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An Insiders Guide to Start-up Funding

One of the first tasks an entrepreneur takes on when launching a business is to find capital to bring the concept to market. However, understanding the complexities of the funding process is tricky. Although experience is a great teacher, the unfortunate truth is that most entrepreneurs start the endeavor with little real world experience to draw on. Unless a great advisor is found, learning which short cuts are acceptable, and the outcomes to expect, happens through trial and error. Recently the Northwest Entrepreneur Network assembled a panel of successful entrepreneurs to share their start-up funding tips. These advisors unveiled the secrets to how they got their companies funded, and what worked best for them. They included Dan Shapiro, founder and former CEO, Ontella (now Photobucket), Charles Seybold, CEO of Liquid Planner, and Robbie Cape, CEO and president of Cozi,

Time and Money Investment

Clearly raising money is a magnitude harder now than back in 2005 or 2006, however, most panelists agreed that regardless of the market changes, its always hard work. Aside from exceptional situations, entrepreneurs should expect to spend from at least half to 80% of their time trying to raise funds, although even these numbers can even be deceiving. For example, it's not uncommon to spend 100% of your time trying to raise funds for the first six months. And, as Robbie Cape explained, "These estimates don't factor in the emotional energy required to get past hearing no all the time; that can feel like it's taking 150% of your energy." Generally, the fund raising process typically takes about six months of focused effort.

Most investors will also expect an entrepreneur to have some skin in the game through investment or salary deferral. Forgoing a salary for 9-12 months is common. But an entrepreneur should be cautious in how much personal financial investment is made, and know where to stop in advance. For example, investing $25-50K, or working for free for a time is expected, but mortgaging your house to fund a start-up is beyond what's reasonable. It's important for an entrepreneur to balance their investment, with other people's financial investments because it keeps the entrepreneur's position objective and strong, while providing good check points from others.

Executive Insights

Cheryl Isen

Pitching Expectations

So it's understood that fundraising is going to be a lot of work, but how many angels should an entrepreneur expect to pitch? How big will their checks be, and does it matter who you get the money from? This knowledge is rarely shared, partly because the answers vary widely. For example, the number of pitches to angels for the panelists ranged from 15-20, to 30-40, to just 5. Check quantities varied too, however most agreed that the average angel investment was about $100k, ranging from $7,500-to-$100K and up to a single check for $500K. The key to success lies in perfecting the pitch. Panelists advised practice pitching to anyone that will listen, taking the time to target your pitch to each angel, and if possible, pitching last vs. first in a group.

Strong opinions were also offered about the best angels to target and work with. The most desired are: seasoned; tend to be a little older (e.g. 55-80); and are former successful entrepreneurs with good instincts about what makes an entrepreneur and company successful. Interestingly, the Seattle area has a few "super angels" that other local angels tend to follow. These super angels often validate and spur an investment round. One panelist shortened his investment process to just 45 days because he was working with the right people, and a single investment trickled into many more quickly. But not all angels make great investors. Angels to avoid? Those that want to invest less money and mix up their role by setting up preconditions, such as a seat on the board or hiring them for consulting.

Angel investors aren't an entrepreneur's only option. Dependent on the business idea, Venture Capitalists (VC's) may provide a better option. What's the difference between the two? Angels invest their own money individually. VC's create funds and invest other people's money. Some panelists felt that understanding VC's was easier because they follow a specific investment model. If pitching a VC, Dan Shapiro advises taking time to qualify your investment fit with baseline questions such as:

1. How big is the fund?
2. How much money is left in the fund? (Slightly rude, but crucial knowledge)
3. How much time is left in the fund? Most VC's are seeking a return within seven years.
4. What stage does the VC prefer to invest in?
5. What is the typical investment size?

These questions will help in determining the type of fund the VC is investing with. For example, funds can have radically different expectations in general and the fund lifecycle phase will impact the VC's return on investment timing and needs.

Parting advice: Charles Seybold said it best, "This will be the educational journey of your life— You will learn like you never have before, and you will be the one that learns the most." Take time. Enjoy the ride.

These "Executive Insights" are based on monthly presentations provided by leading entrepreneurs at the Northwest Entrepreneur Network (NWEN.org), a non-profit organization dedicated to helping entrepreneurs succeed. The column is written by Cheryl Isen, founder of Isen & Company, a strategic marketing and public relations firm that helps emerging companies increase corporate visibility and brand awareness Contact Cheryl at (425) 222-0779, Cheryl@IsenandCo.com or on the web at www.IsenandCo.com.