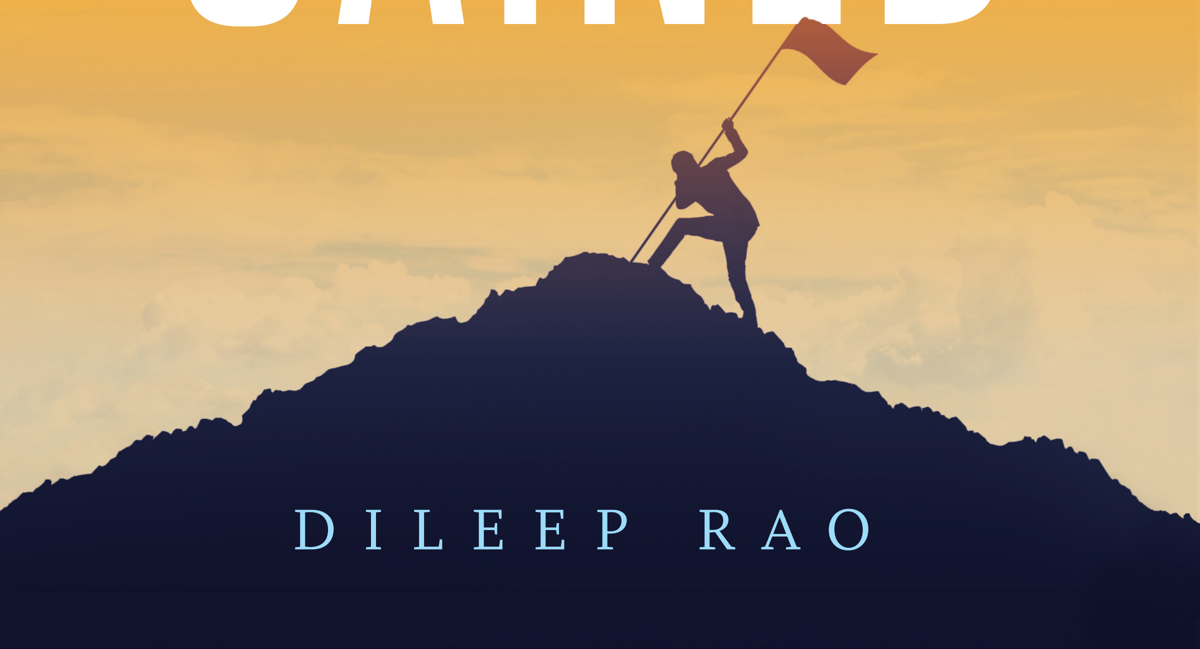
How Entrepreneurs Create, Control, and Retain Wealth Without Venture Capital

NOTHING VENTURED, EVERYTHING GAINED



DILEEP RAO

Praise for
Nothing Ventured, Everything Gained

"This is a true 'Street Fighters' book. For a long time, I have searched for a book that honestly documents the secret, proven techniques used by America's most successful entrepreneurs. Dr. Rao's book does this. Read it."

—Bill Winter, Co-Founder,
Merrill Custom Communications (Forbes list of 100 Top Small Companies)

"Turn off your investor pitch deck and boot up your business from the bottom up. This book is a how-to guide for those who have experienced (or want to avoid) the perils and misguided frustrations of the VC world. Rao shatters the Silicon Valley myth that billion-dollar businesses are predicated on the venture-capital method and makes compelling and well-defended arguments that lend credence to delaying or avoiding VC capital altogether. Finally, the entrepreneur is empowered to build a business *and* reap the rewards."

—David M. Ochi, UCI Applied Innovation, Interim Director, New Ventures

"Dileep Rao's holistic approach to entrepreneurship is an impressive, comprehensive, and practical guide for budding entrepreneurs—whether they are striking out on their own or have come to the realization that successful managers must have an entrepreneurial mindset. The book explains why skills are needed before capital: Capital is limited, and entrepreneurial skills, not hopes, are what attract capital. This book describes the skills that more than 90 percent of entrepreneurs use to develop the right opportunity for growth and to design the right strategy for growth without venture capital. As a former entrepreneur, I thought that the focus on 'truths are myths' was especially relevant. I found the book to be pithy, practical, and to the point—a must-read for budding entrepreneurs."

—Stephen T. Barnett, PhD, Professor of Marketing Emeritus, Stetson University

"Instead of focusing solely on the opportunity, *Nothing Ventured, Everything Gained* lays out how the 99.98 percent of entrepreneurs who don't benefit from venture capital—and the balance who do—can build big businesses with skills and smart strategies before seeking VC. With proven examples, Dr. Rao shows how all entrepreneurs can build businesses, control them, and keep more of the wealth they create."

—Ban Aase, Principal, Public Sector, CliftonLarsonAllen LLP

"In his latest book, *Nothing Ventured, Everything Gained*, Dileep Rao illustrates how to build a unicorn company without venture capital. He proves VC money does not necessarily buy happiness or success, and shows how bootstrap innovation skills, missionary sales skills, frugal operations skills, and revolutionary visioning skills create the most successful companies."

—Judy Corson, Co-Founder, Custom Research Inc.

"Rao writes with insight and wisdom. He's a really smart guy providing really smart skills and strategies to grow a successful company without giving up control of one's venture."

—Dr. Raymond Smilor, Emeritus Professor of Entrepreneurship, Neeley School of Business, Texas Christian University

"With a quarter century of experience in financing the growth of hundreds of businesses, Dr. Rao has personally "walked the talk" in venture development. Now, using personal interviews and examples from some of America's most successful entrepreneurs, his book provides a growth map for entrepreneurs who don't get venture capital or could fail with it."

—William Rudelius, Professor Emeritus, Marketing, Carlson School of Management, University of Minnesota

"In Dileep Rao's insightful new book *Nothing Ventured, Everything Gained*, he demonstrates that while venture-backed startups (particularly those backed by substantial money from the major venture firms) get all the attention, the vast majority of startups do not use venture capital. Furthermore, he shows that even without a dime of venture capital, one can build a billion-dollar business. Along the way, Rao gives practical, experience-based advice on just how to do it.

—Mitch Maidique, Former President, Florida International University

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NOTHING VENTURED, EVERYTHING GAINED

DILEEP RAO

AN INC. ORIGINAL

Other Titles by Dileep Rao

Handbook of Business Finance: Find Equity, Debt, & Low-Cost Financing Intelligently

Finance Any Business Intelligently: How Entrepreneurs can get the Right Financing from Smart Financiers

Business Plans Intelligently: Develop to Make Money. Write to Raise Money

Bootstrap to Billions: Proven Rules from Entrepreneurs who Built Great Companies from Scratch

These titles are available online at the author's website: www.dileeprao.com.

To my parents for the foundation.
To my wife and children for the inspiration.

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Part III: Strategy for More Edge per Dollar

Part IV: The Complete Entrepreneur: Personal Development to Grow More with Less

CHAPTER 1

Bootstrapping Innovation

> What you sell is one of the most important decisions, along with how you sell and to whom. To develop the right product, the track record of billion-dollar entrepreneurs suggests that it helps to have skills to better satisfy customers' unmet needs in emerging trends, emerging markets, or emerging technologies.

"And we have always been shameless about stealing great ideas."
—Steve Jobs in a TV documentary, *Triumph of the Nerds* (1996)

Finding the right opportunity is the first step in developing your venture. To take off without capital, entrepreneurs need to have the skills to bootstrap their innovation.

Sam Walton knew how to operate stores in small towns. When the big-store format emerged, he had the skills and experience to operate a big store in small towns.

Steve Ells was a trained chef and wanted to open his own high-end restaurant. To earn some money, he started Chipotle to offer organic foods in a quick-serve setting.

Mark Zuckerberg and Bill Gates were programming mavens.

Most billion-dollar entrepreneurs developed their initial product or service using their skills—and did not need capital. Very little institutional venture capital is provided at the seed stage. In 2016, this amount was about $2 billion (according to pwcmoneytree.com), which is about 4 percent of the total U.S. VC funding. Only 1,428 deals were made, which is about 0.2 percent of U.S. startups. This suggests that most entrepreneurs will need to develop their opportunity without VC. They need to bootstrap or use limited funds available from friends, family, and angels. Even if angel funding is obtained, there is no assurance of getting institutional VC, so bootstrap innovation is advised.

Following are some billion-dollar entrepreneurial skills to bootstrap the opportunity for more advantage with less.

Identify and Satisfy Unmet Needs

Recognizing and satisfying unmet needs to *offer higher value* has been the hallmark of entrepreneurs. By understanding your market's unmet needs, you can sell customers the right products and services. Ever since the first entrepreneur appeared, the second entrepreneur asked, "How can I do it better or cheaper?" Better or cheaper is an unmet need. Customers want to save money or have more needs satisfied. But the key difference among high-performance entrepreneurs was that they had the skills to develop a solution with a long-term advantage. This helped to increase sales and margins, which is especially useful in the emerging stages of a company and industry. And customers are likely to buy faster with shorter sales cycles and at higher prices.

Kevin Plank built Under Armour by developing garments to make football players and all athletes more competitive. He focused on college football teams since he was familiar with many of them, having been a college football player himself. He focused on showing these players how his garments improved performance, which was important to them if they were to be drafted by the NFL.[1]

Glen Taylor (Taylor Corporation) started to catch brides' attention by developing a catalog of wedding invitations that was of similar quality to those from the leading companies. But Taylor found that brides wanted to reflect their personalities on their special day. Previously, the company's (and industry's) response had been to tell them "You can get what we have." Taylor, however, noticed that brides were not asking about price when wanting to satisfy their unique wishes. He decided to try to satisfy these customers by selling customized products at a higher price.

He was the first to offer cards based on the hot songs, movies, and other themes of the day. He offered additional colors that were in sync with the market and the industry. He helped brides coordinate all the colors in their wedding, including the paper products, invitations, bridal dresses, and more. Brides loved the idea and paid more for it. He could not keep up with demand. By satisfying the unmet needs of his customers, Taylor increased the size of his typical order by 5 percent and his profits by over 60 percent. His company took off. (For more about Taylor, see the last chapter.)

Emerging Technologies

Some entrepreneurs use their unique skills to develop their product or service to launch their business in emerging technologies. Established companies usually are not dominant in these emerging technologies, and the new ventures can gain a strong foothold before the dominant companies are aware of the opportunity—and the threat.

After World War II, as an electrical engineering student at the University of Minnesota's Institute of Technology, Earl Bakken (founder of Medtronic) would stop by the university's medical school and hospital to visit friends. He would repair their equipment on-site and realized that there was a business opportunity. So he and his brother-in-law started Medtronic to repair medical equipment on-site.

Medtronic's early days were agonizing and arduous. The venture's highest annual net income in the first decade was $10,400. To grow, Medtronic worked with physicians to develop custom-designed equipment for specific treatments. One of these physicians, Dr. C. Walton Lillehei, was using medical devices for the heart, but the devices would fail during power interruptions and thus adversely affect patients' lives. So Lillehei asked Bakken to develop a device that would work through power failures. Bakken experimented with various options and, in four weeks, came up with a solution based on a circuit in *Popular Electronics* for an electronic metronome. This pacemaker was attached to a child's heart the next day, heralding the dawn of the modern-day electronic medical device industry.

Emerging Industries

Emerging industries are usually based on changing markets, technologies, or demographics. They create new opportunities for entrepreneurs and offer an advantage to those who are willing to jump into a new industry.

Bob Noyce and Gordon Moore founded Intel at the dawn of the semiconductor age. Noyce was a co-inventor of the integrated circuit.

Bill Gates and Paul Allen knew how to write computer code for personal computers, which was a key skill in the emerging PC industry. The two had been working on PCs throughout high school.

Steve Jobs knew how to develop and market PCs and formed a partnership with Steve Wozniak, who had the technology skills. Wozniak developed the first few products sold by Apple.

Herbert Boyer and VC Robert Swanson founded Genentech at the dawn of the biotechnology trend. Boyer was a pioneer in recombinant DNA technology.

These successful entrepreneurs had functional skills in emerging industries, enabling them to become pioneers in their fields. Table 1 shows some major industries that have emerged in the last 50 years. This suggests that a key factor for highly successful entrepreneurs is to acquire technology skills in emerging industries or technologies—on their own or with partners.

TABLE 1. HOME RUNS BY TIMING AND EMERGING INDUSTRY

TIME	INDUSTRY	HOME RUNS (YEAR FOUNDED)
'60s	Semiconductors	Intel (1968), AMD (1969)
'70s	PCs	Apple (1976), Microsoft (1975)
'70s, '80s	Biotech	Genentech (1976), Amgen (1980)
'80s, '90s	Telecom/Optics	Cisco (1984), Ciena (1992)
'90s	Internet	eBay (1994), Google (1998)
'00s	Internet 2.0	Facebook (2004), Twitter (2006)

Improving an Emerging Industry

Many billion-dollar entrepreneurs got their start in emerging industries because they had skills in the industry. But they were not the first movers. When the industry emerged, they examined the leading products and improved upon them. They compared the benefits offered by the existing products with the unmet needs of the emerging market. This gave them a foothold, which they used to dominate the market. This suggests that first movers don't always win. Imitators and improvers can do better if the first movers haven't guessed right. In fact, first movers dominate only about 11 percent of the time.[2]

Larry Page and Sergey Brin used their expertise in programming to cofound Google when the Internet was just emerging.

Mark Zuckerberg was a programming expert when the online linking industry emerged. He wrote the code for a linking site and improved on the existing business model by focusing on college students who wanted to meet others at their university, and Facebook took flight.

Taking Advantage of Emerging Trends

Emerging trends offer a boost for entrepreneurs. Emerging trends offer the prospect of entering when an industry is still forming. An emerging trend can be especially beneficial if large corporations find it difficult to jump on the trend without major disruptions to their existing business.

Richard Burke founded UnitedHealthcare (UNH) in the 1970s, when legislation was passed to promote health maintenance organizations (HMOs). There were already a few HMOs around the country, such as Kaiser and Group Health, which offered access to a limited number of staff physicians and had limited market appeal. The new concept involved building off private-practice doctors to provide medical care in new managed-care entities. Two key features of the new federal law—the HMO Act of 1973—were that it overrode the state laws that had historically inhibited organizations of this type from operating, and it required employers with 25 or more employees to offer at least one managed-care option. By capitalizing on this law and forming alliances with local medical associations, Burke developed UNH into the dominating company in medicine.

Amazon.com is a classic example of a young company that recognized an emerging trend. It has taken full advantage of the limits of store-based retailing in a web-based world. By understanding the emerging trend of online retail and using the strengths of the Internet, Jeff Bezos has been able to build one of the world's great disrupters, by focusing on excelling at the infrastructure of the Internet, along with selling products and services.[3]

• • •

Many entrepreneurs are under the impression that they can obtain a unique advantage from their opportunity—but few do. Most products or services can be duplicated by others.

To find an advantage, entrepreneurs need to know how to develop products that better satisfy unmet needs, especially in emerging industries, emerging trends, or emerging markets.