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BW SMALLBIZ -- FINANCE

The Art of the Ask

The wise entrepreneur's guide to fundraising

Your marketing director wants to bump up his budget 20% to pay for a Web site that doesn't crash. Your head of sales has fabulous news about the prospects for next year—so fabulous, in fact, that she wants to hire five more salespeople and revamp your ordering system. Speaking of revamping, you've got 30 employees jammed into an office that was tight when you had only 10. Clearly, you've got to raise cash. So you pick up the phone and call...whom, exactly?

Most entrepreneurs, at some point along the way, need a good chunk of other people's money. Although many small business owners have great ideas and a generous dollop of charm, they often shortchange the relationships that can bring in capital when they need it. "Entrepreneurs can get so swallowed up in their enterprise that they don't take the time to romance those who they need to invest in them," says Jerold Panas, executive partner and CEO of Jerold Panas, Linzy & Partners, a Chicago fundraising company that works with nonprofits, and author of *Asking: A 59-Minute Guide to Everything Board Members, Volunteers, and Staff Must Know to Secure the Gift*.

Chemistry isn't enough. "A relationship will not guarantee you financing," says Edward Zimmerman, partner at Lowenstein Sandler in New York and founder of AngelVineVC, a network of angel investors and venture funds. "You still have to perform. But there is always some relationship in place before a deal closes."

Many business owners just aren't comfortable asking for money. But professional fundraisers spend all their time doing it, and entrepreneurs would be wise to adopt some tricks of their trade. Most likely, your anxiety about asking for money will fade as you slowly build relationships with people who become so interested in your company they volunteer to open their checkbooks.

FIND PROSPECTS

1. Cultivating investors is a long-term affair. "Respect must be earned," says David Lansdowne, a fundraising consultant and author of *Fund Raising Realities Every Board Member Must Face*. "Passion must be stoked." Successful suitors meet potential investors long before they need money. "We're always much more eager to talk to entrepreneurs when they aren't raising capital," says Joel Cutler, managing director at General Catalyst Partners, a \$1 billion venture fund in Cambridge, Mass. "It gives us time to develop the relationship without the pressure of closing the deal. We don't want a dating game, we want relationship development."

You may have greater entrée to potential backers than you think. Your banker and accountant are obvious go-betweens, but perhaps your neighbor works for a law firm specializing in deals, or a former college roommate is in venture capital, or your second cousin runs a company and has fought the financing wars herself. But don't ask your pals to do more than set up an introduction. "I do not want to talk to a banker or accountant or lawyer," says Cutler. "I want to talk to the CEO. This is the person I will be developing the relationship with, the one who is the protagonist of the idea."

Follow up an introduction immediately with a pithy e-mail explaining what your company does and why the investor might want to know about it. But don't burden people with PDFs or spreadsheets, or slip into sales mode. As Cutler says: "An e-mail that tells me I'm going to make a billion dollars is not as valuable as one saying, 'I am an entrepreneur and I'm not looking for capital today, but I think you will be interested in learning about my company. Do you have some time when we can chat?'"

Former colleagues and employers can also help. Sheila Lirio Marcelo, founder and CEO of Care.com, a 25-employee startup in Waltham, Mass., that offers a searchable database of caregivers, long hoped to launch her own company one day. She made a point of meeting the venture capitalists on the boards of the companies where she worked. So Marcelo already had a strong relationship with executives at Matrix Partners, a venture fund in Waltham, when she had the idea for Care.com. She launched in May, 2007, with \$3.5 million in Matrix funding. Says Marcelo: "You have to take a long-term view of every job and relationship you have."

Look for donors most likely to fall in love with your idea, says Panas. Don't be afraid to cast a wide net. Investors are always looking for good companies to support and are happy to learn about them. Travis Corcoran is taking advantage of that eagerness. Almost immediately after launching Smart-Flix in January, 2005, Corcoran started a bimonthly e-mail newsletter about his \$1 million, 10-employee company,

which rents how-to videos and DVDs à la Netflix from its offices in Arlington, Mass. He asked executives and entrepreneurs he knew from previous jobs if they'd like to receive his bulletin. Five said yes. The roll has since grown to about two dozen, including several venture capitalists.

FIRST DATES

2. As in any courtship, it helps to know the tastes, interests, and background of the person you are wooing. You can often find an enormous amount of information about people online, including philanthropic interests, alma maters, and even net worth. Search on Google, as well as on business networking sites such as LinkedIn. Try to find out if your prospect prefers talking about business over lunch or espresso or martinis. Always defer on questions of time and location, even if you have to put off meeting for weeks or months. Remember, your goal is a long-term relationship.

Fundraisers advise that establishing your credibility at the outset is crucial. If you haven't already, set clear revenue goals that you can share with potential backers. Make sure you understand your balance sheet and any weaknesses in your company that others might question. There's no magic number for how much revenue you should have before you approach investors, says Zimmerman, but you do need to show why and how you expect to grow, and you must be able to explain your competition.

It is never, ever wise to ask potential investors for money during your first meeting. "It's not unusual to visit a potential donor two or three times before even bringing up the discussion of a [donation]," says Lansdowne. "These early visits are critical to setting the stage for your relationship. Take the time to learn about your investor's personal and business preferences." Show passion for your product and ideas, but don't boast about your successes. Instead, ask your new contacts for advice. Then they'll be personally engaged in the growth of your company.

At this stage, you shouldn't be monogamous. Meet as many potential investors as you can. As you get to know them, the field will narrow. "We can tell pretty quickly if an entrepreneur has a good idea or not," says Michael Rolnick, general partner at ComVentures, a \$1.5 billion Palo Alto (Calif.)-based venture capital firm. "What we can't tell right away is if a person is insightful, manages well, hires well, sells well. So it's always helpful for us to reduce the risk by getting to know somebody or have somebody we know vouch for them."

BUILD THE RELATIONSHIP

3. After a first meeting, send a thank-you e-mail or note. Keep your prospect interested, either through regular updates or the occasional note after you land a big client, say, or launch a product. Some fundraising pros, like Panas, say such "touches" should come monthly. Others recommend that you share only particularly significant news. Still others don't want to hear from you until you fix the problems they've brought to your attention. "If I have questions about a company," says Rolnick, "the right time to follow up with me is when those questions are resolved." Use this getting-to-know-you period to show you've absorbed the advice your potential investors have generously given you. "Talk shop," advises Zimmerman. "You can get legitimate business advice during this process, and it's a great way for investors to follow your growth."

Unless you're actively seeking investment, you should be spending only 10 to 15 hours a week on networking. "You want to make sure that your networking doesn't get in the way of building your sales," says David Honig, vice-president of Insight Venture Partners, a \$1.2 billion venture fund in New York City. "Less is more during the courtship process."

When your business does take a great leap forward, the time will be right to suggest another meeting—the one where you ask for the money.

THE COMMITMENT

4. When you're ready to broach the topic of money, you may find to your relief that you only have to drop a hint. Corcoran of SmartFlix hasn't yet asked anyone to invest, but he has had volunteers. In his newsletter this summer, he mentioned that his growth forecast was rosy, but that he wasn't sure where he would turn for financing. Within two days he had three offers.

Even if no one is throwing money at you, you're likely to know by now who your best prospects are and how much they might be willing to invest. You also should have figured out how much you really need and what you're willing to give up for it—perhaps a seat on your board or some other advisory role. Ask for one more meeting with your prospects, and talk to them honestly about your goals. If they don't see eye-to-eye with you on your strategy, talk candidly about why. In the end, if they say yes, bring in your banker or your attorney to handle the formalities.

If your potential investor says no, don't be discouraged or think your effort was wasted. Rolnick has turned down entrepreneurs several times but kept in touch because, he says, "If I think they are quality people with quality ideas, I will always want to maintain that relationship." More than once he has jumped at a chance to back a serial entrepreneur after declining to invest in an earlier venture.

In other words, if at first you don't succeed, ask, ask again.

By Amy S. Choi

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