



*Our mission is to provide information and strategies to business owners and managers for improvement in the effectiveness of its business management so that key objectives can be realized.*

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## Want Capital? The Basics You Must Know

When 14-year old Ashley Power unleashed her views on life on her Web site, "Goosehead," who knew she would be a media sensation in a matter of months? Toiling away, night after night, the teen built what is now one of the hottest young adult sites on the Web with little money and no staff.

However, when the word got out, it soon was obvious to the teen's parents it was time to invest and take the little Web site into the big time – and who knows, the same process may hold true for your own firm or company site. What if you don't have a nest egg to fuel your entrepreneurial effort?

Basically, there are two types of capital: debt and equity. If you go the debt route, you secure a loan, maintain total control of your company, and must repay the loan plus interest and fees. Going the equity route provides capital and investors who trade an investment for a share of your company and, they hope, the associated profits or proceeds.

If your company requires a modest amount of capital, you may consider going the debt route by securing a bank loan, a Small Business Administration loan, personal loans from friends, family or partner (silent or not) that invest a large portion of the money required to get you where you want to go. Commercial finance companies also can provide financing. If, however, you are in an industry where a considerable amount of capital is required (such as high tech), you are better off going the equity capital route.

### No matter who you make your pitch to, you will need:

1. An Executive Summary – 3 to 5 pages
2. A Business Plan – 50 pages maximum
3. Due Diligence Material, including market studies, research papers, etc.
4. Company Business Valuations and projections of post-investment values
5. A strong, short presentation you can make in person

Venture capitalists (VCs) usually enter the game at around \$250,000. Below that, you may want to look at angel investors: wealthy people who invest in a similar manner as VCs, but do it independently rather than with a firm. They are called "angels" because they usually are more interested in acting as a mentor rather than controlling your company.

VCs and angel investors look at your business plan and, if everything looks good, they will invest in your company. To ensure you look "good," be sure you supply the answers to these questions in your materials:

1. How much can the investor expect to make? *What is the return on investment?*
2. How much could the investor lose? *What collateral is available?*
3. How do you know your company will make money? *Do you have third party documentation that can support your claims?*
4. Who is running the company? *Why should they trust you and your team know what you are doing?*
5. Who's going to buy your product or service? *How will you market to your target? Does your plan have marketable validity?*
6. When will the investor be paid back? *What is the deal structure and terms?*

## Want Capital? The Basics You Must Know (cont.)

Seeking venture capital isn't for the faint of heart. VCs typically receive about 100 plans per week and invest in about 5-10 businesses per year. But, you never know when your presentation or business plan may land in another investor's hands as a result of your VC actions. Who you know is very important when seeking venture capital. Networking takes on a whole new role as you try to meet potential investors. Ask your business advisor, attorney, banker and other colleagues who they know in the VC world.

### **Your action list for securing capital should look something like this:**

1. Develop documents
2. Create presentations – one short (5-10 minutes) and one long (15-20 minutes)
3. Hone your presentation skills – try Toastmasters or personal coaching
4. Rehearse your presentation – your family and friends are a good place to start
5. Make your list of potential investors
6. Talk to colleagues and add to your list of possible investors
7. Remain focused and enthusiastic throughout the process – energy sells
8. Do your homework and avoid risky investors
9. Remember to sell your vision and the investment, not your service or product – What's in it for the investor?
10. Each week, make a to-do list and follow it until you secure the capital you desire

No matter what stage of growth your company is in, financing is available to those who are patient and persistent. Let us know if we can help you as you attempt to secure capital.