Start-Up Funding
Appealing to Investors

Mentor Management, llc

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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

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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.
Five Qs 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!!!