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# Revenue is the New Fundraiser

The one thing every start-up needs is funding. Unfortunately finding money sources in our “new normal” economy is far from easy. Its no surprise to start-up CEO’s that are out visiting angels, Venture Capitalists and banks today that they need much more than an idea to secure funding. In fact the entire fundraising process has been transitioned over the last few years. For example, just as “a demo" of business idea has become the new “PowerPoint” when it comes to gaining investor credibility, "revenue" is fast becoming the new "traction" when it comes to attracting investors.

The truth is there are countless advantages for the start-up that is able to build a revenue stream before seeking funding. For one it’s the best way to demonstrate that the business model works. Although showing success through a Beta is a great first step, it doesn’t prove value to investors. Second, it’s a much less dilutive source of funding than equity capital because every dollar earned is one less that has to be raised. In fact some go so far as to say that one dollar in revenue is worth five dollars in invested capital. Third, having a revenue stream makes it easier to raise money. In our current risk adverse economic climate, when a start-up achieves success at generating revenue, more investors will actually be attracted to funding.

Because revenue really has become the new fundraiser, the Northwest Entrepreneur Network recently invited three investor experts on revenue strategies to share their insights. The group included Mike Crill, founder and CEO of Atlas Accelerator, Todd Marker, Venture Partner at Montlake Capital and Rob Eleveld, CEO of Shiftboard.

**Three “Revenue Savvy” Tips**

- Financial Accounting Income vs. Revenue

**Executive Insights**

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Entrepreneurs often wonder: does an investor care more about strong operating cash flow or Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)? The truth is that both are important dependent on the stage of the company and the investor’s preference. For example, in the early stages of a business cash is always king.

However, as a business grows and matures EBITDA often becomes a common measure of valuing the profitability of a business. For example, Montlake Capital seeks to invest in companies that can demonstrate that they can get to breakeven after about 12-18 months of operation.

It’s important to remember that EBITDA is just one accounting measure and it isn’t perfect. Because it factors out interest, taxes, depreciation and amortization it can actually make an unprofitable business appear profitable. This makes EBITDA a good metric to measure profitability but not always cash flow.

- Pricing Strategies

Revenue growth is highly dependent on pricing and many start-ups struggle with how to determine optimal pricing. Generally two key elements drive pricing decisions: the go-to-market strategy, and the target consumer group. For example, pricing will be very different for a high-volume relatively low- margin product (like consumer products) than for an enterprise-wide software solution sold to IT departments.

However, the most important aspect of pricing boils down to being open minded and willing to experiment. Experimentation is critical because pricing is driven by markets, not company opinions. This is proven time and again when a product price is set and then continually discounted. The discounted price is the “actual” price that the market is willing to pay for the product.

- Go-to-Market Strategies

The right go-to-market strategy can have a tremendous impact on a company’s ability to generate revenue and should be carefully considered. For a start-up oftentimes the little details are just as important and the larger strategy. For example, young companies faced with losing two days of productivity flying to a sales call across the country while incurring the expense of flights, hotel and food, might want to reconsider their approach and try phone sales. With online demonstration capability and conferencing this can be a very cost-effective way to raise revenue for certain types of companies like software.

From a broader, strategic perspective it’s also critical to consider where the sales focus is aiming. Think big or go home is a common sales mantra. It’s not uncommon for a young company to aim high and try to win distribution by a major retail brand like Target. However, after briefly celebrating this type of distribution win many start-ups risk finding out too late that the “win” was actually a negative when the cost of establishing low pricing is measured against revenue.

Clearly, strategically growing revenue early is a smart start-up strategy. Not only does it make fundraising easier, it also increases a company’s options. Ultimately it’s a win-win for both the entrepreneur and the investor. It not only reduces the need for capital raising, it also increases the likelihood of an early exit at a decent return for investors.

These “Executive Insights” are based on monthly presentations provided by leading entrepreneurs at the Northwest Entrepreneur Network (NWEN.org), a non-profit organization dedicated to helping entrepreneurs succeed. The column is written by Cheryl Isen, founder of Isen & Company, a strategic marketing and public relations firm that helps emerging companies increase corporate visibility and brand awareness Contact Cheryl at (425) 222-0779, Cheryl@IsenandCo.com or on the web at www.IsenandCo.com.