

THE CUSTOMER-FUNDED BUSINESS

**Start, Finance, or Grow Your Company
With Your Customers' Cash**

JOHN MULLINS

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The Web site for this book is at www.CustomerFundedBusiness.com.

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MAIN IDEA

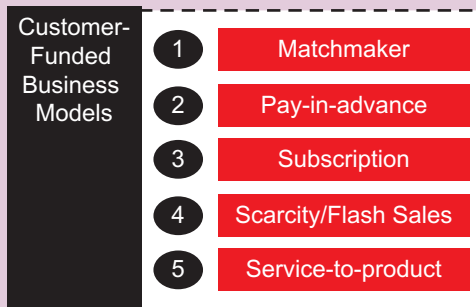
Since time immemorial, the accepted approach to securing start-up funding has generally been:

- 1. Come up with a great idea
- 2. Write a business plan
- 3. Raise some venture capital
- 4. Get rich!

That's all well and good but the odds of getting funded that way are not that great. Out of the 5 million ventures which seek startup funding each year in the United States alone, only about 1,500 will get funded by venture capitalists and another 50,000 will be funded by angel or other investors. Seeking start-up funding the conventional way is hard work.

A much better approach is to forget about securing venture capital entirely and instead get your future customers to fund your startup. If you can find enough customers who will pay you good money (ideally in advance) for the solution to their problems you're in the process of creating, then you won't need to raise capital anywhere else.

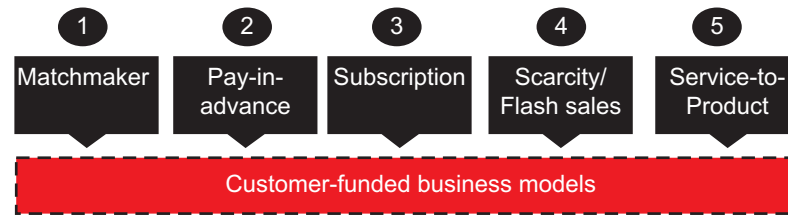
There are in fact five viable customer-funded business models you can use:



To get start-up funding, don't go looking for investors. Find a pool of customers who want what you plan on selling and get them to fund you. It's a much better way to go.

"The best money comes from customers, not investors. Selling a product or service early in the life of a company provides great feedback and the cash needed to refine the idea."

– Bill Sahlman, Harvard Business School



The Advantages of Customer Funding Page 2

Raising capital is always hard work and the problem is while you do that, you focus on what investors want rather than on your customers. A much better way to start, finance and then grow your business is to use your customer's cash, not an investor's money. This offers some compelling advantages.

Model #1 – Matchmaker Page 3

The matchmaker business model is where you create a way to match buyers and sellers. You generate the order or the transaction without assuming ownership of the goods yourself and get paid a fee for doing so. The matchmaker model requires little investment up front and can grow to a substantial size if you get it right.

Model #2 – Pay-in-advance Page 4

Pay-in-advance is where the business asks the customer to pay either a deposit or the full price before the product or service is shipped and supplied. The customer's advance payments are then used to finance the business.

Model #3 – Subscription Page 5

Widely used in the publishing industry, the subscription business model involves having customers pay an ongoing fee. This is ideal where you deliver something repeatedly over an extended period of time.

Model #4 – Scarcity / Flash Sales Page 6

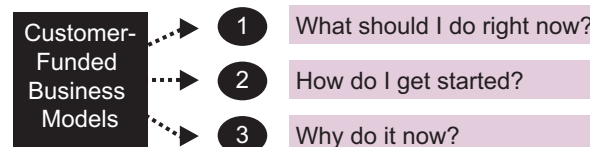
The scarcity business model is where you offer something in limited quantities or for a limited period of time. You use scarcity to get the customer's cash before the goods are delivered, thereby creating negative working capital requirements.

Model #5 – Service-to-product Page 7

Service-to-product is where a business starts out providing customized services to a customer and then uses that expertise to deliver a packaged solution which appeals to the broader marketplace. Your initial customer in effect funds the development of your product for you with this business model.

Making Customer Funding Happen Page 8

To successfully implement customer funding, there are three questions to work through:



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