunding provides investors with an agreed-upon share of the future revenues of a company, generally over a specified period of time. For example, a company might agree to pay a group of Crowdfunders (who collectively invest $100,000) 10 percent of all the revenues it will make for the next two years. So, if the company earns $1,000,000 over the next two years, then $100,000 of those revenues will be divided among the investors. The amount paid out would fluctuate each month based on sales.

Similarly, royalty-based Crowdfunding provides investors with an agreed-upon royalty fee from the future sales of a company's products, generally over a specified period of time. In this way, a company might agree to pay a group of Crowdfunders (who altogether invest a total of $100,000) $1 for every solar-powered beach umbrella it sells in the next two years. Over those two years, the company sells 1,000,000 umbrellas, so the $1,000,000 will be divided among the investors.

(Currently, it's unclear whether all forms of royalty-based Crowdfunding are considered regulated forms of security-based investing. Be sure to talk with a good securities attorney familiar with the JOBS Act before going down this path.)

Debt/Lending-Based Crowdfunding

Another option in investment-based Crowdfunding involves an arrangement created by a lending-based platform between a group of investors or lenders and a borrower for the repayment of the original principal investment plus specific, periodic interest payments - usually on a monthly basis.

Debt-based Crowdfunding has rapidly gained popularity for personal loans (via sites such as LendingClub and Prosper). Until recently, the ability of U.S.-based start-ups to use this method of Crowdfunding was largely restricted to entrepreneurs willing to be personally responsible for these loans - which cannot be secured by their equity in their companies or any other form of collateral. However, an increasing number of debt-based platforms are catering to businesses - although the companies that will qualify for these loans will probably have to be in business for at least one year and already generating revenue, so they can repay their loans.

Live the Dream

The rapid evolution of Crowdfunding, combined with the growth of social media and the low cost of launching an online business, is working together to make the American dream of starting your own business more achievable than ever.

No matter what strategies and techniques you decide to adopt from the rest of this book, Crowdfunding can be a terrific way to help test, refine, and fund them. Crowdfunding offers a way to not only live your dream, but to take it to a level you may have never dreamt of before.

CHAPTER 4:

Going And Growing As Far As You Can

Congratulations, you've launched. You've validated your proof of concept, bootstrapped and crowdfunded, and started selling your product or service at every opportunity. You've made it happen—your business is off the ground.

Now that you're up and running, it's time to ask yourself an important question: *how far can you grow this thing?*

At such a moment, many entrepreneurs panic and scramble for the assistance of an investor to help scale the business. I encourage you not to make this kneejerk response. I've said it before and I'll say it again: *don't go for an investor until you have to.* Travel as far as you can on your own; you can go a lot further than you think.

People overestimate what they can accomplish in one year, and, conversely, they underestimate what they can accomplish in ten. Grow your business to be as stable as possible, until it is too successful to ignore. Then—and only then—should you even start to consider investors.

So how do you grow your business to a "stable" level of success? In this chapter, I'll show you. You'll be urged to ask some demanding questions and free yourself from the Web of Entanglements so that your path of growth is as uncluttered as possible. You'll complete a Strength Theory exercise to help identify your core competencies and those of the people you work with (you'll also discover what resources you need). I'll discuss tangible ways to grow, as well as how to make sure you aren't growing too quickly. All in good time.

Because smarter growth means smarter marketing, I will share seven proven marketing strategies and enumerate the twenty most common marketing mistakes. I'll introduce you to the concepts of financial intelligence, optimization, and funnel vision. Then, I'll conclude with my "Forty-Four Business Rules to Grow By"—rules that have the power to send your business capital through the proverbial roof.

Where Are You Now? Where Are You Going?

The first step is to take a realistic look at the business you have built so far. Once your startup is underway, you'll need to examine where you stand in relation to where you want to be. Leading brand consultant Jonathan Paisner, who works with the think-tank company CoreBrand, helps companies identify the factors they need to consider in order to grow.

According to Jonathan, you need to weigh two things: external markers and internal factors. First, weigh the public awareness of your name and brand. Who knows you, and what do they know about you? Take stock in what has and has not been working for your company. Figure out what you need to do to attract the attention you'll want, and what you might have already done without realizing it. Be specific about your needs and the kinds of responses you are looking for.

Next, quantify the weight of the product or service you hope to offer. Do you have the expertise to support your claims? Decide what space you'll be competing in: high-end, mid-market, or low-end. Take a reasonable measure of that market. Don't fool yourself into believing your product is something it's not; and don't try to fool the public either, because they'll see right through you. You have to assess your company's credibility. Where do you sit among your competitors? You can reach for the top shelf in your field, but you'll need the goods to back it up. The worst approach you can take is to try positioning your company as the Rolls Royce of your industry, and then start cranking out a Hyundai line. Be consistent.

Finally, it's important to evaluate the public's confidence in your business and your reputation going forward. Do your clients feel secure in their decision to work with you? The market needs to know if you can be trusted. You have to earn their esteem, and continue validating their confidence at each turn.

This analysis requires rigorous honesty. The deeper your answers are, the sturdier your plan of action will be. Reflect on the following:

- *How desirable (or irrelevant) is your value proposition, business approach, marketing message, and purchasing experience to the marketplace? According to whom?*

- *Do you know how appealing (or unappealing) your current products or services are?*

- *Do you understand the changing attitudes, beliefs, behaviors, and buying dynamics of your market?*

- *Do you understand what additional or alternate channels and avenues of approach are available and how to best access and exploit them?*

- *Do you sense how much larger your business niche or product category will continue to grow, or if it will even remain relevant? If not, what is your shift strategy?*

- *Can you tell whether a product or service alternative might take your product's* *place? Do you know why and how—and when?*

- *Do you have a plan for compensating or exploiting this outcome?*
- *Can you project if, where, or when your current business will become obsolete?*
- *Do you have a proactive or entrepreneurial strategy in place to address the above issues?*

Responding to these questions should help get yourself unstuck from your current way of thinking. Remember, a successful entrepreneur is in constant motion.

Free Yourself From The Web Of Entanglements

John Dudeck is a successful commercial real estate broker and investor, a business and management consultant to small and medium-sized firms, an effectiveness coach to senior level executives, and a celebrated author. He has spent decades researching, evaluating, and consulting with many profoundly knowledgeable entrepreneurs, business executives, coaches, and professors. With a focus on high-achieving individuals, teams, and organizations, he understands what it takes to start, grow, and maintain successful enterprises. John specializes in reading red flags by assessing common traits and differential advantages; he excels in navigating key transition phases and streamlining execution.

John analyzes a problem that most business people experience to one degree or another, a problem he calls the Web of Entanglements. We've all seen massive spider webs with bugs stuck in them, fighting for their lives. John uses the web metaphor to describe many of the problems facing us today—we get caught in a tangle of confusion, paralysis, procrastination, perfectionism, and a general lack of focus on the right things. And the more we struggle, the more we are trapped.

The Current State Of Entrepreneurial Ventures

I believe that the single, biggest problem enterprises face today can be described by the model I call "The Web of Entanglements." The harder we struggle to escape, the stronger the Web's hold on us becomes. Eventually, we find ourselves trapped, overwhelmed and completely entangled in the netting. The strands of the Web are made of the geometrically increasing number of daily priorities and activities that demand our time and effort. Obligations include meetings, projects, assignments, and oversight communications, both internal and external. Technology provides a dual-edged sword. In many ways, it has significantly enhanced business productivity. But at the same time, it has increased the quantity of demands in our daily schedules. In the Silicon Valley, where I live and work, it is not unusual for mid-level executives to get 300-400 emails and text messages per day. Since workplace decision-making and output rely on electronic communications, these executives must read and draft responses (including attachments of all kinds) to each transmittal. If they fall behind, productivity falls into jeopardy and questions go unanswered. In this way, the "workday" has been extended by three to five hours, daily, to address the additional load. The deeper problem becomes the issue of balance, as our personal lives suffer with the complications of intensifying workloads. Approximately a decade ago, firms used to build entire marketing campaigns around "work-life" balance, being empathetic and supportive to such modern human dilemmas. Today, the concept is almost completely disregarded, rarely attempted due to budget cuts and other general business inconveniences. Instead, it is referred to as work-life "integration", which means that now it is up to the employee to individually make the effort. But with such tremendous operational pressures, the line between the personal and the professional is nearly impossible to distinguish. The average workday for college-educated white-collar professionals ranges from twelve to fifteen hours per day, plus an extra four to eight hours on the weekends. This is not—nor should it be—considered sustainable. Corporations have become callous, ruthless environments that value employees who sacrifice their health and home lives; if you're unwilling or unable to keep up with demands, you can forget about a promotion. Worse yet, you may end up on the endangered species list: employees don't retire anymore, they burn out.

Strands of the Web of Entanglements include needs, wants, concerns, priorities, expectations, and objectives—anything that requires focus, energy, or action on your part (personally and professionally). They represent a greater misalignment between what we actually do day-to-day and what we should be doing. This cycle generates numerous maladies (headaches, illness, depression, high blood pressure, insomnia) and other debilitating states, such as procrastination, confusion, disenchantment, alienation, lack of fulfillment, and growing anger. Every morning, the businessman puts on his suit and tie and drives to work, dreading the day ahead and wondering "is it worth it?" He knows the answer is no, but he hesitates to admit it. The founding fear is that his income and reputation are on the line.

Stress is inevitable in any branch of business. But there are different kinds of stress, and these are the factors we can change. Entrepreneurs should know that according to the latest research on new business formation by the American Management Association, over 50 percent of new businesses fail within their first year of startup. This first year failure rate has been over 80 percent in recent years. The complexity and demands are increasing exponentially; I feel that the most logical place to start is with time utilization. My goal is to increase your propensity to focus on the things that matter most. You will be able to dramatically increase the probabilities for achieving success by applying the concepts and tools at the center of this challenge. Ultimately, it's all about execution: getting the top priorities done on a timely basis and doing them consistently. This one tool will energize your ability to unravel your Web of Entanglements.

First, a bit of hard-won research on time and motion studies from the University of Michigan and UCLA. Time and motion studies are often applied to get a more accurate picture of what people spend their time on versus what they think they're spending their time on. There have been numerous studies done on time utilization, choices, and decisions. The two studies referenced above included several thousand college-educated business people and entrepreneurs who were followed for six weeks, each being videotaped during waking hours and carefully reviewed thereafter. The first step taken was to ask participants how they spent their time. In both studies, the participants reflected and made estimates of their scheduling priorities for the six weeks ahead. The average executive or entrepreneur was more than 50 percent off on his or her estimate after being challenged with the video evidence. The interesting thing about these two meta-analyses was the similarities of their conclusions—and the level of correlation—concerning the degree of perceptual error that each participant displayed. Participants were not unscrupulous; they were all hard-working, educated executives. But like all humans, our capacity for rationalization, justification, and self-delusion is often inflated. These people didn't intend on answering the questions incorrectly, but they did. The vast majority of time and motion studies aimed at professionals show an average 45 percent to 70 percent error rate.

The results of the study merely prove that, as business professionals, we need to be very aware of how we spend our time. Even the most educated and wealthy individuals are victims of self-sabotage. How many of your work troubles are founded in mismanaged time and energy? We need to look at the roots of our personal and professional chaos. I am often brought in as a consultant when a leader or firm is in crisis. By the time the company seeks my assistance, the web is already thickly tangled: the employees are miserable, the business model is destroyed, and the sales or service numbers are in agony. Sadly, this has become a common problem because we don't take the time to prevent our own problems by analyzing our time.

My suggestion for getting clarity on your focus and time utilization (which is also the starting point for disentangling your own Web of Entanglements) is characterized by two important stages:

1. First draw a circle in the middle of a letter-sized piece of paper. Now, referring to a calendar (actual or digital) which should be used as your time utilization diary,

list as many as seven specific categories of activities in descending order (biggest time usage to smallest). The vast majority of professionals are able to deduce their areas of focus or time usage down to three. Now take one area item at a time and estimate the number of hours per week you spend on that activity—using a range to make the estimate as tight as possible. Represent these activities as pieces of the pie chart in the circle. Verify your estimates with colleagues or family and friends, who can confirm your estimates are accurate. Now, you have a decent representative inventory of your weekly time usage for your business or productive hours. Remember, the goal is to get clarity on what you spend your productive hours on in a typical week. There may well be fluctuations if you're in a seasonal business. If there is deviation for any reason, do as many versions as you need to in order to depict reality. The vast majority of businesses and executives will only need to generate one representative time-usage chart. Be honest.

2. Now, using a separate page, draw another circle. This page will answer a different question: what should you spend your time on? Limit your responses to a maximum of seven tasks. The goal is to get both graphs as seamless and aligned as possible. This will take effort over time, but this helpful illustration will help you track your progress. These focus charts will give you clarity on where you currently stand in relation to where you want to be. The two charts, when contrasted and compared, will show where you need to reduce or eliminate an expenditure on a category-by-category basis. Next, rank yourself A, B, C, or D on the "how's," according to how good you are at the activity and how easy it is for you to generate superior output. Ask yourself, "What do I actually need to do to make progress on my primary areas of focus?" This exercise will help you to delegate more to your staff (if you have any), strategic alliance partners, vendors, or even customers. Your goal is to reorganize your support structure utilization by assigning appropriate tasks to people who execute them well. Use talents and schedules in cooperation; if you aren't good at something, find someone who's strong in that area. Narrow down the tasks you'll take responsibility for personally until your Focus Chart is reduced to no more than three categories. Ideally, you'll excel in all of these areas.

Focus Charts should also become more centrally relevant over time. Ultimately, each function in the organization should have its own Focus Chart that lists every action, assignment, work item, and task that underpins the organization's priorities.

Warren Buffett was asked a key question by a business reporter once: "When you get to the point of being serious enough about buying a company, you always visit headquarters personally. Why? What are you looking to achieve with that visit?" He answered, "I want to get a solid feeling for the level of clarity from everyone I meet—at varied levels of the firm. I simply ask, 'What do you do?' and 'How do you make progress on those "what's" each day, week, and month?'" Every employee brings unique value to the greater organization.

The Focus Chart (especially when optimized to address the "how's" list, strengths and weaknesses, and strategic delegation) is the most effective way to elevate both your individual and company-wide output. Measuring your time usage allows you to take inventory of the day-to-day reality of your business; what you do with your time reflects what your priorities and principles are. By organizing your time and better understanding personal roles, "job descriptions" go extinct. Since job descriptions are merely rough ideas of work-related responsibilities, they extract an enormous amount from the company's time, effort, and money. By understanding the individual (or individuals) behind assigned tasks, you can streamline your business and make suitable use of personal skill points. Furthermore, doing this exercise puts the emphasis back on workplace satisfaction, catering to the needs and availabilities of your employees on a case-by-case basis. In short, it cuts waste and eases pressure, untangling the Web.

Focus Charts, when taken to optimal application, are terrific answers to Buffett's two most critical questions.

Growth occurs in spurts and stages. Within each stage, the individual comes to a limit point, where further growth is no longer possible. He won't feel the urgent energy to push onwards. His existing knowledge and skills will simply be inadequate to carry him beyond where he is. This is when he finds himself caught in this Web. Sometimes, that state of paralysis becomes permanent, which is why so many of us fail in our attempts to move beyond a particular stage of development.

The problem is experience. Within each stage, we experience knowledge and wisdom. However, this experience has a price. Each goal that we accomplish—either simple or heroic—further complicates and confuses; each represents one more strand of the dangerous Web. At some point, increasing complication starts inhibiting our growth and our overall ability to produce basic results. So we get stuck.

We get very good at developing habits, including the way we perceive problems and challenging situations. These habits impede our ability to perform or generate the kind of results that we want. We hit a wall. Doing things the same way breeds tedium and is counterproductive. We need to simplify life, to create a new state of awareness and a system to support it.

All growth stages come from having goals. Once set, the goals fire us up and get us moving. But as we achieve those goals, they start to produce threads of the Web. Our goals bring expectations, which cause us to develop certain relationships, habits, and support structures. These four areas contribute to the acquisition of knowledge, but they also form the strands of the Web. People frequently become prisoners in their own success—sometimes permanently. And it's not just individuals: every organization and industry runs into this Web as well.

Our past goals, relationships, support structures, habits, knowledge, and even the way we look at situations, all become baggage. New goals initiate obligations and responsibilities that we have to maintain. We'll drop everything to accept a call from someone who helped us get started in our business, even if they may not have much to do with our future growth.

There's a Confucian theory that says all of life is about attention. Where your attention goes, so will your accomplishments. And one of the problems of the Web of Entanglements is that it creates massive confusion.

We need to focus, but we need to focus on the approximate values. How many times in your life—as a child growing up, at school, in sports, at work—have you heard someone tell you to work on your weaknesses? Well, there's a huge, inherent problem with that. A man by the name of Dan Sullivan, a well-known thinker in Canada, put it best: *if all you focus on is your weaknesses, all you're going to end up with is a lot of really strong weaknesses.* With society as globally connected as it is now, the competition is breakneck and we can no longer afford the luxury of being all things to all people. We just don't have the time. All we can do is hope to focus on our strengths and go from there.

A study out of Northwestern University three years ago indicated that the average human being (with average intelligence) who has the ability to focus approximately 70 percent of their time on any one topic, for a period of eight to twelve years, will develop genius-level thinking in that area. Likewise, a Gallup poll was done on 250,000 carefully chosen, highly successful people. The conclusion of the poll was basically this: to achieve optimum performance, one needs to focus on the strengths. You shouldn't abandon the weaknesses, but *manage* them.

So how do we manage them? One way is to use a tool based on an emerging science called the strength theory.

The Strength Theory Exercise

To use this tool, do the following: take out a piece of paper and draw a circle with three sections, like a pie. Now, think of your life as an entrepreneur, and choose the top three responsibilities in your professional life—the most important things you're called to do. Write those three things in the three sections of the circle.

Now, for each of those responsibilities, list out the tasks that go into making that thing happen. Meetings, updated strategic plans, making personal calls—whatever the attendant duties may be. Write those lists into the sections.

Once you've written out your tasks, go through each list one by one. I'll start with a category called Gifted. Giftedness is the next closest level to genius. Think of the areas where you know you are exceptionally gifted. Examples of skills you are gifted at could be public speaking, researching, technical writing, customer service, analyzing numbers, or synthesizing complexity aimed at a certain part of business. For example, I have a talent in uncovering hidden assets. Whatever it is, go through the list of tasks and write a little "G" next to the tasks where you are gifted. There won't be many "G's"—an average person has less than five areas of giftedness.

The second category to address on these tasks is Excellence. If Gifted is an A, Excellence is a B or B+. Go through your lists and mark the tasks at which you are excellent with an E. The third category is Average. Mark those tasks with an A. The last category is Incompetent. Of course, nobody wants to label themselves incompetent. But this exercise will not work if you aren't honest with yourself—and remember that this exercise isn't a judge of your character, but simply a look at your natural qualities. Enumerate the areas where you know you'll cause confusion. These are the things you aren't good at and probably don't like to work on. Mark those tasks with an I.

Once you have all your tasks marked, think through everybody in your organization or your professional network—people available as resources for you. Is there anyone you know who is either Excellent or Gifted at any of your Incompetencies? Find that person, hire her, create a joint venture with her, and barter with her. Work with somebody who will do a far better job with that task than you could ever do.

Then, once you find people to complement your Incompetencies, move on to the Average category and do the same. Delegate those tasks to people who are Excellent or Gifted at them, instead of just Average.

The ultimate goal is to free your time up so that you can focus entirely on your areas of Giftedness. Thinking we have to be gifted at everything creates an abnormal amount of stress, as well as a lack of focus. It drains our energy. When working in an area of incompetency or averageness, tasks take us ten times longer than they would for someone who is excellent or gifted in that area. Can you imagine how exciting your work life would be if you had the opportunity to just focus on your areas of excellence or giftedness? Can you imagine what would happen to your team effectiveness if you organized everyone so that they could focus on their areas of excellence and giftedness, too? What would happen to the quality of your output? And what about the fun quotient? People would want to come to work!

If you can think strategically about networking and delegating, your results will increase dramatically. By honoring talents, you will be able to reach the pinnacles of success that you, your employees, and your company so rightfully deserve.

The Three Ways To Grow A Business

As you work towards a transformative shift in thinking, you'll need some specific tactics for growth. I have been recognized for my defining work in exponential thinking. I've reduced geometric growth to three powerful functions. Note that there are three, and only three, ways to grow a business:

1. **Increase the number of clients**
2. **Increase the average transaction value**
3. **Increase the frequency of repurchase—get more residual value out of each client**

The formula looks like this:

(Increase of Clients) x (Increase in Average Dollars per Sale) x (Increase in Repurchase Frequency) = Total Growth

So if you increased your number of clients by 1,000, your average dollars per sale by 100, and the repurchase frequency by two, that would be: 1,000 x 100 x 2 = $200,000 in growth. Then, if you just increase each of those categories by another 10 percent, you will have: 1,100 x 110 x 2.2 = $266,200—a 33 percent increase! A 10 percent increase in each of these three areas equals a 33 percent increase in revenue. Now, imagine if you increase your number of clients by 33 percent, your average dollars per sale by 25 percent, and your repurchase frequency by 50 percent: 1,333 x 125 x 3 = $499,875—a 250 percent increase! Double each one of those three categories given in the example and it would produce a nearly 800 percent (eight times) increase. The results are exponential.

So, how do you increase these three things?

To grow your client base, you can focus on:

- Increasing your lead generation through:
- Referral systems
- Acquiring clients by breaking even up front, and making a profit on the back end
- Guaranteeing purchases through risk reversal
- Host-beneficiary relationships
- Advertising
- Using direct mail
- Using telemarketing
- Running special events or information nights
- Acquiring qualified lists
- Developing a unique selling proposition
- Increasing the perceived value of your product or service through better client education
- Using public relations, media, or social media

Increasing your client retention rate and total revenues by:

- Knowing what your attrition rate is so you can reduce it and understand what may be its causes
- Communicating frequently with your clients to nurture them
- Delivering higher than expected levels of service

To increase your average transaction value, you can focus on:

- Improving your teams' selling techniques to up-sell and cross-sell
- Using point-of-sale promotions
- Packaging complementary products and services together
- Increasing your pricing (and therefore your margins)
- Changing the profile of your product or services to be more "up market"
- Offering greater or larger units of purchase

To increase transaction frequency, you can focus on:

- Developing a back end of products or services that you can return to your clients with
- Communicating personally with your clients (by telephone or mail) to maintain a positive relationship
- Endorsing other people's products to your list
- Running special events such as "closed door sales," limited pre-releases, and so on
- Programming clients
- Price inducements for frequent buying

Marketing Strategies

Marketing is clearly a cornerstone in growing your consumer base, and therefore your business. Remember the quote by business mind Peter Drucker, which highlights the fact that business has only two functions—marketing and innovation—and everything else is an expense. Most businesses rely on only one marketing source to grow and sustain their business: what I call the Diving Board Philosophy. When that one approach becomes less effective, your business stream diminishes and you begin to lose market share.

But what would happen to your revenue level and profitability if you combined a wide array of marketing approaches? I call it the Parthenon Philosophy: adding new marketing pillars to support your overall business, such as direct selling, telemarketing, referral systems, joint ventures, direct mail, advertising, developing a back end, endorsements, and host or beneficiary relationships. Think of the geometry of business that powers the three ways—but on steroids!

Here are seven proven marketing concepts they won't teach you at Harvard:

1. People have a natural, subconscious desire to be led—however, they want to be led by someone who has their best interests at heart. This is an issue of trust; the client wants an advisor and an expert. Business authority Stephen Covey's approach (13 Behaviors of High-Trust Leaders) details that there are universal leadership qualities that bring trust to any relationship. These are as follows:

- **Talk Straight**
- **Demonstrate Respect**
- **Create Transparency**
- **Right Wrongs**
- **Show Loyalty**
- **Deliver Results**
- **Get Better**
- **Confront Reality**
- **Clarify Expectation**
- **Practice Accountability**
- **Listen First**
- **Keep Commitments**
- **Extend Trust**

2. Tell people what specific action to take, why it's in their best interest, what the benefit is of doing it, what the penalty is for not doing it, and the best ways to move forward.

3. Marketing is the ultimate leverage; research shows that a shift in marketing can improve performance by as much as twenty-one times.

4. Advertising and marketing are nothing more than salesmanship multiplied: you are being heard, seen, or read by one person at a time.

5. People don't appreciate what you've done for them, or will do for them, unless you educate them on the facts, but this education must be done respectfully and with great diplomacy. Nobody appreciates condescension.

6. Bonuses can make a profound contribution to your overall sales proposition, but only if fully valued by your prospect. Sometimes the addition of bonuses will double the market response rate.

7. Reverse the risk factor when making a sales proposition.

Risk reversal is the company responsibly accepting the "risk," so the client doesn't feel like they're jeopardized in buying your product or service. In every transaction, one side is always asked to assume far risk more than the other. If you can reduce or eliminate the risk from the equation, it becomes very easy to say yes. If I have 100 ways to get you to say yes and you have 99 ways to say no, who wins?

Basically, there are four types of risk reversal:

1. Complete money back guarantee
2. Better-than-money back guarantee
3. Partial money back guarantee

4. Pay after product or service performs (pay after you profit)

Additionally, there are three facets of reverse risk:

1. Money-back guarantee
2. Complete refund plus Bonus Incentive
3. Emotional risk reversal, i.e. increase prospect's confidence in their purchase

As well, there is a simple five-step formula for risk reversal:

1. In dollars and cents (if applicable to the product or service), what is the best reported testimonial or case study—in measurable, quantifiable feedback—you have gotten from a satisfied client or buyer?
2. What is the penalty to your client or prospect of staying where they are right now?
3. What is your competitor's most powerful benefit or advantage? How would you match their excess offer? How can you favorably outperform it?
4. What is the minimum-based barebones expectation you can guarantee (performance-wise) to someone who is looking to do business with you? Be as specific as possible.
5. What is the biggest tangible minimum guarantee you would be willing to offer as an outcome or expectation? How far will you go to incentivize your market?

Along with these marketing strategies, it's important to keep in mind—and avoid—the twenty major marketing mistakes businesses most frequently make:

1. Not testing all of your marketing ideas—one approach will almost always outperform another.
2. Running institutional advertising. You should only run direct-response ads that seek a response from the prospect.
3. Not articulating and differentiating your business. Develop a unique selling proposition and use it in all your marketing.
4. Not having a back-end product or service. You need to create a profitable and systematic back end to extend the value of your business.
5. Not understanding your clients, their needs, or their desires. You should always determine and address the real needs of your clients and prospects—this goes to value perception.

6. Failure to educate your way out of business problems—you can't just cut the price. Always recognize that you must educate your clients as part of the marketing and sales process.

7. Overlooking the importance of pleasure. The client should feel that doing business with you can be as easy, appealing, and enjoyable as the situation allows. Obviously, a casket company would want to be sensitive to business dynamics.

8. Not telling your clients the "reason why." Communicate your purpose and drive.

9. Terminating marketing campaigns that are still working. Make sure you test, measure, and monitor campaigns until they absolutely stop working; most businesses have no idea how their marketing campaigns perform.

10. Not specifically targeting your marketing. When you prepare your marketing, you should focus on the intended prospect and no one else. Now, with social media, you can laser in on your prospect.

11. Not capturing a prospect's mailing address, email address, and other pertinent contact information. Capture everything you can about your customer and general demographic. Record information in an organized, retrievable system so as to manage and maximize your process.

12. Being tactical, not strategic. Always have a guiding strategy, into which tactical actions and methods are integrated.

13. Not having an integrated marketing or sales system. You should have a system in place, and refine it continuously—using letter/call/letter/call or email/letter/call strategies. Let every inquiry have an ascendancy game plan for programming the buying relationships.

14. Not taking advantage of (and integrating) digital and social media into every aspect of your brand building, marketing, and sales efforts.

15. In sales situations, shooting from the hip and firing before you aim. Listen first: hear what is being said and reflected, and speak only then.

16. Being stuck doing "what works." You should always be willing to innovate and evolve.

17. Not reinvesting your profits. Parlay your success and momentum into greater

achievement.

18. Not knowing and leveraging the lifetime value of a client. Know what a prospective buyer is worth to you.

19. Not maximizing your strengths, assets, relationships, opportunities, and resources. Most businesses have never attempted a strategic analysis. Take the time to know your strengths, weaknesses, opportunities, and likely threats.

20. Treating marketing and sales as operation "silos." Do your best to blend marketing components into all your operations and back-end operations. This allows you to bring the full force of sales integration into practice.

Strategic Partners

"Nike, the world's largest producer of athletic footwear in the world, does not manufacture a single shoe. Gallo, the largest wine company on earth, does not grow a single grape. Boeing, the pre-eminent aircraft manufacturer, does little more than wing bits and cockpit materials . . ." *(Elmuti and Kathawala, An Overview of Strategic Alliances)*

The above companies, all giants in international commerce, have created alliances with their suppliers to do their production and manufacturing for them. Other names, such as Coca-Cola, Sony, Apple, and AT&T, enjoy multi-level relationships with all kinds of marketing, distribution, and delivery factions. A strategic alliance, as you will soon understand, is the truest approach *to work smarter, not harder.*

On your own level, one of the best ways to enhance your business is through strategic relationships. In small business—especially start-ups—sharing resources can be a prodigious tactic to restart, revive, promote, and even save your company. I'll get into strategic partners on a much larger scale later, but for now, looking for someone to partner up with in a small way can make a phenomenal difference. For instance, if you are making apparel, is there somebody else in the market with a complementary product? If you're in the peanut butter business, make friends with the guys who sell jelly. Use their sales force and channels of goodwill, and then strike a deal where anyone buying a jar of your peanut butter will receive 20 percent off their preferred flavor of jelly. Again, a strategic partnership means working smarter, not harder.

Don't Scale Too Quickly

As you expand your business, it's important not to overreach and scale too quickly—

always protect your base. Take clothes as an example: a lot of people think, “I’m going to make these denim jeans, and I’m going to sell a bunch of them.” It’s not comparable to something like, say, an iPhone app, where a million people can get a hold of it right away. This isn’t such a clean sale. You might make $50,000 in jeans for the spring, but the stores aren’t going to buy the entire supply. Most sales are made on a deferred billing—meaning you will have to put out the capital first, and usually won’t get paid until four, even ten months later. If you’re new, they’re only going to take a small sample because they want a trial run for their market. And, even if you sell the whole $50,000, details will get complicated. By the time you obtain more fabric (zippers, thread, denim), produce the merchandise, and have it ready for shipment, you’ve lost at least six months. Also factor in a fickle market—maybe your fit goes out of style, trends favor khaki, or consumer spending halts. Of course, with service businesses the dynamic could be quite different and your actual fixed costs to render the sale could be far lower. If you have staff on salary that are under-utilized, that can almost be factored as additional sales. Be optimistic, but be prudent. You can’t scale too quickly. If you do, you’ll risk spending a million dollars on inventory that does not sell, and be stuck with $800,000 worth of product sitting in your warehouse. Also be mindful not to diminish quality as you grow.

Scaling too quickly can also mean trying to add a new division or branch to your business before you’re ready to incorporate it. While you are eager to grow, be mindful not to pile too much on your plate.

Financial Intelligence: It’s The Little Things

Instead of going too big and scaling too quickly, try thinking about the details. Financial intelligence is really just the simplicity of common sense—the small things in business can make the biggest change.

There are plenty of little changes you can make in the way you operate your enterprise that can add up to save money. Say you’re trying to net 15-20 percent from your business; meanwhile, you’re taking clients out for $300 dinners on a daily basis. That adds up to $6,000 a month, not including service tips. In small businesses, these kinds of expenses (in and out of the office) make all the difference. And reworking those outflows can be incredibly simple.

Here are just a few of the kinds of minor changes you can make to save your business tons of money:

- Don’t have a color copier, because everybody will hit that color copy button. That basically costs a dollar a copy, and toner is expensive.

- Don't leave the supply cabinet open. If it's open, employees don't consider it stealing when they take home paper and pens to their kids for their school projects.
- Buy generic. You can get the special neon-edition brand name Post-It Notes, or the office-store-standard pale yellow for a quarter of the price.
- You probably don't need to run the air conditioning overnight in January. Or ever, really.
- Don't send things next day UPS or FedEx unless it's absolutely necessary. Never use Saturday delivery.

Most people don't think about these specifics, but the dollars add up. Small changes can stretch your capital much farther. Proper cash flow is one of the hardest matters in business, so keep a good eye on expense reports and spending. The point here is that austerity maneuvers, regardless of size, can bring your company surprisingly great staying power while substantially lowering overhead—which is especially important in the beginning. The long-term purpose of a business is to produce a greater return on time and capital than you would in any other investment alternative. Ultimately, your goal is to successfully manage, maintain, and grow your capital. To do that, you have to optimize.

Optimization: Tunnel Vision Vs. Funnel Vision

Optimization means getting the maximum performance from your time, effort, opportunities, market access, communications, impact, and cost. But you can't optimize until you first try to understand the scope of options available. And you can't do that in a vacuum. Open your eyes to the possibilities around you. Pay attention and look at old situations with a new perception. Consider other perspectives and open yourself to the people around you. If they don't want to talk to you, ask them who they suggest you talk to instead.

I've termed this kind of thinking Funnel Vision, as opposed to Tunnel Vision. An approach that's mundane in one industry can have the impact of an atom bomb in yours—as long as you are the first and only company in the industry to learn it and are willing to try. In order to gain Funnel Vision, you must travel outside your knowledge level, go beyond your comfort zone, and seek out other industries looking for ideas and strategies that represent breakthrough thinking.

Think Outside The Box

Everything I've touched on requires you to think outside the box. You need to think more creatively, *zigging* when everybody else zags. Go against the grain and dare to be yourself. Analyze how your competitors are going about their business, look at the alternative approaches, and then see if you can go another way with yours.

One of my clients in Australia did this by purchasing advertising space in ground-floor windows of office buildings in the most concentrated traffic areas of downtown Sydney. He sold advertising to companies who positioned notices inside those windows, facing out to the tremendous walk-by audience surrounding those buildings. Passersby weren't used to seeing advertisements in the windows of the buildings they passed, so the advertisements caught their eyes even more than a billboard or a bus shelter advertisement would. Furthermore, since he bought up all the space before he started advertising, by the time other advertising firms saw his tactic was working there was no chance left for them to follow suit. Because he thought of a radical new solution that could startle and engage throngs of people, he was able to create a new inventive strategy that took advantage of his surroundings.

Nine Drivers Of Business Growth And Twenty-Five Strategies To Out-Market Your Competition

My career has been dedicated to understanding and identifying the highest performing enhancement factors that enable a business to achieve maximum results with minimal time and energy investment. I have focused on reducing exponential business growth factors down to specific impact points that have multiplying effects. Here are the Nine Drivers of Exponential Business Growth, along with some quick commentary on why they are so impactful. These strategies will help you grow as far as you can on your own.

Nine Drivers of Exponential Business Growth

1. **Marketing**

   Marketing is the single most important way to leverage growth. Marketing can include sending salespeople into the field, running ad campaigns, sales letters or direct mail campaigns, and commercials (television, radio, online). Start by doing an internal marketing audit and inventory; see what you might do better and look at what's working for others in the industry. Then borrow, adapt, adopt, and apply those processes to your business and measure changes regularly in order to use the most effective approaches possible.

2. **Strategy**

   The easiest and fastest way to instantly transform your business results is to change the strategy you follow. Be strategic instead of tactical; be organized, deliberate, and preventative; define what your current strategy is and decide what you are trying to accomplish. Knowing what you want will help you map out how to get there. Figure out what big operating approach will get you the greatest outcome you want, in the fastest period of time, on the most sustainable and enduring basis. Think of the actions and approaches that will deploy your "big picture," and observe what is working for companies both in and out of your market. Then, break down a combination of a couple of hundred strategies that you've identified, and evaluate the ones (or composite ones) you can borrow; combine them to forge your own ultimate replacement business strategy.

3. **Capital (human, intellectual, and financial)**

   This means making the best use of the materials you use, the resources available, and the relationships you enjoy. Employee training is especially important, as every dollar you spend in training will produce 20-200 times return yield annually. For capital expenditures, question the yield you're getting on the money you're spending, on the people you're paying (both staff and contract services), on your marketing expenditures, and on inventory and technical services. Everything ties in. What about your professional services and cost of sales? Consider all expenses and do a thorough analysis of the performance results. You've got a responsibility to yourself, your organization, and your capital to get the highest and best yield possible at all times. Use resources wisely and continue to monitor progress, searching for alternate ways to take care of your bottom line. Think of everything as an investment.

4. **Business Model**

   The business model is different from strategy. It's basically the means you're using to affect or achieve your strategy. It's different to tactics: the model is the whole integrated approach. The business model you follow can make all the difference in your profitability and there's enormous leverage here, because changing one element could change everything. Do you base yourself in one-time sales? Direct ad campaigns? Do you target a specific audience and offer only limited products? Think about how you are doing business, as well as why.

5. **Relationships**

   Business builds on various levels of relationships, some of which are specific, others more general. What are the various leverage relationships you have? Reflect on business relationships (employees, supervisors, vendors, and customers), as well as professional relationships (associations, industry heads, family, collegial or academic, mentorships, neighbors, and your community)—all offer incredible leverage opportunities. When you have a problem to solve, go to the person with the answers or the resources you need. And network your existing relationships to go further—surround yourself with winners and get to know their friends and contacts as well. Every single connection is an opportunity; this goes further than recommendations and referrals, it gives you the power to access any kind of resource you might possibly need.

6. **Distribution Channels and Markets**

   Maximize your current connections and realize new ones, or think up fresh uses for the connections you already have. Can you bring new products to the same distributors or gain access to further retail from your current vendors? Suppliers are distribution channels, as are clients (leverage your client's clients), and even buyers. Look at the catalogs you deliver, the people or companies you distribute through, the mailing lists that you use, and the Internet groups you belong to or frequent. Another option is to lend your name or your endorsement to another kind of offer, or get in line with seminars and workshops.

7. **Products and Services**

   How many other places could you take your existing product or service and apply it to other fields or buying groups? Could you license other people to use it? Could you package it in different ways, sizes, or combinations? Could you package it with other people's products? How many new products or services could you come out with that are your natural extensions, embellishments, top-of-the-line premium versions, or stripped-down white label versions? By simply adding a few different components, you can create an entirely new product and penetrate new market niches.

8. **Your Procedures, Processes, and Systems**

   Every business mechanism can be broken down into its driving processes and sub-processes. Once you figure out what the processes driving an activity are, they can be measured, quantified, and vastly improved. See how your given processes currently perform (which is nothing more than a function of analysis, monitoring and measurement), and find other people in your organization or industry, who are completing the process more quickly, more easily, more safely, and more effectively. Then apply the strategies and tactics for yourself.

9. **Ideology**

   What is your driving belief system? You've got to be motivated and willing to work beyond the usual business hours. Embrace the processes that take more time and effort; be able to travel outside your comfort zone and study other people, other business philosophies, other mindsets, and other ideologies. Define and clearly communicate your ideology (your values and principles—what matters to you personally and professionally) and make certain that your business model, tactics, relationships, etc., are in line with that philosophy. Do whatever it takes to promote and strengthen your value system in all business activities, and on a case-by-case basis; consider what areas need strengthening, emphasizing, or perhaps eliminating. Be true to yourself and to your clients. Keep an open mind for infinite possibilities.

Twenty-Five Strategies To Out-Market Your Competition

1. **Work Your Current And Past Customer Lists**

   Identify and start conscientiously working your current and past customer lists. Tap into the people you've already done business with; leverage off of the reasons that they made their purchases and entice them with reasons to buy again. Satisfied customers want to be, and are already, favorably predisposed toward doing business with you.

2. **Stop Spending So Much On Ineffective Advertising**

   Few (if any) business owners properly understand the very reason for running an ad. Ads should stimulate a direct and immediate response—either a qualified inquiry, phone call, or visit to your facility—or better yet, promote an instant sell. Nothing else warrants spending money on expensive ad space. Institutional ads are ineffectual, untraceable, and a blatant dissipation of your resources. They are without substance and accomplish nothing more than funding a radio station, newspaper, or magazine.

3. Follow Up

After doing any kind of mailing (to a past, current, or prospective customer, or from a prospect list), follow it up with a low-pressure, information-oriented telemarketing effort. Tests have proven that telemarketing following any mailing enhances total results by 300 percent to 1,000 percent. And be flexible! Listen to everything that your prospects say because they know a lot about your business—you may actually learn how to structure your pricing by listening to your prospects' objections and concerns. Your customers will appreciate your ability to adapt to their needs.

4. Keep Following Up

Keep following up tenaciously with any customer or prospect that comes into your sphere. If someone visits your business, writes you, calls you, etc., respond personally. Obviously, these people are strongly motivated and interested in your product or service; perhaps they're not quite ready to finalize their purchase, but they're close. By nurturing a follow up, you will move them to decisive action. Keep calling and writing, always making certain that every direct or indirect contact you have with them conveys useful information—not mere sales hype—and is effective in advancing the commitment process to completion. And once you convert those prospects to customers, continue to contact them. Create a community.

5. Use Risk Reversal

Consumers are hesitant to purchase any product or service (especially major purchases)—and people don't want to make the wrong decisions. If you can overcome that hesitation to take action by offering to guarantee their purchase and reverse the risk of buying, you'll see improved sales. By turning the tables and taking on the risk of the buyer, your sales proposition is much more powerful and appealing. Try offering a money-back guarantee, a rebate, or some other form of value that proves you are sincere and stand behind your company.

6. Bump And Upsell

This technique is easy, effective, and a veritable "no-brainer." If you offer every customer you have a better or added deal right at the point of sale—like a larger quantity at an advantageous price, or a package of items or services in addition to the one the customer is buying—30 to 40 percent of those offered will say "yes." This simple technique could immensely double your profit and quadruple your cash flow, yet few people utilize it. Upselling can be used by virtually any kind of business. It is an "of the moment" split-decision sale that can make all the difference in your budget margins. Additional offers can be as simple as a larger size (commonly used for food services), or an extended warranty for a new car sale. Once the larger sales decision has been made, the secondary add-ons are an impulse agreement.

7. **Sell, Then Sell Again**

   If you contact 100 percent of your customers within 10-20 days after purchase, 10 percent to 25 percent will buy something else from you on the spot. As a regular follow-up aspect of your business, this technique gives you the opportunity to resell your product, your service, and your company to the customer. Again, reaching out breeds familiarity and trust, while bringing sales to you and satisfaction to the customer.

8. **Utilize Host-Beneficiary Relationships**

   Your association with credible and respected host companies will make your offer all the more powerful. Riding along with somebody else's sales and brand name—with their implicit approval—is enough to differentiate you from the rest of the market. This falls into line with strategic alliances. There are hundreds of companies suffering from reduced sales and low profits right now. They are desperate for cash flow and are looking for stability, resources, and access to client bases. Propose a host-beneficiary relationship (joint venture), where they promote your products or services to their customers, employees, and vendors—or vice versa. For no cost and little effort, you can get dozens of companies to let you access their customers, prospects, distributors, employees, vendors, and so on.

9. **Use Your Competitors' Resources—And Profit**

   A competitor is a good guy, just like you; he's struggling in all the same ways, and he's got all the same problems. You and your competitors can help each other with procedures, manufacturing, or service functions that your operation isn't set up to handle as profitably or as efficiently as your competitor. Rather than lose business, you can participate in what I call a "private-label relationship" with another vendor, where he does the work for you under your auspices and you pass it back to the customer. In exchange, simply require a warrant from that competitor that he'll never take that business away from you. This allows you to fill gaps for both parties and provides a convenience for the customer. Consider the competition as potential sources of information regarding the market; they can introduce you and help you get connected to new markets, services, and potential customers.

10. Offer Extended Guarantees And Incentives

Typically, we think more about our needs rather than the needs of others. Most marketing failures can be attributed—at least in part—to a failure to provide your prospective customer with an adequate incentive to buy. Incentives can take on many forms and are conveyable in many ways. They can include marketing draws like a money-back or risk-free (or better-than-risk-free) guarantee. A bonus might be incremental, as a customer continues to come to you for business, or the bonus might even occur on a first-time purchase deal. Give the incentive of a lack of problems, grief, distress, failure, or loss that the acquisition of your product or service represents. Also emphasize the incentive of being an elite or privileged member of your corps of buyers, expressing that you only do business with a select quality of clients. Keep in mind that the flip-side of the incentive is a penalty. Sometimes it pays to underscore the negative side of not responding to the incentive (such as a loss of value, comfort, prestige, or wealth). State your guarantees in the strongest possible, legally-permissible terms, and repeat or refer to them often throughout the sales situation. Don't forget to give your guarantees and warranties right from the start, beginning with the front of the mailing envelope. If your guarantee or warranty is stronger than most others in the same field of business, make this a strong point.

11. Lock In Sales In Advance

Like many of my ideas, this concept is extraordinarily simple, yet it results in absolute future cash flow. Here's how it works: you get the customer started by offering the first service for free (or at a very low cost) with one provision: the customer must agree in advance that if they like the product or service, they will continue to purchase the product or service for an agreed-upon duration, at an agreed-upon price. A giveaway introductory offer is a definite attention-getter, as generosity turns heads. Remember how successfully this technique worked for Netflix? This strategy can work for any industry. A service station could offer a free oil-change when the customer signs to buy four oil changes annually. Yes, you will lose money giving out free service on the front-end, but the loss will be more than leveled by the back-end profits from the four additional oil changes you'll perform in the future. And your marketing cost for these oil changes will be zero. An added by-product of this technique is the goodwill that will naturally develop between your business and the customer. Not only will your customer appreciate your benevolence, but they are also very likely to refer your products and services to others.

12. License Your Successful Concepts

This is a great way to make extra money on the side. Almost anything you've developed that works—successful ad headlines, specific offers that increase sales, time-saving production procedures, a powerful direct-mail letter—is of value to other companies. By paying you a licensing fee, they gain the benefit of your expertise and efforts without having to put in the time and expense themselves. Say you're an expert in creating highly successful display ads. You've put together ads for your own business, tested them, weeded out the bad ones, and now have compiled a collection of winners. Put together a sales letter, offering your ads to other businesses for a fraction of the fee most advertising agencies charge. Use legal contracts to protect ownership of ideas, duration of agreement, and to ensure prompt payment. Then, once the ads-by-mail service proves valuable, you license that concept to other people who want to set up an ads-by-mail business, for a percentage of sales. You could provide each licensee with an operations manual and sample ads. If you set up 50 licensees paying you 10 percent, and each licensee grosses $30,000 a year, your income— from this idea alone—would be $150,000. You can lock up numerous deals, and make yourself a small fortune in the process.

13. Break Even On The Front End

This concept is a powerful extension of working the back end. Its logic is this: you should be willing to break even on your initial promotion—or even lose a little, if you know you'll make a profit on the back end—but you have to know your marginal net worth. In other words, know what you're willing to pay to "buy" a customer. You can afford to pay a dollar less than your marginal net worth because you'll still be making a profit on the back end. You can charge less for the initial purchase. This will bring in new customers—people who were going elsewhere to fulfill their needs. Because these customers will get such a good deal on their initial purchase, they'll be bound to return. There's your back end. Some actions to consider: you can spend more to buy an ad or a customer. Once you know that for every $100 you spend, you'll make an annual average profit of $300, you'll know what your limits and extremes are. You can spend more by running more direct-response ads.

Thus, you continue testing and pulling in more clients. You can do package deals and special bonuses (see incentives above) and add that extended warranty or guarantee. Include a free bonus if customers order before a certain date or add a special bonus if they pay in full rather than in monthly installments. Give a bigger commission to your salespeople or give employee bonuses for initial referral sales. Try holding monthly contests with employees as well as customers. Team members can be rewarded for sales competitions and customers can participate in draws, giveaways, or loyalty compensation. And be sure to offer rewards to customers who give good online reviews—this is sales as well as marketing support.

14. Test Your Prices

You can win customers by offering your product at the right price. I advise that you use price testing to find the "right" price. Different prices (for identical products) often outperform one another by enormous margins. I've seen $19 out-pull $25 by 300 percent. I've seen $195 out-pull $245 by even larger margins. And I've seen $295 out-pull $195 on certain offers, which could net you a cool $100 more per sale.

Prices appear "right" for reasons like the psychological image of value or the perception of quality. Everyone's situation is unique, so you've got to spend the time testing several different prices for your products. You'll be amazed at the difference in profit and total orders that one price will produce over another. Check market rates and know your competition; consider your brand name, experience, and the unique value in your business. What does your price point represent?

15. Reposition Yourself As An Expert In Your Industry

Here's a market niche that's crying to be filled. Reposition your company as the source for industry information—as the expert in the industry—and you'll be amazed at the increase in business that results. First, do some homework. Read everything about your field that you can get your hands on to keep abreast of industry trends, developments, and forecasts. You can have somebody ghostwrite a book or report that you disseminate through press releases, trade journals, or offer free online to anybody who wants it. You can also distribute the book for free or sell it at bookstores. Suggest to bookstores that they can sell your publication and keep all the money for themselves—just for showcasing the book. Use the book as proof of your expertise and offer it for download on your website. You could also put on seminars throughout the area—either for free or at a low cost. You might team up with other business experts, who have complementary products or services and who are noncompetitive with you, to organize the seminars. You can buy time on radio stations for half-hour shows. You can become the keynote speaker at organizational meetings. Start hosting regular breakfast and lunch meetings at your facility (or at a restaurant) on the subject that you're an expert in. Send out lots of press releases and get your name in the air. Consider starting a local, regional, or national telephone information hotline service. You can have a free, informative recording. At the end of the recording, make this proposition: "If you want more information, call this number and talk to one of our specialists." Be the resource people think of when they need someone in your field.

16. If You Know A Company Is Going Out Of Business, Buy Their Customers And The Right To Fulfill On Orders

This rule is especially pertinent in the current economy. If you know of anyone who is just keeping his or her business afloat only to avoid bankruptcy, approach them and let them know there is an alternative that will not only prevent bankruptcy, but will also make them a profit. Before the company actually closes, work out a deal with them to buy some of their remaining assets. Buy their customer list. Buy their remaining stock if it's applicable (and easily sellable) to your customers. Buy any unmet fulfillment orders, their telemarketing services (they already have the leads in their database), and any hard assets you might be able to use (office supplies, products, machinery, services, etc.). See if you can get their employees, too.

Once your now-defunct competitor relinquishes his old phone number to the phone company, buy that phone number. Again, one man's trash is another man's treasure.

17. Decrease Your Overhead

If you're short on cash flow and you need to cut back, don't cut your marketing budget. Many other expenses can be cut first before reaching that point. First cut excess inventory. If your products aren't moving as quickly as you want, there's no point wasting more money to keep extra goods on hand. It's better to put available dollars into marketing than to pay a supplier to keep your inventory accessible. This frees up money for promotions. Decide which products or services you want to sell, taking into consideration the profit margin, and then work that product until you can't possibly sell any more. Be careful with your marketing dollars—once you know the marginal net worth of your customers, convert your advertising strategy to buying customers instead of just writing ads. Next, trim your staff. Be honest about the numbers you need and the skills your business requires. Cut idle employees and unproductive managers; consider sub-contracting labor from outside sources when you need it. Keep in mind that other people have got many assets you could access: personnel, facilities, tech, storage, and delivery resources. Hire outside sources for a percentage of profit. If your business has a good track record, then the outside company will be delighted to work with you since they can “guarantee” the income that you’ll bring them. Ultimately, keep your office Spartan. Negotiate your rent or utilities and try offering a barter system for appropriate common expenses. Reducing your overhead now can mean the difference between profit and loss.

18. Don’t Burn Your Bridges

In business, we sometimes burn our bridges. We ruin relationship with customers, prospects, employers, employees, suppliers, and landlords—and only hurt ourselves in the process. Conduct yourself magnanimously in the end as well as the beginning of every relationship. No matter the situation, be noble, courteous, and conscientious. Extend yourself ardently and genuinely as you represent not only your own name, but also the principle of your business. The people you help at the end of a relationship can do lots of good things for you—referring your business, giving good reviews, and shining your reputation. It costs dearly to burn through people. Whether or not a customer buys, treating him well will affect future potential. Remember that the purpose of business is to improve someone’s life and bring value; treating people well is fundamental to true success. Practice the golden rule with every person you deal with—from deliverymen to competing executives to angry customers. Respect deadlines, be honest, and hold to your word. Make an effort to communicate in times of disagreement, understanding the needs of the other party. Never act bitterly or rudely to anyone, no matter how unpleasant they might be. The last thing you want is a rant review online or a disgruntled ex-employee badmouthing you around town. Ask for guidance and affirm that you’ll help whenever possible; you want to have as many open resources as possible. The payoff will astound you.

19. Avoid The Ostrich Theory Of Marketing

This theory comes into play when you become deluded enough to believe that your customer is only interested in your company and your product. You forget that other companies with competing products and services are bombarding your customers all the time. Yes, they have chosen to do business with you, but they also have the choice to spend their money elsewhere, and the competition is always hard at work. You can't take a customer relationship for granted. An order booked for next month might cancel, or another company might offer a better deal. Your customer might find a better price, a closer location, or an exciting change. You have to continuously advance and solidify your relationship with that customer or else you'll lose them. If you continuously stoke the embers of desire and give your clients something substantial, you will sustain, enhance, and preserve that relationship and its benefits for a very long time.

20. Write Only Direct-Response Ads Or Sales Letters

It is imperative that you know, at the least, the basic elements of profitable and effective ads. This is called the AIDA formula:

1. ***Grab the reader's* ATTENTION**
2. ***Deepen the reader's* INTEREST**
3. ***Increase the reader's* DESIRE**
4. ***Motivate the reader to ACTION***

Good ads require an enticing headline that spells urgency. Next you have to deepen your reader's curiosity, and talk about the benefits you offer. Don't assume that the reader knows the benefits—explain them clearly and simply. Put the main emphasis on the product's benefits to the reader, not on its features. Readers don't buy products, they buy advantages. Offer them your guarantee: a safeguard of your product or service's advantages. Notate the disadvantages of not selecting your company; this gives the reader a sense of control. State your offer as precisely and clearly as possible. Then, motivate your reader to action by telling them exactly what steps to take: "Pick up the phone and call today! Say you're calling about the 'Business Special.' We'll take it from there." Create a sense of urgency by offering a special time-sensitive incentive or bonus to get readers to act as soon as possible. Finally, use a postscript; studies show that the postscript is one of the most read sections of any correspondence. To write a postscript, restate the USP, guarantee, or deadline and always give a reason for acting now.

21. Write Headlines That Pull

Failure to use a powerful benefit—or result-based headline—can lose the advertiser 80 to 90 percent of the potential effectiveness of that ad because the prospect will pass it over. Headlines must make a promise of a highly desirable result the person will receive in exchange for reading the ad or listening to the message. The headline is the "ad for the ad" and must incorporate your company's USP. Stand out, be remarkable, and get their attention.

22. Analyze Your Results

The marketing programming you decide to implement or incorporate into your business must be tested against other methods and strategies. When you experiment with different guarantees, bonuses, sales approaches, headlines, etc., you'll be amazed at how much one approach will out-pull others. Because most of your marketing expenses are fixed—you pay the same for approaches that produce X results as you would for those that produce 10 times X's results—you want to exploit every possibility of every marketing effort. To compare the results of your efforts, you must code and track every ad or sales concept, and precisely tabulate how it performs compared to the cost. Use the following procedure for each and every ad or letter, to analyze its productivity and effectiveness:

1. ***When you run an ad or send a sales letter, first record how much it costs.***

2. ***Attach the ad or letter to your analysis sheet and indicate the specific offer, along with the particular placing, position, and size of the promotion.***

3. ***After the ad or letter has been introduced to the market, record the exact number of people who call, come in, order, buy, or make some visible reaction (pro or con) attributable to that ad or letter. Make separate categories for each reaction.***

4. ***Distill the components that work best from all the data you've accumulated, and design all new and future ads and promotional letters to incorporate those factors. Avoid those components that the data proved didn't pull as well.***

23. Don't Put All Your Eggs In One Basket!

It is absolutely essential to diversify your resources during the next few months. Do not put your money, time, or hope into any individual investment or business. Spread yourself wisely over a number of areas. As much as your business may need your extra resources, keep some in other strong investments. If you're contemplating a joint venture, get your prospective partner to finance or help finance the project. And make sure your prospective partner is reliable and trustworthy. If you're looking at a buy-out, try to find a backer. Or at least make sure you are liquid enough to withstand the first few months of adjustment. Don't lose sight of practical considerations and objectivity. Select well, select safely, and select your business very, very carefully.

24. Get Your Customers To Give You Referrals

You don't need to beg for customers. I've developed a great way to get referral business. All you have to do is write a letter to your current customers explaining that it's a privilege to work with them and that your time and space is limited. Let them know that you will only be able to accept a few more businesses, and that you are saving space for referrals from select existing clients. Tell them how much you appreciate their business and that you are "glad to give priority to new business referrals from such quality sources." The other option is to go to companies and offer to send another type of letter where you offer a free sample of your product or service to every employee and that you "have arranged a preferential rate if you choose to continue doing business. There's no obligation." Word will circulate, you will get calls, and the appointments will set themselves.

25. Recognize And Identify Your Hidden Assets

There are many assets that your company is not taking advantage of. Many of them are less obvious and may seem more abstract; however, once you identify your hidden assets, you will understand how profitable they can be when applied.

Sit down and carefully outline all your assets and liabilities. Then, try to determine who might be interested in purchasing your assets (through a joint venture or licensing). Next, figure out who you need to work with to reduce your liabilities. Now you have your "Hit List." Finally, take your list to a confidante or business associate, and let them go through the same process with your list. Often they will see something that you may have overlooked entirely because their perspective and needs are different from yours. Take your list to as many friends and associates as necessary to develop a plan for every asset and liability.

Chapter 4: Action Steps

Step 1

Time to get real. Look at the business you have built so far—weigh external markers and internal factors. Evaluate the public's confidence in your business. What is your reputation in the marketplace? In order to know where you're going, you must first know where you are.

Step 2

Write down your personal Web of Entanglements. Use the following four strands: relationships, habit patterns, support structure, and knowledge. Be honest with yourself. If one or more of these strands is no longer working, the consequences will be confusion and paralysis. How can you break your bad habits and adopt new ones?

Step 3

Complete the Strength Theory exercise. Put your results into action immediately. Stop doing the tasks that don't merit as Gifted or Excellent. Remember that there are people who excel where you might struggle. Hopefully these people will work for you (if they don't, hire them).

Step 4

Experiment with different variables in the "Three Ways to Grow a Business" equation. What happens if you utilize telemarketing and referral systems, increase your pricing and therefore your margins, change the profile of your product, or serve to be more "up market"? What if you develop a back end of products that you can go back to your clients with?

Step 5

Copy the seven marketing strategies on an index card. Paste the card above your computer, on your bathroom mirror, or on the dashboard of your car.

Step 6

Make a list of three ways to practice financial intelligence. Where can you cut costs? Can you put lower-quality grounds in the coffee maker or keep the lights off in the office bathroom? Think up your own cost-saving ideas for "the little things."

Step 7

What is one industry, outside your own, that you admire? Pick one business approach you've seen utilized in that industry and brainstorm ways to apply it to your own. If it's helpful, call a team meeting and free-associate your ideas. Funnel Vision can blow the lid off "business as usual"—to optimum effect.

Step 8

Choose your five favorites from my Forty-Four Business Rules. Select the "scrolling marquee" option for a computer screensaver, and type in these five rules. Now every time you look at your screen, you'll be reminded of five powerful ways to grow.

CHAPTER 5:

The Strategy Of Preeminence

One of the concepts I am best known for is the Strategy of Preeminence. While it isn't original, I've advanced it, and today the name is practically synonymous with the Abraham brand. Simply Google *Strategy of Preeminence* and the name *Jay Abraham* appears ubiquitously.

Preeminence isn't just a strategy—it is a mindset and ideology. Being preeminent gives you the power to access anything and everything you want, so that the world becomes a 3D movie and you have unlimited options. As a philosophy of doing business, it is the bedrock that your competitive advantage is built upon. If you asked me what I am most proud of in the thirty years I've worked with entrepreneurs and professionals around the world, I'd say the Strategy of Preeminence, hands down.

The gist? Simply put, it's one of the most powerful success catalysts you will ever find. This strategy provides breakthrough principles to drive effectiveness, accelerate performance, and attract partners. The more you focus on your network—and that means every single person your business touches, from a team member in Omaha to a client in Shanghai—the more you will be able to position yourself as a leader in your industry. It applies to relationships as well as negotiating, sales, recruiting, decision-making, communication, client care, and countless other areas.

In this chapter, I'll introduce you to my Strategy of Preeminence, a unique approach that has turned hundreds of ordinary businesspeople into millionaires, entrepreneurs-of-the-year award-winners, and fast-growing leaders in industry niches.

If you want to be successful, in business as well as in life, then it's not about you. It's about them.

Let the preeminence begin.

The Most Important Mental Shift You'll Ever Make

Above all, you need to think about the end user, not yourself. It's what some of the world's best pop singers do, purposefully singing in a key that's within the listener's range, so the listener can easily sing along or repeat the song to friends. A pop singer warbling into unreachable high notes is also not going to sound as relatable as one who sings within an accessible range. This is at the core of one of the most important mental shifts you will ever make: the shift to the Strategy of Preeminence. Preeminence champions the role of the team member, the suppliers, and the client. Its focus is on the receiver and their very best interest. It states, "I'm not trying to sell you, I want to serve you." It projects forward the value of your business, making your actions both personal and real. Preeminence is the bridge that spans the gap between what you offer and what the other party needs. It is integrity, heart, and candor.

The first element of being preeminent is a shift in focus. Most good people are fixated on what they do—everything exists in relation to their personal positioning. Their company, product, service, and customers are a reflection of them. Here are twelve words that will change your life forever: *Most people fall in love with their product instead of their prospect.*

Most people in business are in love with the wrong thing. They've got the hottest, coolest product, service, or company in the market, and they are enraptured with it. They want to be the quickest growing, most influential force in the industry, with all team members rallied behind their respective goals. This all seems natural—and admirable—but the thinking is flawed. The product or service is important in its own right, but not nearly as central as the way it changes people's lives.

You should never fall in love with your company, your product, or your service. Instead, fall in love with your client, and enjoy an enhanced connection that benefits every party involved. Being endeared to your client means that everything you do—every recommendation you make, communication you utter, and everything about your existence—is designed to improve their life and happiness. It will bring a heightened level of impact to both you and the client, as well as to team members, vendors, buyers, and investors.

"The client" doesn't just mean the customer. Your team members and staff are also clients. If you don't fall in love with them, if you don't want for them the greatest outcome, the greatest growth, the greatest satisfaction, the greatest happiness, and the richest families in both monetary and emotional terms, then the chain of congruency is broken. The same thing goes for your vendors. You want them to see you as their greatest advocate and most sincere admirer. The point is that it's a mutual admiration. It pays off in huge economic rewards that give you strong terms to both finance your marketing and gain access that no one else has.

The other person can be a prospective investor. He or she might be someone you're trying to recruit as a co-founder. Maybe they are a contact with an IP you are trying to tie up. They could be a corporation that could provide you with a strategic alliance or vertical-market partnership. Whoever they are, you need to focus on their side of the deal. A quick reality check helps to consider—and respect—what it feels like to be on the receiving end of your proposition.

Most people think, “What do I have to say to get people to buy?” Instead, you should say, “What do I have to give? What contributions do I render?” The message you always want to send is: *You matter. Your well-being is important to me.* Your job is always to advocate your client’s perspective. With every word you say, the client should be thinking, “He understands me. He cares. He’s helping me win and is excited to improve my life or business.”

We are rewarded in business (and in life) in direct proportion to the quantity, quality, and consistency of problems we solve for others. But you can’t solve anything for anyone until you know who they are and what problems they face. Most people fail to recognize, let alone articulate, the problems they face and the goals that they are trying to achieve. You must help them verbalize their needs and make things happen. In order to do this, you must practice patience and empathy. Both of these require an earnest commitment. Empathy means understanding—in a compassionate and respectful way—how the other side feels. Contemplate the other person’s point of view in any kind of transaction you encounter; again, this means stepping into the other person’s shoes. When you speak to people, do you actually listen? And do you consider the meaning behind their words? Recognize what it’s like to be a prospective buyer or potential investor in a new business: how does it feel to try to build credit or get in with a new retailer? Ask yourself what their hopes, fears, and needs might be in your particular situation. Moreover, develop an awareness that reaches far beyond the limitations of the singular contact.

You can’t address a client’s concerns unless you take the time to listen. The key to being preeminent is to be externally focused, truly engaged with the person on the other end. You may be selling to people who aren’t always like you, but you have to see life the way they see it. Keep in mind that the business is all-encompassing to you, but unless it is truly exceptional, it’s merely another one of the million disruptions that the other side is being asked to wade through on a daily basis. And don’t think that you necessarily have to agree with them; empathy merely requires you to consider and observe. Acknowledge them clearly with words that show you understand how they see the situation. Do this with humility and you will earn a person’s respect.

Imagine that a reliable customer changes his usual order—do you know why? Or do you react with irritation at the inconvenience and significantly lessened income? What is happening on his end? Be compassionate with his needs and give him exactly what he requires. When you call to confirm the order and he tells you about severe family problems, you will understand the difference in his business. Your business will be fine, meanwhile, he has had to put his own business on hold. When you are patient and helpful, offering to provide a grace period or a line of credit, he will be grateful. Six months later, when things pick up and his problems have reduced, he might double his order. Then he determines that, from now on, he will use you as his only supplier. I cannot emphasize this phrase enough: *meet them where they are.*

No matter what the circumstances, embrace your consumers, even if they are different than you—and even if they're not the clients you expected. If they represent a different culture or speak a different language, preeminence creates trust. It means you sincerely strive to understand their values, habits, and traditions—and perhaps learn about the customs of their business. Cross-cultural sensitivity is very difficult for most business professionals trying to become entrepreneurs—ignorance is a rampant problem. We can turn to the urban apparel world for a particularly interesting example.

The hip-hop community grew from inner-city African-American roots. With the development of this music and clothing culture, came some interesting cultural cross-overs. But despite the budding fashion trends, some brands of conservative, white-owned companies (like Lacoste and Ralph Lauren) decidedly kept hip-hop clothing off their racks. In certain neighborhoods, Timberland boots were the coolest. Nobody cared that Timberland was a "white-owned" company. Nobody cared who the original Timberland consumer was "supposed to be." The customers were color-blind when it came to clothes.

But one day, a Timberland executive made the comment that, "We don't make our boots for drug dealers."

With one simple statement, Timberland nearly slaughtered their business, alienating an enormous portion of their strongest supporters. The urban community kids lost confidence in the brand and, nearly overnight, sales flattened.

The Timberland directors scrambled desperately to cover their reputation and recapture lost sales. They tried to convince the public that the executive wasn't talking about *black kids*—his comments were just taken out of context. "We welcome the attention from rap and hip-hop artists," they insisted. They even tried launching a damage-control campaign, urging people to "Give racism the boot."

But people weren't buying it. The mistake stung, and the inner city market was convinced that Timberland corporate executives were not only racist, but out of touch.
That single comment was enough; the marginalized black community found other shoes to wear. The Timberlands trend was soon replaced with the fad to not wear Timberlands.

The company had offended—and irritated—a very important source of its business. And the customers felt that Timberland no longer deserved their business. “Cater to us, and we’ll follow you anywhere,” the community said. “Reject us, and we’ll drive you into the ground.”

Timberland’s fatal mistake (aside from the initial awkward comment) was a systematic lack of empathy. The company was focused on itself, where it should have catered to its clients. You have to adjust the whole focus of your strategy, changing who you’re doing everything for, subordinating your needs, and totally focusing on the other side—the side of the client. Always make the client the center of attention and recognize, again, that you will have many categories of clients to deal with. This includes prospective buyers, team members, vendors, advisors, and ultimately, investors.

From “I” To “You”

If in the past your business has been “subject” focused, how can you make it “individually” focused (meaning that you squarely shift the spotlight onto the client)? Here are some tips to help you communicate a “real” focus, rather than a “subject” focus:

- In all promotional materials, start each sentence with the word “you,” rather than the words “I” or “me.”
- Talk about the end result with feeling and in emotional terms—what your product will bring, not how it will work. Show them a hole, and then introduce the drill you are selling.
- Ask your clients what they want.
- Listen.

Listening is a vital part of empathy. The Strategy of Preeminence relies on authentic communications. It’s not how many people you talk to, but the quality of the interactions you have that determine success. And you must identify what the communication is telling you: what to do more of, what to do less of, what to do differently, and why. Your conversations have to be masterful, meaningful, and interesting. Get through to others with authoritative and moving questions. When they give an answer, demonstrate that you heard their reply, translating it into your own words. Reflect their thoughts and concerns. For example, if a buyer says that no one will understand what your product does, think about what he is trying to say. Consider the feedback with an open mind and respond appropriately, even with enthusiasm. Listen to what people are saying. Notice their facial expressions and body language, and look into their eyes. Acknowledge them. Slow down and really pay attention.

Once you have learned about their interests, understood how they perceive your product or service proposition, proven that you respect and understand them, and forged a genuine human connection, then—and only then—share your side of the story. You can say, “It’s probably good if I tell you a little bit about my vision now, why I think my product or service makes sense for you, why the market is so promising, and why we think this product or service fills such a huge void.” Now that you have their attention, you can work from a place of trust, not feeling pressured to sell or convince. In this way, you can let ethics control the dynamics of your interaction. This means that you make your deals from the perspective of only wanting to do what makes the most intelligent, practical, and profitable sense to the other side. It is far easier to get to know someone when personal stories are involved. These will give you clues as to who they are, how they think, and what they value.

To illustrate, I’ll tell you a story about a business trip to Australia that I went on a number of years ago. I’d flown for nearly eighteen hours, but when I arrived at the hotel, I was unable to sleep. So I went to the hotel bar, where I started a conversation with another gentleman. I told the man only two things about myself: that my name is Jay Abraham, and that I was in Australia on business from the United States.

For the rest of the conversation, I simply asked questions: provocative inquiries based in genuine interest and curiosity. I asked about the man’s business, his family, and general life. After an hour and a half of posing questions, I got tired and ended the conversation, telling the man how much I had enjoyed myself.

“I have to tell you,” the man said, “you are absolutely THE most interesting man I have met in the last five years.”

It’s a fascinating phenomenon, so simple and yet so elusive: if you want to be the most interesting person in the world, just be the most interested. If you want to be the most respected, all you have to do is respect. If you want to be the most passionate, have passion for others. It’s a mirror image, and that is part of the Strategy of Preeminence.

You have to be able to mirror your client’s values, needs, and dreams—but this cannot be forced. It must flow from genuine interest and take into consideration their personal point of view. Imagine yourself on the receiving end of your business, product, or service, and ask yourself the following:

1. *If I were on the receiving end, why would I want this? Would I be compelled by what you are saying?*

2. *Why would I want to take advantage of this offer at this particular time? What would turn me off or on?*

3. *What's in it for me? What are the benefits for the other side?*

4. *How will this product make me feel better about myself, my family, my business, my future, or my life?*

5. *Why is this better than doing what I'm doing, or better than doing nothing at all?*

By answering these questions for yourself, you will have more of an insight into the priorities of your client. Your promotion, your selling posture, and your proposition have to respect the client's wishes. The purpose is to provide a solution or result so big and desirable that it will compel them to want to take immediate action.

Most people don't know what their problems are. They've never even put them into words. It's your job to be the person who verbalizes, articulates, and conveys—in a lucid way—the problem they are trying to solve. Your role is to put into words what they are holding (perhaps abstractly) in their minds. And the best way to get people talking is to ask them about themselves. Then you know how to respond, empathize, and mold your business to their needs. You will be fully prepared to give options, solutions, and ideas that specifically support your statements with a compelling, irrefutable set of definitive facts. Be thoughtful as you nurture and help them learn what is possible. Before you can give them plausible answers, you have to help them know what they need.

All people are searching for ways to make better decisions. Your role is to be the leader who brings a sense of security. This will be the fundamental difference in your business: you will be providing a comprehensive investment, not just a sale. The issue here is trust.

You should always be looking for ways to make things easier for your client. Reduce the height of the hurdles on their track. Spotlight the end result rather than the steps to get there. And expect to meet hesitation, as most people don't want to see a lot of work; they'd rather see a controlled project with a finite beginning and end, as it's easier to comprehend.

Give advice, not information, as data alone is inconclusive. Advice is definitive: it readily converts ideas into action. Tell people, "Here's what you should do, here's how you should do it, and here's why." Being specific is incredibly powerful. Break things down into smaller parts, as it does no good to give a heap of information on its own. For example, if a person purchases a piece of furniture that needs assembly, she sees the end product in her mind and does not know how to get there. She is going to need the appropriate tools and thorough instructions on how to put the pieces together. Those instructions have to be concise and step-by-step, with illustrations that can be easily followed. As a business leader, your role is to help her understand that she needs the cabinet, you help her find the right model, and then you give her instructions on how to put the cabinet together. When she gets frustrated and confused, you talk her through the steps and show pictures of the end result. It's all a matter of knowing the clients' needs, giving them a plan, and offering protection. Take the stress away and walk them through.

Client needs change on a case-by-case basis. Don't just draw people in and out—make sure to appropriately progress through each situation. Bring people in sequentially, as you find them on the continuum of life, and then be appropriate with deliberate actions. And don't start everyone at the same point, because each client will be in a different situation, with a different need.

Give your people a rudder. The value you bring is focus, so be the rudder they are seeking. Most people don't know they are out of focus until there is a sense of calm. Once the dots are connected, your clients will be able to go the next step. That's what "leading" is all about. Focus gives clarity, clarity brings power, power gives understanding, understanding breeds certainty, and certainty creates trust—and without trust, people don't take action. Ultimately, you want them to feel that you are with them in their crusade, and that you have exactly what they need to thrive.

Be Hopeful, Talk Straight

Once your clients are focused, it is important that they define for themselves their biggest frustrations, challenges, and opportunities. When they are honest about their needs, you can step in with your service. In most cases, they are paralyzed because they cannot put their dreams into words. They only have a vague idea of what they think they want, so it's impossible to change their minds. Instead you want to offer clarity by asking, "What would the picture look like if your life were operating the way you really wanted it to?"

Most people are in one of two places: either they know where they are, but have no goals, or they have goals, but lack a realistic inventory. In order to achieve these goals—or new desired results—you have to help them realize what their goals are, and what they require. An undefined ambition is unreachable. So help your client with the here and now. They'll likely see your common-sense approach as revolutionary genius. By doing so, you'll also, by effect, win their trust.

Much of the Strategy of Preeminence relies on your ability (and willingness) to educate your client about their options, understanding the paths they might want to choose. Telling people what to do and not telling them why they should do it isn't enough; they need solid market research and proof before they will buy into something. Cultivate your ability to put into words what people want. The what acts as a spark to inspire the abstract imagination, and gives the client permission to share with you, articulating their deepest dreams. Your goal should be to help them translate those thoughts into a strategy of achievable action.

To build certainty, companies that practice the Strategy of Preeminence always come from a position of hopefulness about the betterment of their client's situation. They genuinely have a better and higher wish for the client or prospect than they have for themselves. This evocative hopefulness gives a client the courage, belief, strength, and desire to establish a loyal, lifelong relationship with the company. Who wants to work with a black cloud? Far more effective are the businesses that show possibility.

Additionally, preeminence means always providing viewpoints that your clients can trust, so they know you have their best interests in mind, unconditionally. The ability to create trust is probably the highest leveraged soft skill one might master. The first aspect of being a trusted leader is straight talk. Again, I'll return to Stephen Covey's 13 Behaviors of High-Trust Leaders Worldwide (see Chapter 4, "Marketing Strategies"). This allows you to be concise and open, effectively encouraging active participation. Straight talk is caring, honest, uncomplicated, and straight to the point. Be explicit, not implicit. Always embed the why, and note the reasons that why is so persuasive. The more compelling your reason, the more you will move people to believe. Take this book as an example: I am giving you hard truths, knowing that honesty is the best motivator for change.

Inherently, no one trusts "the system." This term might define a big competitor, the way the government mandates, big banks, social critics, or the general frenzy of life as a whole. It could mean the fact that everyone is being relegated into a commodity. The idea of commodification isn't just about business: human beings feel like commodities too. "The system" says they're not distinct, that they have no purpose and no connectivity. It's upsetting to be thought of as a number or statistic; as human beings we want to be named, encouraged, and involved. When you deal with people, look them in the eyes. Preeminence starts on a person-to-person level, breaking free from the statistics, groups, and greater systems. People get mad when they're not being listened to as individuals, like when they're treated if though they're incapable or unimportant.

People worry about whether they will stand out and whether anyone will care. No one aspires to be average. Let your customers know that they matter, and tell them how much they matter. When you show personal attention and echo their concerns as both clients and humans, you build important connections. Learn personal details about your client: his past experience in business, his future goals, his hobbies, his family, and his community associations. When you know those details, your client will see and feel that there is a benefit to working with you.

Think of the “home town” storeowner who knows everybody by name; it is much more appealing and pleasant to shop with him, as opposed to the Home Depot. Maybe his prices are higher, but you know the value of the advice, the personal touch, and the years of experience he brings. He does special orders for you and asks about your last backyard project. You make it a point to return because you trust him. Think of this when you consider your own customers, however large or small your own brand of business. The contrast you provide will be refreshing, and you will be known for your manner just as much as your product or service. Be affirmative.

Mainstream is boring and has little value. Your role is to convey to people that the mainstream is not telling the entire truth. Then step into your business and say, “Here’s the truth as we, or as I, see it. Let’s discuss.”

If you can say to someone, “Mr. Martinez, I understand your frustration, and I think I can help. Here’s what I hear you saying, and I’d like you to tell me, first, whether that’s right or wrong. And once you and I see eye-to-eye on your ultimate goals, dreams and wishes, we can move forward with a plan to make them come true.” Smile and explain how your process will improve their life. Let them see the obvious conclusions.

You have to focus on the increased value you can give a prospective client—value they appreciate, need, and desire. They don’t care how you’re going to do it; they just want the security. It’s not about a unique selling scheme; it’s about establishing yourself from the very beginning as the only viable solution to a particular problem or challenge. You have to make clear the impact that working with you is going to have on their mind, soul, and pocketbook.

People have to understand the value of whatever it is you’re offering. You’re not just another trickster, hawking a bill of goods. Prove that you are the preeminent provider of a solution and that you stand firmly behind your product or service. Show that you provide a business, as well as a relationship, and that you care about your customer.

To accomplish this, you have to know that your purpose is to contribute greater value, not to take their money. You must communicate with every word that you wish to lead the client to a great yield, a deeper happiness, and a larger profit. They should understand when you tell them, “I want to give you what you need. I want to give you what you deserve. I am your greatest advocate.”

Specific language and honest presentation will distinguish you. Don’t be pretentious, phony, or loud. A true leader never announces himself as such. Instead, be gentle, patient, and thoughtful. Choose your words carefully and deliver them calmly. These qualities show that you are not just throwing mud on the wall to see what sticks, but that you are working hard. It shows that you have put enormous thought into your clients as individuals. Your clients want business to feel like more than a transaction. And when you take care of them in such a wholesome manner, your professional life will prove to be significantly more fulfilling and effective.

Anyone doing commerce with you is a client, not a customer. Look up the two words in the dictionary. “Customer,” according to Webster’s, is someone who purchases a cold commodity or a service. “Client” is someone who’s under the care, protection, betterment, and well-being of another. By calling someone a “customer,” you’re saying, “I’m nothing more than a commodity. You can buy me, just as you can buy anything else.” “Client” connotes a much higher level of rapport, intimacy, loyalty, and respect.

Liken it to this: you can go to one of fifty McDonalds in your town at any time of day and order the same mass-produced flat-grill sandwich with a side of fries. You’ll have loud background music, portioned sauces, and a number for your lunch order. You go because you have two dollars and you are hungry. Conversely, there’s a family diner just around the corner that you’ve been visiting for years. Nancy takes your order, knowing you want the crusts of your sandwich cut off. She asks about your kids. You leaf the newspaper and sip coffee refills, relaxed. Sure, you are paying more, but you’d much rather be there. The bell jingles as you walk out the door, stopping to wave back as Jimmy, the owner, shouts a “Thank you!” from the kitchen. In both situations, you were hungry. But only in the second lunch were you considered human.

Moreover, when you look at your clients, don’t see them as burned and bitter capitalists. See them as hopeful children at the beginning of their lives—without the corrosion of bad habits—fully able to trust, and to maneuver through the world with innocence and curiosity. Approach every sale with a confident outlook, so as to create the context necessary for a nurturing business relationship. Meet their needs with optimism, solid ideas, and a confident attitude. Bear in mind that this is a person with a story—perhaps you respect them, even have an envious admiration for where they are, how much they can do, and how far they’ve come. Find something truly interesting about them and take the extra time to see each person beyond his or her business card. Don’t just remember “Bill, the guy who owns the trucking company;" think of him as "Bill, the father of twins who likes football, hates flying in airplanes, goes skiing every Christmas, always holds a deadline, and is the owner of the successful trucking company." This is a richer way of doing business that creates a more wholesome way of life.

By seeing your customers as clients, you will have the ability to collaborate and be a more effective leader. Leadership isn't just what happens when you're the CEO, it's what you do in any regular interaction. To be truly preeminent as a company or an individual, you must sell leadership with a definitive belief system and an authoritative conviction in your point of view. The people you trust are the people who help you come to a conclusion; your clients, team members, and suppliers all want you to be the expert.

Ask yourself this: in your business, your life, your necessity-based buying, your indulgence-based buying, and your vanity buying, don't you gravitate towards people who lead, people who are empathetically authoritative? That's why you have to sell leadership, as opposed to appearing like a wet noodle and letting people do whatever they want. Your purpose and role is to be a leader—an authoritative, consultative force in their marketplaces—albeit a benevolent, nurturing, and loving one. Your purpose is to present views your clients can trust.

When you truly care about your clients' welfare, you will work to guard them from mistakes. Your business achievement relies on their personal success. Watch carefully as they make decisions, and show concern when they start to self-sabotage. This is how good business relationships grow. Your clients should never be left to purchase less than they should—less quantity, less quality, less frequently—or more, for that matter. Your goal is to have personalized sales, always case-appropriate.

Most of your competitors don't give their customers the chance to buy more. They limit their customers' ability to understand and take the fullest advantage of opportunities. Many companies are more interested in control than good service. But this practice is a breach of responsibility. You are the client's trusted adviser. You have to always help them choose the most advantageous course. You want your client to have superlative results, and you should naturally choose the course of action that guides them towards their best interests. This is shockingly difficult for some business leaders to understand.

Give The Power To The People

Let's say you own a water store—a hot trend in new markets—complete with a water bar and various bottled brands. Someone comes in, throws two dollars on the counter, and says, "I want half a glass of water." As an expert on water and its function with the body, mind, spirit, and soul, you know that if he drinks only one half-glass today, he may temporarily satisfy his parched taste, but his cellular chemistry will be compromised. His brain cells will not be sustained. His organs won't work. He is going to be more stressed. He's not going to operate at peak mental acuity. He is probably going to be grumpy, irritable, and less than perfect. He is going to be a wretch at home and in the office. He is going to be less effective. He's going to compromise longevity. He's going to be more susceptible to health problems.

If, knowing this, you just take his money and don't make an effort to help him—to recommend that he get himself seven and a half more glasses of water, even if he does so away from your store—then you have breached your responsibility and moral obligation to this man.

This obligation goes the other way as well. Don't allow your client to buy more than they need. Say a father wants to buy a first bicycle for his son. The bicycle storeowner warns him against buying a $400 model. "On a first bike," he explains, "your son is going to fall. He's going to beat the heck out of it. The $400 bike is much more advanced. The $125 bike is a much better starter bike. It's durable. It can be banged around. You can learn to ride it twice as fast. It was specifically designed for this purpose. And once you're done with it, once he's learned, then you can upgrade him." Good advice from an honest businessman. And probably that father will come back to the same store when his son is ready for a better bike.

You have a responsibility to guide your client to the right decision. You have to practice seeing your relationship as a permanent one. What happens once trust has been built and your initial advice has been validated? Where do you go from there? How do you maintain and prosper the relationship? Even if you currently have nothing to sell, that person is important to you. He or she is becoming not only a valued client, but a dear and valued friend, and as such, you have an obligation to counsel, guide, and concern yourself with his or her well-being in the long term—and not just because they might be a good source of leads or referrals!

To be preeminent, you must be seen as a trusted authority in your interactions with the public. Your reputation is built on how you do things, just as much as it is on the end results. Hold yourself as your clients' most trusted adviser; be a genuine confidant in the field of your expertise. They should see you as a fiduciary: someone responsible who seeks their best interest. You will be their most trusted counsel, not just a purveyor of a commodity or a generic seller of services or products.

Most buyers base everything they do on absolute authoritative leadership. Not condescension, mind you, but leadership. They want someone whom they believe can lead them to great results and outcomes, less pain, and more profitability, productivity, and joy. They search for someone to give objective advice and qualified answers. Preeminent leaders are like diplomats who provide viable alternatives and designs. Give your client a sense of power and point him in the right direction. Remind him that you'll be there along the way.

Never allow a client to feel that he is unsafe or overwhelmed, as his disillusionment will be very dangerous to the relationship you are building. You have the opportunity to show your clients (and your team) how they can recover and reenergize, no matter how frustrating the situation. This, in effect, liberates them and returns their freedom. The leader who gives people a sense of control is appreciated as a liberator.

As a preeminent leader, you can't be a tyrant. Your client must agree with any claim you make, or you'll lose them. This isn't an intellectual battle for factual superiority. You may be ardent, but you're losing the war by trying to shove the fact down their throat. It doesn't matter if you're right when the client disagrees. You have to gently walk them through it, until they can find, and welcome, the right conclusion for themselves.

You never want to draw a conclusion for the client. Saying, "this is the way it is" does not help people. "Show me" is always more powerful than "tell me." Rather than making a conclusive statement, give ammunition that allows a person to come to his own supposition. If you do your job correctly, the client will move closer to your opinion, all the while feeling he has arrived at the conclusion on his own.

Think of it this way: if a youth soccer team isn't doing well, the coach might spend the next practice going over game errors and making the kids run laps instead of playing. He gets angry and frustrated when the players don't respond to his yells or do what he tells them to do. The team continues to lose and the coach grows hoarse and indignant. On the other hand, he might use the next practice session to ask the players how they felt about the game, and what they feel they need to work on. After listening to their feedback, he sets up specific drills to go over the corner kicks, passing skills, and shooting attempts that didn't go so well in the last game. Meanwhile, he decides to switch the lineup and give new positions. He compliments individual players on what they have been doing well, and works with the team to maximize their actual abilities, not his "coach" expectations. Consider the effects when, the following week, the game brings success and stronger cooperation. The players are jazzed, pleased with their performance, and the parents are delighted. Everyone involved feels like they've contributed to the turnaround and that gives them a renewed commitment to the game and the team, along with a deep appreciation for the coach. In the second instance, the coach employs preeminence; the game isn't about him, it is about the young players. He was simply the leader that encouraged communication, teamwork, and determination. The coach brought out the best in his players by making appropriate changes that were based on their needs. Win or lose, the coach brought great value to his players. Whereas in the first situation, the coach thought the team was all about him.

This isn't to negate the importance of the role you play. You've been by the team's side all along, of course—leading them, guiding them, and providing the information and knowledge they need. It's simply far more effective for the client to own the decision than for you to force it. If you own it and lend it to the client, it will never be theirs. But if they devised, nurtured, and raised it—it's their own. It's their progeny. They'll have great pride, belief, and commitment to it, because it is an extension of them. *And you made it all possible.*

Your commitment to them will never be as strong as their commitment to themselves. If they don't take action themselves, there's no power in it. When they draw their own conclusion that, "Yes, this really will make my life easier, or make me richer, or more respected in my community, or more powerful in my business," then they have begun to embrace the end result, and have a much higher likelihood of actually reaching it.

Speaking of end results, you have to remember that while most people focus on tangible results, most of the great rewards are intangible. I'm talking about rich emotional rewards, like the birth of your first child, your college degree, winning the championship, or getting married. However, most people sell on a tangible basis, and ignore or forget about the emotional. But logic doesn't make the sale. You have to compel people on an *emotional* level.

People will avoid making decisions because they don't want to feel foolish. That's another very powerful emotion. People want very badly to feel good about themselves and their decisions. They will work harder not to look foolish than they will to gain an advantage. It's human nature. Don't argue with it. Your job is to acknowledge it and compensate for it. Reassure them; direct them. You don't want them to feel foolish for what they're currently doing, but you want them to know there is a better way. You want to show how your product, service, friendship, or partnership will make them feel better. Prove to your clients that doing business with you will make them feel good about themselves.

As a provider, you will find personal satisfaction when you feel that you belong to something bigger. Today's consumer is hungry for a sense of belonging, and seeks interest in a brand, a movement, or an ideal. He needs an identity and a point of reference. Take, for instance, the example of Toms Shoes. The owner, Blake Mycoskie, has created an international sensation with both fashion and philanthropy in mind. After traveling in South America, he was surprised by the hardships he witnessed in the lives of children growing up with no shoes. In 2006, he started One for One, a program where the company matches every purchase (a unique fusion of slip-on sneakers and casual shoes) with a shoe donation to a child in need in another country. Over ten million new pairs of shoes have been given since that time, building a radical new business model where a for-profit company is environmentally and socially responsible, and does not rely on donations.

Toms Shoes has been a raging success, allowing for a win-win situation for all parties involved. The consumer meets fashion trends and helps a third-world need, the company makes ethically sound money, and a young person in the slums of Rio or a village in Kenya (served by verified outreach efforts) gets a much-needed pair of well-made shoes. Having had a simple start as a humble company, the Toms insignia is now one of the most recognized in the marketplace. Unlike the companies that promote hundred-dollar basketball shoes, Toms' success is grounded in principle. Everyone knows what a pair of Toms look like; but more importantly, they know what the brand stands for. This is a rock-solid business that enjoys having a tremendous impact on the world at large. And the public response has been extraordinary, with loyal fans and a fierce Internet presence. CEO Mycoskie notes that that he finds pure joy in his work and feels his ultimate triumph is showing others how to integrate philanthropy into their personal, as well as professional, lives.

Likewise, entrepreneurs and business leaders try more and more frequently to tap into such a ready loyalty. It's not enough for a client to just buy a product and hang it in their closet. You want a client to buy into the whole program, long term—and the consumer wants a commitment as well. They want to be connected, to feel like they're part of the movement or the lifestyle.

Take the water example from earlier. Let's say that, instead of the thirsty man wandering into your bottled water shop, he wanders into a Starbucks. Unlike everyone else waiting in line, he doesn't really want coffee: he wants something to quench his dry throat. He sees a frosty bottle of Ethos® Water in the cooler, with its crisp, distinctive logo (reread Chapter 1 for more thoughts on logos). Ethos® Water was created to help raise awareness about the worldwide water crisis, as well as to provide children with access to clean water. For every bottle of Ethos® Water you buy, Starbucks contributes five cents to the Ethos® Water Fund—part of the Starbucks Foundation.

The water costs $2, which is what the man planned to spend, anyway. But now, as he reads the information on the bottle between swigs, he's doing much more than satisfying his thirst. He feels like he's an active part of something bigger. He's helping children get access to clean water. His five cents is part of the $6 million that has gone toward improving water, sanitation, and hygiene education programs in the third world—a tiny part, but still a part. With a mere two-dollar purchase, this man has joined a much larger crusade. He doesn't just feel better because he's hydrated; he feels better about himself as a citizen of the world.

Companies that provide this sort of morale-boosting experience for their clients are much more successful than ones that don't. The idea is to draw your buyer away from the "single sale" mentality and towards the consideration of value versus price. Today, one of the best ways to do that is through social media, which is an exciting new way to reach out to clients in a whole new space, somewhere between the voice of the individual and the voice of the brand itself. Social media fills the need for connection on a social, interpersonal level.

Producers need to understand this basic shift. They need to climb inside the head of the guy doing the buying and recognize that he wants something more than the instant gratification of a usual purchase—he wants a breakthrough. Connect with your clients by creating a legitimate tie to the core product or service. You want people to grasp your vision and trust you as a visionary. Help them to see that they are part of your philosophy, that they are part of something incredibly profound. If it's not profound, why should they be involved? Why would they want to be your co-founder, your investor, your employee, or your client? Building their sense of esteem will be an incredible marketing tool. Because one way or another, you're asking the client to invest in what you have to offer.

Get Committed

The Strategy of Preeminence presumes, and expects, that you will remain absolutely committed to staying new. It requires you to ardently devote yourself and all your resources to a constant array of breakthroughs in the areas of *marketing, strategy, management, and innovation.* The leaders of the last fifty years, including the greatest companies today, are the companies that achieved the greatest level of quality initially and then continued to achieve qualitative breakthroughs in those four key areas.

Innovation does not have to mean being high tech. It is defined by orchestrating techniques and enhancements to improve your client's life or situation, so that he or she appreciates the value of your product or service. It doesn't matter that you have the ability to make a product ten times better if the client doesn't see it. Lower production costs don't matter unless you can bring the cost savings to the client, or use the difference to add to the package, so they get a better outcome.

The secret to making your business really soar is to have a passionate awareness and a commitment to a higher purpose (the higher purpose not being for your own enrichment). Being selfless is actually the most selfish thing you can do; if you want to own the world, take your intelligence and focus it externally. How do your ideas translate in the real world? What does the world look like outside your head? However, don't be self-serving in your efforts to be selfless. Vanity is see-through.

You must live by a belief system that's genuinely outwardly-focused, where your higher purpose is to enrich the lives of the people you sell to, with greater advantages and security. The more value you provide, the more value you generate and the deeper your impact will be—not for yourself alone, but also for your clients. Isn't this the definition of success? Think of the Toms Shoe philosophy—one pair for those who can afford it (the motivation being style), and another for someone who goes without (the motivation being poverty). The consumer wins, the world is a better place, and the Toms company feels good about its success. These shoes sell themselves, leaving the company with more energy to focus on goodwill. After all, value is subjective in the eyes of the beholder. Having a deep impact creates purpose, and this is where you and the client organically bond.

The purpose, then, of your business is to improve the lives of others, namely, your clients. You want them to feel better off because you are in their lives. We have a great opportunity in our lives to make an incredible difference—by listening, acknowledging, comforting, and believing in others. These actions demonstrate that their lives are relevant. All too often, we lose track of these values in our impersonal, ultra-competitive material world. But if just one person changes, it has a ripple effect, altering the status quo completely.

Fall in love—figuratively, of course—with the people you work for. Empathetically understand what it's like to be in their Timberland shoes. Consider the significance of the products and services you deliver. This is where you'll find success. It's a place where you cannot help but have a profound and powerful impact on the lives of others.

Chapter 5: Action Steps

“Shifting To Preeminence In Six Simple Steps”

Step 1

Start each sentence with the word “you” rather than the word “I.”

Step 2

Talk about the end result with feeling and in emotional terms—what your product will bring, and not how it will work.

Step 3

Start calling your customers clients.

Step 4

Ask your clients what they want.

Step 5

Shoot straight with them about what you offer and how you can help make their lives richer, better, fuller, and easier.

Step 6

Listen. If you want to be the most interesting person in the world, be the most interested.

The Art Of The Pitch

CHAPTER 6: Investment Pitch Do's and Don'ts

- Get The Investor Into The Room
- Do Your Basic Homework
- Make A Powerful First Impression
- Don't Be Over The Top With Theatrics
- Embrace The "Show And Tell"
- Have Your Proof
- Know Everything About Your Business
- Admit Your Mistakes
- Know What You Want And What You're Going To Do With It
- Know What You're Offering
- Tap Into Your Personal Experience
- Answer Questions Head On
- Know That Sales Cures All
- Know Your Sales Figures
- Know Your Costs
- Know Your Product's Liability
- Highlight The Product's Proven Usage
- Stick To Your Guns, But Be Flexible
- Do Share Vision For Product's Future Pivoting
- Understand Your Licensing Options
- Does Selling To The Masses Affect Your Product's Appeal?
- Be Patent-Prepared
- Demonstrate Industry Knowledge
- Seek Investors Who Can Bring Something To The Table
- Know Your Break-Even Points For Your Products
- Until You Build Sales, Stay Close To Home
- Don't Lose Your Cool
- Know What's Important To The Investor
- Investors Invest In The Person
- Plan For The Future
- Pitching: The Good, The Bad, The Ugly
- Action Steps

Chapter 7: Thirty Pitching Case Studies

- Action Steps

CHAPTER 6:

Investment Pitch Do's And Don'ts

In Part One, I encouraged you to leverage every possible opportunity before approaching potential investors. I showed you how to bootstrap, crowdfund, brand, market, grow, optimize, and be preeminent. But at a certain point, there is only so much you can do on your own. In the growth story of every business, there comes a time when the boons of finding an investor (or the equivalent) outweigh the risks—a time when, as an entrepreneur or business owner, you find yourself at a crossroads. You need outside help: a partner to buy into your vision, inject your business with capital, scale your business to new heights, and provide a fresh point of view.

So how do you find, entice, and win over that investor?

With a killer investment pitch—a proposal that's impossible to turn down.

The process of finding an investor is like dating. The investor knows you've told them all the good stuff, and that the baggage will come out later. You have to peel the layers off the onion as you go, earning the approval and respect of the person you are trying to impress. Ask yourself, "How can I get the investor interested, take him out on a (metaphorical) date, close the deal, and live prosperously ever after?"

I'm here to tell you how to make that happen.

Get The Investor Into The Room

In order to present your winning pitch, you first need to capture the time and attention of the investor. There are many different tips and strategies for making yourself stand out from the piles of proposals investors receive. Be the better prepared, better informed expert—more confident and organized than anyone else. Explain your proposition in a positive, exciting way. Think creatively. Mix things up in such a way that people can't help but notice you.

Here are a few tips to attract an investor's attention:

- Use blind embossing on your business cards: the raised lettering and color of the card itself. It might not work in every industry—because it's a little out there and funky—but if you're in a creative field, your business card should announce your creativity.

- Embed your picture in your e-mails. It might seem novel, but people will remember you. If you don't want to send a photo, use your company logo or another kind of colorful illustration to help your message "pop" off the screen.

- Seek a listing-friendly name. This is commonly seen in the phone book—there's a reason there are so many companies called Acme, Aardvark Appliances, or AAA Plumbing—it puts you at the top of the list, alphabetically speaking.

- Dress your packages and mailings for success. Pay the extra money to send a proposal package by FedEx or UPS—not because it absolutely, positively has to get there overnight, but because your package will arrive with a certain amount of attention and fanfare. The surest way to get past a secretary or assistant is with an important package. If a pricey overnight package seems excessive, place your note or resume in an oversized, square, fancy envelope—the kind for a wedding invitation.

- Post-it up. People will pay attention when they get a document in the mail that's been dotted by yellow Post-it notes. Even if the note just says something throwaway, like "Hey, Jay. Take a look," it tells the person that the sender took the time to think of them: that it's not a mass mailing. A personal touch gives the appearance that the mailing came from a friend.

Do Your Basic Homework

Once you've won a pitch appointment, make sure to be adequately prepared. Guts and instinct are fine, but there's a lot to be said for due diligence and common sense. Know your own material, but also look up information about your possible investors. The surest way to mess up a meeting is to be unprepared—and you'd be surprised how many people are.

Make A Powerful First Impression

From the moment you begin to speak—whether by telephone, via Skype, or in person—the investor is judging you. He or she is reading your body language. The investor can see when you're nervous, tell if you have an innocence and purity, and decipher whether you are arrogant or just ignorant and appear to be arrogant. Having assessed you from head to toe, the investor can see behind your words. Body language is a large part of communication, so it's important to mind your posture just as much as your speech.

One of the most important ways to make a good first impression is also the most obvious: look the part. Clean nails, clean shoes, and appropriate professional attire all go a long way towards a powerful first glance. Many entrepreneurs overlook the magnitude of appearance when promoting their business, a mistake that can prove to be self-sabotage. You don't need a lot of money, but find a way to dress for success. Personal grooming is crucial, since details like shoes and hands are on full display during your pitch. Make sure you're up to standard.

Just don't go overboard. When trying to raise money, don't wear expensive jewelry. You'd be surprised how many people are turned off by "bling" watches or ostentatious accessories; that kind of ostentation is rude and confusing, a big mistake. Furthermore, strategic investors, bankers, and accountants tend to be extremely conservative, and their style of dress and fashion is a reflection of that. As a general rule, they'll wear tight, conservative suits—and expect you to do the same. Someone wearing a loose-fitting suit is hard to take seriously and you want your audience to be focused on your business idea, not your ostentatious shoes. People of means certainly won't want to loan you money or invest in your business if it appears you can't even manage your appearance. Play it down.

Although first impressions are vitally important, they are not the axis of your pitch. Half the time, when investors look at a display or a presenter, they dismiss it entirely. Then, the next thing you know, someone's buying it. Why? Because there's been a shift in either the entrepreneur or the investor himself. This is the art of the sale: even if you aren't likeable at first, the right words, facts, and candor can reset the scene and win their attention. There's a lot riding on both your personality and tone. If you find a way to resonate with an investor, if they understand you, and if your pitch makes them feel, "This is for me, and you're a winner," you can still hook them.

The first moments of your pitch should catch the investor right away. Secure their curiosity with enthusiasm and confidence—never by silliness or hype. Although you want to be memorable, don't sell yourself short with novelty. Always start with something stunning, something very attractive. Don't spend the first ten minutes with compliments or talking about how nervous you are. Instead, paint the picture. Show them a movie of the problem your product or service will solve. Your investors want to connect to some kind of story with a beginning, middle, and end. They want to have some idea of how things are going to go *before* they get going. They need a frame of reference. Your pitch is a multidimensional story, as much as it is a sale.

Don't Be Over The Top With Theatrics

Don't distract investors with an over-the-top attention-grabbing introduction, or something that associates you with the problem you are trying to solve. Keep it to the point; don't get too cute and run the potential risk of causing the investor to disconnect from your pitch.

Embrace The "Show And Tell"

If applicable, bring your product to the pitch and have the investor test it. Even better, if your product is customizable, then customize the product to the investor. The investor will not only like it better than another version of your product, but doing so will force you to research the investor's interests.

Have Your Proof

After the initial presentation, an investor wants to know why you think your business is going to be a good return. He will ask about the market and want to discuss what the competition (if any) offers. How are you going to protect him from loss? What happens if plan A doesn't work? If plan B falls through? Your investors will be impressed when you have concrete alternatives. A comprehensive, well-deliberated plan will prove that you're not just another flighty optimist after their money. The moment they lose faith, you're dismissed. Tell them how you're going to protect their investment. I call this "risk reversal." When the investor is looking at a new product, he's thinking, "How am I going to minimize my down side?"

If you've done your legwork—getting to know your market and building as far as you can—you'll walk into the room with certainty. You can tell the investor that these things are going to sell no matter what on Friday, and you can back that up because you've already done it. If you haven't, and Friday comes to pass and you say you have a problem, then the investor is going to have a problem with you. However, if you've been selling every Friday for the past year, it's a different conversation. You have a steady, well-documented record and know your price point.

Without a history of sales, the investor lacks proof of your credibility. And they have to be real sales. If you show four million hits on YouTube for a product video, those are encouraging pre-sale numbers. If you can say a public personality or artist wears your items and brings attention (and you have genuine testimonials or photos), that's a real sale. However, saying, "Well, my friend thinks it's great, and I know a guy whose cousin is a buyer at Wal-Mart and I'm sure I can get a million dollar order..."—that's not a sale. Investors want proof.

Know Everything About Your Business

Most of the time, the investor will want a chance to do due diligence, to check out the market, and ask the vendors or stores or technical experts, “Does this work? How has it been doing? How has the competitor been doing—better or worse?” You won’t see an investor reach for his checkbook if you don’t present them with evidence. If you can tie all this information into your pitch, you’ll be ten steps ahead.

In your pitch, you want to give them every single angle on your business. You want to lay out the fact that you know what your business needs and how the market responds. Be able to explain everything you know about your company and the industry it’s in. And if there are things you don’t know—accounting, say—you have to cover that as well. Say, for example, “I’m going to hire this and that accountant.” You want to communicate, “Here are my challenges. Here’s how I’m going to solve my challenges. Here are my projections and a plan of action. Here’s how you’re going to get paid back. And here’s where you will enjoy profits.”

When investors start asking questions, they’ll either steer you toward the point where they want to invest, or they’ll steer you away and poke holes in your idea. To promote the former and prevent the latter, you want to make sure to stay on guard during the presentation. Be prepared with all the details, numbers, nuances, markets, or tidbits: everything and anything the investor might possibly want to hear about your product. In particular, be sure you know your exact number of projected costs, overhead, and profit. And above all, you’ll need to demonstrate good profit margins.

When you present your projections, you want to give an honest number that is as accurate as possible. Furthermore, you’ll need to have thorough details on how you arrived at that number. Remember that, although you should know everything about your business, the people on the other side of the table usually know a lot more about the industry in general. If you say things that put up red flags because you’re trying to be enthusiastic or optimistic, you’ll risk losing the whole opportunity. What you want is for the investors to say, “You did this with nothing? Imagine what you could do if we threw some serious capital your way.” That’s why it’s always better to be conservative.

Make sure your product is successful and your business plan is solid because investors will NOT want to do all the work; they want to give you money to make them more money. If they stop your presentation to point out holes in your design, you’ll be dead meat. Show them that you’ve thought through every step and that you understand their objectives as investors. Being prepared is every bit as powerful as being respectful.

Admit Your Mistakes

Whether you're asking for money, resources, or a kind of commitment (like distribution or deferred payment), you want to show that you've got "Worst Case Scenarios" identified in case something should go wrong. Don't be embarrassed by mistakes—a good businessman builds room in his plan for the unknown. You've made errors in the past and will make plenty more in the future. If you speak honestly about past problems, the investor will appreciate that you are in touch with reality. Pivoting a business is a natural and important part of growth. However, when you're talking to the investor, never make him feel like your battles or problems are going to fall on his shoulders.

Don't say, "I had a business for the last five years, and I went through so many problems with it. I lost my home. I lost this and that. I did about half a million dollars in business, and I have a couple of patents I'm still paying for. I know the valuation, I know what I'm doing, but I've wasted my entire life savings, and I need $2 million." That entire statement was just about you and what you did. It had nothing to do with future plans or the investor. All you're doing is crafting drama, and pity never works. It's like the girl at the bar who tells you about all the boyfriends who have screwed her over. She's alone because no one wants that kind of baggage, no matter how nice she looks. It isn't worth it.

What they do want is a basic outline of your successful performance history, with no excuses. Your history—what you went through—is very valuable if you can show how you made the mistake smaller, or how you effected positive changes. No one is perfect, but it takes a strong business mind to be flexible and persevere. They want to hear that there were ten roads to go down, you tried them all, and this is the road you know holds promise. Better yet, explain why you feel this way. You want to tell them about the challenges you faced, because otherwise, you'll look naïve. Give them your testimony of leadership and prove it by offering examples of decision-making, flexibility, and duty. It's not so much about the problems you faced but how you reacted to them, how you responded proactively and matured in the process. You have to make the investors feel like your history is becoming their asset, not their liability.

Know What You Want And What You're Going To Do With It

What do you expect from an investor? A lot of entrepreneurs going in just want capital. That's fine, but you may want strategic help, as well. Many investors are only interested in investing capital. They have their own lives and families, with personal responsibilities, ideas, and obligations. This leaves them with little or no interest in being directly involved with your good idea. So if you desire something more than basic funding, prepare yourself to convince them why you are worth the effort. And above all, look for an investor who brings an attitude of collaboration.

If it's money you want, know what you're going to do with it. The place where most pitches go south is when the investor asks, "How are you going to use the money? What about the proceeds?" These are surprisingly decisive questions because the answer demonstrates whether or not the entrepreneur really knows what he or she is doing. The answers let the investor know how astute you are and where possible glitches lie.

When the entrepreneur says something generic like, "Well, I'm going to take the million dollars and use half of it on advertising to buy a couple of ads in a magazine," it shows the investor that they are probably not as knowledgeable as previously believed. In the early stages of development, the savvy businessperson knows to test a small sample before going big. Answer carefully and methodically, and demonstrate thorough organization.

Few and far between are the entrepreneurs who say, "I'm going to take the million dollars and hire a manager, who will reduce my costs by 20 percent. Not only that, but they'll be someone who can go to a bank and get low interest, they can reduce my production costs, they're going to re-negotiate all my leases, etc." It's when people are planning to use the money for operational strategies—hiring a manager, acquiring a strategic partner, or buying a new machine to improve production abilities—that investors can tell that this person knows how to make a business grow. Prove that you deserve the money you are asking for by being specific, and show that you know how to make wealth grow.

If the entrepreneur replies, "Well, people aren't really buying now, so I'm going to throw a million dollars towards advertising and marketing, and that will make more people buy," that spells trouble. That's not a strategy, it's a desperate Hail Mary. This would only be perpetuating avoidance and creating more bills, without definitive action. It's an unprofessional answer that doesn't follow any kind of business logic.

Know What You're Offering

It's best to be conservative in what you're offering. Don't offer the farm, because you may reach a point down the road when you want to find other investors for different reasons. If you give an investor 80 percent of your company for $100,000, and then your business goes up to a million and you have to raise another $300,000, what's going to happen to the other 20 percent of your company? Remember that you will be growing your business! Learn how to value your company, understanding industry trends and sales by the competition. You want to use fair and realistic numbers, which consider the growth you will soon be experiencing.

That being said, don't insult the investor by offering too little. If you say you have a market of $20 billion and offer the investor 1 percent, that's an insult to the value he is bringing. When someone offers 5 or 10 percent for a million dollars, that doesn't bring in much for the investor. What do those numbers mean? At 50 percent, it's a much different arrangement. That will give them an encouraging return on their investment and prompt you to deliver the performance. Overall, think of valuation conceptually and realistically: you are asking the investor to spend money in return for the ideas, time, and energy you will provide. Understand that both you and the investor bring important offerings to the equation.

Tap Into Your Personal Experience

If your motivation for your venture comes from your personal experience, emphasize this. It increases your credibility about knowledge of the problem that you are solving, but also presents a powerful story that will engage the investor.

Answer Questions Head On

Answer investors' questions directly; don't evade them as this not only irritates the investor (because he or she is looking for an answer to their question in order to determine if they will invest), but more importantly, it signals to the investor that you avoid challenges rather than face them head on, and that you are not transparent. Ultimately, this evasiveness will break up the relationship. So, for example, if the investor asks you what makes your product unique, do not answer by highlighting the market size of your product. Be straightforward and honest. If you cannot answer why your product is unique, you probably need to reevaluate your company.

Know That Sales Cures All

Don't ask for investment in a product that you have not sold any of. Test your product in the market! You must have a record of sales before an investor will be willing to engage with you. No investor wants to throw money at a prototype that has no sales. Instead, assure the investor by reversing his risk: get your product out there and have proof that he will not be throwing his money into an abyss. Think deeply about your potential market, and then test it! Get out to trade shows, direct sales, etc. to find out if people really want your product. You might make the best product in the world for a specific market, but if the market is too small, then an investor is not going to take the risk to get caught up with it.

Know Your Sales Figures

You know the question of sales is going to come up in the room, so spend the proper time preparing to handle all sales-related inquiries. Don't hide behind your gross sales! For example, if you have large operating costs and thus are profiting only slightly, don't try to evade that fact. The information is going to be exposed sooner or later. Remember, getting an investor is like getting married: the truth is going to come out eventually, so it is better to be forthcoming from the beginning to ensure a happy relationship down the road.

Know Your Costs

Know your price point (cost to manufacture, cost at wholesale, cost at retail), but also know the lucrative aspects of your business and highlight that in the pitch.

Know Your Product's Liability

Analyze your product's potential liabilities and take action to reduce the likelihood of them occurring. Nothing turns an investor off like the thought of putting money into something that is going to cost more than the initial investment because of personal injury lawsuits. Make sure you think through all the potential problems and aversions people might have with your product. Ask yourself honestly, "Is my product creating more problems than it is solving?"

Highlight The Product's Proven Usage

Again, this is all about demonstrating that the market has proved your concept. If your product is geared toward basketball, show how high schools and college teams have used it across the country. Do not hide these important facts. Show off your market credibility!

Stick To Your Guns, But Be Flexible

I've seen entrepreneurs turn down millions of dollars for their fledgling company because they want to be a part of the growth experience (and they believe they will ultimately make millions more). This might be genius or lunacy. Only you will know what your boundaries are when the time comes. Stay within them, but be sure not to pass up valuable opportunities because of inflexibility.

Do Share Vision For Product's Future Pivoting

Investors generally do not want to invest in a prototype: they want to see proof of sales. However, they also want to see your vision and potential pivot strategies. An entrepreneur had a good idea that could improve the safety of football gear. While his product had successful sales as a stand-alone item, he also highlighted his vision to eventually partner with a larger football gear company to integrate his product into their product. This anticipated pivot, combined with his proven sales record, made his investment pitch a touchdown.

Understand Your Licensing Options

Look into licensing options before pitching so you can explain to investors why you are not interested in licensing, or to show your preparedness. Sometime it might be better to license what is unique and let others do it, rather than trying to do it all yourself. I recall bring impressed by an entrepreneur who had invented a product that prevented a specific illness. It was a simple, genius idea and I suggested that he license the product to a large drug company so as to avoid the stress and cost of building up his own production and distribution system. He had, in fact, contacted that company – among others – but they told him that they could not accept his product, because they make millions off the medicine that treats the symptoms of the illness that his product prevents. This type of forward thinking, combined with his great product, made it obvious that he was an insightful entrepreneur.

Does Selling To The Masses Affect Your Product's Appeal?

Consider how investment might change your product. If your product is cool and hip, be cognizant that accepting investment to take the product to mass market might reduce the coolness factor of the product.

Be Patent-Prepared

Highlight that you have a patent or that a patent is pending. The patent is the backbone of American innovation. The true entrepreneur is the one who comes to the pitch with a patent already; this demonstrates to the investor that not only is your product unique (as the patenting process determines), but also that you have initiative.

Demonstrate Industry Knowledge

Display knowledge of the industry and know what your competitors are doing. Be up-to-date on news in your field because this helps to estimate the size of the market in your industry. Did your competitor just sign a $150 million contract with the government? Is demand developing overseas? Not only is this knowledge necessary for the successful entrepreneur, but it shows the investors that you have a flashlight of knowledge within the dark, mysterious forest of the marketplace.

Seek Investors Who Can Bring Something To The Table

This goes back to squeezing all you can out of all you've got before seeking investment. If your company is not scalable, then seeking investment is probably not a good idea. But, if your company is scalable, then seek an investor who knows about the industry or who can help with the problem you are trying to solve with the extra capital. While some investors will be more hands-off than others, it is nonetheless wise to find someone who knows about the sector.

Know Your Break-Even Points For Your Products

These are elementary things but you won't believe how many entrepreneurs I've seen pitch their cool new product without having these important numbers immediately available. They have no justification for their valuation.

Until You Build Sales, Stay Close To Home

If you're in the beginning phases of your business, don't pitch that you're going to take an investor's money in order to expand in another continent, even if the market for your product is huge there. Growing a company is like raising a child: as a parent you would not leave your child to care for himself while you go out of the country, even if going away was what you thought was in his best interest.

Don't Lose Your Cool

No matter how well or poorly your pitch is going, never insult your investors. The challenge is that many entrepreneurs can become overly defensive during a pitch and then project negativity at the investors. You must accept the fact that investors are looking to poke holes in your idea, trying to find out if there is something wrong with it before they put their own hard-earned capital into your company. Some might not feel comfortable investing in your idea. The worst thing to do is insult these people.

Know What's Important To The Investor

Bottom line, when you're pitching to someone, they want to know what's in it for them—not what's in it for you. Too many entrepreneurs expect that since investors have money, they should invest. It's a Robin Hood attitude: "You have money and I don't, so give it to me, because I want to be rich, too." They don't consider what the investor needs in return for the investment of capital. It is, after all, a symbiotic relationship—no one person wins or loses. This goes back to the Strategy of Preeminence: always focus on the other side. You are pitching not just because you want something, but because the venture will bring him promising results. With the right motivation, you will enjoy a share of those grand earnings. Remember that the basic purpose of business is to add value and make a contribution to other people's lives.

Every investor you meet has a personal need that drives his desire to invest. Is he or she supporting you with hopes on a return of money? Is she trying to save the planet? Does he want something new in his portfolio (as a possible hedge against uncertainty)? Perhaps she is shifting in business industry, trying out something new before taking on bigger commitments? Do his kids think your product is cool? Is she just really bored? Find out what the investor values in a team member, because he or she may not be the only person you talk to. Know who your audience is. Inquire as to the investor's acquaintances and business associates, and find out where he has already committed funding. You have to get as much information as you can—try Google, business journals, friends—and know what the person likes and does with his time. Look for a more profound way to reach him; find the interests that drive his investment pursuits.

Almost always, an investor wants something suitable for his or her unique portfolio. For example, an investor won't put money into restaurants if he doesn't know about refrigeration, wine and liquor laws, or managing low-paid employees. It's not his thing; he won't get into something he doesn't know. You have to do your homework on the potential investor and his or her knowledge-base and interests. What's important to them? And not just for their portfolio—that's only half of it. You should also try to learn what's important to them on a personal level, what appeals to them. Do your research and find out what tugs their heart strings.

You want to resonate with the investor. Relate to them on a personal, as well as professional, level. Include them as part of your product's target audience, emphasizing your solution to a universal problem. Would the investor be interested in buying your product or service? Make sure it helps him as well as the public at large. He won't consider market possibilities unless he is attracted to the proposition himself. What's his part in your movie? What's his drive and need? Assuming your idea is worthwhile, why should the investor lend his name? Give him something to foster and brag about. The investor is not a mere Santa Claus: you aren't just asking him for money, you are posing an intentional alliance. It has to work for him, while serving you. In the investor's experience, he has learned the signs of a good idea. So, you're not just after the money: you similarly want the approval, the name recognition, and the guidance. He is at the top of his game, looking to make his earnings work in a secondary venture. Your business will be a representation of him. Trust the investor.

Remember that the investors are real people. They've made it big, as you want to do, and know how to get things done. But consider the risk involved: big money and serious reputations. The pitch is more than a sales call; this is the meeting where you and the investor explore compatibility. Approach the situation with humility and respect, and consider the value you hope to bring to the investor's life.

Don't worry if you can't figure out all the personal stuff beforehand. This is where you'll use another Strategy of Preeminence technique: the Socratic method of asking questions and listening. Ask the investor questions of interest that are sophisticated enough to show that you understand their domain, their landscape. Don't think you have to speak only about yourself to win them over. Just ask good questions. Imagine me, in Australia, sitting in the hotel bar. Bring questions that lead to deeper engagement; start the dialogue. It's always easy to measure a person's acumen by the kinds of queries they make. Ask the kind of questions that indicate depth and commitment. Show the investors you understand.

Investors Invest In The Person

What are the elements of a positive sale? A backer is looking for a number of different elements: a great idea or concept, an entrepreneur with a decent track record (who shows perseverance and conviction), good planning, and an honest need for assistance. They have to know that the idea is scalable and fits in their portfolio. And they have to like both the idea and the businessperson. This investment is like any kind of purchase: there must be a standard of confidence.

Investors are looking to finance a person, not just a mere product. If the entrepreneur is a great person, she'll probably run her business well; and even if she fails, the investor will most likely be interested in starting another business with her, or pulling her into another business that is already going. Investors always want to invest in a person, because the right leader—no matter what happens with the business—will never quit. They are looking for someone who will get up, bounce back, and work hard.

If an entrepreneur says it's her third time raising money because she failed every other time, and she blames other people for her failures, it implies that it will be the investor's responsibility to take care of her. That's not what investors want to hear. If the investor sees that you are willing to take responsibility, through your presentation as well as by your experience, it gives them a sense of security. Demonstrate your hunger to work and make more money—for their pockets as well as for your own. If you show a lack of ambition, the investors will not want to help. Be excited.

For the most part, investors are rooting for you. They want you to be successful, because they want to win and be associated with your success. They want to be able to say, "You know what, this didn't work. But I didn't really invest in the product, I invested in you. You and I are going to make another effort. I want you to continue to work with me." Even when a product loses luster, you will retain great worth.

You don't need to be a full-fledged businessperson to win an investor's confidence, although you do need a successful business and the ability to think in a successful manner. Some entrepreneurs are dreamers, while others are seasoned professionals. Most are somewhere in the middle. Try to be an entrepreneur who's passionate about your idea and who's going to do every single thing you can to become a better businessperson, while remaining grateful for the guidance and mentoring. Open your mind and be flexible.

Don't worry about having an MBA. You don't need to be completely polished with slick presenting skills, and you don't have to be a financial prodigy. With a great product or service, proof of concept, and a compelling presentation, an investor will listen and be willing to take on your risk. From his point of view, a larger risk can yield a larger reward. Many investors like a little amateur freshness; it usually means the entrepreneur is more open. Then the entrepreneur and investor can learn together, push the product forward, and reap better rewards. It can be a wonderfully gratifying process for both.

Plan For The Future

The investor is investing not just in you and your product, but in your entire business premise, too. They're not just saying, "Here's a check, have a nice time." They're saying, "I'm buying you doing this plan, to build value for all parties concerned."

That means you have to follow through on your business outline, otherwise they'll say, "I gave you a million dollars after seeing your business plan. I listened to you make a promise. You took the million dollars, so what happened to your side of the promise?" When you don't follow the agreed business plan, you threaten to break the agreement and aggravate your supporter. Accepting the million dollars shows your precise intent to follow the business plan. Taking an investor's money makes them an owner, and he is entitled to your highest commitment and finest efforts. You have the responsibility to make the business profit and the duty to respect your personal commitment.

It's true that investors may be reticent to give all the money in one fell swoop. So rather than asking for it, turn the tables and say, "I won't take all the money at first. Let me prove this, and then let me prove that. Let me hit these milestones and benchmarks first." Show that you have a step-by-step map to bring the business to success, a strategy they can rely on you to fulfill. You'll earn their respect by following through on your promises. My concept of reversing the risk notes that you make certain achievements and pledges in increments. Complete one task and do it well before asking for additional amounts of capital. As you prove your efficiency and build trust, you'll reinforce the business relationship.

Pitching: The Good, The Bad, The Ugly

The best way to learn how to pitch to potential investors (and how not to) is to observe real-life pitches. In the next chapter, I'll recreate thirty pitches people have made, based on industry observations and my personal files. I'll analyze each presentation, focusing on what makes a pitch great, mediocre, or downright pathetic.

But don't take my word for it. See for yourself. You will learn how your words and actions look from the investor's point of view.

Chapter 6: Action Steps

Step One

Capture the investor's attention and secure an appointment to make your pitch.

Step Two

Do your homework to ensure you are prepared for the big day. Dress for success and if appropriate, bring your product along to show it off.

Step Three

During your pitch, be knowledgeable about your industry, your sales figures, and your product. Back up your claims with proof, such as statistics and documentation. Demonstrate humility, honesty, enthusiasm, respect for the investor, and an attitude of preeminence. Know exactly what you want, describe what you're offering, and articulate how investing in your enterprise will benefit both parties. Demonstrate flexibility, a willingness for future pivoting, an openness to collaboration, and a desire to work hard and shoulder responsibility.

CHAPTER 7:

Thirty Pitching Case Studies

In this chapter, I'll present thirty examples of pitches—successful and unsuccessful—simulated after ones I've heard throughout my career. I've changed the names and some of the details to protect privacy, but the lessons to be learned here are 100 percent real. Pay close attention.

This is your chance to see entrepreneurs in action. The following is a collection of people in various stages of business; you will see various ideas and ways of presenting. Some have a viable product or service, but lack information or believability. Others have a less than stunning idea and a strong presentation. My purpose in bringing these studies to you is to give a third-person, unemotional viewpoint on the concept of the pitch. You will have the advantage of the investor's assessment, seeing the situation clearly in regards to common sense. Let the case studies serve as "Do and Don't" preparation; take what works and apply it to your own proposal.

I've separated each pitch into six different parts. Not every pitch has all six, but most have some combination of the following components. **The Value Proposition:** the appeal the entrepreneur's business holds, both for the market and for the investor.

- **The Presentation:** the presentation the entrepreneur uses to establish the need or market, to demonstrate the opportunity or demand for their product or service, and to establish their clear understanding of the market issues––in competition, distribution, or education.

- **Preemptively Addressing Concerns:** the entrepreneur's ability to preemptively address concerns, negatives, and issues (such as why they have not generated much or any validated sales, why their business really is valued at their claims, and the extent of their understanding of sales, marketing, operational-expense issues, etc.).

- **Overcoming Investor Questions:** the entrepreneur's ability to masterfully (or at least credibly) address, handle, and overcome the investor's questions.

- **Negotiating Counterproposals And Closing:** the entrepreneur's ability to flexibly and intelligently respond to questions by proactively, and even inventively, addressing counterproposals.

- **Gaps In Thinking:** issues the entrepreneur hasn't recognized or attended to.

CASE 1: JOE

Value Proposition:

A product to help with a common "messy kid's" problem.

$35,000 for 20 percent of the company.

Presentation:

Joe presents the investor with a solution for messy children. It's an issue that most parents face, and one that Joe has faced personally with his own kids. His device will help contain the problem, and make it much easier to deal with the child and clean up. There are no other products like it on the market.

Gaps in Thinking:

While the product seems great, in order to really work, the child would have to wear it all the time. There's too high of a liability that something could go wrong and the child could hurt himself when the parent is unable to reach him immediately. The product is not realistic.

CASE 2: GREG

Value Proposition:

A household gardening product that will capitalize on the strong eco-friendly trend.

$85,000 for 25 percent of the company.

Presentation:

The standard version of this product is not only dirty, loud, and dangerous, but it's also incredibly bad for the environment. Greg believes regulating these products and making them more environmentally friendly is the next big green movement, and he is one step ahead of the game. His product is not only easy to use, but also completely eco-friendly, not requiring any kind of electronic or gas power. Although it may seem similar to old hand-powered versions of this product, new technology allows Greg's product to be simpler to use and easier to maintain.

Preemptively Address Concerns:

The investor's biggest concern is that there are already plenty of hand-powered versions of this product on the market. Greg's insistence that his is in some way unique doesn't hold any water, because the only distinction he can make is that his is easier to maintain in one particular way.

Greg digs himself into a deeper hole when he explains that he started out retailing all the old hand-held products that were already on the market—and that was all he sold. He has not sold a single one of his own products, only those of his competition. This only heightens the investor's concern that this product already exists, and that there's nothing new or unique about Greg's version. A product must bring something new to the market for an investor to be interested.

To make matters worse, the prototype that Greg has brought to the presentation isn't one that he's actually built. A factory manufactured it; Greg merely put a label on it.

Gaps in Thinking:

Not having a product that's actually unique or distinguishable in the market is a major gap in thinking. The only thing Greg has going for him is the name he came up with for his product. It seems as though that's the only plan he has for distinguishing his product: making it the name people associate with "eco-friendly."

If Greg had licensed that name to a big manufacturer in the market, he might be getting somewhere. But the brand doesn't have any proven value, because Greg hasn't done anything with it. And the product doesn't have any proven value, because he hasn't sold a single one. There's no record, nothing solid to refer to.

Don't ask an investor to back a product that hasn't sold.

CASE 3: BEN AND JOHN

Value Proposition:

An innovative and unique mobile entertainment company.

$400,000 for 15 percent of company.

Presentation:

Ben and John have created a series of exciting new entertainments for children, which they show off to the investor. These can be used for private events, corporate teambuilding, or school events. Additionally, they have franchised out these entertainments for use, all across the country.

Overcome Investor Questions:

Ben and John answer the investor's questions about how much using their entertainments costs the consumer and about how their franchising works. The investor asks about the patents for the individual products, and Ben and John assure the investor that all the products are patented, and that the investor would be a 10 percent owner of the patents as well.

However, the investor is concerned about the valuation. $500,000 for 10 percent means Ben and John are valuing the company at $5 million. Do their sales prove that number?

Although Ben and John have done well, grossing $3.5 million the previous year and on track to gross $5 million in the current year, last year they only netted $125,000 on the $3.5 million. Ben and John explain that they started the business in a down economy, and that they have spent money building an infrastructure that could support a much larger system. But the investor is still concerned: $125,000 is nowhere close to $5 million.

Negotiating Counterproposals and Closing:

It's clear that what Ben and John are really looking for is a strategic partner to help them grow. But 10 percent of the company is not worth the work the investor would need to put in to get the company up to a more profitable level.

The investor does the math on the numbers Ben and John have given, and generously values the company at $1 million. He offers to give Ben and John the $500,000—but only in exchange for a controlling 51 percent in the company.

Ben and John insist on the company's bright future, but the investor is only interested in the cash on hand: what the company is worth today. And if the investor is going to really put in the time and effort to help Ben and John out as a strategic partner, he wants to have control of the company.

Ben and John are vehemently against losing control of their company. They counter-offer 25 percent for the $500,000. The investor asks, "If I gave you that $500,000, wouldn't I be the single largest shareholder you have today?"

"Yes," Ben answers.

"Then why shouldn't I have control?" the investor asks. "Money always controls things. That's how it works."

But Ben and John refuse to be controlled. They decline the investor's offer, and walk away with nothing.

CASE 4: JENNA

Value Proposition:

A money-saving idea to help parents entertain their kids.

$125,000 for 10 percent.

Presentation:

Jenna explains to a panel of investors a money-devouring problem parents often face with their kids. She has an innovative idea for an Internet-based service that will cut costs, while still allowing parents to give the kids what they want.

Overcoming Investor Questions:

Jenna answers the investors' questions on the logistics of the service and on some of the practical challenges. She walks the investors through her business model, including the different levels of payment plans for consumers and the cost of providing the service.

Gaps in Thinking:

Although the investor thinks Jenna has overvalued her business by already considering it a million-dollar business, he also thinks that the business has great potential to grow. He's interested in investing. But then he asks, "Do you have any partners? Are you doing this on your own?"

Jenna answers that her partners are her husband and four others. Then she explains that her husband owns 50 percent of the company, while she and the other four own only

10 percent each. The fact that she owns so little of the company comes as a surprise to the investors. One investor explains that he has a bad history negotiating with people who don't have a controlling interest in the company, and backs out.

Negotiating Counterproposals and Closing:

Luckily, the other investors on the panel are still interested, although they agree she has overvalued the company.

One investor offers $125,000 for 35 percent—a strong vote of confidence, because he usually requests a controlling interest. This investor has experience in children's products, and feels he can help Jenna immensely through his connections in that industry.

Another investor is also enticed, and he wants to go in on Jenna's business with a third investor, who has a lot of Internet business experience. Together, they would offer $250,000 for 40 percent of the business.

Although the second offer has more money, the first investor was the one Jenna was targeting, precisely because of his experience in the children's products industry. The third investor protests that since it's an Internet-based business, his experience in that area is actually much more beneficial to the start-up company.

Jenna likes the idea of getting more money, so she asks the first investor if he would be willing to up his bid to $200,000 for 35 percent. The first investor agrees—if the third investor, with the Internet experience, comes on board with him instead and splits it. The third investor agrees. Jenna agrees as well, getting the money and the two investors with the experience she needs, while the mediating investor is left out in the cold.

By focusing on the investors whose portfolios were the best fit for her business, Jenna was able to get everything she wanted—and more.

CASE 5: BRUCE

Value Proposition:

A product that can be the next big trend in action sports.

$550,000 for 25 percent of the company.

Presentation:

Bruce starts his presentation with a lively demonstration of the product, which is very impressive to the investor. He explains how his product can be the next big thing in the action sports market, following the same path of success as BMX bikes and Motocross.

Overcome Investor Questions:

Bruce answers the investor's questions about product sales, the typical retail price of the product, and production costs. He explains that his plan is to become the world's biggest manufacturer of this product.

The investor questions this. "Is this a mass market product," he asks, "or could you continue what you're doing, selling a few thousand a year, and make it specialized? If you made it a specialty product, you could charge much more for it."

Bruce reiterates that he wants to go mass market. "Why don't you stay in the specialty space, own it, and make fantastic margins?" the investor asks. "Going mass market is a completely different business." The investor explains that you can become a victim of your own success. Bruce's product is cool and hip; if he goes mass-market, he'll lose much of that edge.

Gaps in Thinking:

Bringing an investor in would take away the cool factor, and make the company more about cash. Going low-end is not the answer for Bruce, as that would deteriorate the product quality too much and take away what's good about it in the first place. The investor believes he should stay specialized, and raise his retail price by 100 percent or more.

This surprises Bruce. He thought investors were always about wanting to mass-produce and make a million bucks. But the investor knows that if the product is specialized, every kid is going to want one. And in the smaller market, the product is doing great. Bruce doesn't need an investor at all.

While Bruce didn't get the investment, he shifted his thinking about his business. Mass marketing your product is not always the answer. Now Bruce can concentrate on being the top of his specialized industry.

CASE 6: ADAM

Value Propositions:

A unique solution to protecting against allergies.

$500,000 for 10 percent of the company.

Presentation:

Adam describes to the panel of investors how his product can provide relief for people suffering from allergies, explaining that the product is easy to use and the results are clinically proven. He states that it will solve a common problem and will make a tremendous amount of money.

Overcome Investor Questions:

The investor thinks the valuation sounds very high, and asks Adam how many units have been sold. Adam tells him that 2.3 million units have been sold, but says that he hasn't done any sales on the market yet. The investor asks him to clarify, and Adam explains that a client has already put in an order and given the company a contract for 9 million units over the next five years. Adam proves to be a prepared entrepreneur by pulling out the contract then and there to show the investor.

The investor asks about the market for this product, and Adam explains that it will probably be more of a worldwide product, not specifically American. The investor asks about the specifics of how the product works, and Adam explains the mechanics behind it. He confirms that he has a patent pending for the product. The investor asks what Adam needs the $500,000 for, and Adam explains that he needs it to fill the contract order.

The investor wonders why Adam hasn't licensed this product to a drug company. Adam explains that he did indeed try that path, and the drug company told him they weren't interested in a product that would preemptively prevent people from buying their drugs, which were much more expensive and so made the drug company much more money.

Negotiating Counterproposals and Closing:

Adam impressed the investors with his preparedness and ability to answer their questions. One investor is concerned about the cost of educating the consumer about the product, and decides against investing, though he does still believe Adam's product is a practical item and will have a wide market.

The first remaining investor offers the $500,000 for 20 percent and a 15 percent royalty on every unit until the investment is recouped. The second offers $800,000 for 30 percent and a 10 percent royalty. The third investor offers a million dollars for the whole company outright.

Adam turns down the million dollars—he believes this is a billion-dollar industry. He admits that he would consider selling the business for a higher number, as long as the deal includes a 10 percent royalty back to him. However, he would prefer to stay part of the company because it is his personal passion.

The second investor comes back with an offer of a million dollars for 30 percent of the company, as well as a 10 percent royalty until the investment is recouped. The third investor offers $2 million for the company, with the 10 percent royalty back that Adam requested. Adam believes that price is still too low for the entire company, so the third investor pushes the number up to a huge sum: $4 million dollars. But Adam is still ambivalent. He asks if the investor is willing to go to $5 million and a 15 percent interest, but that's a bit higher than the investor is willing to go.

At this point, the three investors—each very interested in the product—decide to team up. Together, they offer $750,000 for 30 percent of the company, and 10 percent perpetual royalty. Adam asks if they are willing to push the number up to $1.2 million, the amount he needs to fill the large order. The investors decline, explaining that as owners of a piece of the company, they will be there in the future to help fund future orders, so they don't need to give all the money now. Adam will be able to get it later, without having to give away any more of his company.

It's a great offer, and Adam takes it. Because of his great preparation and pitch, he's come away with more money than he asked for *and* three great investors who are on board for the long run.

CASE 7: RICK AND JIM

Value Proposition:

A new clothing line targeted at a particular market that could be the next great

American clothing company.

$60,000 for 30 percent of the company.

Presentation:

Rick and Jim explain to the panel of investors how they came up with the brand, and the lifestyle their clothing represents. They explain the large market that exists for this kind of clothing, and how the brand can be expanded beyond clothing into more product and licensing opportunities.

Overcome Investor Questions:

The investors' first question is about sales. Rick and Jim answer that they have sold $271,000 in a little over three-and-a half years.

"Never answer a sales question with what you sold over three years," one investor reprimands them. "That makes me think your sales aren't very good. What did you sell over the last twelve months?"

Rick and Jim reply that they are on track to do $60,000 for the year. When asked about where their clothes are sold, Rick and Jim reply that they mostly do event sales, although they did just sign a retail agreement with a major retailer to put their clothes in thirty of the distributor's stores. They were also picked up by a distribution company, which specializes in distributing products to travel plazas and truck stops across the nation.

The investors move on from sales to the brand. Rick and Jim confirm that they own the brand name for a variety of products, and also have three trademarks. That's good news, but the investors are worried about how they're going to get the name out there. Building a brand from the ground up costs millions of dollars, and Rick and Jim have only asked for $60,000.

Rick and Jim explain that they've aligned themselves with other elements of the lifestyle their brand represents, such as musicians. They set up their tent at concerts, and often end up selling more t-shirts than the artist. At a big concert, they can sell as much as $10,000 worth of product—although due to the high cost of selling at concert venues, the profit margin on that number is fairly slim.

The investors ask about the company's profit margin for the last year, and Rick and Jim confirm that they were cash positive, but only by $7000—all of which went back into the company. Neither of them is paying themselves anything. And if you're not able to pay yourself anything, you're not really making any money.

When asked what they would use the $60,000 for, Rick and Jim explain that they want to start attending trade shows, as well as expanding their trademark to other countries. They also explain that, while at trade shows, they don't want to just be two guys sitting behind a table. They want to throw parties reflective of the lifestyle their brand espouses.

The investors turn their attention to the valuation. At $60,000 for 25 percent, Rick and Jim are valuing their business at $240,000—when they only have $7000 of profit, and that should really all be gone toward salaries. Rick and Jim explain that they base that number on the $60,000 of sales, and the $50,000 value of the four trademarks they hold.

Negotiating Counterproposals and Closing:

The investors appreciate that Rick and Jim understand the power of the brand. That, in and of itself, is a great business. But they want to know why Rick and Jim don't find somebody to license the brand to, and let them go after the big retailers. Rick and Jim answer that they're certainly interested in exploring that avenue, and that they have been working on some licensing deals.

One investor reiterates that the brand is the real thing of value. Clothing retail is one of the most competitive markets out there; licensing the brand would be a much better approach to the business. That should be what Rick and Jim focus on, rather than trying to expand into retail. Because he doesn't want to get into that crazy world, this investor is out.

The brand speaks personally to a second investor, who lives the lifestyle the brand promotes. He also agrees that licensing is the way to go, but he doesn't have the contacts to help Rick and Jim out in that area. Because of this investor's expertise in the lifestyle, another investor with more licensing expertise asks to team up. However, the third investor wants 100 percent of the name, on which he'd pay Rick and Jim a 7 percent royalty fee—and Rick and Jim aren't ready to give up the whole company.

Then, the fourth investor jumps in—the one with the real expertise in licensing and branding. Together, the three investors offer $60,000 for the rights to the name, in exchange for a 7 percent royalty. Rick and Jim counter with $120,000 and 10 percent royalty. The investors counter again with $90,000 and the 7 percent—a royalty that is the industry standard.

With that offer, Rick and Jim agree to the deal. Because they were willing to be flexible with their plan for their company, they were able to get more than they asked for and three true experts in the field on their team.

CASE 8: FRANK

Value Proposition:

A new money-carrying product inspired by a popular TV and movie genre.

$60,000 for 25 percent.

Presentation:

Frank starts his presentation by introducing his associate: a celebrity heavily associated with the genre his product is inspired by. The celebrity shows off the product and helps Frank explain the genre connection and history.

Preemptively Address Concerns:

Although the product is incredibly simple, the investor is intrigued. Frank explains the product in more detail, and also reveals that not only has he already created spots with the celebrity, but the celebrity has also gotten cast-mates from genre-related projects to participate in the spots. Moreover, they've already talked to genre-friendly venues about doing personal appearances and giving out samples.

Frank explains that he sees the product as a great candidate for As Seen On TV, and that he needs the $60,000 to buy the airtime to put the product where people can see it.

Gaps in Thinking:

The investor has one big question: since Frank has this amazing celebrity on board, why isn't that part of the product? Why isn't the celebrity's face on the product? Why isn't the product named after the celebrity? Without the celebrity, the product is just a simple piece of material. With the name and face of the celebrity, it becomes a real product. The celebrity is Frank's biggest asset, and he's not using him. He hasn't branded him anywhere.

Negotiating Counterproposals and Closing:

With the celebrity being the biggest asset, the investor turns to discuss the deal with the celebrity: the $60,000 to the company for 40 percent. She'll split the 40 percent with the celebrity in return for the celebrity putting his face and name on the product. The celebrity agrees.

"What just happened?" asks the bewildered Frank. "Where did I go?"

The investor explains that she will give Frank the $60,000, in return for 20 percent of the company to her, and 20 percent of the company to the celebrity. Frank will still run the business, but the product—including all the existing inventory—will be renamed and rebranded. With the investor's marketing expertise and the recognizable brand of the celebrity, the product would be a home run.

What could Frank do but accept the deal? He didn't use his biggest asset, so the investor went straight for it. Frank was lucky he didn't get cut out completely!

CASE 9: MARK AND JOSH

Value Proposition:

A creative new audio technology business.

$200,000 for 20 percent of the company.

Presentation:

Mark and Josh lay out their innovative idea to a panel of investors, showing how their product can revolutionize the industry. Additionally, they give the history of their last invention, also in the audio technology industry, along with the mechanics behind it. Then they demonstrate their new product, describing the benefits it provides.

Overcome Investor Questions:

As usual, the first question from the investors is about sales. Mark and Josh surprise the investor by telling him they've only been in business one year, and have already made $750,000—$500,000 on their new product, and $250,000 on their previous. The products were sold both online and in 500 stores across the country, including some of the largest home good stores and teen stores. The net profit was $150,000. However, neither Josh nor Mark took salaries out, so the investor doesn't count the full net.

Mark and Josh need the $200,000 for more employees, product fulfillment, and accounting fees. They are currently shipping everything out of Josh's garage. The manufacturing for the first product is done overseas, through a license with a factory in China.

The investors appreciate the number of sales Josh and Mark have made, but $200,000 in profit does not equal a million-dollar value for the business—especially since Josh and

Mark are not paying themselves. Even though the business was doing very well, they were still overvaluing it.

Preemptively Address Concerns:

The investors are concerned about educating the consumer on the product. It's hard to tell without a demonstration, what exactly the product does and how it works. Josh and Mark reveal that they have done most of their sales on television—through QVC.

The investor is surprised. "Were you going to wait until I was out before you told me that?" he asks. "How did you get on QVC? This story gets more and more amazing!"

Josh and Mark amaze the investor further, when they tell him that QVC came to them after they saw a demonstration of the first product at a trade show. QVC asked them to come on the show; usually, it happens the other way around!

Negotiating Counterproposals and Closing:

One investor is still nervous about the valuation of the company. He asks what percent they will offer for the $200,000. But before Mark and Josh can answer, the other three investors jump in: one with an offer of $300,000 for 100 percent of the company, one with an offer of $200,000 for 30 percent, and one with the offer they asked for in the beginning of $200,000 for 20 percent. Naturally, that's the offer Mark and Josh take!

CASE 10: STEPHEN

Value Proposition:

A funny twist on a traditional household decoration.

$100,000 for 25 percent of the company.

Presentation:

Stephen tells the story of how he came up with the idea for his product—to take a product traditionally aimed towards women and make it distinctly masculine. He then demonstrates the different versions of the product for the investor, including his best-selling item.

Gaps in Thinking:

The investor finds the product amusing, but it's clear that the product falls into the category of gag gift or interesting, but unnecessary impulse buy. It isn't a product that can be invested in to grow. It's a single product, and the investor can't visualize it as a full company that will make any money. Furthermore, Stephen's presentation left the investor with a strange feeling; not once did he look the investor in the eyes. He was dressed in wrinkled khakis and did not seem like a trustworthy professional. He chose not to invest.

CASE 11: RACHEL

Value Proposition:

A product that capitalizes on the lucrative wedding industry.

$300,000 for 25 percent of the company.

Presentation:

Rachel tells the story of her own wedding, when she realized that one essential product was only available made with low quality materials. So she made her own, and her business was born. Rachel shows off several of her products, including a high-end version, one that is mass-produced and sold in retail stores and online, and one that is customizable online. These latter two are the two retail options she hopes to expand upon to make her brand more accessible and affordable to the massive wedding market.

Overcoming Investor Questions:

Rachel goes over her sales with the investor: $550,000 in the past year, and that was in a down economy. Before the recession, the company was selling $800,000, and the current year is projected to finish around $650,000. She explains the changes she made in her business to help in this recovery from the downturn. However, when Rachel explains the profit margin for the new products, the investor is not happy. Rachel's margin is around 33 percent; the investor believes she should be selling for at least a 60 percent margin.

The investor inquires about patents, and Rachel explains that although she has no competitors in the market, it is not possible to patent the category of product she makes. However, Rachel is the first in the field to make a business out of the product, and she is the only one making a name with it.

Gaps in Thinking:

The investor asks about the high-end version of the product. Rachel says she makes about a $500 profit margin on each high-end product. The investor cannot understand why Rachel would want to drop down to such a small profit margin on her new retail products. Rachel explains that she wants to help brides with smaller budgets to have the wedding of their dreams.

The investor isn't buying it. In terms of business, he sees weddings as the perfect time to charge people a premium. People are more willing to spend when they're planning a wedding and they want everything to be perfect. Moreover, Rachel already has a booming business with phenomenal margins in the high-end market. Why would she want to go to the low end? She should continue dominating the high-end category; it's better to be the best in a niche than to go out and compete against all the other products—that way holds too much risk.

Rachel still sees the lower end as an opportunity. She starts to explain that most churches and synagogues no longer allow the cheaply-made versions of this product, but Rachel's clients send samples of her product to the churches and synagogues and they get permission. In fact, there are several large cathedrals that won't allow any version of the item except Rachel's.

This boggles the investor even more. Not only does Rachel have a grasp on the high-end market, she has all this exclusivity. She should tell the churches and synagogues to go directly to her website. However, Rachel insists the brides are the ones buying, and she wants to get them to know she exists.

The investor doesn't agree with her strategy. He doesn't understand why Rachel would send her product to retailers to sell, when she's selling it much better than they ever could. He doesn't understand why Rachel would rather risk everything for maybe $4 or $5 million, when she already has a successful, profitable $2 million business.

There's only one way the investor will invest in this business: if he has control, so he can keep Rachel in line with her best interests and keep her walking the high-end, high margin path. He offers her the $300,000 for 51 percent of the company.

Rachel refuses him outright. She does not want to give up control. She has full confidence in herself and the direction she wants to take the company, and she'd rather have that than the money.

CASE 12: STAN

Value Proposition:

A product that will revolutionize both a lifesaving piece of equipment and the homeowner equivalent.

$600,000 for 30 percent of the company.

Presentation:

Stan illustrates an example of a life-threatening situation, in which his product could be the difference between life and death. To demonstrate the product, he has two emergency response professionals show how the equipment works with the product in comparison to how it works without. The product clearly makes the process faster, although only by a few seconds. Stan is hoping to sell this product to emergency response departments all over the country.

Overcome Investor Questions:

Stan goes over the cost of the product, how many units an average department will order, and how many hard and soft POs he's received from the departments he's called so far. However, the investor has a concern: Stan is selling to the government, and everybody knows the government is cutting budgets left and right. Will there really be a market for this product?

The real solution would be to get departments to mandate the product. Stan is working toward that, but he does not have approval yet. The investors ask whether Stan has gone to other emergency product distribution systems. Stan says that he has, seeing if he could make a deal for them to buy his patent. Although they weren't interested at the present time, they said they would help him distribute by putting his item in their product line.

The fact that the distributor wants Stan to take on the financial challenge of making the products, shows that the distributor does not believe very strongly in the product. He also doesn't think the departments will budget out the cost of the product for the few seconds it saves.

Gaps in Thinking:

The investor casually says that he loves the design of the product, and wishes he had one for use on his home equipment. Lo and behold, Stan has just that—a smaller, cheaper version of the product for home use. “Why’d you wait so long to show us that?” the investor asks.

This new product is included under the same patent as the other product. However, Stan has made no effort to sell this product, because he is focused on the life-saving product. The investor agrees that it’s a noble cause, but that it’s also very difficult to change an entire industry. The home product, however, could be sold to the two or three major manufacturers of the home equipment for a royalty fee.

Negotiating Counterproposals and Closing:

Based on both products, the investor offers Stan $1.25 million, a 7.5 percent royalty, and an employment deal for $100,000 a year for a minimum of three years, in return for 100 percent of the company. Stan accepts, and the company is ready to move forward on both products.

CASE 13: RILEY

Value Proposition:

An innovative product line for the well-dressed man.

$100,000 for 20 percent of the company.

Presentation:

Riley tells the circumstances of how he came up with the product, which solves a simple problem that many men face with their menswear, in an easy, innovative way. Riley demonstrates the product to the investor, who is suitably impressed.

Preemptively Address Concerns:

Riley explains that three high-end men’s specialty stores have already acquired his product. The company did a test launch of the product in 24 stores, and within 3 months they went to 77 stores. They have sold 18,000 units, and made over $600,000 in retail. The product is now in every store of one of the best high-end retailers. Moreover, Riley has designed and produced the entire product himself.

Overcome Investor Questions:

The investor is very impressed, and even more so when Riley answers his question about sales by telling him that the product has made half a million a year to date, and is expected to sell $1.8 million the next year.

When asked about the money from the investor, Riley explains that he wants to use it to continue to create new products to follow in the first product's footsteps and expand the company.

Negotiating Counterproposals and Closing:

The investor loves Riley's passion, knowledge, and approach. But he wants a larger part of this company. He offers to give Riley $150,000, in return for 30 percent of the business and a 14 percent royalty.

Riley doesn't like the deal. The investor explains that this deal would mean his continued investment—that when Riley needs more money to continue to grow, the investor will be able to supply it.

Riley takes offense at what he perceives to be the investor saying that his product can't be made into a successful brand. The investor tries to protest, but Riley interrupts him, trying to make his point. Rudeness is something the investor can't abide. He takes his offer off the table. He explains that he was trying to give Riley a compliment, but that Riley wouldn't let him get a word in edgewise. That's not what the investor is looking for in a partner. He wants a partner he can speak to.

Riley tries to apologize, but it's too late. The investor really liked him and really liked his product, but Riley offended the investor, and the deal is off.

CASE 14: ROGER

Value Proposition:

An enjoyable and more accessible way for people to enjoy alcohol.

$700,000 for 25 percent of the company.

Presentation:

Roger makes his own alcohol and packages it in an innovative way, which allows for much easier and more convenient imbibing of individual servings. The packaging is revolutionary, and Roger wants to create more inventory.

Overcome Investor Questions:

Right away, the investor is confused: is Roger selling the packaging system, or the alcohol product itself?

Roger launches into a description of his alcohol production and how that is run, which does not answer the investor's question. Again, the investor asks whether he is buying an alcohol label or the packaging system. Roger explains that the company has three revenue streams: the ability to license and collect royalties, the ability to bottle, and the ability to launch a customer brand. At present, the consumer brand is the revenue stream bringing in sales—over $800,000 in just five months.

That's impressive, but the investor is convinced people are buying the product because it's easy, not because the alcohol is particularly good. The packaging is really what's innovative and worth something. He asks more about how the packaging works, and Roger explains the mechanics, which have been independently lab tested.

The investor doesn't understand why Roger is in the alcohol business. He should just be licensing the packaging to the big existing alcohol producers. Roger explains that they are already pursuing that avenue, and estimates they will make from $3 to $5 million of sales off those deals in the next year. Then, the investor takes the idea one step further: why even be in the packaging business? Why not patent this asset and market to the largest packaging companies on earth?

Negotiating Counterproposals and Closing:

The investor is really only interested in the patent for the packaging. He asks Roger whether there's a way to separate out the packaging, the patent, and the intellectual property, buy that, and leave Roger with the alcohol business. Roger says that is a possibility, and the investor asks him to make an offer: what percent of the IP and patent would Roger give him in exchange for $700,000?

Roger says 25 percent. That's not enough for the investor. Roger is also having second thoughts, as the packaging is really what makes his brand as an alcohol producer. He's not ready to give it away. He thinks his alcohol business will be much more lucrative. The investor tries again: for $700,000, he'll take 51 percent of the IP, taking control of it and being in charge of licensing. That would leave Roger free to run his alcohol brand, while still getting 49 percent of whatever the investor makes on licensing the packaging.

Even though he could use that $700,000 any way he saw fit, Roger is still not satisfied. He still thinks his product is being undervalued, and insists the investor doesn't clearly understand it. The investor asks Roger to counter the offer: what would Roger ask for 51 percent of the IP?

"Three million dollars," Roger replies.

That is out of the question for the investor. He tells Roger he is missing a huge opportunity. The investor is out; Roger is on his own.

CASE 15: MARSHALL

Value Proposition:

A product that can be the next big thing in fitness.

$150,000 for 20 percent of the business.

Presentation:

Marshall presents his fitness device and explains the multiple benefits. He explains how the device can help you burn calories faster, demonstrates its use, and has the investor try it out for himself.

Overcome Investor Questions:

The investor asks about the price of the product and how much it costs to make. Marshall says it costs $10 to make in China, and it retails for $49.95. He also sells it wholesale to a few major retailers at $30. The problem is that, although it's in those stores, nobody knows about it. That's why Marshall wants the investment.

The investor asks about sales in the past year, and Marshall answers that he had $150,000 of sales, on which he made about $60,000. But based on his offer of $150,000 for 20 percent, he's valuing his company at $600,000, and that doesn't sit well with the investor. Marshall insists that there is value in the patent, but the investor says that for the company to really be worth that much, it has to make sales in the millions. Marshall answers that he wants to do that by infomercial.

Gaps in Thinking:

In order to really get the product out there, Marshall would need hundreds of thousands of dollars. He doesn't have the testimonial base to back up his product. But most of all, he just over-valued the company by too much, and it's not a deal the investor can afford.

CASE 16: CAROLYN

Value Proposition:

A product to help expecting moms feel beautiful.

$40,000 for 25 percent of the company.

Presentation:

Carolyn tells the story of her own pregnancy, and how she felt like she looked awful and how that made her feel awful. So she decided to develop a product that would help pregnant women feel beautiful. She demonstrates the product to the investor, and explains its benefits.

Overcome Investor Questions:

Carolyn explains that the maternity market is a $4.5 billion market that has experienced 12 percent growth every year since 2002. But when the investor asks about sales, Carolyn says that she has only made $11,500 over the past several years.

The investor points out that by asking for $40,000 for 25 percent, she is valuing her company at $150,000. Carolyn agrees, and says she values it at that level because of how hard she works. The investor says that he evaluates companies on sales. Carolyn says that the company has no debt, she has no loans, she's never borrowed money, and she has product in inventory.

The investor thinks that Carolyn is a good saleswoman, but there is no proof of concept. Carolyn insists that is only because she hasn't had any advertising yet. What she has done so far has all been through people coming to her, and she has retailers wanting to carry her product. She also says that she has a high price point because she's manufacturing in small quantities.

The investor still can't get over her miniscule sales. Carolyn again argues that the company is just her, working from ten o'clock at night until two o'clock in the morning, every night. The investor believes her, likes her, and likes the idea, but is troubled that Carolyn has no distribution. Carolyn says that's why she needs the investment. Carolyn then explains that she would use the money for more inventory.

The investor isn't satisfied. Carolyn is not answering any questions about how she's going to grow, or how she's going to advertise. She doesn't know any of the costs. The biggest issue is getting the business to the customer, and Carolyn has not explained how $40,000 is going to put her into any kind of branding, advertising, or marketing program on a national scale. She hasn't identified the cost of customer acquisition, and she hasn't answered what it will cost to grow the business.

Gaps in Thinking:

Carolyn argues that the business is so new—she still needs to educate the customer. The investor pinpoints that as the problem: the product is still an idea, not a business yet. The investor asks about alternate ways to make the product that would save a lot of money, but Carolyn doesn't seem to think those options would work. The investor asks about licensing the product, but Carolyn doesn't think companies would be interested, because it's too high-end.

"Here's the issue," the investor says. "It's what you think you already know that's preventing you from learning. You have all the answers, so you'll never learn from me." Carolyn continues to hustle the product, and the investor tells her that she needs to come back when she's not just a great sales rep, but a business owner. All she's done is butt against any suggestions the investor has made, and that does not show that she'd be a good partner.

Carolyn insists that she is open-minded. So the investor asks her, if he gave her a deal, would she be willing to make a cheaper product, alter the packaging, and change the way she does variations on the product. Carolyn agrees to those terms. The investor offers $40,000 for 40 percent—40 percent because this investment is going to require a lot of his time. Carolyn needs to reinvent the product and figure out an angle to market it, and for this deal, the investor would be willing to put in the time to help with that.

Carolyn will not accept the 40 percent. She thinks the investor has too many conditions. She is not ready to step back from her own ideas and strategies to let the investor in at the table, so she walks away with nothing.

CASE 17: MARY

Value Proposition:

A deliverable dessert product that is the best of its kind.

$75,000 for 30 percent equity.

Presentation:

Mary presents her product, explaining the background and ingredients. She gives the investor samples to try, and the investor concedes that they are indeed delicious. Mary explains each sample, including ingredients and how the delivery aspect works.

Overcome Investor Questions:

After asking about the cost and retail price, which Mary provides, the investor voices his main concern: how does she get customers? Mary explains that the best way to get customers is at community fundraising shows, where she sells the product with her mother. In three months, she has sold $27,000 at three of these shows.

The investor asks how she plans to expand, and Mary says she would like to sell the product on one of the shopping networks. However, the investor doesn't understand how Mary plans to fill the large orders she would get—would she and her mother cook the 100,000 orders themselves? Mary acknowledges that they'd have to change their system; she estimates that she and her mother could probably make 5,000 in 30 days.

The investor asks about retailers, and Mary says one of her products is being picked up by a large national grocery store. The investor still doesn't understand the logistics of how that large of a quantity would be made. Mary says that's where she needs the investor's help.

The investor tells Mary that the small, regional strategy she's been using seems to be working. Why can't she continue what she's been doing? Mary says that she wants the business to be huge.

Negotiating Counterproposals and Closing:

The investor tells Mary that the cakes are the best he's tried, but that turning them into a big business would be a huge challenge. It's more of a word-of-mouth kind of business, not a fast-growth business. It's not investable as a big business.

However, the product is so good that the investor is still interested, but he has two conditions: for every product sold, Mary has to send him $1. When Mary has sold 50,000 products, the investor will have made his money back. Second, Mary has to keep her mother on the team: her mother is going to be hustling the product at every trade show. That's what the money will be used for. Mary agrees to these terms, and walks away with $75,000.

CASE 18: LINDA

Value Proposition:

A clothing company with a fun design especially for expecting moms.

$75,000 for 25 percent.

Presentation:

Linda describes the logic behind the fun design on her clothing items, and outlines how the company got its start. She explains that she used to have the line positioned in upscale boutiques, where it was very successful. But that market was hit hard by the recession, and now she's looking to reposition the brand as a more economical collection and take it to mass retailers.

Overcome Investor Questions:

The investor asks about Linda's comparative sales numbers before and after the recession. Before the recession, at its peak, Linda was making $400,000 in sales. Now, they have dropped to $90,000.

When Linda launched the line, she got a tremendous amount of press, along with celebrity recognition. A few years ago the line was hot. But the investor is concerned about how far the sales have dropped. Can Linda really be hot twice?

The investor asks about Linda's plan of repositioning the product. Linda wants to make a cheaper product and bring it to a large retailer like Target or JC Penney. However, she has not talked to any of these stores, because she says she does not have the proper concept. She's tried calling, but has not been able to connect.

The investor asks what she wants the $75,000 for. Linda wants to use that money to develop this new product line from scratch.

Gaps in Thinking:

The investor knows that making a declining brand hot again is very difficult, especially since consumers are not buying as many clothes today. The women's market is increasingly difficult, and everybody is trying to get into those big retailers. The environment is not good for a new line. The investor is also worried about how many variations are inherent in the product, and how much that would cost to manufacture.

But most of all the investor is worried about the state of the business right now. He is looking to buy into a growing business, not a declining one, and right now Linda's business is declining due to many factors. It's not a business he can invest in.

CASE 19: MARCO

Value Proposition:

High-end jewelry that appeals to the wealthy and celebrity market, but at an affordable price for the mass-market.

$200,000 for 40 percent.

Presentation:

Marco presents examples of his jewelry, and describes his high-end clientele, which includes celebrities and royalty. He is interested in developing a line that is just as glamorous, but is affordable for the mass market. He shows both a high-end piece and a mass-market piece, to demonstrate that the quality of workmanship is still high. He also describes his unique inspiration for his pieces.

Overcome Investor Questions:

The investor asks about the designing of the jewelry, and Marco explains that he designs every piece. That troubles the investor: if Marco gets run over by a bus, then what happens to the business?

The investor is also concerned about whether this extravagant jewelry will really appeal to the mass market. There's also the issue that people are not buying much fancy jewelry today. Marco has talked with QVC, who is interested in his product, but the investor is concerned by the fact that Marco is trying to enter a market he knows nothing about.

Gaps in Thinking:

The fact that Marco is the sole designer is still a major issue of concern for the investor. If something happens to him, the business will die. No new product can be made. The down market and the high price point of the jewelry are also concerning.

However, if QVC does buy into the product, it will sell. The investor is willing to give Marco the money, but only if he gets the offer from QVC.

CASE 20: ANTHONY

Value Proposition:

An innovative twist on a household product with a completely unique patent.

$300,000 for 30 percent equity in the patent.

Presentation:

Anthony demonstrates how much easier his product is to use than a competitor's. He explains that he has many products in the line under this patent that all outstrip the competition in terms of ease of use.

Preemptively Address Concerns:

Anthony's product has one flaw: he has not had any sales to date. Yet he has put a million dollar value on the company by asking for $300,000 for 30 percent. Anthony says that licensing is how he's made his money in the past, and explains that his research and development firm has eighty products in their portfolio, of which this is only one. However, Anthony does not want to license this product, because he believes he can grow it himself. Of his other products, only one is making money so far; it's been on the market for a month, and has already sold 10,000 units.

Gaps in Thinking:

The investor wants to clarify whether he would be investing in the company as a whole, or just in the one product Anthony is pitching. Anthony says it would only be for the one product. If he and the investor liked working together, then he would consider making deals on more products with the investor.

This does not sit well with the investor. It seems as though Anthony's saying, "If you're lucky enough to invest in this one product, you may impress me enough to give me more money for more of my products."

Anthony reveals that he has already raised $250,000 in investor funds for this patent. Across the other 79 products, he has raised a total of about a million dollars in investor funds, starting with his first design seven years ago. However, he has not returned all of the funds to a single investor. That does not instill a great level of trust in the investor.

Moreover, the investor doesn't want to be competing against other investors' interests. With so many investors, Anthony is going to be serving too many masters. If the investor gave Anthony the money, Anthony would need to eat, sleep, and breathe this one deal.

Negotiating Counterproposals and Closing:

Based on Anthony's history with investors, the investor has no interest in partnering with him. There's only one deal the investor is willing to consider: $125,000 for 100 percent of the patent. The investor will buy the patent and take over the product, and Anthony can go back to working on all his other products.

Anthony is only interested in partnering, but the investor only sees someone who has no profit, no return of capital, no track record of any return, and a whole bunch of unhappy shareholders. The investor doesn't feel that Anthony will be a good businessperson or a good partner, and is holding firm on the offer. Anthony doesn't accept it, and walks away in the same hole in which he entered.

CASE 21: JONATHAN

Value Proposition:

A fashionable accessory with health benefits.

$40,000 for 25 percent.

Presentation:

Jonathan explains that his product counters harmful effects on people's bodies, and describes how it counters them. He offers the investor an example of the accessory to try out, to see if he can feel the difference.

Preemptively Address Concerns:

The investor is immediately skeptical. The harmful effects and healing powers have already been disproven in past products. Any change that is felt is merely a placebo effect. Jonathan doesn't really address this concern, moving on to talk about sales, which have been good: $120,000 in just twelve months, from a $10,000 investment. This has netted $70,000 in profit.

Overcome Investor Questions:

The investor wonders how Jonathan made these sales, and Jonathan explains that his background is in search engine optimization, so he has been able to get his product to the top of search results. That's the only marketing he uses.

The investor asks how he (supposedly) gets the accessory to have a healing effect. Jonathan explains the science, but when the investor asks whether it has been tested in an independent lab, Jonathan is evasive. He just claims that it's common knowledge that has been around for years.

That doesn't cut it for the investor. In order to sell a product with "healing powers" on any kind of TV program—essential to growing Jonathan's business—you have to have an independent laboratory testing that proves your claims. You need accreditation from somebody in the medical profession. Without it, you have a liability nightmare.

Through all of this, Jonathan doesn't fight back. He accepts that the investor doesn't believe in the product, and thinks it is a placebo or worse, a scam. This just shows the investor that Jonathan doesn't really believe in his product himself. There's no place for a deal here.

CASE 22: BILLY

Value Proposition:

A product that will revolutionize sports training.

$100,000 for 25 percent of the business.

Presentation:

Billy explains the coaching problem his product will solve, and demonstrates how the product works to solve it. He hopes to put the product in the hands of players around the world to use in their workouts to improve their game.

Preemptively Address Concerns:

Although Billy has only had $25,000 in sales the first year, he has been to trade shows and has some interest from big names in the sports business, even though he was not able to sell any product to those big names.

Overcome Investor Questions:

The investor asks about the price point, which at $500 seems very high. Billy explains that he wants to do a two-pronged approach: a higher-end version of the product for professional teams and Division I schools, and then a lower-priced retail version for $199. The retail version is where he hopes to make the real money.

Gaps in Thinking:

The investor thinks this makes sense, but he's confused: if Billy doesn't want to sell them on the higher-end model, why is that what he brought to show? Why didn't he bring the $199 model?

Billy explains that he has no prototype for the $199 model. He tries to explain that it will be very similar, but for half the price; however, the investor knows it would have to be pretty different. Without a prototype, the investor can't really understand what he's buying into. He needs to see how the product will work, and whether it's worth his money. Without a prototype, he can't do that. There's no way he'll make a deal.

CASE 23: JASON

Value Proposition:

A clothing business that gives the customer control of the product.

$150,000 for 20 percent of the business.

Presentation:

Jason reasons that in today's world, everybody wants to create their own style to show their individuality. His business allows people to do that in an innovative way, which is also incredibly easy and quick. He demonstrates the unique tool he has developed to be able to do this. He explains how the process drives up the company's margins.

Overcome Investor Questions:

Jason goes over the cost of making the product and the retail price, and then details how the process works and how long it takes. He explains that he has both an online business and a brick-and-mortar store, where the process can be done quickly in-store while the customer waits. In the first year since opening, the company generated $570,000, with a profit of $150,000.

The investor wants to know how Jason is planning on making his store into a chain, and Jason describes his plan. What the investor can't understand is why he wouldn't lease out the patented machine. If the technology's good enough, they can lease the machine for $100,000 to everyone from businesses to private family events.

This unique machine is the special sauce of the business. That's what's unique, and that's what should be marketed. While that's going on and making money, Jason can continue to run his own online and brick-and-mortar store. The leverage isn't opening a lot of stores; it's leasing the machine.

Gaps in Thinking:

The investors ask how much Jason is paying himself. Jason answers that whatever's left over after everything is paid for goes into his account. This doesn't work for the investor and his money. If the investor gives Jason $150,000, Jason can't just put some of it to work and some of it in his pocket. He needs to pay himself out of his business; he can't just take money out of the cash drawer.

Jason protests that there's enough money both to pay himself and to complete phase two of his business. The investor asks him how much he needs to get paid, and Jason answers that he'd be comfortable if he were making six figures.

The investor is taken aback. He is not going to pay Jason six figures. He wants 100 percent of the money to go into the business. He wants Jason to sweat and to be scared because he's not getting paid anything. Nobody who's hungry is paying themselves six figures. The right answer to the investor's question of how much Jason needs to get paid would have been, "I can live off macaroni and cheese." Wanting to get paid six figures does not show that you are willing to work hard and put your blood, sweat, and tears into the business. Because of Jason's arrogance, the investor backs out.

CASE 24: ASHLEY AND SARAH

Value Proposition:

A business geared toward motorcycle enthusiasts.

$250,000 for 20 percent equity.

Presentation:

Ashley and Sarah explain the reasoning behind their product, and show examples of the product, demonstrating its unique qualities.

Preemptively Address Concerns:

Ashley and Sarah present their sales for the past year—$172,000 in twenty-five motorcycle and scooter retail stores. Neither of them have a background with the type of product they're making, but they both have business management backgrounds. They've only been running this business for one year, so the investor wants them to show him that he can trust them with his money.

Ashley and Sarah explain that they're heading to Europe to expand their market there. That is not the right answer. Why? Because there are only two people in the company. How are they supposed to run their business and keep up with the twenty-five stores they have in the US when they're off in Europe trying to figure everything out? They haven't even hired their first employee, and they're already leaving the country.

Ashley and Sarah admit that the trip to Europe cost them their profitability. They admit that they've made mistakes with their money. The investor explains that he doesn't want them to make those mistakes on his dime. Ashley and Sarah assure him that they've learned from their mistakes, and they won't be repeated. The investor tells them that he likes the product, but they shouldn't mention Europe again.

Moreover, Ashley and Sarah have certainly valued their company way too high at $1.25 million. They do not have market share, and nobody knows the brand. They are not successful. Trying to tell the investor they were worth $1.25 million is just insane. Ashley asks what the investor would value their business at, which is still not what the investor wants to hear—he wants them to know what their business is worth.

Negotiating Counterproposals and Closing:

Ashley and Sarah start raising the equity they've offered for their company, first to 25 percent, then to 38 percent. That's still not enough, since the company has nothing proprietary that would prevent it from being crushed by another brand. They're still in dreamland.

Ashley and Sarah are determined to make a deal. They know that valuing their company at $1.25 million was catastrophic, but the investor is willing to let them try again with another offer. Ashley and Sarah take the equity up to 50 percent, but the investor wants more for the amount of money he's giving. Sarah and Ashley raise it up to 55 percent, and then 65 percent. Although still cautious about their past mistakes, the investor is willing to invest at that level of equity. By admitting their mistake and raising the equity far beyond their original offer, Ashley and Sarah were able to save the deal. They'll just have to be very careful going forward.

CASE 25: EVAN

Value Proposition:

An education system for helping people grow professionally.

$100,000 for 45 percent equity in the firm.

Presentation:

Evan describes his background as an expert in the area he's teaching in the education system. He then describes the different components of the system, and how it works to teach the customer to improve their professional skills.

Preemptively Address Concerns:

Evan tells the investor that he has sold $40,000 in the last three months, and that the product is in five organizations, three of which are Fortune 300. He walks the investor through the business model of how a sale of the product works: each person in the program pays for the system.

Evan tells the investors that corporations are buying the system for their employees, and that it increases productivity by 40 percent. The investor is a bit concerned with the low $40,000 sales number, but does acknowledge that Evan has only been in business for three months.

Evan explains that he wants to expand the company into a mobile app and video game, but the investor doesn't understand why, when he could be concentrating on selling to corporations. That seems to be the real opportunity.

Negotiating Counterproposals and Closing:

Evan explains that what he is selling is his system and the intellectual capital that is trademarked and copy-written. But the investor does not see how the material translates into a mobile app. That's not what he's interested in investing in.

The investor is interested in the material. So he offers Evan the $90,000 for 40 percent of the business, but without committing to the mobile app development. He thinks Evan should stick with what he's doing. Evan changes the topic away from the deal, concentrating again on selling his mobile app idea.

This is a bad move. The investor does not appreciate Evan diverting all his attention away from the deal that was offered. "When someone puts the deal you asked for in front of you," the investor tells Evan, "you shut up and take the deal." Instead of doing that, Evan kept trying to sell, so the investor took the deal off the table.

CASE 26: BETSY

Value Proposition:

A delicious dessert business that can become a household name.

$200,000 for 3 percent.

Presentation:

Betsy describes her history with baking, and how she developed her dessert products. She explains that she wants to be the next household name in desserts, and that she already has twelve retail locations operating. She offers samples of the five top selling products to the investor, who concurs that they are indeed delicious.

Preemptively Address Concerns:

The immediate concern is over the valuation: $200,000 at 3 percent values the business at over $5 million. Betsy explains that in the last year, sales were $2.3 million, and that current sales are scheduled at $2.5 million.

However, when asked about profits, Betsy confesses that the last year was a flat year, as they opened four new stores. The investor wonders why Betsy is adding stores so aggressively, and Betsy admits that when she opened the stores in the new region, she had underestimated just how popular her products were in the original region. However, despite the new stores losing $175,000 in their first year, Betsy is convinced they will turn around.

Then, the investor asks if Betsy has any bank loans. Betsy tells the investors that the business is in debt for $800,000.

Gaps in Thinking:

The investor can't believe that Betsy didn't include this huge amount of debt in her valuation. With the $800,000 debt, the valuation of the company is really at about $2.5 million—astronomically high for a dessert business, especially since there is nothing proprietary about the product.

Betsy insists that the company has four assets: a wonderful brand name that will instill brand loyalty, a unique product that tastes like nothing else on the market, systems that have been in place for twenty-six years in an extremely tough market, and herself, one of the hardest working CEOs she knows. She wants someone to come in who knows business and can help her grow.

The investor is concerned about putting his money into supporting the unsuccessful new stores. He loves the product, and he loves Betsy and the brand she's created, but he can't get past the astronomical valuation, especially with the added debt and the money drain of the new stores. Her inspiring personality is not enough to overcome those business failures. He does not make an offer.

CASE 27: CHESTER

Value Proposition:

A household product that aids in heating houses, saving energy and money.

$90,000 for 45 percent equity in the product.

Presentation:

Chester describes how he developed the product and how it works. He explains that the product can save a family roughly $180 a year on their heating bills.

Overcome Investor Questions:

Chester tells the investors that he has sold 680 units, all through his website, at $99 each. He also has the products in Lowe's and Wal-Mart, where they've been for three years. However, he has only sold twenty units in the past year.

The investor questions why the units didn't sell in Lowe's and Wal-Mart, and Chester explains that they were on sale as "special-order items." That means there's a display at the store, but you can't pick the item up. You have to order that day, and come back when it's delivered. The investor thinks that's a terrible deal. It shows that the stores couldn't sell the product. And if the professionals can't sell the product, the investor wants no part of it.

CASE 28: SIMON

Value Proposition:

A beverage product marketed toward a specific subset of women.

$160,000 for 40 percent.

Presentation:

Simon describes the target market for his product: a certain subset of women who have become a cultural phenomenon by initiating a social movement. Simon has taken that brand and applied it to his beverage product, creating a beverage targeted, both in ingredients and benefits and in marketing, toward this group. He believes this can expand beyond the product to be a true lifestyle brand.

Preempt Concerns:

Simon explains that the product has distribution in his region, and has already won about $60,000 worth of sales over three years. The investors ask where Simon is selling the product, and he lists the places he knows are selling it. However, he does not have a distributor; he's making all the calls himself.

Gaps in Thinking:

The investor sees the limited market as a major problem. By targeting the product so specifically for this subset of women, Simon has reduced his market size dramatically. It's not a beverage for all women; only women who want to identify themselves as this subset. Just picking a popular cultural touchstone does not make the product a brand. It makes it more of a gag gift—certainly not worth the half-a-million-dollar valuation. Simon has cut himself off from too much of the market, which makes his product very difficult to scale. The investor is out.

CASE 29: CASEY AND REGINA

Value Proposition:

An innovative twist on a clothing item that makes the item much more versatile.

$60,000 for 25 percent in the company.

Presentation:

Casey and Regina describe their background, and what makes their product so innovative. They demonstrate how it works, and how it can be expanded to include more products.

Overcoming Investor Questions:

The investor's first question is how many units they've sold, and the answer isn't great: only 100. At $35 apiece, that means the company has only made $3,500 worth of sales. The investor asks whether Casey and Regina did any market research. They explain that they brought the product to a flea market and other small venues. The women there all thought it was a very cool idea.

However, when the investor asks whether any of these women bought the product, the answer is very few—only about fifty. Casey and Regina try to blame it on the fact that they had no means of accepting credit cards, and that they were in the wrong spot at the flea market, and that people were spending their cash on fruit and vegetables instead of clothes.

To the investor, all this demonstrates is that people would rather spend their money on something besides this product. That's a wakeup call. Other entrepreneurs have taken items to the flea market and couldn't keep their inventory. That's not what happened with Casey and Regina's product.

The business is just in too early a stage for an investment. Casey and Regina need real sales and market proof, not just people saying the product is cool.

CASE 30: JEROME

Value Proposition:

An exercise program that will revolutionize the fitness industry.

$125,000 for a 25 percent stake in the company.

Presentation:

Jerome starts with his background: his father was a pioneer in the fitness industry, creating one of the most enduring and profitable fitness programs. But Jerome always felt the program was too serious, so he wanted to create a fitness program that was more fun. He leads the investor through a short excerpt of the program, demonstrating how well it works and how much fun it is. He explains that what he wants to sell is not the consumer product, which is already successfully on the market, but an instructor certification program.

Overcoming Investor Questions:

Jerome goes over the business model with the investor, explaining how the instructor certification program would work and make money. However, the investor wants to know why he doesn't get any part of the retail business. He wants to invest in the business as a whole. He wants Jerome to be working 100 percent for his investment, not 50 percent.

The investor sees Jerome as the brand, and if he builds one part of the business, he builds the other. They have to be combined. Jerome agrees to combine the business. It's that important to him to get the investment and keep the business growing.

The investor wants to know more about Jerome's father's program. He asks why Jerome's father didn't invest, and Jerome confesses that he has had a difficult relationship with his dad, although things seem to be on the mend. But he has built this business entirely separate from his father. The investor has great respect for that, but tells Jerome there would be an advantage in putting his father's name on the product. Jerome agrees.

Negotiating Counterproposals and Closing:

The investor tells Jerome that he has a very close relationship with another major fitness program, and would like to see if that fitness program will distribute Jerome's brand. He offers to give Jerome the $125,000 in return for 50 percent of the company, contingent on Jerome's father's name and the other fitness program's approval.

Jerome is immediately concerned that his brand will become just a product of the other fitness program. The investor explains that's not how it would work; the other fitness program would just be like a delivery boy, delivering Jerome's unique product as is to an existing market of twelve million users. However, Jerome is determined to build his own brand, not to be a part of somebody else's, and he turns down the deal.

The investor can't let this stand. He believes so strongly in Jerome and his business that he goes after him. The investor follows Jerome out of the room, sitting down with him and his wife to explain the deal more clearly. He explains that having the other fitness program distribute Jerome's program is the same as putting it on the shelf in Wal-Mart.

Jerome is deeply moved by the investor's commitment. He agrees to the deal, and the partnership begins.

Chapter 7: Action Steps

You can learn almost everything you need to know about what to do and what not to do while pitching from reading the thirty case studies detailed above. They contain nearly all of the major pitfalls and successes a pitch could possibly contain.

I suggest you seek the pitches on this list that contain features and weak spots similar to your own pitch. Compare your pitch with brutal honesty to the pitches above, and figure out where your weak spots lie. If your sales aren't up, work at marketing until they are. If you haven't yet filed for a patent, do so now. Practice your presentation as often as you can before the big moment arrives. Be proactive, honest, upbeat, and independent when you give your pitch. If you have to enter the meeting with weak points still lingering, redirect attention to other more positive features. But know that, ultimately, you won't be able to hide too much from investors.

What To Do If You Can't Get The Money

CHAPTER 8: Strategic Alliances
- Think Strategically
- Harness Your OB Resources
- The New Mrs. Fields
- It's Called Power Partnering For A Reason
- Action Steps

CHAPTER 9: Ways To Power Partner And Leverage Relational Capital
- Partnering With A Business Like Yours
- Getting Endorsements From Names That Mean Something
- Take Over, Repurpose, Or Package Together Another Company's Product And/Or Services
- Find Or Create A Captive Market
- Licensing
- Use Other People's Unused Assets
- Repackaging Your Business With Other Companies
- The 100 Percent Solution
- Action Steps

CHAPTER 10: How To Make A Successful Strategic Deal
- Psychology 101
- Making Your Lists, Checking Them Twice
- Keep It Real
- Action Steps

CHAPTER 11: 45 Benefits Of Strategic Alliances

CHAPTER 12: Other Incredible Ways To Grow Your Business Without Spending A Dime
- The Orderlies Who Bought The Hospital
- Asset-Based Lender And Double Escrow
- Secured Lender-Supported Takeover
- Seeing And Seizing An Opportunity
- Bartering
- Action Steps

CHAPTER 8:

Strategic Alliances

Picture, for a moment, the feelings of an entrepreneur whose pitch has just been rejected by an investor. They're not just deflated—they're scared. Accompanying the feelings of rejection is the fear that they missed their only chance. These men and women ask themselves one question, what am I going to do now?

It's one of the scariest questions for any entrepreneur. What do you do if you can't get money from an investor? Where do you turn? How do you continue?

First of all, calm down. If you weren't able to secure an investor, it's not the end of the world—far from it. All it takes is a new way of thinking. Earlier, I described how today's market is blossoming with new and viable options. Open your mind with optimism and prepare to take on a new way of doing things.

First of all, know that statistically, most people don't get capital on the initial attempt. You will be disappointed but nowhere near fatally wounded.

You have to view, think, and attack your business problems in a non-linear way. Being a true entrepreneur, you can expect to operate in a more creative, three-dimensional, probing, and expansive way. Consider all the avenues you've searched; you know what you want, but you haven't been able to get there. The conventional route did not work. Don't let your emotional frustration block energy as you move ahead; this is a business experience, not a personal failure. You've only just begun! Take a generic concept and spin it, monetize it, and maximize it; be inspired and unorthodox, and achieve life-changing business growth.

In other words, the best is yet to come. You have plenty of options. Now is the time to find out what works for you.

In the remaining chapters of this book, I will show you how to get the results you want (capital investment) without conventional endorsement (a direct investor). I'll show you how and where to get more opportunities and solutions. I'll help you realize significantly greater growth, income, and prosperity—even if you don't have an investor onboard. It's just a matter of finding the appropriate resources for your individual needs.

Sometimes the solutions are relatively simple. That's the beauty of learning to explore your business problems and opportunities from a non-linear, 360-degree, three-dimensional mindset. There are many simple, effective, and actionable strategies and tactics that can have life-changing results. Even seemingly complex problems can be broken into simple steps and solutions, but you have to see the possibilities before you can benefit from them. If you don't, you'll never recognize the right strategy or tactic, and your business will remain stagnant or reach only a fraction of its potential.

The examples I've included here are not goal related, they're about the process. Action requires indirect thinking; your ingenuity and grit, having let go of tradition and rigidity, will be your saving grace. I'll walk you through partnering and relational capital, powerful tools to give you strength. Lastly, I'll provide some examples of other three-dimensional, mind-shifting ways to continue growing your business, all with minimal risk or downside on your part. I've used each of these tactics in various forms and know, with bank account proof, how meaningful they can be.

Think Strategically

Several years ago, I was interviewed by a major publication. The journalist asked, "If someone took all your business-building concepts away but one, which would you retain, and why?"

"No question," I replied. "It'd be strategic alliance—joint ventures—because you can control the world. You can have access to everything, and it costs you nothing. It's only limited to your sense of applicability, execution, and ethical exploitation."

Leveraging other people's business resources is the ultimate business success strategy in maximizing and multiplying. Nearly $3-$4 billion of the transactions I have helped businesses, partners, and clients execute have been crafted through inventive alliances, joint ventures, and taking ethical advantage of somebody's assets, distribution channels, access, or brand currency.

Big investment does not only mean cash: investment can be enacted through managing the relationships you have, or can gain access to. People are a sort of capital as well, so you have to shift the way you think. Most of us have been trained to think we are islands, and must do everything on our own. But just because you don't have a monetary investor doesn't mean you have to run your business single-handedly.

With the same time and effort—and almost none of the principal—you can go to a number of different companies that have been in the business for years, and who have already gained the trust of the market that you want to tap into. You are looking for the benefits of their name recognition, powerful influence, distribution, sales people, e-mail lists, mailing lists, distribution lists, distributors, retailers, and trust. If you can generate strategic alliances with those companies, they will provide the resources you don't have. This alignment will inherently make the market more immediately receptive to you now that someone they already appreciate has endorsed you.

You can use relational capital-maximizing strategies to multiply the success and profitability of any business you run, and any product or service you own, sell, or develop. If you can pull from other businesses and enjoy their media relationships with readers, members, markets, or distributors, then the world is your oyster. Also, you'll have near infinite buying power with tremendous fiduciary freedom.

This is a much better playing arena. You can play a stronger game and gain more marketing, selling, and distribution power. You will have Herculean leverage muscle. You will be able to counter virtually any negative issue that assails you.

Don't believe that you are limited in growth because you lack capital. Many hesitant entrepreneurs without existing capital, resources, expertise, or skill sets, say, "OK, when we make some more money, we'll reinvest it in infrastructure. When we make some more money, we'll buy some equipment. When we make some more money, we'll hire salespeople. When we make some more money, we'll create a new product."

You don't have to wait for more money. There is always someone else with the resources and connections you are trying to obtain. Here is where you build relationships and leverage the experience and assets of an already thriving enterprise. Think of the old saying, "it's not what you do, it's who you know."

Got no credibility? No cash? No sales force? No advertising budget and no R&D? No storage, no manufacturing capacity, and no equipment? None of those are problems when you can harness the power of relational capital.

If you have a good product or service, but you don't know how to take it to the right market, if you have a good small business, but you don't know how to replicate it, or if you don't have the management, money, skill, or knowledge—that's no problem. You have an infinite capacity to acquire any resource, any skill set, or anything that capital might buy—as long as you understand how to proposition whoever has that asset. You don't have to put up the money. Somebody else has already put it up.

For example, if you're at a trade show and you have no funding, you can find someone who's got a huge booth and who's not competitive, and give them equity or all the profit from first sales traffic in exchange for them letting you use a corner. This company spends $100,000 to send attendees to their display. You only have to pay for staying at the Motel 6.

Here's another example: we all know that the cost of acquiring a client or a prospect can be enormous. Most businesspeople don't realize it, but they are in the client-and-prospect-generating business—that's the basic goal of all marketing. But what if you could eliminate a lot of the expense, time, and inefficiency of "prospecting," and only spend your time and money on people who are ready to buy? Why spend all your energy, expense, and credibility-building activity to attract new clients from the outside market (who don't yet know or trust you) when there is a much easier and less expensive way already built in? You can get other people (companies, publications, and organizations) to get new clients for you, and they can do it faster, more efficiently, and for a fraction of the cost you'd spend doing it yourself.

So many entrepreneurs spend inordinate amounts of time trying to get dead-end clients, the types who won't come back unless you give them another special deal. When you can access other people's relational capital, you swing towards the real money ball because they've provided the time and money. Their consumers already have a level of trust and capacity. If they assign their goodwill, credibility, and basic brand currency to you, you're on a yellow brick road. When I started in the seminar business, my first purchases came in at $5,000. My second buyers were $15,000. I didn't start with $5 buyers with hopes to bump up to $45, maybe work my way up to $500, and then to $1,000. Instead, I began with force and great substance, already shouldered by the winners.

This process only takes two steps. Step One: ask yourself, "Who already has a strong relationship with the people I am looking to sell my (noncompetitive but related) product or service to?" Step Two: once you've got names on paper, contact those businesses and ask them to introduce your product or service to their audience. Supply them with plenty of information on what you sell and some testimonials attesting to its high quality.

You can grow through tying up distribution. You can grow through getting rights to products. You can grow by weaving into someone else's sales force. You can grow through getting access to their buyers. You can grow through co-branding—don't ignore this as small potatoes. Major corporation alliances are rising at more than 40 percent annually; more than 35 percent of the revenue generated in the top 2,000 major companies, supposedly, now comes from strategic alli¬ances—not through solo business efforts.

In a survey that was done last year, 49 percent of businesses reported that they're making more money today because of joint ventures—and these are big businesses. 21 percent said they're getting higher revenues because the cost of selling is less. And 38 percent said they had massively increased productivity because they could creatively go to other providers for skill sets, services, and resources that they didn't have, couldn't afford, or weren't proficient at.

The key to everything is gaining control, access, and assets—but not owning them. You don't have to own them. All you have to own is the power they represent, the "capital compound" that's been invested in them. Consider the access they give you, the influence they make available, and the credibility they instantly create. You'll have near unlimited access to capital, equipment, intellectual capital, and highly receptive markets, all for nothing—no risk, no investment. And you'll sleep better at night, knowing you aren't trying to force everything on your own.

Harness Your OB Resources

There are hundreds of OBs—Other Businesses'—resources. You want access to other companies' sales teams, as well as their capital, brand, and distribution. Specifically, this includes help with delivery, offices, commercial facilities, property, technology, procedures, and intellectual capital. You can license other people's marketing, sales abilities, or management skills, as well as cash-flow management.

Whatever your business needs to grow and prosper—equipment, employees, space, distribution, marketing, retail locations, manufacturing, or influence—can be found in someone else's hands, and you can surely create a deal to get use of it. How? Think of it as a system of balance. No one in business has all the answers: there's always going to be another company out there with a problem that's polar opposite to yours. You bring strength to an area where they are weak, or maybe you have an efficient way to repurpose and reorganize an underperforming effort. So when you ask for help with one of your own needs, they are ready to supply, since the cooperation provides answers to their problems as well. Solving your issue will help them even more than it will help you. There are people who have got facilities they're not using, machinery that sits still, and a sales force they're not optimizing; you'll want to glean some of these things for your own. And if it's not material help, it might certainly be relational help. Your alliance can mean incremental profit, recycled into windfall sales, and multiple streams of steady income. You have a market they'd like to tap and years of experience; perhaps you provide a service that goes along easily with theirs. You sell peanut butter and they sell strawberry jelly. Both of you understand the value of creating a good sandwich.

Think about the things in business you want but couldn't ordinarily afford (sales people, advertising, new markets, new product lines). You can actually get these things through control of other people's offerings. Suppose that a large furniture store is going out of business. They have three locations and a tremendous amount of product to liquidate;

a home-developing company in the same area approaches the storeowner to buy all the remaining furniture, at a mediated and significant markdown. The developer uses the furniture for display in model homes and creates a consistent, high-class look. The storeowner can close his doors, having made a momentous sale, and walk away with an unexpected final profit.

As always, one person's distress is another person's opportunity: when a man's lemon business is failing, help him make lemonade. People have skill sets they're not using and jobs they're not fully utilizing. Magazines, radio stations, and websites all have unsold promotional opportunities. If you own a restaurant, make a deal to cater lunches for a local radio station in return for drive-time advertising spots. Ask the DJs to mention how delicious your burritos are, and offer special discounts for listeners who mention the radio ad. Similarly, provide products to bloggers who specialize in areas of your industry. They will be more than happy to publish positive feedback when receiving your support. And take the idea of clothing resale stores—they buy the end-of season, leftover, slightly irregular apparel from department stores and make a solid profit with good brand names. They can buy retail merchandise in bulk and resell, avoiding the need for production. Companies regularly overbuy and are glad to make something from accumulated inventory. Recognize that sales forces don't always fill their companies' quotas and often lack access to buyers who purchase what they do not sell.

In this way, you have the option to get certain things you need. Don't put growth off because you "can't afford" the resources or materials required. There's nothing you really "can't afford," because there will always be somebody somewhere with excess production. You can get access to amazing talent. You can take any business, technical, or sales talent you want that your business could benefit from; somewhere out there it exists. And somewhere out there, if you know how to make the right proposal, you can get the green light without investing a single dime. You'll be helping convert the other side's total cost away from a fixed fee and into a direct variable payoff, which you make to them based on your wonderfully improved profits, sales, and productivity.

The New Mrs. Fields

The following story is a great introduction to the use of relational capital. There was a very bright advertising woman in Los Angeles who made tons of money for her clients from the great marketing work she did for them. One day, she decided she wanted to go into business for herself and used her marketing talents to market her own product: cookies.

The woman had a client in Hawaii, a huge mainland bread company that she grew from a little tiny corner bakery in Oahu to a national bread bakery, thanks to her brilliant marketing techniques. She sold the bread in supermarkets all over the country. Over time, with her many trips to Hawaii to service that client, our Los Angeles marketing friend fell in love with macadamia nuts. And when she got home, she took an old family recipe and made a batch of chocolate chip cookies. She simply added some macadamia nuts and a delicious new cookie was born. It was a wonderful creation, and the combination of texture, taste, and the smell of the cookies was just outstanding—utterly irresistible.

So the woman decided she wanted to go into the cookie business. She took a big batch of these cookies back to the folks at the Hawaiian-based (now national) bread company. They tasted the cookies and, of course, loved them. She said, "Here's what I'd like to do. I'd like to go into the cookie business. But I'm an unknown cookie person, and getting people to sell my cookies in their grocery stores is going to be hard. I don't want to go ahead alone, unknown in the market. I want to bring it out under your brand name. I want to call these (their brand name) Hawaiian Macadamia Nut Chocolate Chip Cookies.

"I want to use your brand name as the credibility builder. But I don't want you to put up a dime. I'll put up all the money. All I want from your company is a license from you allowing me to use your name and brand, making it appear to the world like this is your cookie." As a marketing talent, the woman was able to show the Hawaii bread people that their part would be easy: sit back and collect the fat royalty money. The bread people loved it and agreed to the deal. Armed with the licens¬ing agreement, our friend went back to California.

But she now had a problem: she didn't have anyone to bake the cookies. So, she went out to the suppliers of all the ingredients that she needed. She showed them her licensing agreement with the Hawaiian bakery company and had them taste the cookies. Everyone thought they were great. So she persuaded the suppliers to agree that they'd sell her the ingredients and wait thirty days after she would ship the cookies to the store to get paid their money. They all agreed. Now she had her ingredients without passing a single dime.

She did the same thing with everything else her business needed. Packaging, shipping, you name it—she successfully deferred payment with everyone.

Now all she needed was a bakery to produce and pack the cookies. She went to several people who owned bakeries, showing them her agreements with suppliers, and of course, her agreement with the Hawaiian bakery company. She had them taste the cookie, and then she told them, "If I bring this product to your bakery and start putting my orders through you, I want a special concession." The concession she requested was that when her products hit 30 percent of the business volume in that bakery's sales, she wanted to own 10 percent of the bakery. When she hit 40 percent, she wanted to own 20 percent. When she hit 60 percent, she wanted to own 30 percent of the bakery. And if they'd agree to do that, she said she'd bring her baking business there.

Now why was this "no cash down" buy-in proposition attractive to those particular bakers? If you're a baker and you don't have a proprietary product, you're at the whim of the marketplace. Your clients might lose taste for your product, and then you are finished. It's a very unstable business—unless you've got a proprietary product. Now, here was this woman with a proprietary product that she was willing to bring in and keep there. If it was successful—and only if it was successful—she'd get a piece of ownership in the bakery. And even after she got her share of bakery ownership, the original bakery owner's remaining equity would produce much more profit than if he owned it all on his own, without the proprietary product going through his business.

So our friend got the owners of bakeries to agree on this performance-equity "buy-in" deal. She started marketing, shipping, and distributing her delicious cookies to all the same grocery chains who were selling the Hawaiian Bread product. The sales took off—an even bigger success than she expected. She reached her benchmark quotas within the framework of her "buy-in" agreement with the baker and ended up owning the maximum percentage of the bakery for absolutely nothing! And then she bought out the original owner, leaving her as 100 percent owner of the bakery—and the cookies—all without using any of her own capital.

Meanwhile, the Hawaiian bakery loved getting the royalty checks whenever she sold her licensed cookies. They pushed the woman to introduce her cookies in more and more of their locations. Every time she entered a new territory, grocery chain, or distribution channel, the Hawaiian bakery company got a bigger license fee for the right to use their name.

Soon she wasn't growing fast enough for them. With limited capital and capacity, she could only expand one market at a time. The Hawaiian bakery people came to her with a bold proposition: to buy the company from her for an enormous price. They'd put up all the capital she needed to expand as quickly as possible. And they gave her a long-term license fee on top, so she got royalty payments on all their sales.

The woman ended up selling her cookie business back to the Hawaiian bakery parent company for a big lump sum of cash. They bought out her business, and then gave her licensing royalties that created life¬time income payments for her grandkids. Delectable.

It's Called Power Partnering For A Reason

If you need an additional employee, service, or other expense for your business, don't worry about being able to afford it, and don't worry about paying for expertise. You can convert anything you want to results and pay accordingly on a joint venture or strategic alliance with somebody who possesses the skills, resources, or assets you need. You also have the option of doing a variable-based compensation internally for your business.

There are only four governing factors: it has to be legal, it has to be equitable, it has to be ethical, and it has to add enormous value. It's not about negative manipulation. It's about ethical ways to increase your success through the leveraging and the mechanical context of a situation, predicated on the tremendous value added to the other side. It has to have enormous intention, integrity, and ethos.

However, don't be fooled into thinking you can do this overnight. You need to get your sea legs, your negotiating legs, your deal-making legs, and your power-partnering legs—in other words, your nuanced understanding of relational capital. You have to be willing to start slowly.

None of this is beyond your ability. The only thing that's beyond your ability is trying to be at $10 million tomorrow. First, deal with smaller companies in order to get a foundation. Then, as you gain skill in power partnering, watch your business—and your authority —grow.

You've worked hard enough for your business already. Now figure out how to get your business to work harder for you.

For more tips on crafting a partnership that will maximize both power and profit, read on.

Chapter 8: Action Steps

Step 1

Ask yourself: "Who already has a strong relationship with the people I am looking to sell my (noncompetitive but related) product or service to?"

Step 2

Once you've got names on paper, contact those non-competing businesses and ask them to introduce your product or service to their audience. Supply them with plenty of information on what you sell, and some testimonials attesting to its high quality.

CHAPTER 9:

Ways To Power Partner And Leverage Relational Capital

There are myriad kinds of strategic alliances. You can do joint ventures. Maybe try co-branding, which allows companies to come together to put both brands behind their products—like Coke and Proctor & Gamble, who co-branded to market non-carbonated drinks and Pringles products. P&G gets access to Coke's 16,000 markets, and they share in the profits.

Consider a host or beneficiary relationship to tap into the millions of dollars of investment, existing goodwill, and strong relationships that other companies have developed with their clients. You can have those companies direct their clients to start doing business with you.

You can do equity partnerships, and that equity can be in all kinds of strategic partnerships. Go for equity in a new business you cre¬ate together, and in the clients that come from it. You can do equity in a new product you create together, a new market you penetrate together, a distribution channel you form together, or a different category of buyers you build together. Make equity in the marketing materials you create, that you can relicense. You can do equities in the intellectual processes that come from it.

You can acquire distribution networks, including sales forces, retail stores, kiosks, signage, leases, licenses, display windows, and inserts. You can acquire assets like leases, purchases, and options. You can acquire leads, unconverted prospects, and inactive clients.

You can open, develop, or create new products and markets—one of the best ways to rapid growth. You can take over, repurpose, or package together other companies' products and/or services. You can acquire Sales Distribution. You can repurpose your products to new markets. You can identify the players in new markets that you can joint-venture or partner with.

The possibilities are endless. You can also utilize your company's personal contacts to mine third-party opportunities. Does someone you know have contact with someone you want to know? Utilize that relationship to get a hold of the third party opportunity you want.

You can also maximize the relational capital that exists in other companies. It can be the relations they have with their market: the very same market you want to reach. It can mean the relations the salespeople have with the buyers: the same buyers you want to reach. It can mean the relations they have with expertise: the same experts you would need, which they already have as staff. That capital can also take the form of distribution relationships, such as the trucking the company already has, that you can get a free ride on. It's only limited by your vision and your ability to genuinely revere, respect, value, and exercise control of intangibility.

Here are some of the ways you can leverage relational capital to form strategic alliances that really, really work:

Partnering With A Business Like Yours

If you can find an organization that already has direct access to the same generic profile of buyer you want, and if the buyer trusts and respects them and will give them open access, those buyers will be infinitely more favorably disposed toward buying something of yours, since the organization they trust has already given their stamp of approval. Of course, you have to make sure that the business appropriately fits your market. And if it does, that is a powerful distribution opportunity.

Getting Endorsements From Names That Mean Something

There's a story told about a person who approached a great financier—either Baron Rothschild, Bernard Baruch, or John D. Rockefeller—and asked, "Mr. Rothschild/Baruch/Rockefeller, will you loan me $50,000 for my business?"

"I won't lend you a dime," Rothschild/Baruch/Rockefeller said. "But I'll do something a hundred times more valuable. I'll walk arm in arm with you, back and forth, five times across the floor of the New York Stock Exchange. And when I do that, everyone will loan you or give you all the money you want."

That's the power of relational marketing leverage. You're capitalizing on all that goodwill: the existing trust, credibility, respect, and entrance. It's immeasurably powerful.

Of course, you don't have to have an A-list celebrity. You can take a B or C category personality—somebody who maybe starred in a TV sitcom or a TV show years ago, or a movie person whose star has now faded—and have them become the spokesperson for your product. That strategy can double or triple your results, even if you pay that person a small royalty. Sometimes the more obscure celebrities are the most effective, bringing charm and nostalgia to the ad campaign. Recognition is the key here.

A colleague of mine had an infomercial called "Where There's a Will There's an 'A'." The product was designed to teach you how to help improve your kids' grades. The infomercial was nothing special. Then, they replaced their no-name host with the (now late) famous sitcom actor John Ritter. Everyone knew him as the likeable guy from "Three's Company." With John Ritter hosting, in return for a little override on the sales, they were able to add star-power credibility and triple the audience response. It didn't cost them a cent up front, but John made millions—and my colleague made tens of millions more. John got the exposure and the company got the sales. It was an ideal balance.

In the same vein, a certain discount department store signed the clothing designer, Massimo. He was well known in the 1980s, but had fallen from view in the years since. They licensed his name—just his name—and then they got their own designers to create a line. They put his name on it so they could charge a premium over the norm they usually charged for clothes at their store. That stroke of "perceptional genius" added tens of millions to the sales of that department store and helped distinguish it from competitors in the market.

Over the years, I have had great success using the technique of celebrity associations. Many years ago, I joined the business of seminar production. Friends of mine were selling $495 seminars. They ran ads in magazines and newspapers, and hosted previews. But I decided to take a different approach.

I went to all the people I'd ever helped. I went to every investment newsletter, talked to my friend, Tony Robbins, and approached Success and Entrepreneur magazines. Then I had them create a separate, internal, supplemental bulletin, telling everyone who read their newsletters—all their clients, and anyone who was one of their students—"If you're an entrepreneur or ever want to be, if you are a professional in business, if you are a P&L-oriented manager and want your P&L to be bigger, and you want your sales to increase and your profits to multiply, there's one person who can do it. He's my friend; he's done it for me. If you don't take advantage of this, just pray he doesn't do it for your competitor!" On that strategy alone, I sold $250 million in $15,000 seminars.

In my first joint venture with Tony Robbins, I made use of a valuable group endorsement. I asked nearly 50 prominent leaders and principals, including Tony, to sign the envelope of a letter that came to be known as The Declaration of Success. This letter read, basically, that the signers were all "fiercely independent thinkers that rarely agree with one another on anything..." but did agree that Jay Abraham was deserving of their endorsement. Now I just needed a list of important people to send the letter to. I contacted Tony and said, "You have this huge following, all these people who have gone through all your programs. Right now, you have nothing else to sell them. So how about if, with no money out of your pocket and no lost opportunities, you send out this letter that says, 'If you're in business, if you're a professional, spend three to five days with my advisor, Jay Abraham'?"

I explained that I would share the revenue with Tony. I would do all the work, creating the articulation, etc., and then Tony would have complete control over it. All he'd need to do was send them out, and the letters would only advertise to the people who had done all of Tony's programs, so he wouldn't be losing any opportunities.

Robbins sent that letter to his list of 250,000 people. The only downside for me was paying the hard cost of the mail—$12,000 for a test run of 25,000. But what I got in return was access to the buyers that came from the $100 million that the company, Guthy-Renker, spent on Tony Robbins infomercials. This distribution gave me an introduction to the $5,000-per-person buyers who Tony Robbins had spent eight years developing. And these were special people, buyers who had total trust in Tony. They had been personally involved with Robbins, having spent eight or ten days at one of his mastery programs. They knew him personally, and he had earned their trust. I gained exposure to the most lucrative market for the mere cost of funding a letter.

After the test run, I paid $300,000 to do a full roll out—and made $9 million in return. As a result, I helped Tony Robbins make a lot of money, and our relationship is still strong.

This kind of tactic has been valuable for me throughout my career. In fact, I am currently negotiating with Sirius Satellite Radio to do an entrepreneurial channel.

"Why should we have this channel?" Sirius asked.

"Well," I said, "Give me one day to prove it to you." I called everyone I know: leaders like Stephen Covey, the editor of Entrepreneur magazine, Russell Simmons, and Tony Robbins. I had every one of those people contact Sirius and say, "Yeah, we'll be in if Jay does it."

Of course, I have spent thirty-five years building this kind of network. You can't do it overnight. But it shows how powerful relationships can be, and how essential it is to build them. Also recognize that the same dynamic works up and down the food chain, meaning that if you are a smaller operation with a more inclusive market, you can still find relevant and impressive people of influence to go after.

Celebrities aside, there are other relationship possibilities that can drive business credibility. It can be someone who has authority amongst his or her own consumer base.

In a more local market, for example, there are great options in real estate. Once, I helped a realtor purchase the rights to work with all the past clients of certain reputable real estate agents who were no longer in business. In the recessionary economy, where prices were dropping and mortgage money was hard to secure, it was a smart move to make use of industry dynamics. I knew that real estate instability had caused thousands of real estate agents to drop from business, leaving behind a good name and a complete client base. I helped the other agent make use of this opportunity.

Real estate is all about reputation; an individual creates sales opportunities through strong relationships and quality referrals. No matter an agent's skill, organization, or advertising strengths, his business will mostly prosper due to his networking connections. Clients hire by recommendations and loyally refer onwards within their circle of friends. Few people realize it, but the average agents who sold to at least 100 satisfied clients over the course of their real estate careers can look to those clients to generate for them upwards of 100 future sales in the form of referrals over their lifetime. By tying up the endorsement of all the agents who quit the business, I was able to generate thousands of potential future referrals for my agent client. What was our deal proposition to all those agents? We offered the retired agents a small share of future commissions resulting from their referral assignments. And the technique worked like gangbusters.

Endorsements can come from respected entities or publications, as well. Another one of my clients was into seminars, specifically involved in three industries. He introduced himself to various trade magazines in those industries and put up modest marketing money for the publication to promote seminars that sold for $800 on improving manufacturing prowess. He gave the publisher all the money from seminar registrant payments—and he sold $5 million a year of consulting, just because he got the trade publications to make him the hero of their group. If you have a captive audience of decision-makers for two-days-straight seeing your skill, it's easy to sell the consulting at the end!

Moreover, there's no need to be tied exclusively to one single celebrity or entity. You can piece together a mastermind brain trust that you might not normally be able to afford. This would let you assemble a collection of bright advisors, giving them a share of either the incremental profits or the profits from new products or services that flow from their ideas, advice, or from better-selling ideas they offer.

Putting together a killer board of prestigious people can be a pronounced boost for your company. The board doesn't give any money, since they aren't advisors or directors, and have no legal abilities. But they can put their names on every single thing you do. That's a huge investment in your company. That will encourage distributors, vendors, and other people you need to make your business grow. They will say, "Wow, you have these amazing people who are willing to be on your board. They've invested in you. Maybe I should, too."

Great people will join your board if they are invested in your idea. They will be motivated to help you figure it out because they believe in you. However, just like with monetary investors, you shouldn't go to relational investors until you feel comfortable using their name—and everything that the name entails. Risking a person's name is just as big a deal as risking their money. You have to be able to say, "I've taken this as far as I can on my own. I know that at this point, if you join me, we will make only the best out of it. I won't let you down." Again, the issue is trust. Prove your basis for the positive belief and offer them a worthwhile cause. You will get others on board when they feel valued and useful, so surround yourself with champions and prove your gratitude through hard work.

Take Over, Repurpose, Or Package Together Another Company's Product And/Or Services

I had a client in Australia who sold enterprise software for small and medium businesses. The software was expensive: $50,000 and up. They'd spent a lot of money on advertising, running ads in all the trade magazines in Australia. This resulted in about a thousand leads a month, but because the product was so expensive, they only converted 3 or 4 percent of those leads.

I looked at this situation, and said, "I don't believe that an entrepreneur is really going to take the time to inquire about enterprise software unless he or she really needs it. So the fact that they're not buying yours means yours is too expensive, your terms are bad, there are too many bells and whistles, or something. But these leads clearly need enterprise software. So why don't we go out and find somebody who's got great, lower-priced, basic, fundamental-enterprise software, but doesn't know how to sell their way out of a paper bag, and let's take it over."

The first thing the client said was, "We don't want to be a distributor."

"Then don't be a distributor," I replied. "Tell them they can do whatever they want with their product. What you want is a private label right to take their product, add a few of your own bells and whistles so it's proprietary, and sell it to all your non-converted leads."

So they found a software company that had a more meat-and-potatoes, lower-priced, basic soft¬ware product that wasn't selling well. They got the rights to that software product on a joint venture, and were able to sell that lower-priced version to all the leads that didn't convert to their expensive ones. In the end, they made more money from the people who didn't buy originally than from the ones who did!

You have to open your eyes to the way you can capitalize on products related to your own. Nightingale Conant is one of the biggest providers of audio-based information. Their original model was selling $39 programs to the market, and their back end was merely selling more $39 programs. But I would go to their list and sell $5,000 and $15,000 information programs and products.

I told Nightingale, "If you got your toll from other people's $15,000 and $5,000 programs, you'd make a lot more money."

Later, the owners of Nightingale attended one of my seminars, so I did a little survey. I asked, "How many of you in this room who came from Nightingale Conant went to one of the authors whose $39 CD sets you bought from Nightingale and retained that author to consult?" Thirty percent had. Average en¬gagement was $25,000 per consultation. It was about $3 million of lost-opportunity sales Nightingale never recognized. Had Nightingale offered that service too, they would have made $1.5 million just incrementally, even if they split with the expert.

You can also leverage products that are no longer in use. Years ago I was active in the information marketing business, in the general forum. My company would sell $39 reports—of which not a single one was original work. I found major New York publishers who held generic non-fiction (business and skill-type) books that were now out of print, but were still timeless. I would get the reprint rights for about $1,000, and a royalty of $.50 a book. Then, I would take the 400-page book and get rid of half of it. Taking 200 of the most powerful pages, I would turn it into an 11x17 $39 manual, and sell approximately 40,000 of each one of them. Getting control of this asset cost me almost nothing.

Marketing is the difference between mediocrity and millions. Strategic marketing, such as in these examples, is the mechanism of growth. In the end, it is the only real, definitive leverage you've got. You will never be able to buy or self-produce a greater advantage than through strategic thinking. It brings the ability to increase performance infinitely, with compound results.

Find Or Create A Captive Market

There's nothing easier to sell to than a captive market. Years ago, a lot of high-priced, dramatic, really small art dealers realized that a cruise ship would hold a great, captive audience for selling art. So they made percentage deals with the cruise ships to go on the ships, have art shows every day, and sell their art for very impressive markups. They paid a variable to the cruise ship in exchange for access to a captive market.

You can also create a captive market for yourself, as Colonial Penn did. As an insurance company, Colonial Penn was designed to sell insurance created for a specific demographic or person. They were struggling, and couldn't figure out how to break through the barrier of trying to win over groups that already had affiliations with the right target market.

Then, somebody had a wise idea: "Why don't we just start our own organizations, and we'll have a captive market?" They began The American Association of Retired People (AARP), just so they would have a captive client. Membership, at last count, was over ten million, and Colonial Penn grossed billions of dollars in business from this brainstorm.

Licensing

Licensing is an amazing way to make money on assets that might otherwise stagnate. You can acquire or render expertise through licensing in a multitude of areas, such as marketing, sales, management, cash flow, organization, performance enhancement, information technology, and advisory boards.

Almost every successful business, when analyzed, is successful for unique reasons: strategic, operational, managerial, etc. Usually, there are certain processes, techniques, or strategic approaches that are superior to the peo¬ple they compete against. If a company outperforms the norm, there is an unplanned dynamic at work. Chalk it up to good basic planning, a favorable market, or even pure luck. Or, it could be a windfall, due to a sound merchandising strategy, a positioning strategy, a strategy for the personnel, or a strategy for dealing with vendors. If you can figure out what is unique in your company and codify it, you can license it or sell that unique feature to tons of other people.

There was a business owner who had developed incredible mar¬keting techniques for his local dry cleaning business. He had three stores in Chicago, but had no desire to grow further. With great marketing and deal packages, he enjoyed returns at nearly three times the average revenue of a standard dry cleaner. He could have been content with his status, with no higher aspirations.

Instead he took the techniques and advertising approaches he was using inside Chicago and licensed them to dry cleaners outside Chicago. He got 3,000 dry cleaners to pay him a fee every month to use his particular advertising and mar¬keting methods.

This strategy works the other way as well. In certain areas, specialized businesses run different ads, because a live-in market saturates quickly. Once an ad stops pulling, it is retired. Still, the ad hasn't been seen in 95 percent of the other markets. You can get control of these other ads. Let someone else spend $30,000 writing and creating, and another few million putting the ad to work. The ad ran its course successfully for them, and then it was finished. Why not re-license it within your own similar business, outside of the original com¬pany's market? You can get a share of the revenue those licensed ads generate, a fee plus a share. Better still, you can do this on a regular basis, mining fertile markets in whatever way you choose. This frees up room for other basic needs, also creating a sense of familiar legitimacy with shoppers.

You can license your product itself, as well. I had a good friend who created Ricky Ticky Stickies: the large, ubiquitous stick-on flow¬ers that people in the hippy-era of the 70's would stick on Volkswagen vans. But his real business was creating cool designs for ceramics, sheets, and bedding. He and his partners would go to "white label-type" boring, unimpressive, nondescript manufacturers of ceramics, coffee cups, glasses, and sheets, offering their designs.

"Test these designs against yours," they said. "If they tremendously increase sales, give us 5 percent. If they don't, don't use it." They made millions.

You can also try process licensing. There's a good story about a man who owned a lumberyard. He would get raw lumber, cut it, cure it, turn it into board, and then he would sell it. The key to all that process—the most critical function—is the kiln drying, because doing that step wrong can turn A-grade to ruin. Furthermore, lumber processing is an expensive procedure, costing tens of thousands of dollars a week for energy, whether gas or electric. If you do the process wrong, you're left with a mess. When you do it right, you have an efficient operation, managed costs, and you get an attractive premium for your lumber.

This man did it right. He was a fanatic, and he had the best kiln-drying methods around. The only problem was that the product was so heavy. He could give his lumber to somebody 3,000 miles from him, but shipping costs would be outrageous. So from a practical standpoint, his market was 400-600 miles. How was he supposed to make any money?

His move was to take his kiln-drying methods and license to lumber yards outside of his 600-mile competitive radius—worldwide, in fact. He started making $2 million a year just from recycling what he had already done.

Use Other People's Unused Assets

Let's say you are starting a business, but you don't have money to fund an office or buy equipment. Introduce yourself to somebody who's got "too much" office and extra equipment. Make a deal with him. The options are unlimited—you can fashion an equity deal or give him a share of the revenue for the first year. Or, you might offer a share of something else. Ask him to give you a deferred rental note. You don't have to be victim to your cash flow.

One of my clients, a heating and air specialist, had more business than he could handle. But he didn't have the capital to expand his company, as the cost of new trucks and trained staff was extraordinary.

Instead of rejecting the overage business, I helped him find three quality heating and air conditioning companies that were not being fully utilized. I showed the other companies that, incrementally, they were paying salaried workers 30-50 percent non-utilization. My client and I were able to give them the overage jobs, paying a fraction of the revenue from those jobs. The result meant incentive money for the other companies, and my client was able to make a small fortune on the extra business. With my third party perspective, the companies were able to meet one another's needs and make significantly more money. No extra effort required, just smarter business practices.

Another man had a medical delivery service. It made deliveries from doctor to doctor, running time-sensitive tasks: collecting blood samples, taking specimens, moving transplants, etc. At the end of the workday, the trucks would return to the lot, empty. The man realized there were other companies that were having products delivered in later hours. Seeing the opportunity to employ his vehicles on a larger scale, he made a joint venture with another daily delivery company. This operation was paying its own staff and financing its own trucks. Now that the other company was utilizing the man's delivery service on return trips, it was able to cut both vehicles and people. The two businesses forged a union and went on to make millions.

Consider the chiropractor who lived near a large national forest. Every year, the forest had to pay people to haul away the pine needles that fell from the trees. The chiropractor figured out that those pine needles, once turned into mulch, created a great fertilizer. It was an unacknowledged value, merely tree trash—but the chiropractor saw a grand opportunity.

First, he formed a joint venture with a trucking firm. He sought out a business that had delivery routes along the forest lines, specifically, with trucks coming back empty at the end of the day. A deal was made so that the truckers would take pine needles and deliver them to him for no fee, just a percentage of the revenue he would later get. Then he found an unoccupied used car lot where the trucks could drop off the pine needles. He made an agreement with the lot to let him access their space free up front, later receiving a share of the revenue he would realize. Next, he went to the National Park Service, and underbid the company currently hauling and disposing of pine needles by 50 percent.

In his first year selling pine-needle mulch, he made $300,000. How much money did he spend out of pocket? Not a cent.

Repackaging Your Business With Other Companies

You can easily repackage or create new businesses together with other companies, each company providing part of the package. This can give you access to traffic, captive markets, implied endorsement, and repeated business.

Years ago, some brilliant person realized, “Gosh! Here’s a supermarket with thousands of people coming through every day. What else could we use that traffic for? Oh, could we put a bank in it? Oh, could we put a Subway in it? Oh, could we put a restaurant in it?” The same thing happened with gas stations. Gas stations transformed when people realized, “Oh, you can put a Subway or a McDonald’s there.”

To use a phrase from earlier in the book, think outside the box. Realize the power of association, and don’t be afraid to follow new ideas. Even if it is something beyond your usual business, you can make it happen. Sears started Allstate with one simple idea. They said, “Let’s start an insurance company.” Someone suggested they do it by sending agents into the field, knocking on doors and cold calling. Then someone else thought, “Why don’t we just stick a kiosk right in the middle of all our store traffic, and have people give the clients quotes? Let the law of averages work for us.” They did that, and built a multibillion-dollar company as a result.

The 100 Percent Solution

I had a client whose income curve was flat. It didn’t matter what they sold. Now, this company had a compensation program that paid the sales people 10 percent of the profit. So, if the company made $1,000 profit on a sale, the sales person would get $100 and the company would earn $900. I had them calculate:

- What the average new client is worth to them in dollars each time they buy.
- How many times that client will buy from them each year.
- How many years the average client will be with them.

It turned out the first sale, on average, resulted in about $200 profit for the company. Of that, $20 went to the salesman or woman, $180 to the company. On average, the client bought five times a year for three years. So basically, each time that company got a new client, they were receiving $3,000 in cumulative profits.

My solution to the client's flat income curve? Instead of allowing the sales people 10 percent of the profit on sales to first-time cli¬ents, give them 100 percent of the profit of the first sale.

Management told me I was insane. I just smiled pleasantly, and went on to explain that as long as their salespeople maintained sales from existing clients at past levels or above, the company should give them 100 percent of profit on the first sale for every new client they bring in. That would make the salespeople ten times more motivated to sell new clients. And every time they brought in a new client, the salesperson would make an additional $200—but the company would make an ad¬ditional $2,800.

They implemented the plan and sales tripled in nine months—at which point they apologized for calling me insane.

I used this idea myself in one of the first businesses I helped. My account was a product called Icy Hot. It was a menthol muscle rub for arthritis, like Bengay. The owner had no money, but had a product that was exceptionally effective. At the time, it was selling in stores for $3 a jar. The owner was new to commerce but had a comprehensive understanding that five out of every ten or so people who bought their first purchase came back as customers for life. However, he didn't know what to do with this knowledge.

Luckily, I did. I went to a thousand radio stations, television stations, and publications around the country and persuaded them to run mail-order sales ads for the company—without Icy Hot having to pay a penny up front. Instead, the company let them keep 100 percent of the revenue from the first sale. Why? Because every time ten people bought a jar at $3 apiece, $30 came in. But five of those people bought again and again and again, for life, making the company $185 a year, every year thereafter.

The company used this concept to generate 500,000 repeat buyers and build a $13 million company in 18 months—with no capital investment. In the end, they sold the company to a prominent pharmaceutical company for millions of dollars.

The 100 percent solution relies on an understanding of lifetime value. "Lifetime value" refers to the totality of ongoing, cumulative profit that a buyer, client, or patient is worth. This means that different buyers coming from different sources are worth a certain amount of money to you, not just in the initial sale, but in the overall subsequent pur¬chases they make.

Once you understand this concept of lifetime value, you'll realize that, even if you pay very generously on the first sale, you'll make a killer profit on all the subsequent ones.

Now let's look at the specific elements that go into a strategic deal.

Chapter 9: Action Steps

Step 1

Partner with a business like yours. Find an organization that already has direct access to the same generic profile of buyer you want; then exploit this powerful distribution opportunity.

Step 2

Get endorsements from names that mean something. Capitalize on the goodwill, trust, credibility, and access of people who are bigger hotshots than you.

Step 3

Takeover, repurpose, or package another company's product and/or service. Leverage products that are no longer in use, or that are in use but are seriously floundering.

Step 4

Find or create a captive market. If you already have a successful company or organization, tailor your secondary business to appeal to the same client base. Look for places where clients can't refuse buying whatever it is you're selling.

Step 5

Acquire expertise through licensing, either for your product or process. Figure out what your business is really good at—marketing, sales, management, cash flow, organization, performance enhancement, IT—and license that element.

Step 6

Use other people's unused assets. If you demonstrate how your business idea will make them rich, why would they say no?

Step 7

Repackage your business with other companies. This guarantees access to increased traffic, captive markets, implied endorsement, and repeated business.

Step 8

Try the 100 percent solution. Do the math on how much each new client brings your business in cumulative profits. Then give your salespeople or partners 100 percent of the profit on their first sale with every new client. You'll be amazed at how quickly your profits will skyrocket.

CHAPTER 10:

How To Make A Successful Strategic Deal

There are infinitely more people who are non-strategic than people who are strategic. While that's bad news for most business owners, it's good news for you.

As a business leader, it's your job to help these people. Find them. Pitch them. Make them understand that they need you. These individuals are operating with an unsolved puzzle. What you'll do is show them how you and your business can be the piece that completes their plan.

Click into Google, search for your industry, and go to page ten or fifteen of the results—not page one, where all the flashy marketers are. Here you'll find the people who have a missing piece. Figure out how to help them solve a problem or achieve an opportunity they never realized they needed. This is the Strategy of Preeminence in action—and it just might make you rich.

There's a psychology and a structure to making a strategic deal, a preemptive way to present a proposition so that it's harder for them to say no. Strategic deals require strategic thinking—no surprise there. In this chapter, I'm going to share that strategy with you.

Psychology 101

The first key to making a successful strategic partnership is to understand the psychology of what the other person wants. They won't expect a presentation, so you have to show them the gap in their business and illustrate the value you'll bring them. You have to prove your credibility. You have to show them there is no downside. Make a compelling case for how they can pre-validate your idea before they commit to it. Show them how, together, you will maximize your business potentials.

Take them on a journey and then return to the fact that you're the only viable choice. Making the actual presentation demonstrates your sincerity; it shows you understand them in a way no one else can. Earn their trust by showing that you have their best interests at heart, and you're willing to do a very small, safe experiment. If it doesn't work, you're the loser and nothing will go forward. If it does work, you both win, and the sky is the limit.

In life, we are rewarded mainly for two things: the quality, complexity, and consistency of problems we solve for others, and the quality of opportunities we make possible for others. The issue is that most people don't know they have problems or that they're seeking opportunities. They don't know how much they don't know.

Your job is to show them. You have to become very adroit at being able to identify, articulate, demonstrate, verbalize, and communicate your vision to people. Explain that you see their desires in a deeper, richer, more tangible way than anyone else. Then, and only then, can you show them how you are the solution to their problem.

It's important to demonstrate that you not only see their needs, but that you see their hopes, and with great clarity. Then you have to believe and prove that you are the only person, entity, product, or service that has the energy to make it possible.

Making Your Lists, Checking Them Twice

When you set out to forge a strategic deal, you want an ironclad case for why that person or business needs you. What can you offer them? Before you answer that question, you first have to ask yourself: "What do I have to offer?"

Even if you have a small business, you probably have the trust of some big buyers, or influential people, or people who buy a lot of big-ticket items. What can you do internally with that goodwill? With your relationships? With your distribution?

Make a list of what you possess in terms of:

- Products or services
- Distribution channels
- Sales personnel
- Sales methodology
- Technology (software or hardware systems)
- Other productive processes or methodologies
- Facilities and equipment
- Underutilization
- Intellectual property and technical abilities
- Brand

1. Goodwill and trust with specific groups, markets, or media
2. Core competencies
3. Affinity

Then ask yourself in what ways you can expand your growth possibilities:

- Who are the people and/or businesses you want to reach?
- What other products, services and options do people typically purchase prior to buying or using your product or service?
  - Who provides those products or services?
- What products or services, do people typically need and/or acquire along with or in order to optimally use your product or service?
  - Who provides those products or services?
- What events, activities, or changes typically occur to cause someone to want or need your various products or services?
- What other products or services does the key decision-maker you are targeting also buy?
  - Who provides those products or services?
- What assets do you need that you do not have?
- What periodicals or advisory materials does the market you want to reach use?
  - Who provides those products or services?
- What problem or opportunity does your product or service solve for your prospect or client?
- What other type of business, organization, profession, etc., has more to gain than even you do by seeing you either acquire a client, or sell a specific product, service or combination? And why?
- What other market or industry could use or benefit from your product, selling system, or methodologies?

- What are your highest margin products or services?
- What are your highest repeat purchase products or services?
- What logical products can you create, acquire, adapt, or adopt?
- What other markets could your products or services apply or translate to?
- What related fields could you penetrate?
- What parallel universes are most similar to yours?
- What other business markets, products, or services have you been thinking about?
- Look for additional alliances, markets:
    - Take on their products or services
    - Provide services, functions
    - Share personnel, facilities
    - Sell equity or buy equity
    - Develop referral or alliance feeder program
- Who else (a generic type of entity or individual) has direct access to the markets, influences, individuals, companies, media, distribution channels, prospects, research and data, technology, or methodology you want or need?

It's very important to take the time to find the correct partner. To determine which businesses to approach, ask yourself these questions:

- Who serves your clients right before they come to you or your competitors?
- What do they buy?
- What do they do?
- What are the strengths and weaknesses of your target organizations? What are their prime assets, attitudes, key important points of impact and interest (i.e., money), purpose, and reclamation?
- The best partner will have what you don't have. He will be strong where you are

weak, extroverted where you are introverted, and with a skill set that complements your own.

- Match your company's capabilities with people who share your objectives
- Look for companies to partner with you who are one step ahead of their competitors.
- Large companies can make good partners.
- Who has a sales force you can tap into?
- Who sells to the same demographic profile you want to reach?
- Who has the trust, respect, and goodwill with your prospective market?
- Who has authored a book that's respected in your field?
- Who is not a direct competitor?
- Why, when, and how should an alliance with suppliers be considered?

Keep It Real

Now, take your generic lists and make them specific and personalized. Record all the viable companies or individuals in the field who could become strategic partners. Create a database with:

- Contact info
- List of key decision-makers
- List of products or services they offer
- Printout from their web site

As you are reading this, consider how these lists apply not only in the beginning, but as you grow and build the success of your enterprise. Think of how impressed and excited your investor will be when you are able to leverage his or her capital—you will have eliminated their downside risk and produced real results.

Once you've found a potential partner, approach them with these facts:

1. Your product or service is absolutely non-competitive to the host's product or service. Any ancillary profits will result from reworking their list, after they have

drawn all the profits they can from their products.

2. Your product or service will not take away or supplant any income or profits the host would ordinarily realize.

3. Your product or service augments their profits.

4. They don't have to lift a finger or spend a dime. If they do wish to participate, that's even better.

5. You'll create all the marketing material—subject totally to their approval, of course.

6. You can offer to pay all the printing, postage, and other costs—or avail them of the opportunity to joint venture with you (correspondingly, their profit share should be commensurate with their capital and time commitment).

7. You'll indemnify and hold them harmless—plus you'll unconditionally guarantee every item or service sold.

8. The host company can have all orders and/or services routed through them for verification OR a separate tracking monitor at your company.

9. Point out that, particularly in situations when the host is far removed or totally tangential to their business, profits from this venture will purely be windfall income for them.

10. You've done conservative tests or trials to show test of means.

Appease any fears the potential partner may have by addressing those fears immediately and confidently. Most often, they won't understand the concept and how it will work, specifically, for them. Educate them about who you are, what your company represents, and quantify the potential profits that could result from this relationship.

Identify in advance the probable objections and resistance points you'll encounter. Prepare your response to possible objections in advance:

- "How do I know it's not going to take away my clients?"
- "I want control. I don't like you having control of my clients."
- "How do I know I'll get paid?"
- "It's not the business we are in."

It's important to know all you can about your potential partner. Ask plenty of questions, like:

- How many clients do you have?
- How are their names maintained?
- How many inquiries do you have?
- Do you currently make any profit?
- What is your most profitable business area, currently?
- How do you market?
- What would you like to accomplish?
- Who is your competition?
- Who is your prize client?

An alliance is rarely a perfect match made in heaven. You must thoroughly analyze your options: where or what the real leverage is in every deal, and what you expect to gain from the alliance deal. Don't try to structure a deal; instead, construct a successful business.

Most importantly, all deals must be structured fairly. For instance, if you're doing a deal with a third party and it is performance-based, you have to stipulate that it's based on mutual performance, meaning both sides do their part, not just your side. You've got to affirm in writing what you're going to do and what they're going to do, and that they're going to do it in a timely way. If they don't follow through, there must be a defined penalty.

When crafting an agreement, make sure to think about:

- Terms, duration, mutual performance expectations
- Non-corporate or corporate (depends on who's doing what)
- Residual stream after deal ends
- Termination: does the value dissipate or remain?
- Buy or sell
- Who owns what: assets, accounts, prospects, brand, I.P.?

And to make the deal work, you must:

- Be inventive
- Keep your eye on the prize; don't lose track of the end result
- 100k - 90k = 10k in profit
- Tie up the rights or control—manage other JV or SA activities
- Ensure everyone embraces the alliance, from the top down
- When you and your alliance partners view the alliance as having strong strategic value, the alliance has triple the success rate
- Before the alliance begins, communicate effectively about the respective roles, expectations, capabilities, and performance functions
- Remember that just 2-4 wisely chosen alliances can yield 50-100 percent increase!

Like anything else, a great strategic deal requires planning. I've seen entrepreneurs fall into four main traps:

- Failing to take the time to select the right partner(s)
- Failing to plan for flexibility and change
- Failing to agree on objectives and goals
- Failing to plan properly for integrated growth requirements

Be wary of these traps, and take the necessary steps to avoid them. Plan thoroughly and always communicate clearly and respectfully with your strategic partner. If you keep the lines of communication open, you'll be able to adapt to unforeseen challenges and strengthen the partnership you've formed.

In this chapter I've provided concrete ways to negotiate a strategic deal. But if you're still not convinced this path is for you, keep reading—in the next chapter I'll outline forty-five specific benefits of a strategic alliance.

Chapter 10: Action Steps

I gave you a lot of lists in this chapter. Below, I've aggregated and simplified them for your convenience.

Step 1

Make a list of what you possess as a business or entity.

Step 2

Make a list of ways you can expand your growth possibilities.

Step 3

Take the time to find the correct partner. To determine which businesses to approach, make a list of the questions you'll need to ask.

Step 4

Take your generic lists from Steps 1-3 and make them specific and personal to you and your business. Do this by listing all the viable companies or individuals in the field who could become strategic partners. Create a database so that it's easier to track your potential partners.

Step 5

Approach your potential partner(s) with your list of "why you'd be crazy not to work with me" facts.

Step 6

Preemptively address your partner's concerns. Have a list prepared in advance of the probable objections and resistance points you'll encounter. Go over the list with your partner. Prepare your response to their possible objections in advance.

Step 7

It's important to know all you can about your potential partner. Ask the right questions.

Step 8

Go through the correct process when you draft your agreement, remembering to dot all your I's and cross all your T's.

Step 9

Make a list of the actions you must take to make the deal work. Then follow through.

Step 10

Avoid the four main traps entrepreneurs fall into when initiating (and following through on) strategic deals.

CHAPTER 11:

Forty-Five Benefits Of Strategic Alliances

Maybe by now you're weary of reading about strategic alliances. You've skimmed the last few chapters and decided it's not your cup of tea. "Enough already," you say. "I'm a lone wolf. A renegade entrepreneur. Teaming up with some stranger just isn't for me." Perhaps you think partnering will take too much effort. Possibly you are intimidated by the thought of asking for the alignment. You say you are too busy, too specialized, or too new.

So you crank up the Simon and Garfunkel on your iPod and start belting: "I am a rock. I am an island!"

Are you so sure? Because I have personally witnessed strategic deals, of all shapes and sizes, that entirely revolutionized people's businesses, and put serious money in their pockets. Businesses that might have gone under otherwise, but thanks to the strategic alliance, became legendary success stories.

I'm determined to convince you. So determined that, in this chapter, I'll give you forty-five powerful reasons to consider.

Need further proof that a strategic alliance can change your life for the better? See below.

1. You can use an alliance to achieve advantages of scale, scope, or speed.

You can take ad¬vantage of other people's infrastructure. You can take advantage of other people's reach. You can take advantage of other people's responsiveness, which, as a single proprietor, a one-man or one-woman band, and a smaller business, you couldn't do. You can plug into all this intel¬lectual capital, all this reach.

2. You can increase market penetration.

You can partner locally. You can partner regionally. You can partner nationally. You can partner internationally. You can partner in all kinds of different ways.

3. You can enhance your competitiveness in local, national, and international markets.

You'll be in association with an experienced, dominant force: someone who has already built a market, somebody the market already trusts.

4. You can enhance product development.

You don't have to develop new products on your own. You don't have to try to allocate an unavailable portion of your meager profits to try to do R&D and come up with breakthroughs for the future. Now you can just go out and find other people who have already done the work and don't know what to do with the results. You can put it through your distribution. You can get control out of it. You can put your products with theirs. You've got all this flexibility. It's like a two-way valve.

5. You can develop new business opportunities through products and services.

Again, it's a two-way valve. You can take your product through as many different distribu¬tion channels as you like: publications, non-competitive complementary providers of products or services, people outside your market, and/or new applications of your product. You can even go through competitive channels!

For my very first seminar, I located people who sold advertising and marketing seminars at the $495 and below level. Their average was $295, and their premium was $495. My numbers were $5,000 and $50,000. The pairing worked out perfectly, and we each made $500,000. Then, when I went on to gain success, I recommended the seminar company to everyone I knew. It was exhilarating.

6. You can create new businesses at will.

By understanding that you're not limited to just your own company's product, you can gain control of other people's distribution. You can get influence over other people's products and match people together in the middle. You can create businesses at will.

7. You can get control of tangible and intangible assets.

Certain companies with big telephone sales rooms sold to consumers, while others sold busi¬ness-to-business. One entrepreneur realized that people who sold business-to-business were marketing during the day, while peo¬ple who sold to consumers were normally marketing from late afternoon and into the evening.

This entrepreneur was able to find business-to-business rooms that had invested millions of dollars and were empty after 4:00pm, and lease them on a performance basis—not on a cash basis, but on a share of the revenue. He was able to go to consumer sales people who wanted to leave their employer and start their own companies. He was able to get equity in their businesses and a share of the revenue just for being able to make this connection for them.

I started out in the seminar business in 1987 with zero clients. By 1989 I had 47,000 entrepreneurs around the world that spent $250 million, and I barely opened my wallet. I attracted these clients by accessing other companies, other organizations, other associations, other magazines, other consultants, and other training companies who had already spent hundreds of millions of dollars. And not only were my clients high buyers, but they were loyal. They returned to my business again and again.

8. You can use strategic alliances and joint ventures to reduce costs.

There are a lot of things that you can't afford to do, but if you joint venture them and you only pay for them in direct proportion to the revenue that comes in, they're no longer a cost, they're an income stream. They're a profit center.

9. You can easily establish strategic alliances and joint ventures once you understand the dynamics and mechanics.

Leveraging and maximizing somebody else's relational capital is easy to establish. If tomorrow morning you wanted your business to be in another city or country, or if you wanted to add a sales force, build a manufacturing facility, or develop a new product or service, it would take time, money, expertise, personnel, and training. It would take a developmental learning curve.

But if you make a strategic relational alliance deal or partnership, you can eliminate and avoid all of that. You can be instantaneously operating with access to people, distribution, facilities, technology, products, and capital.

10. Alliances only add to your own selling efforts.

Figure out what you do, and then figure out what you don't do but you want to do—and see who already has access to it. After that, you're free to explore. You say, "Oh gosh, I wish I had a sales force but I can't afford it." The first question is, who's got a sales force going out to the same people within the same market you're after, who you can joint venture with? Question number two is, "How can I get sales people to do this as a joint venture with me, instead of me paying them a fixed salary or benefit?" Let's say that you dream of having a warehouse, but you can't afford it. Who's got a warehouse that's being used at partial capacity?

Most people build an entire enterprise on one source of revenue: sales force, display ads, search engine optimization, showing at trade shows, etc. By using relational capital leverage, you can set up all different kinds of additional sources in revenue—more access to the same market, to different markets, and more direct influence—all without risking or investing any cash.

11. Alliances increase your sales massively, and thus your profitability.

You've probably been operating in a linear way, with few marketing activities or market areas. We are taught to do things in this manner, as shallow as it may be. Through joint ventures, strategic alliances or endorsement, or host or beneficiary deals, you can open twenty new distribution channels and eight new markets, increasing your business by a function of five, ten, or twenty times. And if you can't handle it, you can joint venture with somebody who's got capacity, but doesn't have sales.

12. Alliances lower the barrier of entry.

Let's say you wanted to reach the legal market, but you've never tried. You know you can cold-call attorneys. Similarly, you can find a company selling products, services, or advice to attorneys that are not at all competitive, but have worked for the last twenty years building up access to networks of people as well as good reputations. Go to them and make a deal where they put your offer through their distribution. Either their people take it to their at-torneys, or you do it for them through letters, emails, or salespeople.

Another instance—say you have a restaurant, health club, or spa, and you want to open a facility in another market. Left to your own devices, what are your options? Go to the market. Spend a lot of time trying to find a location. Pray that you can come up with the money. Negotiate; sign a long-term lease, even though you are only thinking short term. Then, after you get the building, you have to recruit and outfit the location. Next, you feel the clock ticking on your payroll, and guess what? You don't have any clients. So what do you do? You run ads. You run direct mail. You run radio and TV. You have to do promotions. It's a lot to worry about. It's a lot of money spent. And your efforts might work, or they might not.

But what if you tried a joint venture? You could form a partnership and use relational capital. You would link with someone who already owns a facility. If you do laser hair removal, find a dermatologist that already has an office, who is paying out $10-$15,000 a month to lease the equipment, and who only has five cases a day. Instead of leasing out a building, use somebody else's facilities when they're not being used. Share offices. Pay only on usage.

13. Joint ventures boost your market presence.

You can do joint ventures with tons of different organi¬zations, entities, and distributions. Even if they don't all make you a lot of money, they hit the market with credibility and implied, or expressed, endorsement—and that makes whatever you do more powerful.

14. It provides added value to clients.

A martial arts club realized they could give certain retailers certificates that were good not just for one free lesson, but for six months of lessons, which was worth $500—it had very highly perceived value. So the retailer could say to their clients, "If you spend $200 with me, I'll give you a $500 membership to a martial arts club." The retailers loved it, because the certificates cost them nothing. And approximately one in every four people who came in to the martial arts club with the free $500 certificate would extend to a $2,000 membership.

Many businesses out there have one or two products to sell. But if you think about it, there are a number of corresponding products or services that the same type of buyer or the same buying dynamic requires. There are certain products and services you buy before a product, certain products and services you buy after, and certain products and services you buy at the same time. And the poor consumer, whether a business or an individual, is forced to figure out who's viable, who's credible, who's authentic, and do it all for himself or herself.

If you can get another company to start adding your collaborative or corresponding product or service to their offering, not only are you both generating more commerce, but you're providing a great service to a client who, left to their own devices, is going to have to figure it out for themselves.

15. Joint ventures contribute substantially to perceived client benefits.

Say you give somebody a product worth $50. You can give an endorser or a host, a partner, a product, a sample, an experience, or anything else that has perceived value. It may make them a hero, but it also sets up you and your business for the back-end profit and future sales.

16. You can enter emerging markets instantly.

Let's say there is a market for which you want to be at the cutting edge. You don't know anything about that market, but you want to be the leader. All you've got to do is figure out who already has presence in that market.

Let's say you've got software that's a breakthrough for bakeries, and you don't know anything about bakeries. Well, you don't have to find a breakthrough company in bakeries. Find a bakery supply company, or a bakery consulting company, or a bakery equip¬ment company, and do a joint venture with them. That's how you can instantly usurp all the other people trying to enter that emerging market.

17. It expands your horizons.

Early in my career, I became a business transient, going from one industry to another. After ten or so transitional excursions, I reflected and thought, "Wow—everybody in industry A pretty much does the same thing the same way. In industry B, everybody does the same thing the same way. Same with industries C and D. And it's not because those strategies are best. It's not because the marketing approach is the best, or because the business model is the best, or because the cost or risk is the best. It's just because that's all they know."

So I started taking filaments of what I learned from A, B, and C, combining them into hybrids, and using them for D. And guess what? D started leading the pack.

18. You get to speed your access to a wide variety of new markets.

You can go anywhere you want. Any and every market is penetrable, and within your reach. I have used power partnering to take my brand to Asia, Australia, Europe, and Canada. I've used it in the real estate market, the chiropractic market, and the martial arts market—all while still maintaining a small infrastructure. I don't need a big infrastructure. I can get anything I want on a performance, or soft dollar basis. Why do I need to have a huge overhead and an HR department? Let somebody else do that work, and you get the leverage.

19. You can expand beyond your geographic boundaries, right now limited to your facil-ity, staff, and your delivery.

Always dreamed of opening a store in Paris? No problem. Find a strategic partner with a thriving French office and work out a deal. Now that you're no longer limited to your own team and facilities, have a passport ready.

20. You can gain a foothold in international markets.

I have partners in nine countries, including Russia, Tokyo, Australia, Japan, Singapore, and Malaysia.

When infomercials were just starting out in the United States, I was in Australia and the UK doing semi¬nars. While there, I taught a direct-response guy how to get with the infomercial people (who were limiting their horizon to just the United States) and acquire the rights on a joint venture to use their infomercial to buy their products at incremental cost plus profit by using it in Australia and New Zealand.

The guy made $20 million a year, and he wouldn't have made anything if he had tried creating his own infomercial. He got access to infomercials that were being made way out of his limit, at $400,000. He got in with projects that people had spent millions of dollars to develop. All he needed to do was share the profit. He just had to be able to exploit that lead.

21. You can control other people's markets.

Say you're in a business that's just starting to expand. But there's already someone in that market, and they've got the lead. You want to dominate—not just immediately, but in every market available. You know your product renders a far greater value to the consumer. You care more. You're a better company to deal with. But they're already there; how in the world are you going to match them?

Find somebody else in that market—and any other market you want—who already has credibility, distribution, and access. Use their facilities. Share in their brand. Employ their people. You can also use their buyer list. By finding the best relational capital access to align with, you can crush that other person in the market without them ever knowing what hit them. And you can do it over and over again.

22. You can gain a competitive advantage.

It's that old adage: two heads are better than one. Suddenly you've teamed up with the business that is the perfect complement to yours. You don't just have twice the facilities, capital, team members, resources, and brainpower that you had before; if you've chosen the right strategic partner, you have exponentially more of everything. How could you not have a competitive advantage?

23. You can rapidly overpower the competition.

If you have access to markets and you have a direct, implied, or explicit endorsement and your competitors don't, three things happen: you shorten the selling cycle, reduce the cost of access, and enhance the response rate. That means you're going to sell more, you're going to sell faster, it's going to cost you less, and you're going to make more money—even if you pay back a portion of that revenue to the endorser or the joint venture partner.

No matter what product or service you're in, there's everyone else, and then there's you. Everyone else is a linear thinker who has been inculcated and grounded on the belief that "we are islands," and that they must build their businesses alone. Others believe that they must create their own advertising, be brilliant strategists, and fight tooth and nail for every buyer they get.

You say, "OK, well, more power to you. I'm going to go and find somebody who already owns the market. Somebody who's already got a brand they spent $200 million building, already has facilities, and already has all kinds of people they can tell that I'm now part of them, or tell to buy from me, or give them certificates to start a relationship.

"And overnight, you poor soul, while you're doing it alone, I'm going to envelop you, I'm going to crush you, I'm going to take your market away, and I'm going to have brand supremacy forever. And I'm sorry, but that's the way it goes."

24. You can joint market with people and share the cost.

Let's say you really wish you could penetrate new markets, and you can't find any one person to do it, so you've got to hire a salesperson. But the salesperson wants $100,000 and that's money you don't have. If you're the one who started the idea, you can go find three or four other people who want to reach the same market—who are noncompetitive—and put the whole deal together so that they share the cost, give you a great ride, and allow you to build a sales distribution cycle all on their dime.

You may be an estate attorney. Go to a CPA, financial planner, or any other professional that has complementary services and state, "We're going to do an amazing series of incredibly high-value, provocative, enormously fascinating seminars, and we're either going to do it to the open market, or we're going to do it, even better, with a bunch of endorsers who I will put together. We're going to do it at a hotel. And it's going to be on an incredible theme. I'll create everything and figure out the marketing. And, oh, by the way, you guys are going to pay for it because I'm putting it all together, and we'll each get whatever business comes from it."

In one fell swoop, you get three magnificent advantages: first, you moved all the expense and risk to somebody else. Second, you can speak with leaders who are relationally above you in their prestige in the market, but don't have good ideas. Bringing them in can raise your stature immediately. If there's money being spent, they will be the ones spending because you were the one with the idea. Third, instead of just buying ads or mailing lists, you can go to other organizations and use their relational capital to invite their members, readers, or people to the activity.

25. Joint selling or distribution.

You can do things at will. Instead of having to buy equip¬ment, rent an office, or hire people, all you have to do is get the paperwork done on the joint venture or strategic alliance, and you're on your way. Then you just have to follow through with masterful programming, leading, and directing.

I met a man in China who had a small startup motorcycle manufacturing business. He couldn't get a bank loan for company money. I asked him what he would do with the money if he had it. "I would open up a couple of plants in Asia," the man said. "Then I would hire a sales force, get distributors, and sell motorcycles."

"Well," I said, "why not find someone in a complementary market that already has the manufacturing, a second shift they are not using, a sales force, a complimentary retail field, a distribution retail network, and make a deal where you use their second and third shift?"

Later, when I followed up with the man, he still had no money. But he had found a lawnmower company in Malaysia that had a second shift. It had sales people in ten countries. It had distribution in lawnmower shops. By leveraging those resources, the man's motorcycle company was able to sell $10-$20 million in six months.

26. You can collaborate to design new products or combinations with other people.

How about that product you've been dreaming about for years, but never had the time or resources to make happen? Or the product line you've been testing that's sure to sell like hotcakes . . . if you can just get it out the door? Well, now you don't have to wait any longer. You have a multitude of new resources, just waiting to be engaged. You've just earned yourself the freedom to try something new.

27. You have total flexibility in the way you operate.

In business, you may feel that an eight-hour workday isn't enough time—and some of those hours get cut by US time zones. Not a problem anymore. Find a partner halfway around the world, in Taiwan or Bangalore. Their people's waking hours are your people's sleeping hours. You'll get twice the amount of work done—for twice the profit.

28. Joint ventures are less risky.

Say you're in Los Angeles and you want to open an office in New York. To do that, you have to lease an office. If it's a nice one, you might have a three-to-five-year lease. You have to hire people. You have to train them. You have to buy the equipment. If you have a lot of money, that's no problem. If you don't, that's a problem.

Instead, you can find somebody who is distressed, meaning they aren't using their opportunities fully, their relationships fully, or their past clients fully, and you can make a deal with them that's incremental and variable-based. And don't limit yourself to New York. You could be in Atlanta, Sydney, and Toronto too, with very little downside. If it doesn't work, you unwind or you adjust.

Leveraging relational capital is not dangerous. It might cost money, but it will only cost money if it works. It will only cost money if money comes in, and you'd only be giving money back that was given to you by mining somebody else's relational capital.

29. Requires less cash.

Now that you've got all these extra resources to marshal and exploit, you will deploy less cash trying out new strategies.

30. Acquire a technology license.

You can license other people's technology. For example, you could go to every major market and look up in the Yellow Pages or on the computer who's got an independent handyman operation. Find out how well they're doing, and go to them and ask them if you can license their systems, their approach, and their advertising for every market other than the one they're in, because most of them aren't that ambitious. Now you're in a business you can re-license, or form a joint venture with all kinds of other people, and you can be a franchiser or licensee, a multi-unit owner.

When you partner with companies that have deep experience, serious money, and tremendous prestige, you can get a license to apply their technology to a different market, a different use, or a different country, and use their prestige along with it.

31. You can get research and development done for free.

The biggest problem in most businesses is you have to keep developing innovative, breakthrough ways to make your current model obsolete. That requires technology, commitment, staff, capital, and experimentation.

Eliminate that burden. In this fast world, click online and search any category to find 5,000-25,000 websites of people who already have breakthrough ideas. Their problem is a lack of marketing. You can get control of their breakthrough product or technology, and the lion's share of its profit, for no out-of-pocket for you. You'll pay only on performance.

32. Access knowledge and expertise beyond company borders.

There are many consul¬tants out there. Many of these are excellent professionals who can really make a difference for most small-to-medium-sized business owners. Most people feel they can't afford those experts, but you can in three ways: rather than paying for a specific expertise, you can acquire and convert the consultant's compensation to 1) a share of your results, 2) an interest in your company, or 3) an ownership in certain kinds or categories of clients or sales that you make, or products you sell.

33. Joint ventures can strengthen your expertise in an industry as a result of the association.

I did five joint ventures in the chiropractic industry, including three magazines, a leading-edge technologist, and a leading chiropractic company. Today, if I sent a letter to chiropractors beyond that scope, they would see me from five different, highly credible impact points. My stature, attributes, and relative worth has already been established by plugging into the cumulative efforts and relationships of these other people.

34. It extends your product offerings.

Perhaps you're a company that has one or two products, and nothing else. You can have a static, linear, nowhere-to-go sort of business, or you can decide to massively monetize all the valuable time and effort you've already spent on the opportunity costs of identifying and creating goodwill to companies or individuals you sell to. You find all kinds of other businesses, service providers, and publications or associations that have a limited number of services or products. And when they're done selling all they have to offer, your new sales phase will begin. It should actually be the beginning of a never-ending profit stream.

35. Widens your scope of innovation.

Innovation and optimization are two contrar¬ian concepts. Optimization is maximizing the performance, viability, and possibility of everything you do. Innovation is making what you do obsolete, and coming up with totally new applications and markets. You can do both through joint ventures—safely, rapidly, and suc¬cessfully.

36. You can secure your position as a front-runner in your market.

You are now a powerhouse—especially if you've chosen a strategic partner who is highly respected and well-loved in your market. You've effortlessly become a front-runner, and the perks are yours to enjoy.

37. You can provide or acquire marketing or selling.

You can take economic and strategic advantage of your own company's unused relational capital leverage. Years ago, I dealt with a client who was making and selling trendy designer aerobic clothes. They had three or four major lead products, and were selling in 5,000 stores, including stores like Target and Nordstrom. However, their product was starting to burn out, other people had knocked it off, and they didn't have any further offerings.

They were frustrated, but they weren't creative. They had developed these three or four products, and that was it. I told them, "Your biggest asset isn't your product. It's your distribution chan¬nels and your relationship with the stores' buyers. You can use those assets very advantageously. Go on a road trip to the hot cities: Chicago, L.A., South Beach, New York. Go to all the health clubs, and in the health club in the little snack shack there's always some creative man or woman who's created a design for tennis shoes, or sweatshirts, or head bands that's selling four of them there, and nothing else. Go to the creators. Get a royalty deal on the product. Take it outside."

They immediately went into linear interpretation mode and said, "We don't want to be a distributor."

"Don't be a distributor," I responded. "Tell the person who created the original product that they can keep all the sales from their one or two health clubs, and you want to give them a five percent royalty on all the other distribution channels you open up." They were able to tie up ten really cool products, and generate millions more in sales than they originally did.

You can also have someone else provide marketing or selling. Let's say that you've got a killer product, but you don't know how to market or sell. You can joint venture with somebody who does. You can have a 10,000 person sales force overnight, without having to pay any salaries. You don't have to pay any draws. You don't have to pay any vacations. You don't have to have human resources. You don't have to have management.

38. You can easily establish purchasing and supply relationships.

You can get access to products incrementally, that no one else would ever let you have access to, by tapping into your partners' supplies, relationships, buying power, etc. You don't have to buy any (or many) goods, yet almost at will, you can create formidable buying power instantly, for yourself and others.

39. You can set up instant distribution networks.

You can have networks all over the________. Fill in the blank: industry, country, continent, world, or galaxy!

40. You can capitalize on all kinds of hidden assets and overlooked opportunities.

Now that you can step back a bit, your perspective will no doubt change. You'll be able to identify assets and opportunities you may have missed before.

41. You can make much higher ROIs and ROEs on alliances than from your core or main business.

With your core main business, you're burdened with the full overhead. When you enter a joint venture, you can make a deal where everything is incremental. You're not laden with their fixed overhead. You're not laden with their payroll. You're not laden with any of the cost. You figure out a G&A that you pay them, but it's incremental. It's performance-based. You can make three or four times as much profit on those transac¬tions as you do on your own.

42. You can stay focused on your own core business while expanding, exploiting, and har¬nessing the whole.

The key to all this is to make your business, or your business activities, work harder for you than you work for it. That way, you can stay doing whatever you're doing, and have all these other things working for you with minimal effort, investment, and risk—but maximum yield and prestige.

43. You can outsource every non-core competency.

You can get each non-core competency performing at many times higher levels of capability and results, and only pay for them in direct proportion to their results in your bottom line.

44. Reduce your overhead through shared costs and outsourcing.

See #43: what's not to love?

45. A strategic alliance lets you maximize, multiply, and stretch your own management, economic, tech¬nical, and operational resources.

Don't manage. Form joint ventures with people who have several tiers of management. They have consultants; just plug into whatever you need, and they provide whatever you're missing. All you have to do is be the big thinker and the dealmaker, the strategist and the catalyst. In other words, the visionary.

Now, rock 'n' roll.

CHAPTER 12:

Other Incredible Ways To Grow Your Business Without Spending A Dime

By now the cat is out of the bag: I'm a big fan of the strategic alliance. But a partnership isn't the only way to grow your business. I want to close by leaving you with a few case studies of ordinary people who thought outside the box—and reaped great rewards.

The Orderlies Who Bought The Hospital

Two gentlemen were going through med school, intending to become doctors. To pay for their schooling, they worked as orderlies in a hospital. One day, the head administrator of the hospital called all the employees to a meeting. He explained that the hospital was losing money, because they were only functioning at about 65 percent capacity. Because there were so many good hospitals in the area, there just wasn't enough patient flow to support their hospital.

So the hospital was trying to find a buyer. If they didn't find a buyer in the next sixty days, they would run out of money and the non-profit organization that owned the hospital would close it and liquidate the business. It looked as though everyone would soon be unemployed.

This was disheartening news for everyone—except for those two orderlies. The first thing they focused on was structuring a limited partnership. Limited partners don't have any say in the business, but are equity owners. They put up all, or most, of the funding, and they share in the profit and appreciation growth of the entity. The general partner, on the other hand, runs everything. They have all the say, but don't put up any money. In fact, the limited partner actually gets paid a monthly management fee for putting the part¬nership together and running it—and that's in addition to their fat share of the profits and their huge share of the equity as the business grows.

So these orderlies decided to put a partnership together.

There's one question that you should ask yourself if you want to know if an acquisition situ¬ation is a candidate for this leveraged buy-out strategy: who controls the client flow for that business? For a hospital, the answer is doctors. Doctors decide where they choose to be on staff, refer patients, and operate.

The second question you ask is: whoever was the answer to that first question, do they have money to invest and an incentive to own the business they help generate? Let's look at doctors. Do they have money to invest? They're reasonably well-paid profes¬sionals. They have the ability to come up with large, lump sums of cash. They have the ability to make large investments.

With the answers to those two questions, we know that this purchase is going to be an op¬portunity for simultaneous marketing and the raising of investment capital. So the orderlies used a limited partnership to put the deal together. They started contacting doctors in their area and put together a simple business plan. The business plan showed what revenue the hospital currently brought in, what their expenses were, what percentage of capacity the hospital operated at now—and then what would happen if, instead of 65 percent capacity, they started operating at 75 percent, 85 percent, and 95 percent capacity. Obviously, once you get up to around 85-90 percent capacity, the hospital actually starts making a lot of money—potentially millions every month.

The orderlies figured out exactly how many doctors it would take to add to the staff to hit the 95 percent capacity, and it came out at 70 doctors. If they could add 70 more doctors, they were go¬ing to have all the patient flow that hospital could handle. And then the hospital would make a ton of money. So the two orderlies got 70 doctors to put up $100,000 each. They raised $7,000,000 for the purchase of this hospital in two months—a full $2,000,000 more in cash than they needed for the leveraged buyout they had negotiated with the non-profit.

They were able to leverage all of the rest through the assets, installment notes, and other forms of creative marketing or financing. So the $2,000,000 surplus at the end of this whole structuring went right into the bank accounts of those two orderlies as their fee for putting the project together.

These two (soon-to-be-unemployed) orderlies literally walked away from the transaction with $2,000,000 in their pockets—in addition to instantly gaining their 30 percent equity of the hospital as the general managing partners. Of course, any such kinds of actions need to be considered on a legal basis before they are executed. Refer to your attorney before any business movements, but this story should truly animate your unbridled sense of what's possible.

Asset-Based Lender And Double Escrow

A friend of mine, just a couple years out of college, had an opportunity to acquire a manufacturer of motorcycle accessory parts. However, there was the usual problem: he didn't have any cash. Nor did he have references or credentials, and he'd never run a business. What was he to do?

The business wanted a total purchase price of $500,000. Although he would ultimately have to pay that full amount, he only had to come up with $100,000 to close the deal. The seller agreed to take the balance as monthly payments. My friend wasn't worried about how to make the monthly payments; the business had plenty of profitable cash flow, with which he could make the payments easily, and still have a generous surplus of profits with which he could pay himself six figures annually.

But how was he to get the initial $100,000?

Investigating further, he discovered that, within the business he wanted to buy, there were undervalued and under-recognized assets. There was machinery and equipment. There were accounts receivable. There was inventory. There were the normal office assets you would find in any manufacturing company.

He did some research and found out about something called an asset-based lender. Asset-based loaning works like a loan on a car. You make a down payment of 20 percent of the purchase price of a car. You have another 80 percent that they finance. If for any reason you don't make your payments, they take back the collateral, sell it, get all their money back, and sometimes even make a profit.

If for any reason the loan isn't paid, the asset-based lenders merely come in, take out their collateral, sell it, and get their money back. They file what they call a UCC filing, which is basically a business-based first lien on the assets. That safely protects them: no one else can have a claim on them.

In other words, once my friend owned the business, he could take all the assets and pledge them to an asset-based lender. That lender would then give him a check for up to 80 percent of the current value of those assets. All told, there was about $300,000 worth of machinery, equipment, and accounts receivables in the business. He could pledge those assets to the asset-based lender, and raise approximately $240,000 (80 percent) instantly—more than enough to close the deal—without putting himself personally on the hook.

However, there was one small problem: he had to be the owner of the business before he could leverage the assets to the asset-based lender. So he did a little more research and found out that he could also borrow what is called a swing loan, to cover the time delay between the funding of his asset-based loan and the payment of the $100,000 down payment.

He could get the swing loan from a bank and give that to the seller in the morning. The business would be his. Then, in the afternoon, he could take the assets and raise the $240,000 the same day from the asset-based lender. He would then take $100,000 of that $240,000, and instantly repay the bank's swing loan. That would leave him a $140,000 cash windfall in his bank account, which he could use to run the business—and pay himself a big bonus!

Unfortunately, there was a sticking point: he didn't have a credit rating that would warrant any banker loaning him the $100,000 on his signature alone. He was still stuck. So back he went to his research, and discovered something called a double escrow.

A double escrow would work like this: my friend would never touch that $100,000. That money would be put into escrow by the bank. The asset-based lender would never give him the $240,000 either. They would put their money into a second escrow that was directly connected to the first transaction. Both escrows would be set to close simultaneously. At the closing, the $100,000 swing-loan money would go to the seller, and my friend would become the owner of the business instantly. The $240,000 asset-based loan would go directly to the asset-based lender. The bank would then take the $100,000 out of the business's checking account to repay the swing loan, and the $140,000 would remain sitting in the business's account.

Figuring out this transaction was a life-changing revolution for my friend. Prosperity reined from that point forwards. Yes, he paid a very high interest rate for the money. But the lenders got their high return, and since the assets they were loaning on were worth every cent of the $300,000, they had little to no risk on the deal.

He only had to pay an extra $15,000 in interest. That's a cheap entry price to gain control of a potentially seven-figure-valued company, a six-figure income, and a foundation upon which to build an empire! Again, this story should propel you to see enormous new potential. It is much easier to get an investor on board when he is motivated by your originality and imagination. He will be much more willing to back someone who demonstrates low risk with high innovation—with the upside in performance and sophisticated thinking abilities.

Secured Lender-Supported Takeover

The same man who bought the motorcycle manufacturer with an asset-based loan and double escrow wanted to buy another company. This one focused on manufacturing motorcycle accessory parts. This company was found in bankruptcy, for one very simple reason: it was started by talented promoters who were great at selling, but couldn't make quality prod¬ucts worth interest. They had a lot of sales, but very poor quality and a bad manufacturing process. So, for every order that went out, about 20 percent of the merchandise would come back as returns.

The man wanted this company because they had great sales and he had quality, disciplined manufacturing capabilities that could remake the product. It was a logical match for him to buy, but if he bought the company, he didn't really want (or need) the manufacturing facility that came with it. He just wanted their sales. And if he had all those sales he'd need to have a lot more working capital in order to fulfill the orders, even though he already had a manufacturing facility to do it in.

So here's the key leverage he used to pull off this particular no-capital deal. It focused on a quirk in human nature, the way most people's minds work: people will act more strongly to keep from losing something that's already there than they ever will to make it happen in the first place. We just don't like losing.

If you're a loan officer for a large lender, say a big bank, this is even truer. If a company you've made a big loan to goes into bankruptcy and your bank loses their "lent capital," you look really bad if you're the one who made the loan. So you're going to do whatever it takes—within legal limits—to make sure there is no loss.

What the man did was structure a deal so that the secured lender (the bank) in bankruptcy would not lose when he took over the company. To create an incentive for him to do that, the bank generously funded his loan. That loan, in turn, enabled him to buy the company and take all the assets, sell them at liquidation prices, get rid of them really quickly, turn them back into cash, and pay off most of the old loan, though not all of it. Moreover, the extra cash that he generated by having the bank "fully fund" the loan then became the working capital he used to take the sales team from that acquired company and use them to grow all five of his other manufacturing companies.

How he kept growing the business after that is even more exciting. He analyzed what he was doing strategically. What he quickly realized is that it didn't really matter how hard he worked, all he could do was grow 10-15 percent annually while working internally. That fact was frustrating because he was working really hard, but he still wasn't able to grow any further or faster the normal way.

So he decided to grow the first business he bought by buying out a competitor. Why? If he went out and bought a company that was about the same size, he could double the sales and profitability in a few months, instead of it taking years (think economics of scale).

He already knew the techniques of financial leverage, so that's what he used. He bought his largest competitor on the West Coast, who made the same type of motorcycle parts he did. Then, a short time later, he bought the only com¬petitor he had left of any size on the East Coast. Once he owned these three after-market motorcycle parts manufacturers, he had acquired the great¬est distribution of motorcycle parts out there. Literally every distributor in the country now bought something from him.

He went out and made a couple of other very small, strategic acquisitions, but soon he had reached a plateau in his ability to grow in terms of acquisitions of leverage buyouts in that category. He now owned all the major competitors. So his next step was to say, "O.K. I've acquired this great distribu¬tion. Every distributor buys from me. Why don't I buy other metal fabricated parts?" So next, he bought companies to produce kickstands, handlebars, crash bars, seatback rests, and lug¬gage racks; any kind of metal fabricated product for a motorcycle, he plugged into his distribution system.

Now he could take companies that were marketing-challenged but had good products, and instantly plug them into his massive sales distri¬bution system. And because they were having problems, he bought them at bargain prices. The minute they were his, sales amplified. That dramatically increased his profits from the bargain purchase—all without using any cash of his own! Moreover, the profits continued to raise the value of the business by 10-20 times for each extra dollar earned.

But that's not the end of the story. He soon realized that he had about maximized the growth he could reach in the combined company. He had plateaued in his ability to engineer geometric growth. So having done this wonderful "roll up" in the motorcycle parts business, he really wanted to go into bigger, more lucrative industries and do the same again and again for a bigger payoff.

He decided it was time to sell, but he wanted to be smart. He wanted to sell the company for top dollar. So he looked around and found other companies out there that were also motorcycle parts businesses, but were part of totally different forms of fabrication. They made fiberglass gas tanks, bearings, helmets and other types of plastic-related items. They did not have a particularly good distribution system, but they were very big in what they did.

He worked out a deal for them to buy his company for way more than it was worth as a stand¬alone business. Why? Because he convinced them that if they owned his company, they would not only be buying the profitability of that company, but once they owned it, they would back their own products into his distribution system and make their existing company worth a lot more, too. Therefore, they were easily willing to pay him a monster premium for his business.

He walked out of the company with a ton of cash—$5 million, to be exact. Taking time off, he went on vacation for a year, took his family around the world, and did some fun things that gave him quality time and regenerated his ambition.

And then he went out and did this all over again for another industry—with no cash.

Seeing And Seizing An Opportunity

In 1972, a young man was working as a page at the Democratic convention, where George McGov¬ern was nominated to run for President against Richard Nixon. During the convention, Senator McGovern was forced to drop his vice-presidential running mate, Senator Eagleton. The young, sixteen-year-old entrepreneur saw a one-time opportunity, and bought up 5,000 suddenly obsolete McGovern-Eagleton buttons and bumper stickers for five cents apiece. After just a little time passed, he was able to resell them as rare historical political memorabilia for as much as $25 per item.

Now, this young man's one-time windfall profit did not result in a major industry breakthrough. But it clearly showed an ability to think outside the box and find opportunities. That young man, by the way, was Bill Gates.

You have to open your eyes to recognize unexpected assets. See the fertilizer in the National Forest pines trees. In this manner, The Saturday Evening Post was bought in a very clever trans¬action. The paper had fallen into bankruptcy. The buyer gained control of it for nothing and reportedly put $4 million in his pocket within a few months of getting control. How? Because it had an asset that he recognized and no one else did: for years, The Satur¬day Evening Post had a different Norman Rockwell custom-commissioned original painting on the cover of every issue. After Rockwell finished the painting, it would reside in the offices of The Saturday Evening Post, which used to be in Philadelphia.

The buyer bought the magazine out of bankruptcy, and along with it came all these seemingly valueless paintings. The first thing the new owner did was get an attorney who was a licensing expert, and who he paid strictly on performance, to go all over the coun¬try and set up license deals for people to use the Norman Rockwell images on calendars, coffee cups, and greeting cards. Everyone who used the paintings had to pay the owner a royalty and an advance. He made some number of millions of dollars in a year just by reusing that single asset.

Bartering

Bartering represents probably the most enjoyable, stimulating, lucrative, and rewarding business op¬portunity available. Bartering is not simply giving a country doctor a few chickens for setting your broken arm; there are very sophisticated ways to leverage the process. You don't have to use cash to get what you want or need. You can turn your product or service into increased buying power and create the most gainful profit center of all.

Trading your products or services for things your business needs or wants is called Business Bar¬ter. Bartering gives you the amazing ability to vastly increase your purchasing power—sometimes by as much as 5-10 times over. Done right, bartering also gives you the effect of having almost unlimited capital. It's like having a blank check to fill in. It allows you to acquire products and services now, but pay for them much later. And the longer you take to pay, the less the product or service ends up costing. You can make bartering a major factor in your business growth strategy.

Thirteen Specific Barter Strategies

1. You save cash on capital expenditures.

Say you're buying a computer. After you negoti¬ate the lowest price, you can agree to that price if the seller will take a portion of that negotiated price in your product or service, ideally 25-50 percent. What does that accom¬plish? It lowers the true cost of the computer to you by up to a third, depending on what your margins are, and it gave you dating on the barter portion of the purchase, because most people won't use your products or services right away, even though they're welcome to. But you get access to the computer right away, so you've deferred the payment, interest-free, at a discount for that period of time.

2. You increase your total sales.

Since many businesses focus their attention on the total gross, bartering accentuates your gross while continuing to minimize your overhead. This means that the cost of producing barter, instead of 100 percent dollars, lets you increase your gross sales at a fraction of what doing it with cash would cost. Consequently, your barter sales could be many times more profitable, incrementally.

3. Barter lets you pay operating expenditures, even payroll, if you convert it to a variable or subcontract with what's called "soft dollars."

That means you could be low on, or even out of, cash and still continue to operate and prosper, and continue to employ critically needed personnel or service providers using barter as your means of commerce. All of my decorating, furniture, and paintings for the past three or four years were done just through converting my services. I'd give somebody my services at $5,000 an hour, and they'd give me their products in return. My wife had a new Porsche convertible, and it only took a day and a half of my time.

4. You can print your own currency or script, which is usable at your place of business.

Only your imagination can limit the advantages that having your own legal tender can do to benefit your business. Say there's one thing your company really needs or wants to acquire, but you can't afford it on a cash basis. Using your own currency, where the cost is based on the cost of supplying the goods and services (and where you take the liberty now, but pay for it much later), you can afford to acquire all kinds of things.

Sometimes you have to triangulate. You may not have something that the business that you need to get wants, but you may be able to trade your product or service to a third com-pany or individual who's got that, and you're triangulated.

5. You automatically get terms, credit, and discounts far more easily than you ever could by paying cash.

In this example, say you issue a $5,000 credit to a printer. He gives you $5,000-worth of printing right now, and delivers it immediately. You pay with your barter script or credits, and give the printer one to two years to use his credit with you. Until the printer actually uses those credits, you haven't paid out a thing, and since he probably will only use a por¬tion of the credit with you at a time, its cost will easily be handled a little at a time, incre¬mentally, but a dollar paid in two years cost you a lot less than a dollar today.

6. Breakage.

This is not meant to be manipulative or unethical—it's just a truism. Breakage represents the barter certificates you issue when your trade with someone is never used. A certain percentage of all barter credits issued, if they have an expiration date (which I recommend employing), will not be used.

For instance, a major New Orleans hotel traded $125,000 worth of radio and TV time, and issued barter script in that amount with a one-year expiration date. Right up front, the hotel got $125,000 in advertising at regular cash rates. This was advertising they had been pay-ing $125,000 for in real cash. At the end of 12 months, an audit revealed that only $35,000 of the barter script had been redeemed within the time limit. The hotel was ready, will¬ing, and able to honor the barter script—but the rest expired unused. So the cash cost of the hotel delivering $35,000 worth of rooms was only $5,000. The hotel had leveraged up $125,000 in advertising for $5,000 hard dollars.

However, that does not take into consideration two overlooked, but extremely significant factors: 1) Statistically, $35,000 in room trade produces $17,500 in cash, food, beverage and mis¬cellaneous real sales with gross profits in excess of $8,000 for the hotel. The hotel actually got paid $3,000 net after all expenses to enter into the transaction. 2) All $35,000 worth of the rooms was not used at one time. It was spread out over 12 months, meaning that the hotel got to pay the $5,000 over 12 months, totally interest-free. In essence, they got $125,000 worth of advertising up front, and got paid to do so.

Human nature can explain the lack of trading in of credits. Just think of all the gift cards you've received and then let expire, unused. Over $41 billion in gift cards went unspent between 2005 and 2011.

7. Cash conversion.

Many barter items, merchandise, or services you acquire, in addition to being used to pay bills, can be sold or converted to cash at a fee well above the cost of acquiring them.

Chrysler Corporation created a Spanish television network for 192 cars several years back. The seven-station chain sold the cars to their employees at a 30 percent discount. The employees were overjoyed because the most the dealer would discount them was 15 percent. The average value of each car was $10,000, and the televi¬sion network received more than $1,920,000 in real cash from the sale for unused airtime that cost them nothing. This was expiring time they weren't using, time that probably would have gone unsold, and thus would have produced zero revenue unless it was traded. Forty-five of the cars were traded to a television transmitter manufacturer by the radio station in ex¬change for a half million dollars' worth of transmitter equipment that permitted the station to open up a new, full-power UHF station in San Francisco without using any cash.

The ability to trade for this equipment set the schedule to get the San Francisco station on the air ahead by more than one full year, and enabled that station to operate in the beginning without draining all their loose cash. They became a runaway success before any other Spanish station ever penetrated San Francisco. The stations were subsequently sold for $400 million, and that same San Francisco station today is probably worth in excess of $50 million by itself.

8. Create a barter profit center.

Certain salespeople who are not effective in cash selling are extremely successful in bartering. So you might have a sleeper employee with you whose sales will skyrocket and give you huge bonus margins on your products or services if he trades for other products or services at full rate. Then you can turn right around and sell the newly acquired merchan¬dise for services at a discount.

The Home Shopping Network (HSN), which is now a billion-dollar-plus business, was actually con¬ceived and started in 1977 by the owner of a small-time radio station in Florida who was having dif¬ficulty making payments. The owner traded for 1,400 electric can openers from a hardware store, and then he cash-converted them over the air (radio), and the company was saved. He did an auction. He then began trading and auctioning goods and services he traded for over the radio, to the listening audience. Within 60 days, the small station was back in the black, and the seller on the air concept was further tested on the local cable. Then he bought some cable time. When this also proved successful, investors backed the concept into satellite link. It went national. The company's sales now exceed a billion dollars, and it all started with 1,400 can openers.

9. Vastly expand your available advertising budget without using any cash.

A creative thinker bought radio advertising for $0.20 on the dollar. He traded DHL for two times its face value. He converted it and sold it to people for half the price. And that's not the best part: after they used DHL for a year, or a half a year, and liked it, they started paying cash when their trade was used up, and the thinker got a percentage of the back end too.

You can finance rapid growth without cash. Carnival Cruise started out as a border-based cruise line. It's now the largest cruise line in the world. It started with one ship, and had no real capital. The ship, in the beginning, wasn't even painted on one side. They had to park it on the painted side so people wouldn't know the other side was unpainted.

The line traded empty cabins for radio, television, and newspaper advertising in 100 cities over a ten-year period. The cost of an empty cabin, once the ship sells, is minimal. Plus, the passengers may spend considerable cash in the bar, casino, and gift shop. When

Carnival traded their empty cabins for advertising on radio stations, those stations did one of three things: they either sold it, gave it away as a gift, or offered it to advertisers. When the advertiser or the recipient booked the cruise, Carnival would charge them a processing fee of about $90. That $90 paid for all the food and the incremental cost of towels, toilet paper, and electricity. So in the end, they were out nothing, and still got the advertising.

Carnival used this technique to become the largest cruise line in the world, continuously advertising in 100 cities for more than ten years, without spending a penny of hard cash. A conservative estimate of the sales generated was hundreds of millions of dollars. The owner became a billionaire, and was featured on the Forbes Richest People in America list.

10. The ability to instantly and continuously generate a steady stream of profits at far above closeout prices.

A lot of people have closed out merchandise. They'll try to sell it for pennies on the dollar, and they'll lose money. By trading them and getting something you would have bought, or something you can cash convert for a much higher yield than you would liquidating it, you can turn a loss, a distress, or an obsolete situation into a profit center.

11. Turn excess inventory into cash without losing regular business.

A major international hotel issues its own barter certificates to the tune of $7 million a year. The certificates over the years have become extremely popular. The hotel is able to trade for advertising on nearly any radio or TV station out there, because its certificates are so desirable. Because they get incremental business, the hotel saves an estimated $10 mil¬lion a year in cash through this process, and the whole process costs them almost nothing.

12. Recycle dollars right back to your own business.

The City of Palm Springs orders ad¬vertising for its tourist bureau. In order for the media—the radio and TV stations around the country—to be paid for the advertising they run, the tourist bureau requires that the media has to travel to Palm Springs and spend the vouchers in the city itself. In other words, the money gets recycled. Let's say they spend $100,000 on TV in New York. They don't pay it with cash. They pay it with vouchers good for any merchant of the tourist bureau in Palm Springs. But it's got to be repaid there, so it all comes back.

13. Stockholder benefits.

Many companies issue employee or stockholder benefits in barter, either for the company itself, the pay bonuses, or paid vacations. The trade costs them virtually nothing.

Chapter 11: Action Steps

Here's a quick recap of the thirteen benefits of bartering.

1. You save cash on capital expenditures.

2. You increase your total sales.

3. Barter lets you pay operating expenditures, even payroll, if you convert it to a variable or subcontract with what's called "soft dollars."

4. You can print your own currency or script, which is usable at your place of business.

5. You automatically get terms, credit, and discounts far more easily than you ever could by paying cash.

6. Breakage.

7. Cash conversion.

8. Create a barter profit center.

9. Vastly expand your available advertising budget without using any cash.

10. The ability to instantly and continuously generate a steady stream of profits at far above closeout prices.

11. Turn excess inventory into cash without losing regular business.

12. Recycle dollars right back to your own business.

13. Stockholder benefits.

Keep Your Business Growing

I hope the stories and information in these pages will help you get your business off the ground and soaring towards success. The techniques in this book can be used to help you expand beyond your wildest dreams—whether you are a startup, a pre-startup idea, or just looking for a promising new concept in business. I've seen success happen in countless cases, both in my own businesses and the businesses I've helped others create. I have produced over 18,000 success stories in countries all over the globe, proving that these methods work.

But it ain't over yet.

Once you've launched your business and developed it into a successful company, you're going to face a number of inevitable challenges. Having made a name, the worst thing you can do is get lazy; it is going to take time, consistency, and trial-and-error to stronghold the efforts you've worked so hard to ignite. When a business underperforms or outright misses deadlines, budget targets, or marketing feedback, it's always for a reason—or multiple reasons. Of course, the reason or causation(s) may not always be apparent. The good news is that many of these situations can be meaningfully improved without major capital influx or major alteration of product, service, or staff. Frequently, it just means a shift in strategy. It means tweaking your marketing, business model, collaborative agreements, or selling and value proposition. Sometimes all that's required is merely a change in attitude. But there should never be a feeling of "status quo," as you need to be working on a plan of action at all times. Maximizing your business requires constant and heartfelt administration.

I believe that most companies unknowingly restrict, limit, impede, and constrain the profit results their efforts and actions could be achieving. Most business activities "underperform" unknowingly. In fact, you may even feel like you're doing quite well. But there are multiple new marketing and profit sources, as well as income streams, available that you might never have even considered.

Too many successful companies aren't performing at their maximum sales and profit potential. By using the 360-degree thinking I've demonstrated in this book, you will be able to dramatically multiply your results and add performance. You will be able to take advantage of the approaches and activities that you may be overlooking, under-recognizing, under-valuing, or under-utilizing.

Be it advertising, selling propositions, or email offerings—each activity can rapidly be improved to produce better sales and profit growth for the same effort, expense, and marketplace opportunity. You can up the ante on your strategy, your business model, or your competitive positioning. You can multiply your profit performance by a meaningful margin if you learn to think differently. It's just a matter of looking at things from a fresh, new angle.

The key is to replace, or sometimes just adjust, underperforming ads, sales approaches, and marketing activities with superior, high-performance marketing "powerhouses." How do you do this? The first step is to educate yourself on how much more is possible. Think about where the highest impact change is most optimally applied, and how and when to implement that change based on your particular business, market, situation and history. It may be easier than you think to add a high-ticket, higher-priced product or service proposition on top of what you already sell as a back end, or to add a lower-priced, entry-level product to start more people buying.

That's where innovation comes in. Innovation is the most important part of continuing to grow a successful business. It goes back to the questions I started with, the questions Robert Hargrove and Peter Einstein asked: are you a multiplier or a diminisher, an entrepreneur or a proprietor? Are you truly adding innovative value to your market? Are you making a huge positive impact, or no significant effect whatsoever?

Can't answer these questions? Then you probably aren't innovating or adding anything meaningful to your marketplace or your clients' experience.

Don't worry—it's not too late to convert.

Entrepreneur Or Proprietor: Which One Are You?

In order to change from a proprietor to a born-again entrepreneur, you need to:

- Become supremely receptive to seeing change in marketing, change in consumer buying habits, and change in competitive offerings as an opportunity rather than a threat.
- Continuously evaluate your business and its performance as an innovator or value creator in as many critical categories as possible, i.e. product development, value added, buyer experience, performance dynamic of product, service people.
- Become almost obsessed with discovery, development, and perfecting new things,

such as new ways of marketing, new ways of delivering your products or service, and new ways of improving the transactional experience. See your world differently than your competition sees it.

- Learn to overcome resistance to innovation by wanting or craving continuous breakthroughs in marketing, strategy, your business model, and your competitive positioning.

That's the big secret, given to you here for free (minus the cost of this book). What differentiates the wheat from the chaff, the entrepreneurs from the proprietors, is their commitment (or lack thereof) to purposeful innovation. The true entrepreneur is willing and eager to perceive change as a huge opportunity, rather than a threat or deterrent. You must have a built-in commitment to constantly improving your performance on many different "fronts."

While the proprietor cowers from change, fears change, grovels and steeps himself deep in the status quo, the true entrepreneur is excited and committed to continuously searching for discovery. A true entrepreneur wants innovation. Entrepreneurs are receptive to new ideas that challenge their current beliefs, business structures, or business models. Real entrepreneurs reach for innovation. They work hard to discover, uncover, define, refine, and initiate innovation.

Mere proprietors try desperately to hold on to the past and what already exists. True entrepreneurs know that change and innovative thinking is the perpetual path to decisive advantage and profitable, sustainable growth. They find innovation an attractive concept to invest in, educate themselves on, and master.

True entrepreneurs start their companies understanding the constant need for innovation and factoring in the critical time frames required to stimulate changes. Regular upkeep, testing, analysis, and monitoring are the ways to propel their continued, purposeful existence. They've got continuous modernization plans laid out with specific objectives in place. They keep hundreds of alternative move ideas within reach, frequently brainstorming and having open dialogues. And they realize that a person doesn't just "get" an investor—he creates opportunity. If you've got an awesome cause, the funding will be the price of admission paid for the investor to participate. Of course, it takes money to build a brand, but funding alone won't make it happen. As I've outlined in this book, you need relationships, resources, and an open mind. The money will happen only when you've got a solid business plan.

Overall, the innovation of your enterprise must come from a desire to make a maximum contribution to the market. How does someone "transform" from being a mere proprietor into a true entrepreneur? It's a matter of focus. And it is the difference between selling a product and making an impact. A company might model and retail a neat pair of shoes. A different kind of company might model and retail a neat pair of shoes that is made by people in other countries who need income, and then turn around and match the purchase by donating shoes to children in poverty. You don't need to save the world, but you do have an obligation—as a preeminent business owner—to improve the lives of the people you serve. That is the point of doing business. And it takes an inspired mind to be this kind of leader. You need a systematic commitment to abandon whatever in your business is outworn, obsolete, and no longer productive. You need willingness to learn from mistakes, failures, and underperforming or misdirected efforts, actions, and opportunities.

Innovating requires a major effort that, frankly, most people aren't willing to make. You have to be able to free your mind, to see your challenges as "benefits," and to devote the financial resources and time to make meaningful innovation occur.

Change is certain. Businesses grow or die. But growth connotes much more than merely multiplying current revenue and even profits. Do you understand that "opportunity" means constant improvement, not just finding more sources of current buyers? If the opportunities to innovate die from neglect, your business will die along with them. If you are a true entrepreneur, you understand the need to stay deeply focused on both the problems and the emerging opportunities.

Any business owner who tries to hold on to the status quo will lose ground—and rapidly. Recognize the importance of innovation and the fact that it takes time and resource allocation for investment to bloom. You can't merely wish for your business to become a true value creator in the marketplace. You need to plan and execute, nurture and nourish specific, progressive steps. If you aren't committed to making your current approaches and current thinking obsolete, and continuously replacing them with innovative new tactics, rest assured, your competition will do it to you and for you.

Finally, true entrepreneurs recognize that innovations almost always start out small, but—if nourished and respected—should end up producing BIG payoffs.

The True Reward

The last thing I'd like to emphasize is that the true reward in growing a business is the process itself. Most people are obsessed with the end product. They want to make

$10 million; they want to have the fastest growing company, the prettiest wife, or the best looking body. But if they achieve any of those things for the sake of the end product alone, the result will be anticlimactic. Angels aren't going to trumpet, the heavens aren't going to open, the sun's not going to glisten, and life isn't going to transform, just because you reached some arbitrary goal. Life is all about is the process. Our job is to enjoy the process, because that's as good as it gets.

You are building a business: an asset that provides for a meaningful life and a substantial legacy. You start with a great idea, build a plan of action, and seek capital. You learn to think differently about the resources you require and meet fascinating people who help you get them. One thing is certain: you will need to add distinctive, decisive, highly perceived value that is defined in the eyes of the beholder. In this case, the beholder can mean the end-user (the buyer), the retail buyer, the distributing buyer, the investor (the buyer), and the people you work with (who have to buy into your idea). But now you have the tools that you need as well as the knowledge, techniques, and strategies that give you the advantage. I wish you and your business extraordinary success no matter your path—whether you make a go of it alone, secure strategic or passive investment funding, or utilize any kind of alternative plan (such as partnering) to catapult your vision into prosperity. I've shown you exceptional ways to get into the marketplace and I hope that, in the near future, you'll be able to reach back and guide someone else to do the same. Never forget that you have options and that your progress will be uniquely personal.

In closing, I'd like to share with you a quote that could define the rest of your business life. This jewel of wisdom is from Leo Burnett, one of the advertising greats.

"If you set your sights for the moon and the stars," says Leo, "one thing is certain: you will never end up with a handful of mud."

Best of luck to you as you set your sights on the moon and the stars in your business and your daily life.

THE APPENDICES

To help you continue to structure and grow your business, I'm including some tips, tricks, lists, and strategies in the following Appendices. Think of these as a free bonus: handy tools to supplement the journey we've been on together in this book. I hope you will integrate these techniques to achieve monumental success. Keep them for reference wherever you need inspiration. You might use the ones that are particularly meaningful to you for weekly, monthly, or annual reviews, self-diagnostics, or future planning. Reflect on them in terms of the market, your business, and your personal life.

Appendix A

Twenty-Five Techniques To Out-Market Your Competition

1. Work your current and past client lists
2. Stop spending so much on ineffective advertising
3. Follow up
4. Keep following up
5. Use risk reversal
6. Bump and up-sell—or down-sell
7. Sell, then sell again
8. Utilize host-beneficiary relationships
9. Use your competitors' resources—and profit
10. Offer extended guarantees and incentives or bonuses
11. Lock in sales in advance
12. License your successful concepts
13. Break even on the front end
14. Test your prices, propositions, and variables
15. Reposition yourself as an expert in your industry

16. If you know a company that is going out of business, buy their clients and the right to fulfill on orders
17. Decrease your overhead—convert fixed expense to variable
18. Don't burn bridges
19. Avoid the ostrich theory of marketing (six degrees of separation or evolution theory)
20. Write only direct-response ads or sales letters
21. Write headlines that pull
22. Analyze your results
23. Don't put all your eggs in one basket
24. Get your clients to give you referrals
25. Recognize and identify your hidden assets

Appendix B

Nine Skills Of Marketing Greatness

1. Advertising, direct marketing, and copywriting
2. Selling and consultative advisory communication
3. Lead generating and targeting—qualifying
4. offering and closing
5. Upsell
6. Resell
7. Cross-sell
8. Repurpose and reclamation—monetizing
9. Referral

Appendix C

The Seven Sciences Of Masterful Marketing

1. Hidden assets
2. Overlooked opportunities
3. Underperforming activities
4. Undervalued relationships
5. Underutilized distribution channels
6. Untapped selling systems
7. Little-known marketing approaches

Appendix D

Five Additional Skills Of Marketing Greatness

1. Your attitude
2. Persuasion and influence
3. Benefit and advantage focused
4. Storytelling and future pacing
5. Strategic and critical thinking

Appendix E

Copywriting Formulas

AIDA

- A - get attention
- I - arouse interest
- D - stimulate desire
- A - ask for action

Robert Collier's Formula

- Attention
- Interest
- Description
- Persuasion
- Proof
- Close

Victor Schwab's AAPPA Formula

- A - get attention
- A - show people an advantage
- P - prove it
- P - persuade people to grasp this advantage
- A - ask for action

Bob Bly's Formula

According to Bob, all persuasive copy contains these eight elements:

1. Gains attention
2. Focuses on the client
3. Stresses benefits
4. Differentiates you from the competition
5. Proves its case
6. Establishes credibility
7. Builds value
8. Closes with a call to action

Bob Stone's Formula

1. Promise a benefit in your headline or first paragraph—your most important benefit
2. Immediately enlarge upon your most important benefit
3. Tell the reader specifically what he is going to get
4. Back up your statements with proof and testimonials
5. Tell the reader what he might lose if he doesn't act
6. Rephrase your prominent benefits in your closing offer
7. Incite Action—NOW

Orville Reed

- Benefits—tell your reader from the very beginning how your product or service will benefit them
- Believability—back up your statements of benefits with believable evidence
- Bounce—write with enthusiasm, keep your copy moving, and keep the prospect interested; transfer your enthusiasm for the benefit to the prospect

RS Template

Attention

1. Superscript—teaser
2. Headline—attention of desired audience.
3. Subhead
4. Salutation

Interest

1. Opening hook—"If you…then…"
2. Your story—credibility
3. Here's what this is all about

Desire

1. USP
2. Appeal
3. Benefits, benefits, benefits
4. Bullets

Action

1. Bonuses
2. Don't decide now—you can't lose
3. Price dropdown—justification
4. Risk reversal—guarantee
5. Close the deal—buy now
6. PS

Appendix F

The Twenty-One Power Principles Of Business Builders Who Become Rich

1. Don't keep your clients from buying
2. Use test marketing to maximize your sales results (science not art)
3. Build and profit from a Unique Selling Proposition
4. Grow leverage through endorsements
5. Reverse risk to put your sales in forward drive
6. Make "top quality" a top priority—know what it and "value" mean to your client
7. Link your business to strong partners
8. Pay only for results
9. Manage your assets wisely, both tangible and intangible, by first knowing what they are
10. Borrowing winning strategies—funnel vs. tunnel vision
11. Be proactive to outsell the reactive—always think ahead
12. Use non-ad ads

13. Turn one-time customers into life-time buyers through annuitized, programmed buying

14. Find and use all your hidden assets

15. Seven ways to a winning sales pitch or presentation:

    - First, say something that gets the prospect's attention, that's serving them
    - Second, tell your audience why he or she should be interested in what you have to say—the benefit or reason why
    - Third, tell them why they should believe that what you say is true
    - Fourth, prove that it's true
    - Fifth, list all the benefits of your product or service
    - Sixth, tell your audience how to order
    - Seventh, ask them to order right away
    - People buy benefits, advantages, protection, and enrichment.

16. Preemptive advantage—only viable solution

17. Work with other people's money: OPE, OPI, OPR

18. Get twice as much done in half the time

19. Use direct mail or sequential marketing, but use it correctly

20. Develop multiple income sources

21. Know your niche

Appendix G

Twenty-Eight Universal Strategies To Build Your Power Parthenon

1. Referral systems
2. Acquiring clients up front at breakeven, and making a profit on the back end
3. Guaranteeing purchases through risk reversal
4. Host-beneficiary relationships
5. Advertising
6. Using direct mail
7. Using telemarketing
8. Running special events or information nights
9. Acquiring qualified lists
10. Developing a Unique Selling Proposition
11. Increasing the perceived value of your product or service through better client education
12. Using public relations
13. Delivering higher-than-expected levels of service
14. Communicating frequently with your clients to nurture them
15. Increasing the sales skills levels of your staff
16. Improving your teams' selling techniques to up-sell and cross-sell
17. Using point-of-sale promotions
18. Packaging complementary products and services together
19. Increasing your pricing and, hence, your margins
20. Changing the profile of your products or services to be more "up market"

21. Offering greater or larger units of purchase
22. Developing a back end of products that you can return to your clients with
23. Communicating personally with your clients (by telephone, email, or letter) to maintain a positive relationship
24. Endorsing other people's products to your list
25. Running special events such as "closed door sales," limited pre-release and so on
26. Programming clients
27. Price inducements for frequency
28. Upselling, cross-selling, follow-up selling

Appendix H

The Eleven Pillars Of Strategic Business Growth

1. Continuously identifying and discovering hidden assets and overlooked opportunities in your business
2. Mining cash windfalls during each and every month of business
3. Engineering success into every action you take or decision you make
4. Building your business on multiple profit sources instead of depending on one single revenue generating source
5. Being different, special, and helpful in the eyes of your clients
6. Creating real value for your clients and employees for maximum loyalty and results
7. Gaining the maximum personal leverage from every action, investment, time, or energy commitment you ever make
8. Networking, masterminding, and brainstorming with like-minded, success-driven people who share expertise and shortcuts with you

9. Turning yourself into an ideas generator and recognized innovator within your industry, field, or market

10. Reversing the risk for both you and your clients in everything you do (so the downside is almost zero, and the upside potential nearly infinite)

11. Using small, safe tests to eliminate dangerous risks, and adopting funnel vision instead of tunnel vision in your thinking

Appendix I

Five Ways To Create Business Wealth

1. Current income: constantly increasing current income and profits is the first determinate of business wealth creation.

2. Future income: if your business doesn't have highly predictable, strategic, long-term revenue-generating programming in place that assures continuous flow of profits and sales well into the upcoming years, you DON'T have a business at all.

3. Windfall income: there is no business out there that cannot uncover a five to seven figure profit windfall within six months.

4. Psychic and emotional wealth: unless you have certainty, confidence, peace of mind, vision, low stress, control, power, persistence, perceptiveness, high ethical standards, and unstoppable drive, you can't possibly pilot the strata of the unstoppable business growth and income you're after.

5. Asset wealth: few business owners ever build a business they can sell for a lot more money than they take out of it in a year. Yet a business' asset value should be one of the major wealth creations you achieve from your business efforts.

Appendix J

Seven Ways To Out-Think, Out-Perform, And Out-Earn Your Competition

1. Maximize what you already do
2. Multiply the opportunities available to you
3. Monetize unprofitable areas of your business
4. Create new products or services
5. Profit from your competition
6. Reclaim past expenditures
7. Become strategic instead of tactical

Bonus:

8. Penetrate new markets
9. Acquire one new business or asset

Appendix K

Mastering Optimization—What's Your PEQ (Performance Enhancement Quotient)?

Geometric Process Improvement Plan

Every business can be broken down into a finite number of "drivers," or major revenue, sales, and success enhancing—and advancing—activities that are either strategically or tactically critical to your desired revenue and earnings results.

While the specifics are different for each industry, there are surprisingly constant numbers of positive and negative impact points that nearly every company in a given sector has to deal with in order to do business. Activity successes rise or suffer depending on how effective or ineffective a given organization is at maximizing their performance.

The following is a system called the Performance Enhancement Quotient that virtually guarantees higher overall performance levels, capabilities, and results throughout a company's entire selling system.

The Big Foundational Ideas Behind PEQ Are:

1. Every company has significant areas of under-performing assets, overlooked opportunities, underutilized activities, unused relationships, under-performing distribution channels, and untapped financial and human capital, all of which can be far more productively, profitably, and profoundly deployed.

2. To improve the efficiency and profitability of a company, it's important to clearly identify all strategically critical activities and who works on them, in order to assess and examine the different levels of performance capability that each employee currently achieves. When you identify the thirty or forty key selling activities, which combine to drive your company's revenues and profits, you will find the following becomes evident:

   a. Within each macro activity there are between two and ten critical sequential processes that need to happen in order to achieve maximum results.

   b. Different people will consciously or subconsciously perform each of these activities or sub-processes at a broadly varied level of effectiveness, success, or proficiency.

   c. Each process is a lot like a lever to your business. Like a lever, the process can be of high-pitch, low-pitch, or no-pitch advantage. The steepness and angularity of the pitch determines the extent of maximum or minimum impact leverage that the process ultimately produces.

   d. Any process that's allowed to function at sub-optimum performance levels causes the entire selling system to underperform its true capability.

   e. If you have thirty different people perform the exact same activity, selling task, or sub-process, you'll find tremendous variation in performance levels between the most and least effective performances.

   f. The variation can range as high as 2100 percent. That's a potentially 21-times-higher performance capability in each process or activity if done correctly, and a 21-times-worse performance if allowed to function ineffectively.

It's a lot like the Pareto Principle: the 80/20 rule. But most management doesn't even know this because they never identify, measure, quantify, or try to dramatically improve the entire team's performance levels in each separate activity or process category.

If your management elects to perform this evaluation, you will discover the following fascinating reality:

The top 20 percent of your employees will generate at least 80 percent of the effectiveness, productivity, and profitability in that given process activity. Take, for example, opening up large direct advertising accounts. If you carefully study 40 different account executives' past effectiveness or success in this activity, you'll discover that 8 or less opened up 80 percent or more of your active, large direct accounts.

The same example will hold true in every other performance area, such as promoting, closing, selling large time slot packages, reselling, selling against mediums with better ratings, selling special events, selling specific industries, etc.

I practice high-level geometric process improvement, which I learned from my work with W. Edward Deming's organization. Deming is the father of process improvement, the man who taught Japan how to use process improvement to become the industrial might they've turned into.

I learned that any time multiple individuals perform the same process you will always find among them someone who is performing at the highest level, whose methods and mindset can be measured, quantified, codified, and taught to everyone else doing that process. This allows everyone to dramatically improve literally every one of the 30-40 key selling activities or processes they engage in unknowingly (but continuously).

When you put a combination performance enhancement (P.E.) and process improvement (P.I.) system in place, you will achieve geometric gains and exponential improvements. If each salesperson increases his or her abilities, effectiveness, or success rate a mere 3, 5, 10, or 20 percent per process activity, you will certainly see some gains. But I provide these percentage gains across 30-40 segments' process abilities per ad rep, and that gives you geometric progress. Three percent x 5 percent x 8 percent x 10 percent x 5 percent x 2 percent x 10 percent = exponential gains.

I've already proven in my first-stage visits that I can identify at least 30 high upside leverage improvement processes or factors that each and every sales rep is transacting. The next step is to identify who excels best in each category, and what they do or how they think differently from the rest.

When I go through this analysis, I identify a powerful process-improving set of factors. Then my job is to show everyone who doesn't excel at the highest levels in that given process activity the most universally predictable ways to improve their performance.

I've found this task is best accomplished by open, continuous, Socratic interviews of the top 20 percent of performers in each process category in front of all the rest of the sales reps. After performing these interviews continually for 8 solid hours I can usually "power through" the key 25-30 high impact points or processes.

By recording the entire interview process and transcribing it, too, I can create a highly predictable performance enhancement dynamic that produces four separate levels of increased results.

Level One—each process I address that day has an incredible and enduring positive leverage impact on the people in the room watching and listening to my Socratic interview.

Level Two—the higher performers I interview learn the most from both listening to their own epiphany-like answers and by listening to the corresponding answers. Their other 3 or 4 top performing colleagues openly share. So all five top producers in the category end up growing even more than the other 80 percent of your team listening.

Level Three—by preserving all the interactions, interviews, and detailed methodologies that I uncover permanently on tape, I can distribute copies to each and every current salesperson to listen to over and over again. They can either listen to the recordings in their entirety or isolate specific areas of need and listen repeatedly to a given section prior to going into a selling situation that focuses on that process, so their performance levels will be optimal whenever they compete.

Level Four—by transcribing these sessions, I create a permanent, archival "super training manual" that not only every future sales rep can gain critical access to, and which can be segregated by selling process to allow your management to train, but also which management can systematically use as sales training and review tools in their weekly sales meetings.

Level Five—I will teach all your management a methodology they can use to expand and improve the performance of each and every sales rep (current or future) in the system. Once I leave, individual managers can employ their own versions of my training methods in future sessions they conduct.

Level Six—I can deliver measurable results once I gauge and quantify the impact the first few daylong PEQ processes yield, which will allow your management to project forward for the entire company,

In summary, we'll take each of the 30-40 high-impact revenue-generating processes in your selling systems. We'll identify who the top 4-5 performers are in each activity category.

I'll discover the exact methods, formulas, strategies and mindsets these top performers follow and translate them into a series of success modeling technologies every other sales rep can tangibly use to improve ability, effectiveness, and bottom line performance.

By working on 30 separate processes—5 top people per category—I'll uncover 150 different success-improving applications in one fast-paced non-theoretical 8-hour day. Every application won't apply to every rep. But many, perhaps most, will apply to all. I all but guarantee geometric improvement, if management does its part after I leave by working through and re-reviewing the different issues and elements I uncovered with the reps in subsequent sessions they conduct with them.

Bonus

Management will receive a windfall-added bonus when they start quantifying individual rep's performance levels in each category. You'll discover that one rep may, literally, be up to 21 times better or more successful than every other rep at a given process like re-activating old accounts, or cross-selling accounts to other stations, or closing large direct accounts—and, therefore, upon careful reflection, I might decide to make that single rep responsible for executing that given process for everyone. If you have 21 times more performance for 40 people's accounts, the positive result could be staggering.

More to come in the near future.

Regards,

Jay L. Abraham

Post Script:

Obviously, the concept of geometric performance enhancement and process improvement is mind-bogglingly huge. But if you cut my lofty estimates in half, then half again, the bottom line is that the promise is still enormous upside-leverage to any organization.