HOW WE GOT A LOAN FOR A STARTUP AFTER TWO BANKS SAID NO

Because of the very low odds of a startup celebrating its fifth birthday, few banks or investors are willing to provide funds to them. Our client was an inventor with a full-time job with a prestigious company in the community. He had a patent pending on his idea, and his idea represented a disruptive innovation. We built a business plan and a set of financial projections that we believed painted an attainable—and highly profitable—growth path for the following five years.

He had invested a quarter of a million dollars of his own money into the business, which had taken the company through engineering the prototype. We sought a bank loan to finance inventory, and he and his wife were willing to sign personal guarantees. His wife also had a very good job, and between the two of them, they had significant assets in retirement plans.

A neighbor, who was an officer with a local bank, encouraged the client to make application with his bank. After a few weeks, the neighbor delivered the bad news: he couldn't get the loan approved because of startup concerns.

A larger bank that touted itself as a leading provider of loans guaranteed by the SBA also looked at the loan—and declined, for the same reason.

We had passed every other underwriting test banks apply with flying colors.

We then reworked the business plan and provided new information about the methodology we used to research the market. We explained our use of the "Lean Startup" approach, a methodology that greatly reduces the risk of a startup that is being adopted by an increasing number of entrepreneurship programs on the college level. The Lean Startup requires "getting out of the building" as quickly as possible with a minimum viable product (MVP) prototype to validate all of the hypotheses used in our business model. This research caused us to make

- Significant refinements to the product
- Choice of a different target market
- Selection of a different distribution channel

Along the way, the team picked up several offers to buy the product as soon as it became available. We also benchmarked our financial projections against data from peer companies to make clear how our superior financial performance was justified by the technologies and business model that made our product a disruptive innovation.

Had we not employed the Lean Startup approach (which is still new on the scene), we would have spent a lot of money going to market with our original product concept with no improvements, targeted the wrong audience and marketed using an inefficient distribution channel. The Lean Startup approach saved us from making a "false start" in the marketplace, which would have thrown us into turmoil.

We met with a third bank. The new information, coupled with a live demonstration of the prototype, erased the startup concerns we had met before. Clearly the product and team had been well tested in the market, and the team made significant "pivots" to the business model reacting to what they learned.

The loan was quickly approved.