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SHOW YOUR COMMITMENT FIRST

File No. 3.010205 | 2017-06-01

Quick Summary: Employees and investors need total confidence in you.

Abstract:

Having an idea and expecting others to jump on board with you before you show your total commitment is a non-starter. Investors, including financial investors, employees, and partners, need to see that you are all in before they agree to commit their resources. Can you blame them?

Let’s jump ahead to the end of your investor presentation. The General Partner asks “So, let me see if I have this right. You want us to invest \$1,000,000 in your idea. At this point, you have a full-time job and are not willing to commit to your idea full-time until you have raised money. Is that correct?” How are you going to look them straight in the eye and answer? If you are a serial entrepreneur with a proven track record and your new idea is clearly within your area of expertise, you can confidently answer “yes.” If you do not meet these criteria, what you say doesn’t matter; the investor’s next comment will be the same: “Goodbye, no thank you, and have a nice day.” Can you blame them?

All investors know two things: First, starting a company is very hard, requiring long hours and overcoming major obstacles that appear constantly. Second, despite incredible dedication and hard work, most new companies are not successful. With those two factors in mind, they need and even demand that an entrepreneur show total commitment to the business. Without that total commitment, they have no assurance that their investment will be managed properly. The message is “all-in or don’t start”.

At the other extreme is the case where an entrepreneur commits every dollar they have, including maxing out their credit cards, taking second or third mortgages on their homes, cashing in their 401k savings, and closing their children’s 529 accounts. Although startup folklore is filled with stories of billionaires who did this and won, this over commitment can be viewed as a case of bad judgment that will probably spill over to decisions made in the new business. With such a deep personal commitment, the entrepreneur may simply not be able to be objective about the business, prolonging the inevitable decision to change direction or close it down. Desperation can replace common sense. If a potential investor senses that over-commitment has already occurred, they will probably be very reluctant to move forward with any investment. On the other hand, if the investor sees this as an opportunity to take advantage of the entrepreneur and propose draconian terms that may be accepted out of desperation, the long-term relationship will always suffer. The investor may think of the transaction as good business and move past it, the entrepreneur will probably never forget or forgive.

So, as with many things in life, the answer for the entrepreneur is simple: Show reasonable total commitment before you expect others to join you in pursuing your idea.