

MICHAEL VENTURE BUILDER

GURAU

# Take it or leave it

## When it comes to finding funding, there are always strings attached

**M**any entrepreneurs build their company from scratch, funding their business with savings, sweat equity and a pile of credit cards.

Once the need for funds moves beyond what a MasterCard can offer, business owners need to find more reliable ways to access capital. For some, finding funding is the only way to keep the lights on. Others may have more choices if, say, their business throws off a lot of cash. Whatever the need, a fast-growing business that doesn't take full advantage of its market opportunity may well lose that opportunity lead to better funded, or less risk averse, competitors.

So, whether of necessity or by choice, it's critical for business owners to consider the best ways to raise capital. The following is a typical sequence of fund raising.

Many entrepreneurs start at home with family and friends. Often, these folks are less fussy about the return on their invest-

draw some income — even if it's a relatively modest one — owners often will look to bank financing, whether through asset-based loans or lines of credit.

The good news is that banks often charge relatively low interest, often under 10%. The bad news is that this kind of financing often requires personal guarantees, which amount to putting your house or personal net worth on the line.

The amount of debt a business can secure depends in large part on the maturity of the business, as banks like to see a certain level of sales (and, yes, profits). Banks also like to see that a company has capital equipment or other hard assets that can be sold in the event it can't make payments.

Finally, growing businesses may look to equity capital providers, starting with wealthy individuals, or angel investors, and then to venture capital. Equity investors are a wholly different animal in that they require a minority ownership posi-

*With family money, it's the emotional cost that will cause the entrepreneur pain. Remember that when you're watching your brother or best friend write that five-figure check.*

tion and more keen to be of service. Friends and family members tend to invest anywhere from a few thousand dollars to hundreds of thousands.

The best thing about family money is that it's pretty cheap — presumably, they're writing that check out of love and not so much for money. That said, the real true cost of the loan emerges if things haven't gone well and you're feeling the intense burn of family members' glares across the cranberry sauce at the Thanksgiving table. Remember that when you're watching your brother or best friend write that five-figure check.

Next, there are plenty of state and federal grants available to companies involved in technology, for example. Both the U.S. Small Business Administration's Innovation Research grant program ([www.sbirworld.com](http://www.sbirworld.com)) and the Maine Technology Institute ([www.mainetechnology.org](http://www.mainetechnology.org)) fund pre-commercialization technology businesses with funding ranging from \$10,000 seed grants to packages worth hundreds of thousands of dollars.

These are prime funding avenues: Thanks to taxpayer dollars, grants from the SBA have no meaningful cost, as they aren't loans or equity. Still, both grant forms require a comprehensive technical business plan which takes time to put together. Meanwhile, MTI grants need to be repaid only if the company goes commercial and begins pulling in revenue.

Apart from the energy required to put together applications, there are few real drawbacks to this source of capital. One is that the government often gets an exclusive, royalty-free license to use the technology in non-commercial applications.

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Equity capital is the most expensive form of outside capital, as this investor class tends to take the highest risk with the least asset security. There's no interest rate on the books — instead, returns can range from zero, if the business is unsuccessful, to many times the original investment if the company hits a homerun.

So what does it mean personally and professionally? The only financing option that may directly affect an entrepreneur's own plans for his or her role in the company is equity. Professional venture capital investors see it as their role to ensure that risk of company failure is mitigated, not just with financial capital but also — and more importantly — with the right human capital.

VC investors spend a lot of time addressing the question of whether management has the right complexion for success. While this does not necessarily mean that founders disappear after funding, it often means a continuous assessment of the team to optimize for success. Founders that are uncomfortable considering shifts in their own role should likely not pursue venture capital. The business is your business, so when it comes to certain types of financing, you can take it or leave it.

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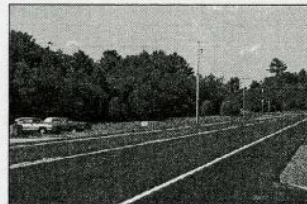


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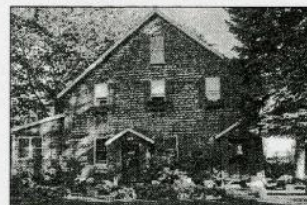


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