# Start-Up Funding
## Appealing to Investors

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# Overview

I. Types of Funding

II. Appealing to Investors

   i. The Plan

   ii. The Team

   iii. The Investor

# I. Types of Funding

- Categories of Funding
  - Grants
    - No repayment
    - Typically some form of accountability
    - Pay attention to IP or rights to practice
  - Debt
    - Borrowed $$$
    - Repaid w/interest on fixed schedule
  - Equity
    - Ownership, ie. company stock or membership
    - Can affect by-laws, voting rights, operating control, future rights etc.

# I. Types of Funding

- Sources of Funding
  - Self-Financing, e.g. personal savings
    - Start here if at all possible
    - Maintain control
    - Later investors will look for “skin in the game”
  - Bootstrapping
    - Early product sales pay for further development
    - Requires customer-centric development process so that you can bill for early product sales
    - Highly desirable
  - Loans, typically require collateralization & personal guarantee
    - Banks
    - Small Business Administration
    - Credit Cards

# I. Types of Funding

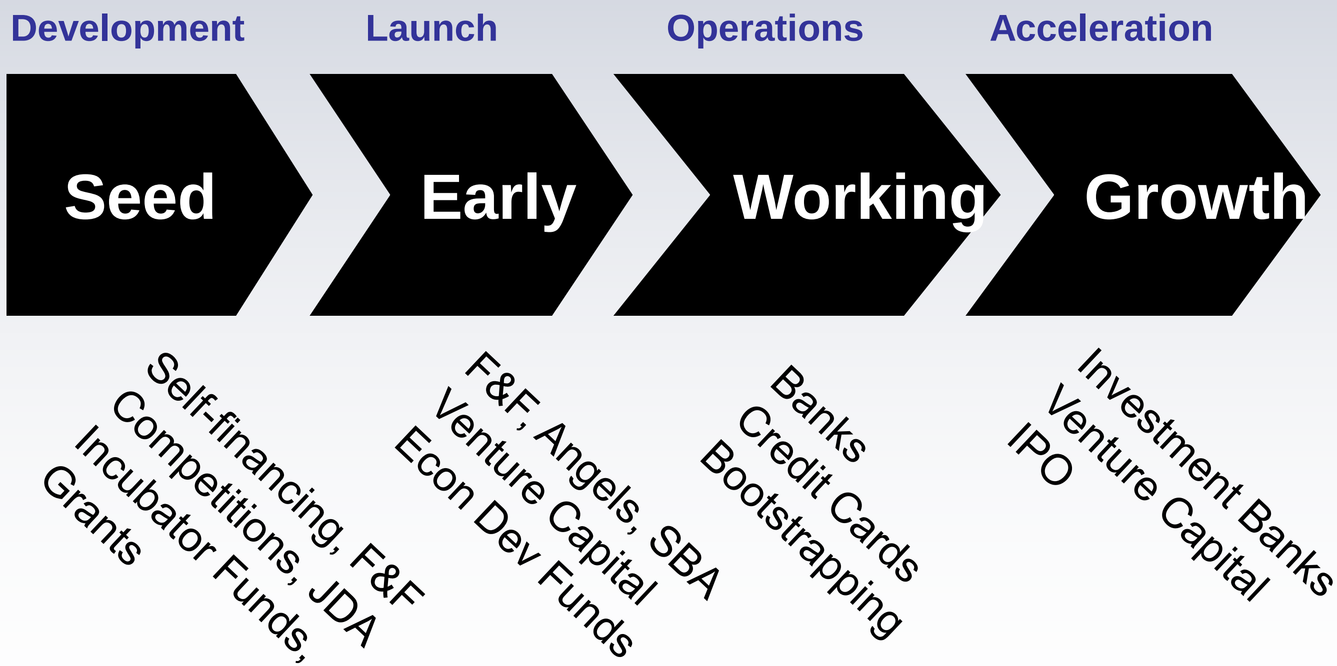
- Sources of Funding (cont'd.)
  - Business Competitions
    - Prize Money is very limited
    - To some degree dependent on chance
    - No repayment
  - Business Development Orgs
    - Small Business Innovation Research (SBIR)
    - Regional Funds, eg. local economic development authority
    - Foundations & Institutions
      - private family foundations, research & University networks
  - Joint Development Agreements
    - Align with established player in industry
    - Share in rights, sales, profits
    - Variant: advance pay or custom development agreement
    - Customer-centric development, helps ensure sales outlet or channel

# I. Types of Funding

- Sources of Funding (cont'd.)
  - Friends & Family (& Fools), e.g. Uncle Rich
    - Exercise *extreme* caution
    - Document everything as you would a normal business transaction
    - $$$ can ruin relationships
  - Angels
    - Wealthy individuals looking for high return investment
    - Find referrals from industry, attorney/accountant/bankers
    - Can be passive or active
      - If active, Smart $ vs. Not-So-Smart $
  - Venture Capital
    - Established to invest in specific business categories
    - Often acquire significant portion of business and control
    - In exchange for risk, will seek high return within fixed timeframe
    - Most valuable when rapid growth and exit are practical.

# I. Types of Funding

- Different types of capital
  for different stages of business



# I. Types of Funding

- A Word on Seed Capital
  - Needed only when significant development costs preclude product launch
    - Product
    - Infrastructure
    - Operations / Logistics.

# I. Types of Funding

- The earlier the investment, the greater the risk, therefore greater returns are expected
- Early round investors validate the concept and pave the way for later round investors
- Value can be found in the experience of early round investors
- Analysis of these types of business opportunities tends to be more subjective.

# I. Types of Funding

- Is a capital infusion really necessary, or can the product be bootstrapped?
  - heavy strings are attached to capital!
    - Business
    - Personal
- Rule of thumb:
  - It will take double the time and double the cost estimated in order to launch
  - Even longer to break even!

NB: ask for more $$$ if there’s a chance you may need it

# II. Appealing to Investors: i. The Plan

- Your Pitch and Executive Summary are your most important tools
  - Problem → Solution
  - Focus on practical benefits, not technical features
  - Kill the “geek speak”
  - Be straightforward and honest
  - Address weaknesses in detail
  - Be **CONCISE**.

# II. Appealing to Investors:
# i. The Plan

- The Plan must articulate:
  - A Clear Vision
  - Strategic Outlook
  - Comprehensive Understanding of Market
  - Self Analysis Measures
  - Ability to Reinvent Oneself.

    - NB: These are all reflections of the individuals

# II. Appealing to Investors:
# i. The Plan

- Things that make investors cringe:
  - A product alone doesn’t constitute a business
  - Only a person can sell itself
  - There is no such thing as NO competition
  - Intelligence provides no guarantee of success.

# II. Appealing to Investors:
# ii. The Team

- You’re NOT selling the business, you’re selling ***yourself*** !
  - Investors buy into teams they believe can execute
  - The best plan in the world is worthless without individuals who can implement
- You must possess
    - Knowledge
    - Ability
    - Desire.
- Remember what they say about second chances and first impressions.
    - Dress for Success
    - Prepare.

# II. Appealing to Investors:
# ii. The Team

- You must demonstrate:
  - Management Experience
  - Product Prototyping
  - Business Model Validation
  - Market Opportunity
  - Competitive Knowledge.

# II. Appealing to Investors:
# iii. The Investor

- Points to Remember about Investors:
  - They have what you need
    - Golden Rule applies
  - $$$ is the primary motivation
  - There's value in Intellectual Property
    - Patents / Patentable Technology
    - Trade Secrets
    - Trade Marks
    - Copyrights
  - The TEAM makes the business work
  - Investors ***always*** look for the exit strategy.

# II. Appealing to Investors:
# iii. The Investor

Five Q? every investor wants to know:

- How much does it cost me?
- What do I get?
- How will you spend my money?
- What is my expected return?
- When will I get the return?

*NB: Use of first person possessive*

# II. Appealing to Investors: iii. The Investor

- The Right Investor
  - Smart money, ie. more than money
    - Experience
    - Coaching
    - Partner
    - Champion of the Business
  - Ability to support the company in future rounds
    - Syndicate Investment
    - Contacts

# Bottom Line

***Finding an investor is NOT about you…***

***…it's about what you can do for an investor!!!***