10 Tips for Entrepreneurs Looking for Financing

by Karen Wilson, Founder, GV Partners

1. **Know your business**
   a. What type of business do you have? Is it a "life style" business? Is it a small or medium sized company targeting little to modest growth or a high-growth oriented company? (VCs are looking for high-growth companies)
   b. Do you have a focused business plan and clear business model for generating revenues?
   c. Is your concept scalable (i.e. will you be able to deliver to the target market at an efficient cost)?

2. **Size the market**
   a. How big is the potential market? Have you really "qualified" the market (i.e. run the actual numbers, not just estimated potential market share)?
   b. Who are the target customers - specifically, not generally? How will you reach them?

3. **Focus on market needs**
   a. Don't believe that "if you build it, they will come". Understand the market need that your product will address and how you will deliver to your customers.
   b. VCs are looking for results, not simply interesting technology or products. Help them understand, in non-technical terms, how your products will meet a customer's need.
   c. Secure at least a few key clients to demonstrate client interest (letters of intent, co-development partnership, pilot trial).
   d. Clearly communicate your firm's role in the market – positioning, differentiators and competitive advantage.
   e. Understand who your potential competitors might be and monitor them on an ongoing basis. Yes, you do have competitors – don't try telling the VCs what they hear all the time, "we have none"! They will think you haven't done your homework.

4. **Understand your financing needs**
   a. How much money do you need and over what timeframe? Remember it can take up to 6 months to raise venture capital, especially for the first round.
   b. How much money/how many financing rounds will it take you to get to breakeven? What milestones will you need to meet throughout the process?
   c. Do you really need outside money now? How much equity will you have to give up?

5. **Be realistic**
   a. It always takes 2-4 times as long and costs 2-4 as much as expected!
   b. Never take your eye off your cash flow – don't run out of cash.
   c. It is better to under-promise and over perform than the reverse.

6. **Assess your financing options**
   a. If you are looking for venture capital, do you have what VCs seek?
      i. Outstanding management team
      ii. Large and/or growing market for your services/products
      iii. Strategy which is clear, scalable and differentiated from existing offerings
   b. What are your other financing alternatives?
      i. Angels: invest based on interest in concept and relationship with entrepreneur
      ii. Banks: want collateral and demonstrated capacity to pay back

7. **Remember that all money is not equal**
    a. What additional benefits do you need/want from your financiers?
        i. VCs often serve as board members and provide strategic input. They also help with future financing rounds (assuming the company is meeting its milestones).
        ii. They can also provide valuable links to important networks for your firm's growth and often help in recruiting senior management or board members.
        iii. Depending on the VC, they can also provide other "hands on" help.
    b. What restrictions or constraints would not be acceptable for your firm?
        i. Tight timelines/milestones, unfavorable or strict conditions, etc.

8. **Find the right VC (or other financial supporter)**
    a. Most VCs have particular investment areas in which they focus. Save your time and theirs by focusing on those VCs investing in your industry sector.
    b. Every VC has a different approach to investing and supporting portfolio companies. Some are proactive, others are reactive. Find the VCs that can meet your firm's needs.
    c. Get on their radar screen or secure an introduction. VCs are swamped with unsolicited proposals. Most VCs invest either in teams they proactively seek out or in teams who have contacted the VC through a known source.
    d. Ask other entrepreneurs for references on VCs (how they operate, the relationship with the entrepreneurs, the level of support they provide, etc.) including those from portfolio companies of VCs you are considering approaching.
    e. Most importantly, find the right personal fit. In securing VC financing, you are initiating on a long-term relationship. The VCs will sit on your board and be in frequent contact. Make sure your goals are aligned at the start and build trust throughout the process.
    f. Remember that your current VCs are the best potential source of financing for future rounds.
    g. A complicated deal is usually a bad deal. Don't be afraid to walk away if the terms become so convoluted that the objectives and incentives are no longer clear.

9. **Be open and honest**
    a. VCs want to see that you understand the challenges and risks of your company. Don't try to hide issues from them – they will only think you have either not identified them yourself or are not trustworthy.
    b. Listen and learn from the feedback you receive from VCs. It can be hard to hear critical comments about your business idea but take advantage of the opportunity to learn and adjust your business model or approach.
    c. Stay open and flexible to changes. While you need an initial plan to guide the team, things will never go exactly as expected. Plans will and should shift as the firm evolves and new information is learned about the market.
    d. Get everything in writing – even if the business plans are with your best friend or spouse. Nothing clarifies expectations more than seeing ideas in print. It also helps to avoid any misunderstandings later.

10. **Have an exit strategy in mind from the start**
    a. How will your investors (and your team) realize gains on the investment in the company? What type of return can they reasonably expect?
    b. What are the company's alternatives for exiting (IPO or trade sale) and how realistic are they?

Questions or comments? Contact Karen Wilson at karen@gvpartners.com