Raising Capital in Today's "New Economy"

We've helped a number of clients develop business plans and raise capital from "angel" investors, corporate entities and venture capitalists during the last 6-8 years. It's always a daunting process that can be full of pitfalls and require a tremendous amount of work – but it can be done! Here is some perspective gleaned from years of experience.

The most important rule for raising capital to consider is: it's never easy to raise capital when you need to! Meaning, investors are inherently risk aversive, can be very picky (a real understatement!) and they are looking for the best deal with the greatest upside and minimal risk.

Rule number two – don't raise capital! Self fund your company (called bootstrapping in entrepreneur-speak) by finding customers that will purchase your products and services. This enables you to involve your most important business asset in your business from day one – customers!

Rule number three – use the "FAF" or "VMC" methods. Raise seed (early stage) money from your friends and family and/or if you are really committed, pull some cash from a Visa or MasterCard. These methods can and do work for many entrepreneurs – be aware it can be very painful on the back end if your company does not make it!

Angel investors can add so much to your company – they can bring "intelligent capital" to the business. Not only do they invest capital but will very often take an interest in helping you grow the company by taking a Board of Directors seat and/or temporarily assuming a senior management role.

In my experience finding and recruiting a blue chip management team with advanced degrees and a strong corporate pedigree can sometimes kill a startup as quickly as no cash or revenue – yes, they look great in your business plan and venture capitalists love a "strong team." But, you need "fly by the seat of their pants" manager/leaders who don't need to grind five sets of scenarios (analysis paralysis) before they can take action – hire entrepreneurial types who've excelled in small companies.

Dealing with venture capitalists can be a significant challenge that is fraught with risk and no upside! Remember, they are highly skilled at the entire process, in most cases they've done it hundreds of times before. So, your on their turf when you step into this arena and you better do your homework properly (market size, revenue projections, cost of sales, marketing plan) and/or consult with a consultant, attorney or "angel investor" who has been through the process before to give you guidance.

Round two in dealing with venture capitalists (assuming you are one of the 1% that submitted a business plan and/or were referred to them by another "VC approved" entity) can also be fraught with risk – know how to value your company (equity for capital), look at comparable deals in the marketplace and be prepared to negotiate hard and to give up more now than in the last 2-4 years.

Round three in dealing with venture capitalists or corporate investors. Don't (never!) be so desperate for capital that you agree to turn over the reins of the company if you don't meet specific performance milestones based on a first or second round of funding. There are too many variables in the marketplace for you too control and you're taking too much risk for not enough upside. If this is the only way you can raise money from this venture firm or corporate investor then walk away, in the end you will be better off.

Here are some "cliff notes" on how to write a business plan - there is no set formula other than covering the basics about your company; i.e. technology, market analysis, marketing/business development, competitive analysis, management team and a five year set of (detailed by month from startup to year three) financials. The Executive Summary (first 3-5 pages) is the most important, as it is a summary of the entire plan and most investors read this carefully and scan the rest of the business plan.

Don't get caught in the trap of endless rewrites based on investor feedback – put your plan through one or two reviews by your BOD members and or seasoned execs that will give you honest feedback. Once the plan has been reviewed and approved then go to market with this iteration and stick to it – investors should be investing in you ultimately, not an artificial business plan that more often than not is out of date by the time you get to market.

Think about how you are going to market your company as you would any other product or service, blending traditional (fax, direct mail) with interactive processes (web site postings, e-mail, etc.). It's a numbers game, you have to aggressively market your company and be prepared to see a return of only 1-3% versus your output – 1K in direct or opt-in email may only lead to 10-20 casual inquiries, generating 5-7 serious conversations, resulting in 1-3 term sheets (what we will invest for “x” equity) discussions.

Finally, the last and most important rule of all is be tenacious, there is no substitute for absolute commitment to growing your company by raising capital or bootstrapping it! Your vision, guts and passion will very often carry the day when/where others may give up!!

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