Understanding the Funding Process

The fund raising process can be a challenge to young companies seeking the capital necessary to advance their business objectives. The pressure the financial realities can impose, alongside the natural difficulties of finding capital, can lead company leaders to dedicate disproportionate amounts of time and energy to the capital recruitment process. This leaves precious little time for the day-to-day running of a growing enterprise.

Understanding the fund raising process can help you prepare for financing meetings with funding sources, manage your time more efficiently, and better your chances of securing financing. Tudog has identified 7 steps in the fund raising process, and 4 distinctive personality types that you may face in critical funding meetings.

The Fund Raising Process

Venture Capital firms, investment banks, boutique investment houses and even angels are presented with tens of investment opportunities every month. Some of the proposed businesses fail to make the first cut because their core businesses fall outside the focus of the funding source. Others fail to relay the business opportunity they offer in an exciting and informative manner, leading the junior level analyst that first reviews the projects to conclude that the project has little or no distinctive competence.

Therefore, the first step to successful fund raising is to **Prepare Professional Documents**. If your firm does not possess the skills required to prepare a high standard business plan and executive summary, hire a firm that does. It often seems to many that writing a business plan is not a difficult proposition. One wonders why they don't feel the same about writing a novel or a screenplay. Writing high quality business plans - including the financial projections - is a profession and a skill. Just as you wouldn't hire someone without software engineering training to develop your software application, don't take it upon yourself to prepare a business plan in-house. At least, don't be surprised when that business plan fails to attract the attention of funding sources.

Attracting funding sources leads us to our second step, which is **Selecting and Targeting Financing Institutions**. Most venture capital firms, investment houses and angels have industries and sectors around which they concentrate their investments. They do this for a variety of reasons, such as a need to focus their evaluation expertise, as well as a desire to have portfolio companies that have synergies so they can partner as they mature and enter various markets. Successful fund raising requires that you bring your company to financing sources that have shown an interest and willingness to invest in companies in your field. Check potential funding sources prior to sending our your professionally prepared business plan or executive summary, and make sure that they have made investments that signify to you that they should have in interest in your company as well.

The third step, **Contacting the Fund Source and Arranging a Meeting**, is your overture to the targeted funding sources and your effort to secure a meeting and presentation. Currently funding sources only invite approximately 25% of the companies that they review to make presentations. Your ability to break through the crowd will depend on the quality of your written and visual materials and your ability to pinpoint the right person within the targeted funding group. Get the right materials to the right person and your company goes right on the "Closer Look" list.

The fourth phase of the funding process is a **Successful Meeting & Sign of Interest** from the funding source. Your meeting with them - hard earned through excellent materials and targeting the right person - will go well if you direct your attention to the concerns and interests of the funding source. By crafting a presentation that answers the anticipated - and unexpected - questions, you will provide the funding company with a sense of confidence in your knowledge of your market, your company and your business plan. Your objective at this meeting is to show how your company fits into their overall investment strategy and how you can drive a significant ROI for them. You need to show this subtly through your confidence (not over-confidence), knowledge, genuine points of distinction, technology, well-conceived business strategy, and understanding of your market. Funding sources want to know that you understand how to make the sale and that you can convert your innovative technology into a source of revenue. Once you have established this, they will measure you against your competitors, seeking distinctive competences in your technology and barriers to your competitors. They will want to understand why powerful market forces will elect to cooperate and partner with your company, and they will make sure that your offering is feasible within the typical corporate setting. Pass these tests and you will be notified that the fund is interested in going to the next step with your company, namely **Due Diligence**.

Only 5% or so of the companies that submit to a funding source get to the due diligence phase. If your company gets to this stage, you have succeeded in impressing the decision makers and now they are interested in validating your assumptions about your business - and their assumptions about you and your company. Chances are the funding source will seek to bring your technology before genuine potential customers that they have access to in order to hear for themselves the reactions of people who will be in the buying position once your product hits market. They'll also verify your technology, review your financial projections and discuss your position in the market (versus competitors and pending technologies). If your product is compelling, the feedback is positive, the assumptions are verified, the numbers add-up and your positioning is solid, you will be one of the less than 1% of the companies that are offered terms.

Next stage in the fund raising process is the **Negotiation** phase. The interested funding party will seek to present a term sheet that will state the sum they seek to invest, the terms of the investment, and the valuation of your company at the time of the investment. It should be noted that receiving a term sheet does not guarantee an investment. At this stage, the interests of the parties may be at odds and it is essential that the negotiations around the points of contention be handled with professionalism. It is essential that you understand the interests and goals of the funding source and differentiate between which ones are plays for power and efforts to maximize the value of their money - both negotiable elements, and which are fundamentals of their investment strategy - less likely to be negotiable.

The successful conclusion of the negotiations leads to **The Investment**, the final phase of the funding process. Your company will most likely need to meet some final conditions before the funds are transferred. These can include inclusion of a fund member on your Board of Directors, signing of an agreement to create certain positions within the company (or remove certain employees from their current postings), and other conditions the fund feels will enhance your operations.

In addition to understanding the process, your success in raising funds can be significantly enhanced if you are able to read the type of person you are interacting with at the funding company and customize your presentation and negotiating tactics to suit his or her personality and business approach. Tudog has identified four distinctive types of business people:

The Big Picture Person looks at your company with an eye toward how your technology and products fit into their larger vision of the future. They are looking for synergy, innovations and challenges. Don't provide too many small details at initial meetings, but focus on positioning, competition and where your products fit into the trends that are expected to influence your targeted industries in the coming years.

The Data Base Person likes a lot of information and judges you on the orderly and logical manner in which you present it. Make sure your assumptions make sense and your application is compelling and fills a genuine market need. Data Base people want evidence, a proven track record and the ability to monitor your progress. Make sure you are well prepared and can back up all your claims and statements.

The Warm & Fuzzy Person makes decisions based on relationships and perceptions of trust. They often make their decisions in consensus with others. It helps to share success stories and relay how your products provide a broad range of benefits. These people are looking for loyalty, honesty and a positive experience. Make sure you are accurate in your claims and do not exaggerate, even to make a point. Warm and fuzzy people need time to make a decision, so if you seem impatient or try to pressure for an answer, they will turn you away.

The Competitive Person wants you to get to the bottom line quickly. They want to understand how you are going to accomplish your goals and why companies are going to buy your product. They are challenging and argumentative and will not afford you a great deal of time. Be prepared to answer questions in short sentences and by using examples from real life. Do not leave them room to refute your claims and avoid long arguments by offering to send supporting evidence following the meeting.

This article has sought to better prepare you for the fund raising process by shedding light on the steps and personality types you will encounter. By knowing the process and the people, you can be better prepared, lessening the resources you need to dedicate and increasing your chances of success.