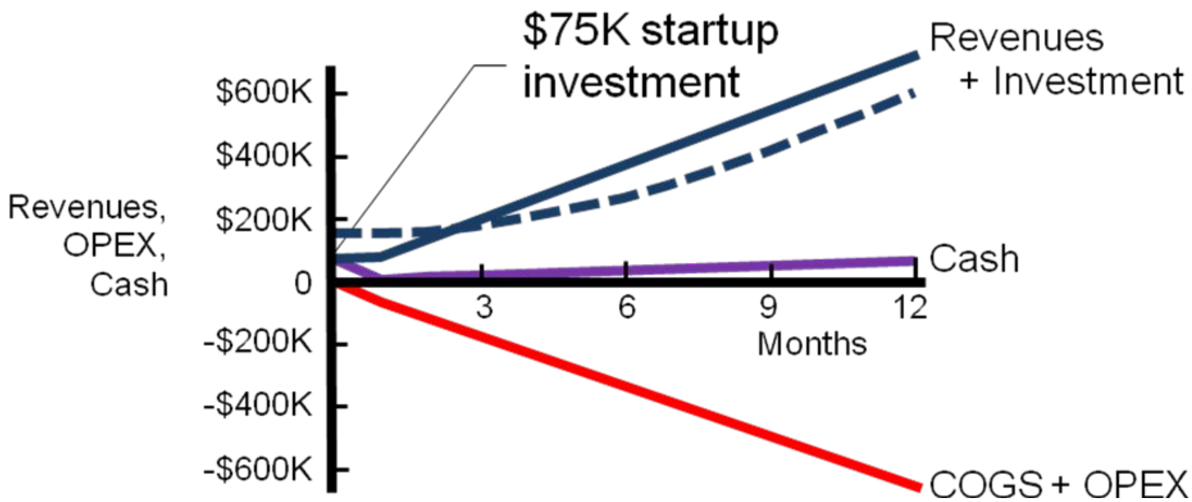
Get orders first

A better way to start is to get orders first. The strategy here is different. Instead of waiting to begin selling modules until after the company is formed, get orders first. This means team members find initial customers even before they have investors.

In the forecast below, the company starts with 50 “pre-orders”, customers that commit to buying a module before the company is funded. Having 5 team members means that each one is responsible for 10 pre-orders. This is where the team can see who is pulling their weight.

Like the graph shown in Factory Startup Year, the one below shows revenues and investments (dark blue), expenses (COGS + OPEX, red) and Cash (purple).



With pre-orders, the factory can begin making and installing modules as soon as the company is funded. The first month is still devoted to new equipment and setting up, but after that orders can be filled as soon as the modules are built. Revenues (sold modules) shown in solid blue can ramp up more quickly than if selling begins after the company is fully funded (dashed blue curve).

Notice that less startup funds are needed. Only $75,000 is needed instead of $150,000. That’s because one of the biggest drain on Cash in the early months is salaries and benefits. Without pre-orders, time is lost getting initial orders while the team draws down Cash.

Pre-orders have another purpose: they impress investors. They show the team is sincere about having their business a success because they were willing to put in time before the company was funded. Investors like to know there is little risk in an investment. Having 50 pre-orders assures them that the company will at least get off to a good start.