3 alternatives better than raising startup capital from the 3 f’s

Countries

Just like a first date, I remember every detail of my first start-up. It was a busy time in my life, but there are many things that stand out. Thankfully, seen now in life's rearview mirror, thosememoriesare lessons that allowed me to be significantly more effective in my current enterprises.

Our first investor was fond of asking about what he called " the three F's," as in “ Who are the friends, familyand fools willing to help fund the expansion of XYZ?”

The goal was to raise capital quickly so that we could expand and capture market-share. But, if you have a conscience, it isn't easy takingmoneyfrom friends, family and people foolish enough to throw their savings at an untested concept. Accepting that money represents a promise they can trust you to get things done. The three F’s are likely liquidating some of their retirement nest-egg to fund your business. Can you live with yourself if you lose their money and cause them financial hardship?

I’m an emotional, caring person. I want to make sure the people with confidence in me can rely on my intentions. These are three alternative sources of funding I used to avoid needing money from the three F’s.

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1. I worked jobs nights and weekends.

From getting , to creating a profile on and completing odd jobs, I did everything I could to turn down time into productive time. I focused on my start-up from 9-5 and used the remaining hours and weekends to generate funding.

It really was a hand-to-mouth experience. The money I earned the day before would sometimes fund the next day’s operations. This wasn’t about generating revenue to afford a better lifestyle. This was about the survival of my business.

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2. I worked for free to establish relationships.

The arms race of the 21 st century is between online advertisers and ad blockers. Thinking about that reality, I realized advertising wasn’t something I could afford. So, how could I reach potential clients without to pay for advertising?

I learned the value of everyone’s favorite four-letter word: f-r-e-e. I earned connections by burning up the phone lines, wearing out the soles of my shoes and being that persistent salesman in the lobby of every target customer within walking distance. To the gatekeeper’s chagrin, I was willing to work for free and refused to take " no" for an answer.

I had a new way to help them recruit candidates for their business, and I was willing to let them take my platform for a test-drive on my dime. What did they have to lose? I earned their trust and gained valuable feedback from real-world use of my product.

In the end, a healthy percentage of the clients I signed up on free contracts loved the fact that I stood by my word and provided a reliable, free service. They were eager to tell their friends about our platform and what it had already done for them. I generated word-of-mouth advertising with a small investment of my limited capital.

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3. Your team can't eat stake.

Another suggestion from our investor was to pay our team members in equity stakes only. On paper, this idea sounded amazing (seriously, this guy thought he was a big VC, but he was a small fish in a very big pond). The idea was that we could give tiny portions of the business to key individuals, who would provide their services in return for little to no payment.

In practice, it became painfully obvious that instead of focusing on doing great work, our team was figuring out how to have their stake and afford to eat. Everyone had second and third jobs for rent, groceries and their bills.

Because our product was a cloud-based software platform, our margins were very healthy. Our CFO ran the numbers and found that we could afford to turn 40 percent of every early-stage sale into compensation for the team. I decided to change things up. Instead of equity in return for work, I created a commission structure that rewarded everyone for finding clients and taking good care of them.

Of course, the individual who closed the sale earned the lion's share of that revenue, but the dev team, executive staff and admins all earned a commission as well. That motivated everyone to generate revenue, without the problem of funding salaries before revenue came in.

Our business was built on the funding our customers provided. I worked odd-jobs and found ways to generate revenue outside of the business. We incentivized everyone based on company performance. By focusing on earning revenue before generating expenses, we operated with very little investment and let the market guide us on the path to growth and profitability.

It’s a tough row to hoe, but I highly recommend following the money and building a team around short-term performance incentives. Stay on good terms with the three F’s by refusing to take their money (or any more of their money), and repaying the money that you have already borrowed or raised from the people you care about. Your conscience will thank you.