CHAPTER **19**

Looking for Money

Money buys you time: When you run out of money, your business runs out of time.

Not All Money Is Equal

When you start to look for financing, you imagine that you'll take any money you can find, but you should exercise care. The various sources of money require different types of return on their investments, have varying levels of sophistication and comfort with risk, and provide you with significantly different auxiliary benefits and disadvantages.

> **"Getting an investor is like getting married. But it's harder to divorce your investors than it is to divorce your spouse."**
>
> *Mark Gorenberg*
> *Venture Capitalist*

Whose money do you want? As you begin your search for financing, stop and ask yourself these questions:

- Are you willing to give up some amount of ownership of your company?
- Are you willing to have debt that you must repay?
- Are you willing to risk property or other assets?
- How much control of the direction and operation of your company are you willing to relinquish?
- What other help do you want from a funder, besides money?
- How fast do you want to grow?
- How big do you want your company to be?
- What do you see as the long-term relationship between you and your funding source?

Keep in mind that you are going to have an ongoing relationship with your money source; make sure it is someone you can live with.

Debt Versus Equity

Everybody who gives you money for your business wants something in return. Funders either want their money paid back with interest or want to participate in the profits your company eventually makes. There are two basic formulations for financing your business: taking on debt, or giving up equity (ownership interest) in return for investment income.

Debt Financing

When you acquire debt financing, you have the advantage of keeping complete ownership of your business. You keep control, and you keep all the eventual profits. You borrow a specific amount, and you have to repay only that amount plus interest, regardless of how profitable your company becomes. The lender does not share in the profits.

Because lenders do not reap the benefits of substantial profits, they have to reduce risk as much as possible. To do so, they may ask you to secure the loan with the collateral of your assets (including your home). Using debt financing may jeopardize these assets if your business income is unable to pay back the loan, and if the business fails, you may still have the debt. This is a major risk, especially for a new entrepreneur. You should be extremely cautious before risking your home, your children's college education, or any other funds on which your lifestyle depends.

> **"I went to Silicon Valley in 1999, and people in venture funding said they weren't seeing women founders. So we looked for women-led businesses that could scale. We hoped to find 100 companies. We got 350 applications; we were overwhelmed!"**

Kay Koplovitz
Chair, Kate Spade

Loans from banks and other lending institutions (often referred to as conventional financing) are difficult to secure for new enterprises. Many banks will only finance businesses in operation more than three years, and very small businesses may have difficulty at any time. Credit unions may be somewhat more lenient than banks. And for very short-term financing, some small companies have even used cash advances on credit cards.

Be especially careful of shady lending companies that prey on small business start-ups; these companies make easy loans, requiring significant personal collateral, knowing most of the businesses they fund will fail and the assets will be seized. Or they charge hefty up-front fees to supposedly help find financing they can never truly secure.

"If you start from scratch and you want steep growth, you have to have the ability to finance internally due to very large margins, or you'll have to reconcile yourself to either selling out or accepting financing from outside sources and giving up equity."

Larry Leigon
Founder, Ariel Vineyards

Well-established businesses are far better candidates for conventional financing than are start-ups. A healthy, ongoing business needing funds for modest expansion activities should certainly consider bank financing. If the business is incorporated, the company itself can take on the loan debt and shield the owners from personal liability in most cases.

Equity Financing

By contrast, equity financing allows you to avoid the personal risk of taking on debt. Instead of committing to repay a specific amount of money, you give the investor a piece of the eventual profits. This takes the form of stock in the company or a percentage ownership. If your company is very successful, an equity investor may end up receiving many times the amount originally invested. However, if the company fails to produce sufficient profits, these investors may never get their money back.

Thus, equity investors often want to participate in decision-making to ensure that the company operates in a manner that will produce profits. They may take seats on your Board of Directors or even play an active role in management.

In some cases, you may have to give up so much equity that others actually have controlling interest in your company. In this case, the investors might even be able to remove you from management altogether. Still, a capable investor can bring you sound business advice, useful business contacts, and maybe even links to additional future financing.

Equity financing is a usual and practical method of funding start-up companies. Most of the best-known entrepreneurial high-technology firms are financed through equity investors. The popularity of investing in startups — and thus the availability of money — goes through cycles. It is far easier to get a new venture funded at a time when the marketplace is rewarding new entrepreneurial endeavors, particularly through growth or increase in the valuation of the company and its stock.

Success key terms

Corporate Venture Capital (CVC)
Venture capital funds established by corporations.

Crowdfunding
A method of raising money from a large number of people (the "crowd") for a new venture, cause, artistic endeavor, or product. Typically, the funds are raised through online, crowdfunding "platforms."

Elevator Pitch
A concise summary of a company's service, business, or product idea that can be delivered in a very short time.

Because it has proved so successful, equity investing has become institutionalized through venture capital firms, "angel" investors, and other entities, such as small business investment companies. But equity financing need not be sought only from these professional funding sources. Your accountant or attorney may put you in touch with someone who is looking for an investment, or your sister-in-law or college roommate may be willing to underwrite your business.

"There's an unspoken question from entrepreneurs when dealing with investors: 'how soon will they replace me?' The truth is, male or female, not every founder can scale the company, and there comes a time when they need to be replaced."

Lauren Flanagan
Cofounder and Managing
Director, BELLE Capital USA

Sources of Money

Where do you go to find the money you need? And what are the obligations and benefits you receive from each source? Two charts on pages 364–365 outline the various sources of debt and equity financing available for businesses.

When choosing a financing source (and you *do* choose them, just as they choose you), pay particular attention to the personal qualities of the individual and the reputation of the venture financing company you use. Just as not all banks are alike, certainly not all investors are alike.

You want to choose a financing source that:

- Stands by you during difficult times and works to overcome setbacks.
- Deals with you in a professional and businesslike manner.
- Values your contribution to the company.
- Maintains open and clear communication with you.
- Is fair, ethical, and honest.

Ideally, your financing source also brings you sound business advice, excellent business connections, and the ability to help secure future financial support. These qualities are particularly important when looking for an angel investor or venture capitalist. Such an investor is likely to play a very active part in your company; make certain that it is someone who offers your enterprise other benefits in addition to money.

"An entrepreneur should only go to a venture capitalist if they want the added value a venture capitalist can bring. With a venture capitalist, you're asking them not only to invest money, but to use every leverage point they have, each business and industry contact, leadership and support in subsequent funding rounds, and an honest critique of your business. And it's useful to have the venture capitalist serve as a member of your Board of Directors."

Ann Winblad
Venture Capitalist

Venture Capitalists

As you search for money, you probably will hear the term "venture capitalist" quite often, but those who use the term may be referring to different entities. True venture capital firms are among the most sophisticated investors available, typically providing an entrepreneur with more than money. Their knowledge, experience, and connections may prove to be as important to your company as the dollars they bring.

Venture capital firms invest large sums of money pooled from various sources such as pension funds and institutional investors. These private firms are established expressly for the purpose of investing in developing companies. Their partners and associates generally have a background in business management and/or the industries in which they invest.

Venture capital firms typically invest only in companies they believe can grow to be very large: often in the hundreds of millions or even billions of dollars in eventual value. As such, they generally invest large amounts of money at one time to help these companies grow quickly. They are not appropriate vehicles for companies with more modest goals or financial needs.

Venture capital firms specialize in particular industries or stages of a company's development. If your company is presently in formation, you need to look for a venture capital firm that invests in "seed" or "early-stage" companies.

Expect venture capitalists to take a very active role in the growth and development of your company — sitting on your Board of Directors, selecting key executives, perhaps even determining the nature of your role in the business. Because they will have such influence, if not control, over the fate of you and your company, choose your venture capitalist wisely.

> "
> **Angels are looking for companies that are scalable and capital efficient. We're not in a position to fund businesses that need $25 million—lots of capital—like venture capitalists invest."**
>
> ***Lauren Flanagan***
> ***Cofounder and Managing***
> ***Director, BELLE Capital USA***

Private or "Angel" Investors

A frequent source of capital for new or smaller entrepreneurial companies is the private, or "angel," investor. Private investors are usually well-to-do individuals, seeking investments that provide more personal satisfaction and the potential of greater financial reward than are offered by conventional investments such as stocks and bonds. Private investors can be an excellent source of financing.

Angel Investor	vs.	Venture Capitalist
Growth company	Investment criteria	Extremely high-growth company
Personal assets	Source of investment dollars	Other people's money; institutional funds
$25,000–$2,000,000	Investment range	$2,000,000+
3–10 times original investment	Expected return	5–10 times original investment
Seed, start-up, or early	Typical stage of investment	High-growth start-up and expansion
Early funding and hands-on expertise	What they bring to the deal	Large amounts of money, team building, industry-specific strengths
Some to significant	Extent of due diligence	Significant to huge amount
Less likely	Replace founder as CEO?	More likely
1–3 per year	Number of deals	15–18 per fund per year

Being an angel investor has become more popular over the years, and there are now organizations or groups of angel investors. These groups help facilitate meetings between entrepreneurs and potential investors. Often, angel investors who are part of an angel network can provide a broader range of assistance (in addition to money) than can a single private investor. Other methods of finding angel investors are through professional financial advisors, accountants, attorneys, and the like, who often know of wealthy individuals seeking investment opportunities.

Of course, the quality and nature of private investors varies widely. Some are entrepreneurs who were successful in business and now want to use their money and expertise to invest in companies related to their area of expertise. These angels may bring outstanding assets to your company.

Other private investors may have little to offer besides money. Less-sophisticated investors often have unrealistic expectations regarding the amount and timing of profits. Frequently, they are unfamiliar and uncomfortable with risk, and they may apply pressure for producing profits far earlier than a business can reasonably manage or than is healthy. If you do pursue private investors, make certain that the investor understands the nature of your business, and be particularly conservative in your projections of how much profit you will produce and when.

> "
> **The good thing about talking to a venture capitalist is that they will bring you down to earth. It's not that they're negative, but they'll give you a feel for what it will really take to succeed. With a private investor, a relative or friend, you won't get realistic input. With a venture capitalist, you get more than just money, you get partners who give you valuable help. They can introduce you to others and share the benefit of their experience. But with this help, you also get supervision and someone looking over your shoulder. But if your plan can attract venture capital, you should pursue it."**
>
> ***Eugene Kleiner***
> ***Venture Capitalist***

Corporate Investors

Other potential source of funding for some start-ups are the venture capital funds established by corporations. **Corporate venture capital (CVC)** funds have been set up by a few very large corporations that see the potential of investing in high-potential, early-stage entrepreneurial ventures — especially in technology and biotech industries. Recognizing the significant innovations introduced by start-ups and early-stage enterprises, CVCs have become active investors.

Corporations invest in start-ups and early-stage companies for many reasons, but in almost all cases, the investment must make strategic sense for the corporation itself. They may see the start-up's product or service as complementary to their current corporate offerings or as a potential competitor that they'd rather own. Corporate venture investing tends to be cyclical — increasing in times of strong economies — so when the economy weakens, corporate venture investing is typically cut back.

Corporate venture funds tend to be more conservative in their choice of investment than traditional VCs or angel investors. CVCs tend to invest in early-stage companies that have already reached significant milestones — have secured substantial revenues, have secured patents, or have in other ways shown a proof of concept. As a result, deals with CVCs tend to be significantly larger than deals with VCs or angel investors — in terms of amount of funds invested and at later stages of a start-up's development.

Securing a corporation as an investment partner is a two-edged sword for a start-up. A corporation may offer more generous terms, higher valuation, and more money. They may be able to help open doors to vendors and customers, help you understand your industry better, and provide infrastructure — enabling you to concentrate on your product or service instead of administrative concerns.

However, CVCs may or may not be sophisticated in dealing with their investment companies — they may not understand the entrepreneurial mind-set and timelines; they may be bureaucratic or overly eager for short-term results. In terms of product development, the corporation may push you to take their needs into greater consideration than your own entrepreneurial concepts.

Ask a final question when considering approaching corporations for investment: Will such an investment help you get customers, or will it scare away your corporate investor's competitors?

Small Business Investment Companies

Some private firms exist to provide both investment financing and long-term loans to small businesses. Examples are Small Business Investment Companies (SBICs) and Specialized Small Business Investment Companies (SSBICs). Some SBICs provide only equity; others rely on debt; and still others provide either. Each SBIC has its own policy.

SBICs are licensed by the U.S. Small Business Administration (SBA) and may receive funds from the government for the purpose of investing in small businesses. SBICs are willing to consider any small business, while SSBICs restrict their investments to companies operated by minority or economically disadvantaged entrepreneurs.

SBICs are good vehicles for financing a small business. However, most of them maintain rigorous evaluation procedures, and you will have to meet some of the same criteria required when applying for conventional financing or funding from venture capitalists. Many of the SBICs now only make loans, and they will seek the same type of collateral and evidence of credit-worthiness as banks.

> **"For a bank, it's more important to have our fallback positions covered than our upside measured. A bank is different than a venture capitalist; we don't get larger profits if the company is very successful. So we spend most of our time assessing the fallbacks in a plan in case of error. The fallbacks we look to are receivables, guarantees [collateral], inventory, and fixed assets."**
>
> ***Robert Mahoney***
> ***Corporate Banker***

U.S. Small Business Administration

The SBA guarantees loans from other institutions; it does not make loans directly (except for Vietnam-era veterans and disabled persons). If you are seeking financing, the SBA can provide you with a list of lending institutions active in giving loans to small businesses. Remember, these banks and institutions must approve your application, so you must meet bank criteria to qualify. Typically, new businesses do not qualify for SBA-guaranteed loans. The SBA guarantee, however, sets interest limits and may make a difference if the lending institution is "on the fence" about your loan. Expect to provide a personal guarantee for any loan you are granted.

The SBA has created some other loan programs that may be more accessible for new businesses. The "micro-loan" program offers very small amounts of money to young companies. These are administered through nonprofit and community organizations.

Friends and Family Members

Be careful when financing your business through family or friends, with either loans or investments. This money may be the easiest to secure, but may cause you to risk personal relationships; by mixing your personal and business affairs, you may find you make both your business and your personal life more difficult. Unsophisticated investors are nervous about money — they don't understand that it takes time before profits are realized. They view every natural delay or setback with alarm.

If you do take a loan from a personal source, later repay it with the required interest, and subsequently become very successful, the friend or relative may not understand why he or she does not participate in the profits. And, if you are unable to pay back the loan, the relative may remind you of your failure at every family occasion for the next 20 years.

Customers — Raising Money through Revenue

Never forget the power of making sales. The very best money comes from customers. With that income stream, you neither have to give up a piece of your company (as with investors) nor do you (necessarily) have to take on debt (as with a loan). In the process of looking for money, don't overlook the potential of finding money through actual sales.

Customers bring you more than money. They show potential investors that you have a company that is meeting real market needs. Having orders, of course, may cost money. If you are fortunate enough to land a big order when your company is still young, you may not have the resources to fill those orders. But this is a better time to approach financing sources. You may find a bank or other lender much more receptive when you have a contract in hand. Some banks are particularly aimed at entrepreneurs. You may also find that investors are much more willing to meet with you when you have customers, especially if any of your customers are companies that demonstrate to them your ability to land important deals.

> "
> **One of the differences with women investors is we want to make money, but we're doing this to pay back too. In the past, women were philanthropists; they gave money away. We're trying to teach women to be more comfortable with investing."**
>
> ***Lauren Flanagan***
> ***Cofounder and Managing***
> ***Director, BELLE Capital USA***

The fund-raising process can take a long time, so consider the possibility of building your business through income while you look for the capital you need. Sales are good.

Crowdfunding

For many years, if you wanted to secure investors for your new company, product, or creative project, you had to solicit funds either from a small number of friends and family, or from VCs or angels. It was difficult — both logistically and legally — to reach out to a large number of acquaintances and strangers who might believe in your concept and be willing to help fund it.

However, both technological and legal developments have made securing investment money — and/or raising money through early presales — possible through a process broadly referred to as "**crowdfunding**."

When people refer to crowdfunding, they generally mean raising money in return for a small amount of stock or ownership in the new company. However, there are two types of crowdfunding:

- **Nonequity Crowdfunding:** soliciting funds in return for some type of benefit that does not include receiving stock or equity. Benefits might include such rewards as prerelease products, invitations to special events, recognition as a sponsor, T-shirts or other gifts; this kind of crowdfunding has fewer legal restrictions than equity-related crowdfunding.
- **Equity Crowdfunding:** soliciting funds from a large number of individuals in return for small amounts of stock or equity in the new company. The rules and regulations for this type of crowdfunding continue to evolve. In the United States, there are both federal and state laws covering this kind of solicitation.

Historically, to protect unsophisticated people from losing money in high-risk and uncertain ventures, many countries have limited the type of person who could invest in such businesses. In the United States, only "accredited investors" — those who had assets sufficient enough that they could afford to lose their investment, or those who had significant investment experience

— could invest in these fledgling ventures. Most new companies could secure funds from no more than 35 nonaccredited investors.

This policy worked well to protect the general public until the "dot-com" era in the late 1990s, when suddenly, many people became extremely rich from investments in early-stage Internet companies. But, due to the accredited investor rule (and other Securities regulations), average small investors were kept from getting in on the ground floor of the few blockbuster investments. Of course, they were also protected from losing money from the many flops. Yet, there seemed to be a basic unfairness. Importantly, such investing restricitons also severely limited the amount of money available to entrepreneurs for new ventures.

By the second decade of the 21st century, "crowdsourcing" on the Internet — engaging with a broad number of people for ideas on new business concepts — became increasingly popular. Through social media and other sites, entrepreneurs, inventors, artists, and others were soliciting ideas and support for bands, creative endeavors, nonprofit organizations, causes, and the like.

Crowdfunding Pros and Cons

Pros	Cons
Market feedback: You get real-time feedback from the people you value most — potential customers.	**Your idea is public:** On a crowdfunding platform, anyone can see what you're planning, including potential competitors.
Customer engagement: You can develop highly enthusiastic fans before you even launch a product or company.	**Marketing ability:** To raise sufficient funds, you need to generate a great deal of interest in your idea, requiring significant marketing effort.
More control: Since equity is spread around so many small investors, you don't have to answer to one or two major financial backers.	**Limited fund-raising rounds:** You may not be able to raise more money when needed to grow; start-ups often return to professional investors for second or third rounds of funding.
Raise more money: You may be able to raise money for projects that professional investors are not interested in.	**Unsophisticated investors:** Public supporters do not bring the business knowledge, contacts, and financial acumen of professional investors.
Anyone can do it: You don't need to know or have access to VCs or private investors.	**Time:** You will only succeed if you make the crowdfunding aspect of your company a top priority.
Marketing tool: A very successful campaign can drive traffic to your website and social media outlets, and create awareness about your company.	**Legal concerns:** You'll need to navigate a still-evolving sea of laws at both the federal and state level.

This led to entrepreneurs and inventors using crowdsourcing to make early sales of their prerelease products to fund their start-up. In return for a certain "donation," supporters would receive products once they finally became available. In essence, these prerelease "customers" were crowdfunding the new business, instead of professional investors.

To help facilitate such crowdfunding, a number of platforms launched, such as IndieGoGo (www.indiegogo.com) and Kickstarter (www.kickstarter.com). At first, such platforms generally focused on creative or artistic endeavors. Later, some of them evolved to specifically help fund new products and companies. Many crowdfunding sites now serve specific industries or niches, such as CircleUp (www.circleup.com) for consumer and retail products, RallyMe (www.rallyme.com) to raise support for athletes, and Mosaic (www.joinmosaic.com) for solar projects.

One of the great successes that demonstrated the potential for crowdfunding was Pebble, a "smart watch," which raised over $10 million in presales of product on Kickstarter, after the founders failed to raise money through traditional venture capital sources.

Securities rules prohibited these crowdfunding ventures from offering equity, or shares of ownership, to funders. Yet, it was clear that the general public had a large appetite for supporting, and investing in, early-stage ventures. In response, new laws were enacted in the United States to allow crowdfunding in return for equity.

KEYS TO SUCCESS IN CROWDFUNDING:

- **Have the right type of business or product.** For crowdfunding success, your idea must be easily understandable by a large number of people (on that platform). Consumer, food, consumer electronics, and fashion products are particularly well suited to this. Complex concepts and many business-to-business ventures are likely to have a harder time gathering widespread support.
- **Create a compelling video.** A great video helps engage potential funders, as most funders will want to hear your story, see you, and view prototypes of your product (if any).
- **Raise sufficient funds.** On some crowdsourcing platforms, you don't receive any money until your goal amount is raised in total. This means you want to set an achievable fund-raising target. However, on some platforms, you can raise no more than the financial target you originally set. So you want to make sure you are raising enough to execute on your vision. This can be very hard to get right — even for seasoned entrepreneurs.
- **Choose the right crowdfunding platform.** Make sure the platform you choose meets your particular needs — type of product/service, type of rewards/equity you can give, amount of money you can raise and whether you need to raise the full amount before receiving any of it.
- **Have good-quality photos as part of your campaign.** Pics help supporters spread the word through social media.
- **Have a "coolness" factor.** Your idea is more likely to garner support and go viral if it's unique, attractive, or cutting-edge.
- **Plan a marketing campaign.** You must plan your crowdfunding fundraising campaign like you would for launching any new product. It will take time, effort, and creativity.

To search for a crowdfunding platform that meets your needs, check out CrowdsUnite (www.crowdsunite.com).

Improving Your Chances of Getting Funded

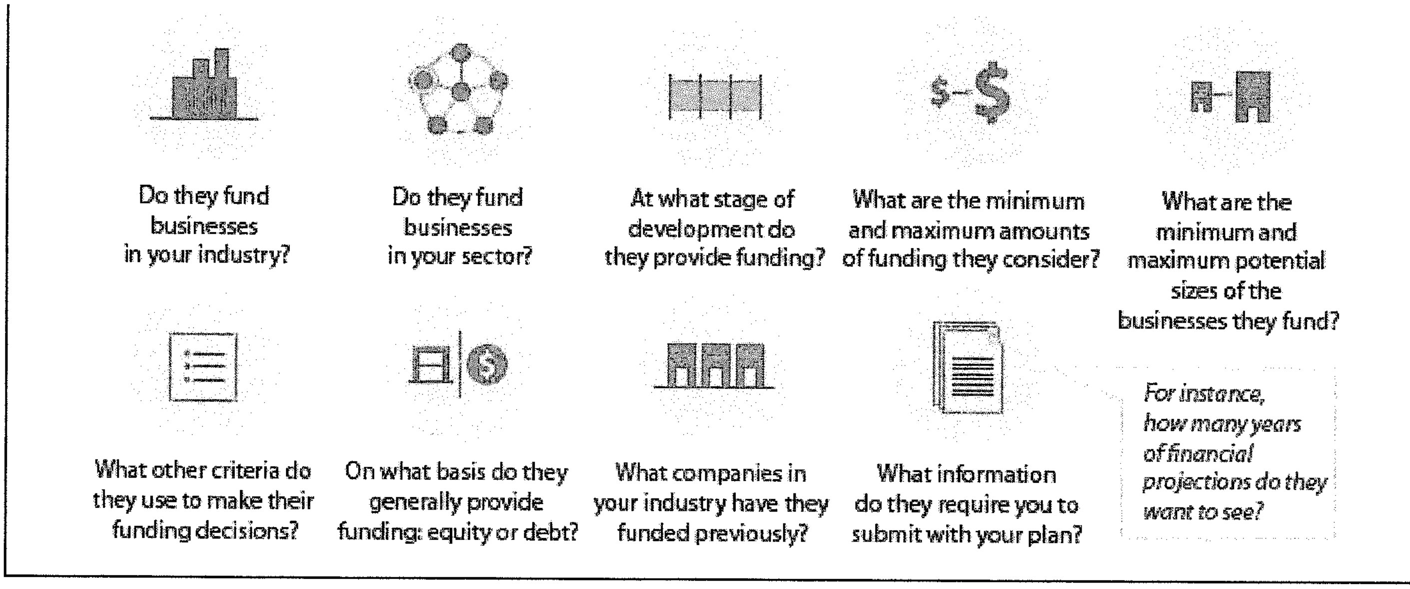
When using your plan to raise money, you can increase your chances of getting funded by researching potential funders, their interests, and their areas of expertise. You can further enhance the possibility of success by understanding how the funding process works, how long it takes, and how to stay in touch with potential funders.

Researching Your Recipients

It pays to do a little homework on potential funders so that you understand the nature of the investments or loans they make. It's a waste of everyone's time to send a business plan for your service business to a venture capital firm that funds only manufacturing companies, or to submit a loan for your new business to a bank that only funds companies established for more than three years. You'll end up waiting weeks or months just to hear an inevitable "No."

> **"We want to understand how we're going to make money. Angels want to have liquidity within five years, seven years max. Things that take a lot of time and a lot of money aren't appropriate for angels, like finding new drugs or new energy sources."**
>
> ***Lauren Flanagan***
> ***Cofounder and Managing***
> ***Director, BELLE Capital USA***

FUNDING RESEARCH QUESTIONS



Instead, a little research can save you a lot of time. Often, this can be accomplished with just a few phone calls, especially if your potential funding targets are established venture capital firms or banks. These institutions are used to answering questions about their funding patterns and have definite procedures and guidelines. Start by visiting their websites. Many venture capital firms outline exactly what types of companies they fund, cite the criteria for their investments, and include a list of companies they have already funded — their "portfolio" companies. If you can't find what you need on the Internet, don't hesitate to contact these professional financing sources for information; they'd much rather answer your questions now than waste their time having to process a business plan in which they have no interest.

With other sources, such as private or angel investors, it may be somewhat harder to get information. If they are a member of an angel investing network, they may list the types of companies they are interested in. They are far less likely to offer specific criteria than venture capitalists. Nevertheless, it is quite businesslike to send a letter of inquiry to ascertain the kinds of investments they are willing to consider before submitting your plan to them.

> **"There are lots of reasons not to go to venture capitalists. First, it takes a long time to get an answer, from one to eight months. Second, very few businesses get funded by venture capital. We accept only one out of 200 plans. You may not want to become a very large business; venture capitalists are interested in businesses that will become large. Finally, you may not be willing to make a commitment to go public or be acquired. Venture capitalists need a way to get their money out."**
>
> ***Ann Winblad***
> ***Venture Capitalist***

Once you have this information, you can better determine whether a funding source is appropriate for your business. Make sure your type of business and financial scope fall within the interest areas of your potential recipient. Don't send a plan requesting an investment of $50,000 to a venture capital firm that only funds companies seeking a minimum of $2 million. (Many do.)

If possible, you also want to find out less-tangible information about your funding sources. What is the potential funder really like? When deciding on funding, does the funder tend to place more emphasis on the experience of management, the product or service, or the market potential? Does the funder take a really long time making decisions, or do they respond quickly? Once they've financed a company, how does the funder perform as an ongoing partner? What's the funder's reputation in the industry?

Some of these questions you can ask in a phone call to an associate or member of the funding institution; better yet, you can request an informational interview with the funder (see page 359).

You can also get a great deal of information about funders by joining entrepreneurs' groups in your community or industry. Many larger cities have organizations in which entrepreneurs help one another get started, and members often have first-hand experience with funding sources.

If the funder is prominent, you may find information about them online or through sources such as magazine and newspaper articles. Next, see if you can talk to any others already funded by the same source, particularly those funded in the last few years.

They can supply a wealth of information, and if you hit it off with them, perhaps they will even arrange an introduction to the funder for you.

Informational Interview

If you intend to send your plan to a large or well-established funding source, such as a bank or major venture capital firm, consider asking for an informational interview to get a feel for the institution and to better determine exactly what it is looking for in a business.

Request this only after you have finished researching your funding source and your plan is complete. The interview need not be long; 10 to 15 minutes may be sufficient. Your meeting doesn't have to be with a partner or decision-maker: An associate may be more willing to meet with you. Even an administrative assistant can be a source of a great deal of information.

It won't be easy to get such an interview, so treat any interview you are able to secure as an excellent opportunity, even if it's with a secretary. This is the beginning of your relationship with the funder, and you want to make a positive impression. Moreover, you then know a person inside the company, and when you send your plan, you can send it directly to that person.

Don't choose your prime funding target for the first interview you schedule. Get some experience with your second or third choice. That way you'll be less nervous, and you'll learn how to make a better impression when you finally meet with your first choice.

> **"If you already have one or two successful stores, you have a much better chance of receiving funding from a venture capitalist. Venture capitalists in the retail field are looking for a proven concept with experienced management. They are looking for 'cookie cutter' concepts, businesses that can be repeated almost identically from location to location."**
>
> ***Nancy Glaser***
> ***Business Strategies***
> ***Consultant***

Finding an Intermediary

The best way to distinguish your plan from the many others received by a funding source is to find someone known to the funder to act as an intermediary. Intermediaries can either send or deliver the plan personally or can allow you to use their name when you send or deliver the plan yourself.

The best intermediary is:

- Someone in a related business to the funder.
- Someone who received financing (and whose business was successful) from the funder.
- A friend or relative of the funder.
- Someone highly regarded in the industry or community, even if not known personally by the funder.

Having an intermediary does not guarantee you'll receive funding, but it improves your chances of getting a fair and careful review.

> **"If I get a phone call from somebody I respect about a plan, then that plan gets more of my attention. Who refers a plan to me can be quite important, but in the end the plan has to stand on its own."**
>
> ***Eugene Kleiner***
> ***Venture Capitalist***

If you are fortunate enough to secure intermediaries, be sure to send them a copy of any cover letters you have sent using their name (and perhaps a copy of your business plan as well). Potential funding sources may very well call an intermediary about your business, and when this happens, you want the intermediary to remember who you are.

Do not use a funder as your intermediary to send your plan to another funder unless there is a specific reason, otherwise it raises the question of why your contact isn't providing the funding. If, for instance, you are trying to raise money for a new retail concept and you know someone who funds companies only in the software industry, then it makes sense for her to send your plan to a friend who funds retail companies.

Tailoring the Plan for Your Recipients

Once you have researched your potential funders, you should organize your cover letter and Executive Summary to highlight those aspects of your business most likely to fit the needs and interests of each funder. Is the venture capital firm particularly interested in patentable new technology? Will the bank fund only those companies established for more than three years? Does the division president want to see new market opportunities? If so, discuss these areas in the first paragraph of your cover letter, or place more emphasis on them in your Summary.

Be certain to target your Executive Summary to address the concerns of the company rather than just an individual's preferences. Remember, your plan is most likely to end up in the hands of someone other than the person to whom it was sent originally.

> **"The best way to get introduced to a bank is through someone who already has a relationship with that bank. Come through a friend who's a customer or a lawyer or accountant. Open an account yourself. References are important in getting an introduction to a bank, but they are irrelevant in the decision to loan itself. Except, of course, if you have references from major customers who show their intention to buy from you."**
>
> ***Robert Mahoney***
> ***Corporate Banker***

Cover Letter

You must include a cover letter with any plan you send or deliver to a potential funding source. The cover letter will probably be read before the plan, so make certain it entices the reader to give careful consideration to your business.

The best way to start a cover letter is with this sentence:

"________________ (name of intermediary) suggested that I contact you regarding my business, ________________ (name of business), a ________________ (type of business)."

For example, the first sentence might read:

"Aaron Schneider suggested that I contact you regarding my business, AAA, Inc., a food products and service company."

This immediately draws attention to the person connecting you to the funding source and gives you a measure of credibility (assuming, of course, that your intermediary is credible).

Next, indicate why you (or the intermediary) feel that the recipient is an appropriate funding source. Continuing with the above example, the next sentence might read:

"He knows of your experience in funding food product companies and believes you might find AAA, Inc. of interest."

If you don't have an intermediary, your first sentence should state the name and nature of your company and why you have chosen to send your plan to the recipient. It should read something like:

"Knowing of your interest in funding food product companies, I am enclosing a copy of the business plan for AAA, Inc., an established food products and service company now seeking financing to enable us to expand operations."

Generally, your cover letter should state:

- Why you've chosen the particular funder to receive your plan.
- The nature of your business.
- The developmental stage of your business.
- The amount of funds sought.
- Whether you are looking for an investment or a loan.
- The terms of the deal, if appropriate.

Keep your cover letter brief. It should motivate the recipient to read your plan, not replace the plan itself. A sample cover letter is provided for your review at the end of this chapter.

> **"In a cover letter, I want to know how you knew who I was. How did you get to me? Who are the other people pulling for you? The first plans I read are those that come to me from a credible source."**
>
> ***Ann Winblad***
> ***Venture Capitalist***

Following Up

Your job is not done once you have sent out your business plan; you must follow up on its progress to ensure receiving an answer from your funding source. Some investors or banks tell you exactly when you can expect to hear from them. Others are far less diligent in their communication with fund seekers. You must take the initiative.

Don't become a pest, however. Keep your inquiries brief and professional, and don't call or email too frequently. You might call for the first time about a week after sending your plan, just to inquire whether the plan has been received by the funder. During this first phone call it is appropriate to ask when you can expect to hear from the funding source or when you may call back. It's perfectly acceptable to request an appropriate time to follow up again: "May I call back in two weeks to check on my plan's progress?"

Generally, refrain from calling any funding source more frequently than every two weeks. And if they ask you not to call, DON'T.

Email and Voice Mail

Much of your interaction with potential funding sources will be through email and voice mail messages. As such, you want to take some time preparing what you want to say before you pick up the phone or hit the "Send" button.

But be careful: Most funding sources are inundated with emails and phone calls — yours can easily be viewed as another intrusion. Keep all your initial or uninvited emails and voice mails short. You have a better chance of having your message read or listened to if it is not too long. If you've worked on your "**elevator pitch**" (see page 363), you should be able to quickly explain the nature of your business.

If you have the name of an intermediary who suggested you contact the funding source, use that name right away, whether in a voice mail or email. In an email message, you might put the intermediary's name in the "Subject" line to make it more likely the recipient will open your message.

Your "Elevator Pitch"

MY COMPANY...

Named: ______________________________

Does: ______________________________

____

____

____

____

____

Serves Which Market: ______________________________

____

____

____

____

Makes Money By: ______________________________

____

____

____

____

____

Is Like Which Other Companies: ______________________________

____

____

____

____

Will Succeed Because It: ______________________________

____

____

____

____

Aims to Achieve: ______________________________

____

____

____

____

For a voice mail message, state the nature of your call and your business up front and then clearly and slowly explain how you can be reached. Describe your company in "big picture" terms: Do not go into too many details; they may misunderstand the nature of your business. Always indicate that you will also phone back — that gives you an opening to call again without seeming too pushy.

Your voice mail message might be something like, "Aaron Schneider suggested I call you about my new food products and service company, AAA, Inc. Aaron thought our approach to growth and our established customer base would interest you. I'd appreciate the chance to speak with you. I can be reached at 650-555-1000 or you can email me at arnie at aaa.com. I will also try you again in a couple of days. Thank you."

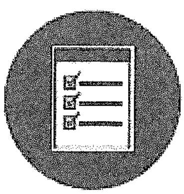
Your email message can be very similar to your voice mail. It should be short and direct, and you should provide a way for them to contact you by phone. You can include the address of your website, if you have one up and running, and if you are willing to have the potential funder see it before they've talked to you. Refrain from using any attachments, especially in your first contact. Be careful not to be too vague in your "Subject" line, such as "Great Business Opportunity" or "New Business Venture." You don't want your recipient to think your message is spam and delete it without even opening it.

> "
> **Emailing a summary is the most common and the best way to convey a plan. Email a summary with the idea of trying to set up a meeting to present a full presentation."**
>
> ***Mark Gorenberg***
> ***Venture Capitalist***

"The Elevator Pitch"

When considering a prospective investment, venture capitalists and other investors often want to hear what they call the "elevator pitch." This is the concise description of a company — its product or service, market, competitive advantages — that an entrepreneur could give in the time it would take to ride up an elevator (and not to the top floor of a skyscraper!). An "elevator pitch" shows that you understand your business. (If you're unclear on your strategic position, you'd still be mumbling as you pass the fifteenth floor.)

> "
> **The classic elevator pitch is very important to us. Angel investors typically co-invest with others. If an entrepreneur can't describe their concept quickly, it's hard for us to raise money from others."**
>
> ***Lauren Flanagan***
> ***Cofounder and Managing***
> ***Director, BELLE Capital USA***



Your "elevator pitch" doesn't have to be made in an actual elevator to be useful. You'll find you'll use it often: in emails to prospective financing sources, to introduce yourself and your company at networking events, and to describe your business to potential customers. ***Take a few moments to write a concise elevator pitch using the worksheet on page 362.***

Chapter Summary

If you are raising money for your company, you can increase the chances of raising the capital you need through preparation, research, and cultivating contacts. Research your recipients and tailor the presentation of your plan to each recipient's interests and concerns. Choose your potential funding sources wisely; remember that your funding source will become an ongoing participant in your business. And be realistic. You must always give something in return for the money you receive.

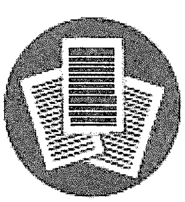
Sources of Debt Financing

	WHAT THEY LOOK FOR	ADVANTAGES	DISADVANTAGES
Banks and Lending Institutions	Ability to repay, collateral, steady current income from business.	No profit-sharing; no obligation for ongoing relationship after repayment; definite preset amount to repay. **Best For:** Established companies needing funding for specific activities; short-term cash flow problems.	Difficult to secure for new businesses; must often risk personal assets; same financial obligation regardless of business's income. **Worst For:** Ongoing operational expenses; new companies with relatively inexperienced management.
Loans from Family or Friends	Likelihood of repayment; your personal character; other personal considerations.	Easier to secure than institutional loans; specific amount to repay; no profit-sharing. **Best For:** Companies with no other option; companies with secure future.	Can jeopardize personal relationships; unsophisticated lender often nervous about money; probably no professional expertise; often get unsolicited advice and frequent queries. **Worst For:** Very risky enterprises; entrepreneurs with difficult family circumstances.
Cash Advance on Personal Credit Cards	Ability to repay.	Relatively easy to secure. **Best For:** Businesses requiring small amounts of money for a limited time; short-term cash flow problems.	High interest rates; limited amount of money; ties up and risks personal credit. **Worst For:** Ongoing, long-term financing.

Sources of Equity Financing

Venture Capitalists	Businesses in their area of interest; companies that can grow to significant size; experienced management; new technology.	Large sums available; sophisticated investor familiar with industry; can bring expertise, connections, and future funding; understand business setbacks and capital risk. **Best For:** Potentially large companies; sophisticated entrepreneur or industry wizard.	Difficult to secure; must have exit possibilities in three to seven years; take substantial, perhaps controlling, equity in company. **Worst For:** Small and medium-size businesses; inexperienced entrepreneurs.
Private Investors	Good business opportunities with better potential rewards than conventional investments such as the stock market; appealing concept.	May fund small and medium-size businesses; easier to secure than professional venture capital or bank loans. **Best For:** Smaller companies; those able to locate relatively sophisticated or capable investors; those with appealing business concept.	Often unsophisticated, nervous investor; take equity in company; may want involvement in decisions without having necessary expertise; long-term relationship; expect profits soon. **Worst For:** Companies requiring long development time before profitability; companies needing additional business expertise.
Investment from Family and Friends	Interest in you and your business concept; chance to make money.	Easier to secure than other investors; no set amount to repay. **Best For:** Companies with no other options; entrepreneurs having friends or relatives with significant business or industry expertise.	Jeopardizes personal relationships; long-term involvement; unsophisticated nervous investor; makes friend or relative a decision-maker in your business; doesn't understand risk. **Worst For:** Very risky enterprises; companies requiring long development time before profitability.

SAMPLE PLAN: COVER LETTER



Ms. Tamara Pinto
617 North Compton Boulevard
Vespucci, Indiana 98999

Scott@ComputerEase.biz
phone number: 812-555-1234

Dear Ms. Pinto:

My attorney, Mr. Kenneth Pollock, suggested I write to you regarding my business, ComputerEase. I am currently seeking an investor, and I believe that the company would coincide with your interest in technology-related service businesses.

Opens with reference to intermediary.

ComputerEase is positioned to take advantage of the market opportunities presented in the corporate software training field. Through a professional approach to marketing, experienced management, and an emphasis on outstanding customer support and service, ComputerEase can become the premier provider of in-person software training in the Greater Vespucci area. From that base, the company will be able to expand to become a regional force. An even greater potential for growth comes from online training, in which no company has yet dominated the market.

We are seeking $160,000. We anticipate this will be the sole round of funding. The funds will be used to add one Training Center location, expand staff, and increase marketing activities.

Specifies amount of funds sought.

I appreciate your consideration of the enclosed business plan for ComputerEase. I will telephone in approximately 10 days to see if you have any questions or how we may proceed.

Thank you.

Sincerely,

Scott E. Connors
President