

Funding & Entrepreneurship:

“Where capital fits and how to increase
the odds of securing it”

Presented by:

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Cornell University, March 2009

A Theme to Build On

“Contrary to popular belief, a certain efficiency exists in the market when it comes to which businesses get off the ground and which don’t.”

Ramana Nanda, HBS, 3.10.08

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Capital's Fit in Entrepreneurship



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What is Funding About?

Seeking:

- Fuel for growth
- Goal alignment w/ investor
- Freedom to stay focused
- More than \$ (access, exposure)
- Educated audience; education

Entrepreneur



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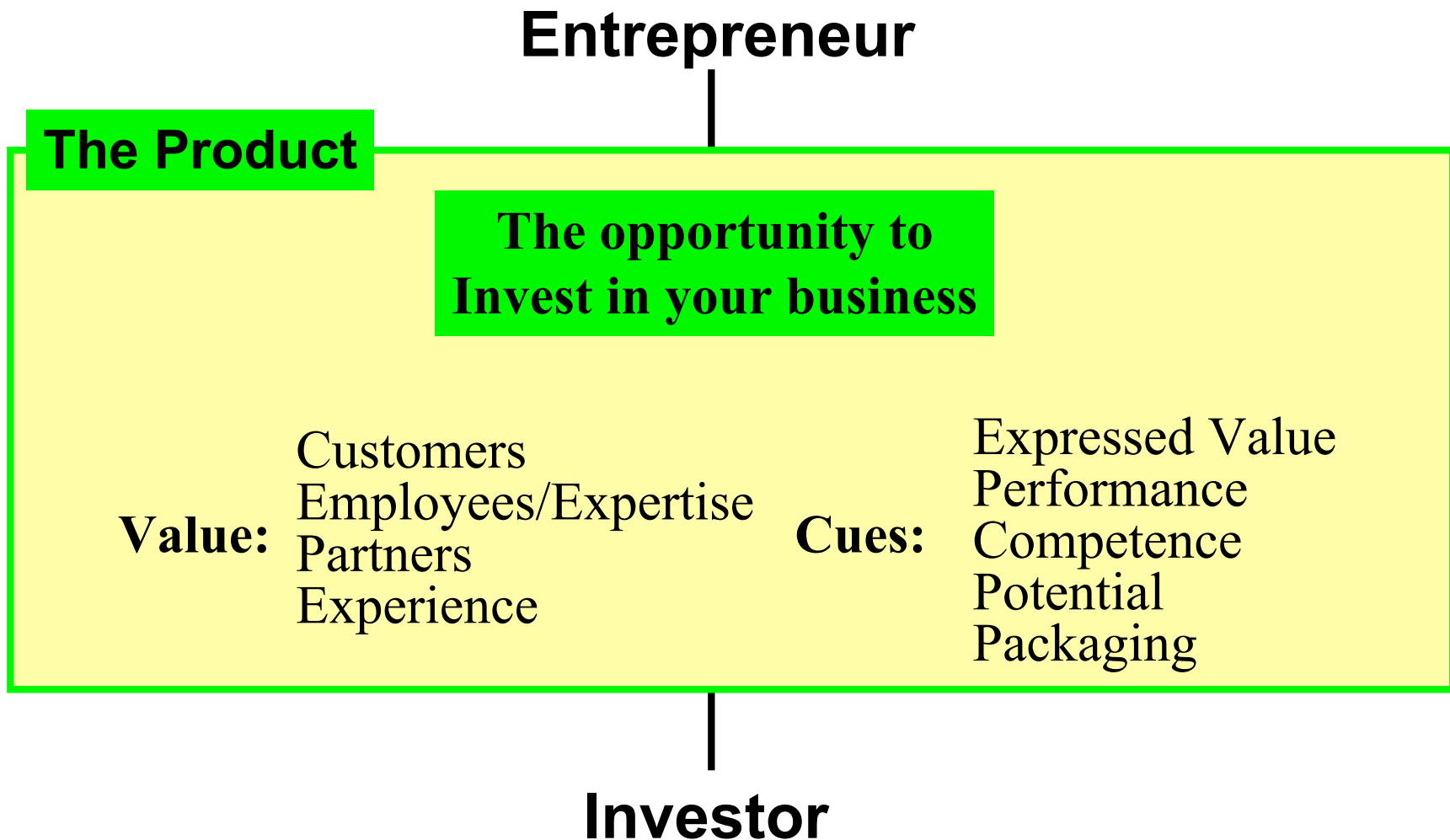


Investor

Seeking:

- Growth from capital
- Strong return*
- Ability to stay focused
- Balanced portfolio

Funding = The Sale of a Product

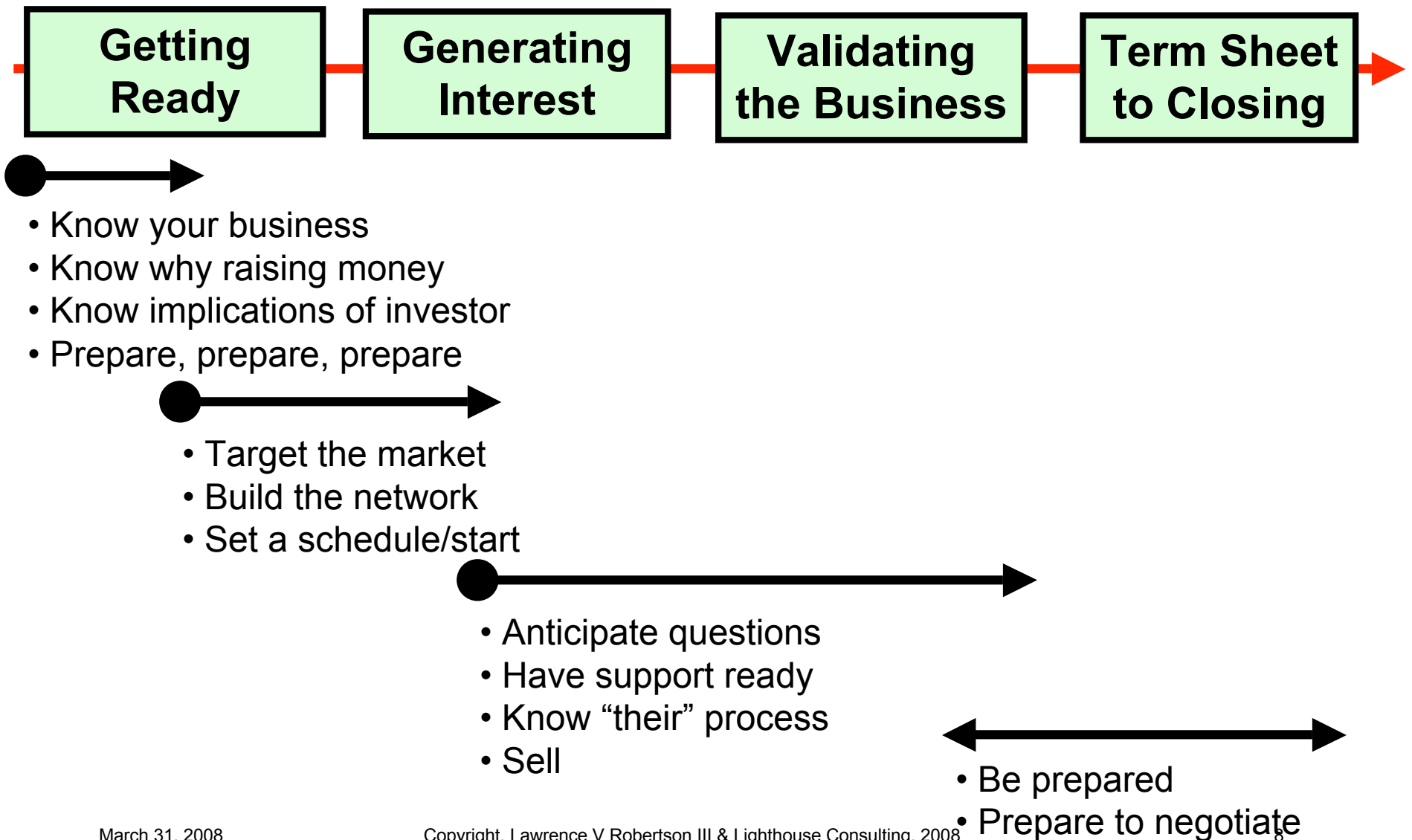


A Theme to Build On

“Contrary to popular belief, a certain efficiency exists in the market when it comes to which businesses get off the ground and which don’t.”

What really decides the outcome?

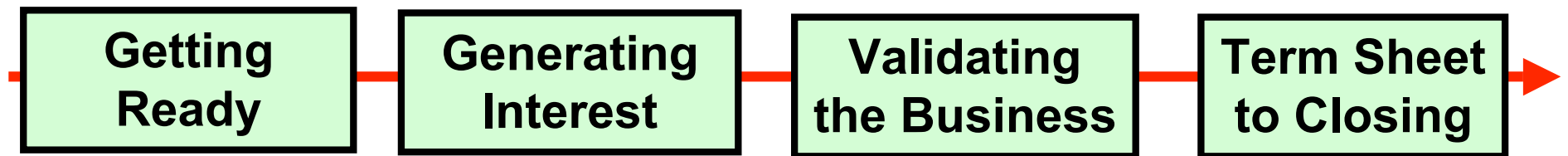
A Real Process Exists...



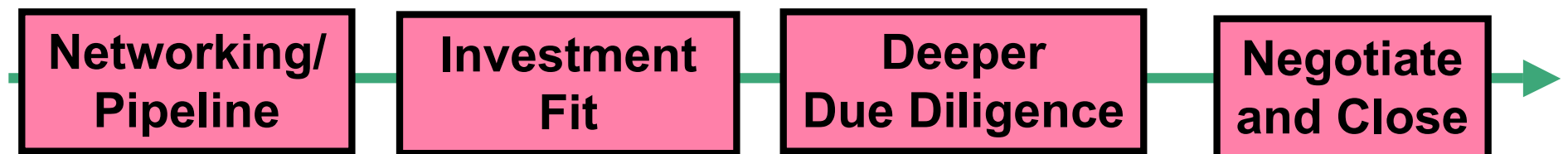
...On *Both* Sides

(Investor and Entrepreneur)

Entrepreneurs



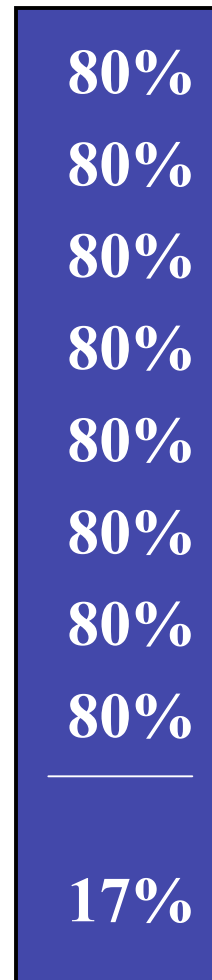
Investors



Probability of Success

- Company has sufficient capital
- Management is capable and focused
- Product development goes as planned
- Production/sourcing goes as planned
- Competitors behave as expected
- Customers want product
- Pricing is forecast correctly
- Patents are issued and are enforceable


COMBINED PROBABILITY OF SUCCESS



Source: Harvard Business Review

Readiness Assessment

Evaluating the Business Readiness

- ✓ Management team maturity and completeness
 - ✓ Product maturity
 - ✓ Market potential, evolution, maturity
 - ✓ Clear strategy
 - ✓ Customer confirmation/validation
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- ✓ Business model validation
 - ✓ Capital status/needs assessment

Knowing the Source

A quick - and important - aside

Early Stage Funding Options

	Cash Flow	Friends/ Family	Bank	Sm. Biz Govt. Loan	Angel	Venture Capital	Strategic/ Corporate
Availability	Low	Low	Med	Med	Low	Med	Low
Costs	Low	Hi	Med	Low	Med	Hi	Med
Amount	Low	Low	Med	Med	Low	Hi	Med
Required Maturity	Med	Low	Med/Hi	Low	Low	Hi	Med
Risks	<ul style="list-style-type: none"> •Typically nonexistent •Not enough to fund growth •Need maturity to produce it 	<ul style="list-style-type: none"> •Hard to manage •Gathered piecemeal •No benefit beyond \$ •Bad investor profile •Typically supplemental 	<ul style="list-style-type: none"> •Requires maturity •Carries capital costs •Stricter terms 	<ul style="list-style-type: none"> •Must be offset by other capital •Long time to apply for •Does not fit all models 	<ul style="list-style-type: none"> •Vary in sophistication •Can be high maintenance •Gathered piecemeal •Not always in the market 	<ul style="list-style-type: none"> •High growth, return, ownership expectations •Lose some control •High maturity requirements 	<ul style="list-style-type: none"> •Less knowledgeable investor •Slow investment process •Informal community, activity •Can limit strategy

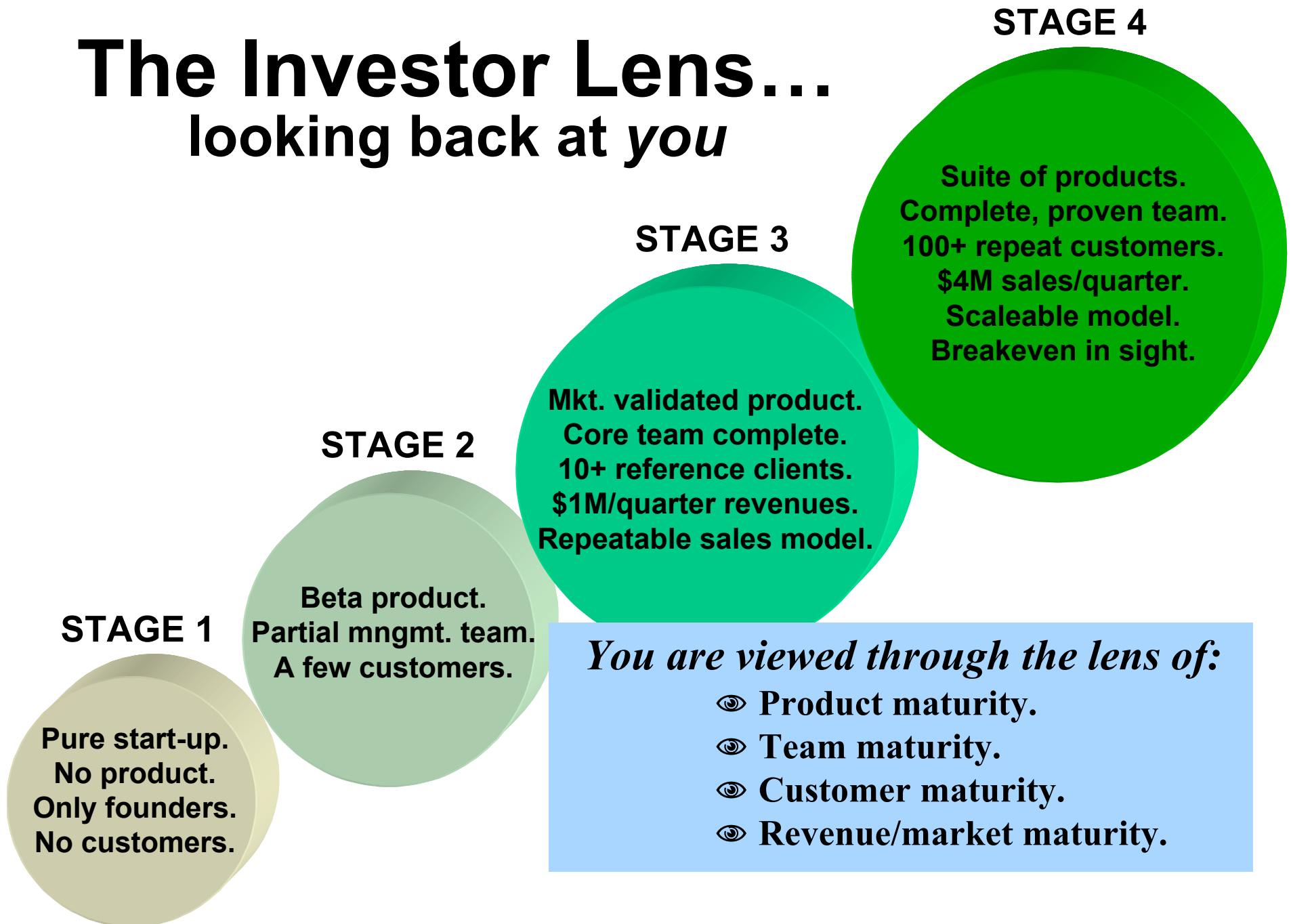
A Word About the Source...

Seek the '*Threshold*' Investor...

- Serious, savvy investors (not 'recreational')
- Experienced investors (not 'virgin')
 - Understand the risk
 - Understand their role
- Stage-appropriate investors
- Manageable investors
- More-than-capital investors (skin; knowledge)
- Caveats, exceptions, and the consequences

The Investor Lens...

looking back at *you*



You are viewed through the lens of:

- 👁️ Product maturity.
- 👁️ Team maturity.
- 👁️ Customer maturity.
- 👁️ Revenue/market maturity.

What really decides the outcome?

Who's on the *Other Side*?

An Investor's Job and What They Seek

- Provide a return on **their/someone else's** money
- Contribute to the goals of the **partnership**
- Meet their own **personal goals**
- Find investment opportunities that satisfy **their needs in total**
- **Quickly assimilate** how any one venture can satisfy the goals of the investor

Investor's Goal & Job: Satisfying their *own* business plan

Distinguishing Investors

- **Specialization/Focus**
 - Industry expertise
 - Operating vs. financing experience
 - Research support
- **Preferred Investment Stage**
 - Seed
 - Series 'A'
 - Series 'B' or later
- **Typical Investment Size**

- **Service Offerings**
 - Operating strategy support
 - Relevant network of contacts
 - Transaction expertise
 - Management/marketing support
 - Hands-on focus and resources
- **Reputation and Tenure**

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“Contrary to popular belief, a certain efficiency exists in the market when it comes to which businesses get off the ground and which don’t.”

... in general?
... in a recession?

The Truth

“Contrary to popular belief, a certain efficiency exists in the market when it comes to which businesses get off the ground and which don't.”

“A good venture - well-thought out and well-articulated - gets funded every time, *regardless* of the market.”

History

The Heart of the Sale

A Sample of Key Questions Investors Ask

- What is the problem or opportunity you solve?
- How big is the potential market?
- Management team – now and needed?
- Competition?
- Go-to-market strategy?

- How much \$ and why?
- Valuation expectations?
- Exit strategy and timing?

'Not Ready for Market' Red Flags

- ❏ **Business story is too complicated** (too many moving parts; lack of focus)
- ❏ **Revenue model is not one that is within immediate reach** (a stretch requiring a lot more money and time to realize)
- ❏ **Business model key success factors are not inherent** to management's core strengths
- ❏ **Leap from entry business model to full scale is huge**
- ❏ **Management lacks investor-required maturities**
- ❏ **Splintered organizational purpose:** small private business; large public; scientific; altruistic

How Can you Get to Know Them?

- Define what you want (broken record)
- Research your options
- Network
- Pre-sell, Window shop
- When in Rome... at least know Italian
- Ask questions
- Pay attention to signals
- Ask for/contact references

Getting a Good Venture Funded

(in the context of funding)

- Realize that raising money is not just about raising money
- See the process as a sale
- Know yourself and your venture better than anyone
- Know your audience
- Set and satisfy expectations early and often

Revenue Projections

- **What they like to see...**
 - Multiple revenue streams
 - Back-up plan
 - Bottom-up projection (*never* % of market)
- **What they're truly looking for...**
 - The thinking and ability to think... *not* the #s
- **What you need to focus on to get to both...**
 - The core unit of value and materializing it