The Entrepreneur's Guide to Financial Maturity ®
Importance of Building a Team for Obtaining Equity Financing

Virtually all businesses require some sort of financing during their life cycle. Financing includes raising equity capital, or borrowing money either secured by assets or unsecured. For purposes of this article, those entities or people that will finance a business shall be called "Investors."

Preparation is the key to obtaining an initial meeting with an investor. The greater the risk you are asking an investor to take, the more prepared you should be for the meeting. For example, if you are asking someone to purchase an equity interest in your business, and you expect the investor to be "passive" (a silent partner) you must convince your investor that you have the knowledge, passion and capability to deliver the types of returns on investment that the investor is seeking. If you are unprepared, that investor will not consider your business to be a viable investment. After all, if the investor is:

- Uncomfortable with the risk or types of risks
- Not obtaining the types of returns the investor looks for
- Not receiving an appropriate return for the risk

That investor will invest elsewhere. An investor probably will not obtain the returns a business owner is "suggesting" if the business owner's assumptions are overly optimistic. Further, investors run the risk of not recovering any of their investment if a business owner does not have a good management team that can work together towards their common goal of delivering the numbers in the business plan.

Alternatively, if a business owner is seeking to finance $500,000 collateralized by an office building that has an appraised value of $1 million, an investor should feel secure. This is especially true if the property does not have any environmental problems and generates excess cash flow after paying all of the property's operating expenses, the mortgage payments and setting aside money

contingencies or replacement. Even if that borrower has poor credit, there are investors that will finance that type of cash flow secured by real estate. The investor that is well collateralized is less concerned about you "delivering the numbers in your business plan" or if you have a business plan. That investor is well collateralized and if you default, the investor is confident that he or she will recover what is owed, including any cost to collect the debt.

Equity Financing:

The typical venture capital firm will see thousands of business plans each year. They may express preliminary interest in only a few dozen transactions and fund 4 to 6 transactions per year. Should you be fortunate enough to meet with an equity funding source, you must be prepared or their interest in your business will evaporate quickly. The first impression you make on the investors is extremely important.

Have a Game Plan:

Prepare a 10 to 20 minute presentation. It can not sound "canned" nor should it be read. After all, if the message isn't delivered "naturally" an investor might think "how well do you really know your business?" Your message should be focused. Be prepared to defend your key strategic assumptions and financial forecasts.

Have Dress Rehearsals:

You need to rehearse your presentation many times to various audiences. The audience should ask you the tough questions and help you evaluate your responses. It is important that the audience comes from different backgrounds. You are trying to anticipate the grilling you will receive from a potential investor.

Your Team Must be Available to meet your Investor:

A seasoned investor understands that it is the management team that delivers the business plan, not the company's president. The investor will look at the personal component of an investment, such as:

- Camaraderie amongst the team members
- Communications
- Commitment to the venture
- Control over the egos

Most venture capitalist will tell you that their decisions depend on the strengths of the people who will be there to execute and manage the future of the company.

Demonstrate Flexibility:

Events rarely occur as one anticipates them to occur. Entrepreneurs always face roadblocks and hindrances in achieving success. When these roadblocks occur, how will the roadblocks impact on you meeting your goals and objectives? Will you be open-minded to accept advice (from employees, members of your board of advisors or third party consultants) on alternatives ways to achieve your goals? If an investor views you as being too ridged or stubborn, it can kill a deal.

Passion and Commitment:

Experienced investors want to see a team that is passionate about their business concept. The passion should be tempered by realistic expectations and a methodology of overcoming anticipated impediments towards achieving your objectives.

Do not expect an investor to make a commitment to your venture if you are not prepared to make a greater commitment in your own venture. If an investor views your business venture as a hobby, why should the investor invest in your project if you do not have the confidence to make a full time commitment towards its success? Investors look for total commitment:

- Financial
- Resources
- Emotional
- Time

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If you, or the people that know you best, do not have enough confidence in investing in your venture, why should an investor (a stranger) have the confidence you will succeed? If you are not willing to utilize all your resources in assuring the success of your venture that could be a signal that you do not think your venture will succeed.

What happens if things do not work out the way that you anticipate them to occur? Are you committed to protect the investor's money? Many potential entrepreneurs have "one foot out the door" before the potential entrepreneur even starts to look for capital. I have seen entrepreneurs and potential entrepreneurs look for capital while several they and several key members of their business' management team have applied to attend (on a full time basis) law school or graduate school. If an investor gets the sense that your business proposal is a "paycheck" until "something better" comes along, you are wasting your time. If an investor feels that you are there for the upside and have virtually no downside risk, you are wasting your time. Investors, generally, want to see that if they are experiencing "pain" because you can not meet your targeted objectives, that you and your management team will experience at least as much "pain."

Trust:

Relationships are based on trust. If an investor feels you are hiding something, the lack of candor will kill any potential for a deal. Most potential and existing entrepreneurs have some skeletons in their closets. Many investors would like to understand them before they invest in your business, especially if they become your "partner." You should be open and honest about yourself and your experiences. Many entrepreneurs have had business failures. If you fail to be up front about it, an investor might think you have something to hide. Keep in mind that business failures, as well as other things you might not want to discuss can be viewed as experience. This is true provided that you learned from the experience and understand how to avoid making similar mistakes.

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