[SQUEAKING] [RUSTLING] [CLICKING]

LUIS PEREZ-BREVA: Episode 7, lessons from a real garage. Everyone loves the innovation origin stories that begin in garages or dorms. Hewlett Packard's garage is so famous, it's an official historical site with a plaque.

So let me advance that you do not need a garage or garage culture. You'll see what I mean in a few minutes.

Apple II has a garage origin story. It's in the Steve Jobs biopic. In 1976, the story goes, two Steves showed a prototype to investors in a garage. They had just sold 10 prototype motherboards to a local store, and they were ready to make it a business.

Some of the investors later described the Steves as smelly hippies. And one of the Steves later explained that the garage was just where they hung out because they had no money for anything else. They did the work elsewhere.

This is such a great origin story for what's become the most valuable company ever that past this point, we are ready to believe whatever. Here is when I typically ask my audience, which may at different times include investors, corporations, or students, to guess how much money they would have put in the project themselves had they been able to see the prototype in the garage.

They end up telling me a number between $1,000 and $100,000. I believe most of them respond automatically with what they've heard angel investors typically invest. When I remind them that the story happened in 1976, they typically drop a 0.

So let's see what the Steves got in 1976 and how it compares with what we think today a company needs to start going. After a few conversations with different people in their network, the Steve's met Mike Markkula. Markkula had retired from Intel a multi-millionaire. He was an engineer by training and had worked as a marketing manager, so he understood technology and understood business development.

So the story goes like this. In 1976, Mike Markkula saw the prototype the Steves had assembled. He then invested $92,000 of his own capital and secured a $250,000 credit line for the business. Together, the Steves and Markkula went on to raise more money, and they raised an additional $1 million in the next six months. They built a company, chased after revenue, and Apple Computers is the result.

You can get a fuller account of this story from a variety of sources. What I find interesting about it is that it is reproducible. What makes this story interesting to me isn't that some of it happened in a garage, but how Markkula empowered the Steves and what he ended up needing as proof before committing to the project.

Let me give you a sense of perspective. The nearly $1.5 million that Markkula, Jobs, and Wozniak raised in 1976 would have paid then for the salaries of about 75 engineers. In 2024, it would take about 20 million to afford that many salaries in California. A modern-day Markkula would have to seed the garage project with about $2 million today to emulate what Mike Markkula did in 1976.

And yet, in 2024, the winner of your average month-long pitch contest might get, at best, $50,000. That is the gap between how we've been thinking about innovation lately and how we used to think about innovation. That is the mindset gap before us.

Every time I share this Apple origin story with people, someone will come and tell me that they don't know how to get $2 million from an investor. And they'll ask me whether it is realistic to expect that amount. And my answer to them and to you, if that's your question, is the same.

This happened. Maybe you should actually make it your point not to accept money from anybody that gives you any less, because what this story tells you is how much money it takes to build truly a company. And maybe you cannot do it with just $50,000 at a time. It takes a mindset shift to realize that the investors you want are the ones that are capable of that kind of investment and to be strong enough to move away from the investments that are much smaller that might not get you to actually demonstrate your great idea.

There's two sides to this story. There's the first part of it, in which the Steves had managed to produce a new kind of motherboard that no one had produced before and had managed to sell 10 units of it to people in their community.

That required no investment. It required no business plan. It required no pitch. It required no entrepreneurial contest. They were just able to go and do it.

Then there's the second part of the story, which is one in which they realize they have a business to build-- not a startup, a business. And then they go out for investors. And the question is, which kind of investor should you choose? Or if you're an investor, what kind of an entrepreneur should you choose?

Should you go with someone that's ready to start with just 50k? Or should you hope to find an investor that understands that the price at the end is a company that's self-sustaining. In that last case, you want to go with an investor that's capable of putting enough money from the beginning so you can worry about the one thing that matters, build the business.

You can get started with what you have, but you cannot demonstrate a multi-million dollar business stringing ideas along pennies at a time, much less build one. You'll have to get real, and you'll have to find people intent on getting real, too. And that's true whether you are an investor or the tinkerer with a garage.

[MUSIC PLAYING]