# INSIDE THE BLACK BOX

Every day, technology becomes a more integral part of our lives. As the technology gurus find even more ways to automate daily tasks, either with new, compact hardware or a sophisticated software programs, there are even more requests for funding to develop and commercialize an innovative technology.

Such requests are often referred to as "black box" requests. To the financial investor, the entrepreneur is offering a piece of hardware that looks simple on the outside, but inside is filled with all sorts of technological hardware, or sophisticated software, that the average person just would not be able to understand.

What many entrepreneurs do not understand is that the odds are immediately stacked against them even if they present a black box funding request to an investor who specializes in funding high technology. This is because investors have learned that black box funding requests typically focus too much on how the black box works, instead of discussing how the black box can make money. Not just a little money, mind you, but enough money that the investor can exit within five years and realize a proper return on the investment.

This does not mean that you should not explain how your product works but keep the explanation in context. Be sure it is part of a more comprehensive explanation of the existing market problem and how your product solves that problem. Keep in mind what the investors want to know:

- How large is the market and how fast is it growing? Is it big enough that if I only get a small slice of the pie I can still make a lot of money?
- What is the problem, now and in the future, that your product attempts to solve?
- How does your product solve the problem and why is your product a better solution than what is currently available?
- What is your plan for bringing your product to market and generating revenues? Will you be able to earn a profit? How soon will you earn a profit?
- Are you capable of executing the plan to make money from your product? Who else is on your management team? Does your management team collectively have the experience and ability to make your plan work?

Notice that only item 3 asks about product information. Even then, how the product works is only a partial answer to this question. Investors are in the business of making money. So, understanding the five questions above and being able to speak to each question prior to meeting with a potential investor is critical to your success in seeking funding.

Also keep in mind that you will have a much harder time obtaining financing if your technology represents a radically different way of doing something, instead of an improvement over a current process. There is a much bigger risk in being first to market. If you are first, you will be viewed as less likely to survive, much less be the dominant player, in the long term. This is because those that follow you will not have to educate the market on the benefits of your product, and they will be able to learn from your mistakes.

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