

Show Me the Customers & I'll Show You the Money

Putting Customers, Sales & Marketing front & center in your funding strategy is not just smart thinking, it's your best path to affordable capital.

Stu Silverman [SalesRamp] |



I've recently spent time at a slew of VC and private equity conferences that included American-Idol-style bake-off presentations for companies seeking funding, and a number of themes resonate.

The big message: VC capital is not only expensive capital...it's hard to get without having any customers. And although there's lots of VC money out there, for a typical high-tech startup you'll probably get less this round than you did in the past. So to survive until you reach predictable revenue growth and profitability you must significantly increase your capital efficiency.

To do that, Customers, Sales, and Marketing must take center stage early-on. Why?? Because customers are, in the end, key to your funding strategy and are your most affordable growth capital.

The Customer Is Still King

Except for pure internet plays and some software-as-a-service (SAAS) apps, the old adage of 'build it and they will come' was predicated on the belief that customers will eventually adopt any and all technology put in their path. But now, the bigger question is, do I need this technology at all? What pain does it relieve? What competitive advantage will I gain?

And in today's hyper-competitive marketplace, VC's just won't sit still and wait patiently for the customer, the marketplace or the products to mature across multiple funding rounds while they continue pouring money into your company.

It's no longer good enough to have a few enthusiastic Beta customers or the Press in your back pocket. Companies must have a real, thriving, and growing customer base, and customer revenue BEFORE the VC community becomes interested. This puts Customers, Sales, and Marketing at center stage in the funding strategy.

Capital Efficiency Rules

For many tech segments, exit valuations have declined and exit times are longer. Today, an 8x or 9x exit multiple with a three-year investment cycle and big IPO at the backend are the exception, not the rule. The trend seems to be exit valuations of 3 or 4 times the investment with seven-year investment cycles and a lot more exits via mergers and acquisitions.

The amounts of capital paid in are also smaller. For a B2B software company, that means no more than \$15-20 million is typically invested before an expected liquidity event.

Net net: This new investment environment requires extreme capital efficiency. You've got to get the best mileage out of every dollar invested. You must quickly capture first-mover market advantage, and if possible achieve profitability to avoid additional funding rounds where you risk further dilution.

Buying Market Share is Out

Throwing money at the market to buy market share is a thing of the past. Customers and markets change faster than you can catch them. Spending money chasing someone else's view of the market is risky at best. Now, VC's demand proof of concept based on achieving early customer wins and revenue goals, not by relying on a historical market view.

So, getting real customers prior to venture funding is critical. To do this, you'll need a Sales & Marketing strategy to predictably and repeatably convert suspects & prospects into revenue before you approach your next round of funding.

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Alternative Funding Abounds, but the Cheapest Source is Customer Revenue

Traditional venture funding is now just one part of the mix. Other players such as angels, hedge funds, and private capital are aggressively competing for the same deals. With all these alternatives, it's not just the VC's looking at capital efficiencies, but entrepreneurs themselves, as they calculate their exit strategies to keep a bigger piece of the pie.

So what's your shortest path to the most affordable source of capital? It's staring you right in the face: Your customers.

Customer revenue is your most affordable, non-dilutive capital. Therefore, any early-stage company sales strategy should be aimed at predictably producing the most amount of revenue with the least amount of resources in the shortest amount of time.

People and Teams, Not Plans, Make the Difference

As one VC put it, "Yes, write that business plan, but it's for you, not us. It's the team and their track record, not the plan, that counts." In short, more than ever, people and teams make the difference in whether you get funded or not.

The real leaders, the sure bets, are teams who have done it before; they have embraced the unknown and have made the shifts necessary to create winning companies in spite of the best laid plans changing. In doing so, they learned that customer dialogue is key to tracking the market.

So What's YOUR Strategy?

How will you achieve critical customer mass so you tip the VC game in your favor? How and when can you tap the affordable customer capital source called revenue? How will Sales & Marketing play a key role in this strategy?

The companies we're watching closely have employed the following strategies and tactics to capture customers and capital with good results:

- Understand the customer's pain - Talk often with your prospects and apply this intelligence in real time to your messaging, positioning, value proposition and offers
- Tightly link Sales & Marketing performance and results through integrated marketing programs, performance metrics and compensation plans that foster mutual success
- Build a sales force willing to adapt and evolve with the strategy...this is a critical success factor. An integrated, flexible team of sales and marketing professionals willing to learn from the customers as they earn revenue is the only way to go
- Support your top sales people in doing what they're best at...living with the customers and developing trusted relationships...leave qualifying the suspects and prospects with the inside sales or lead development teams

Following in these footsteps, you may first get funded by your VC's, and soon thereafter by your customers. At that point what more could you ask for than to have access to the most affordable, non-dilutive capital there is: predictable revenue from paying customers?

Stuart Silverman is CEO of [SalesRamp](#), a sales and marketing consulting firm in Silicon Valley that specializes in helping early-stage, Venture Capital backed companies improve both their sales and marketing.