

CHAPTER 1

Why a Financial Literacy and Investor Readiness Book

“Anyone can start a company; running a company—that is hard!”

—Howard Anderson, founder of the Yankee Group and co-founder of Battery Ventures

What You Will Learn in This Chapter

- Why the best fundraising strategy is to not need one (and why you still need this book)
- The number-one job of the CEO in any startup that matters more than product, sales, or hiring
- Why every team member, not just the CFO, should be able to read a financial statement
- What this book will (and will not) teach you about finance

Professor Josh Lerner of Harvard Business School is one of the most recognized and respected entrepreneurial finance professors of our generation. In 1993, one of the authors (Bill) had the honor of taking his class. While there was a lot to be learned in the course, the most important gem was in the first class in the first few minutes: “A financial strategy supports a business strategy; it is not the business strategy.”

As entrepreneurs ourselves and people who work with thousands of entrepreneurs, we continually return to this fundamental principle to ground discussions and perspectives. It seems obvious, but in the heat of the battle, entrepreneurs (including the authors when they first started) can get confused and think the goal is to raise or even make the most money. It is not. It is simply a necessary means to an end.



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The goal is to build a new venture that serves a purpose (i.e., *raison d'être*, as we refer to it in the *Disciplined Entrepreneurship Expanded and Updated* book) and is economically sustainable, allowing it to make continual progress toward the reason you started this business, and to increase its positive impact over time. Making money is not a sufficient reason to create a business if you want it to be great and long-lasting. Focusing exclusively on making money is what we would call *profiteering*, not entrepreneurship. Organizations that fall into the profiteering category not only do not last but also fail to leave a positive legacy.

When put in the proper context, a good fundraising strategy and execution will increase the odds of success. In rare instances, when coupled with excellent business strategy and execution, it can become a significant competitive advantage, but it follows rather than leads.

So, what is our point? Focus first on developing a great business and keep the fundraising in perspective. It is *not* the main thing. Ironically, the best way we have found to raise money is to focus on building a great business. Then fundraising is relatively easy. But wait, then why are we spending time on a “financial literacy and investor readiness book”? The answer can be summarized in a simple but blunt statement: *The number-one job of the CEO in any startup is to not run out of cash.*¹



THE #1 JOB OF THE CEO
IN ANY STARTUP
IS TO NOT RUN OUT OF CASH

Think about that carefully, because this is one of the main messages of this book and why we wrote it. Using an analogy everyone can understand, a body without oxygen will die. That is why, on a plane, they tell you to put on your own oxygen mask before helping others. Likewise, for a business, cash is oxygen. Without it, the business dies: no purpose, no strategy, no customers, no products, no employees, etc. There is nothing.

¹ This principle is one Bill learned from his former teaching colleague at MIT Sloan, the aforementioned Howard Anderson, founder of the Yankee Group and co-founder of Battery Ventures.

As such, the most fundamental scoreboard a business has to watch is the financial one. It might not be the most exciting metric of success, and it is not sufficient to create and maintain a great business, but it is necessary to have at least satisfactory performance on it. In this book, we will not turn you into a finance expert or teach you tricks to make your business successful. We will teach you how to avoid losing in this area so you can win with your core business strategy and execution. The areas where you can and should really distinguish yourself are innovation, a unique value proposition, and a strong go-to-market strategy, culture, and team.

And this is not just the CEO's or the CFO's responsibility. Every member of the team makes decisions that show up on the financial statements, whether they realize it or not. An engineer choosing to build versus buy a component is making a capital allocation decision. A salesperson offering extended payment terms is affecting cash flow. A product manager scoping a feature is committing future development costs. When everyone on the team can read the scoreboard, the whole company makes better decisions, and the CEO is not the only one watching the oxygen tank.

Here's a more detailed list of what you will learn in this book:

- **Part 1. Financial Literacy:** We cover what you need to know about finance to run your business (understanding key terms and being able to read financial statements such as the cash flow statement, the profit-and-loss statement, and the balance sheet). You will also understand concepts such as depreciation and working capital, which are essential to your company's viability. Honestly, this is not tough stuff.
- **Part 2. Financial Modeling:** We explain how to develop a financial model to generate scenarios of your business that provide insights, meaningful projections, a potential path to greatness, and an invaluable planning tool. Warning, this takes work but it is so worth it.
- **Part 3. Fundraising:** We will discuss the various sources of capital for a business and the pros and cons of each. You will understand the different mental models required to secure financing from these sources and how to present financial information. You will grasp the basic concepts of valuation and the fundraising process and what to do once you've raised money.

KEY POINTS OF CHAPTER 1

- **Finance exists to serve your business strategy, never to replace it.** Build a great company first; the financial strategy follows.
- The **number-one job of the CEO** in any startup is not to run out of cash.
- Financials are **an essential scoreboard for your business** that everyone should understand, not only the CEO and CFO.

ADDITIONAL RESOURCES

- *Disciplined Entrepreneurship Expanded and Updated* by Bill Aulet (book)

More information on this chapter is available at **www.d-eship.com/finance**. The web page will be updated as new materials become available, including examples, downloadable spreadsheets, videos, books, articles, and other helpful resources. We encourage you to contribute any other helpful resources for the community.

