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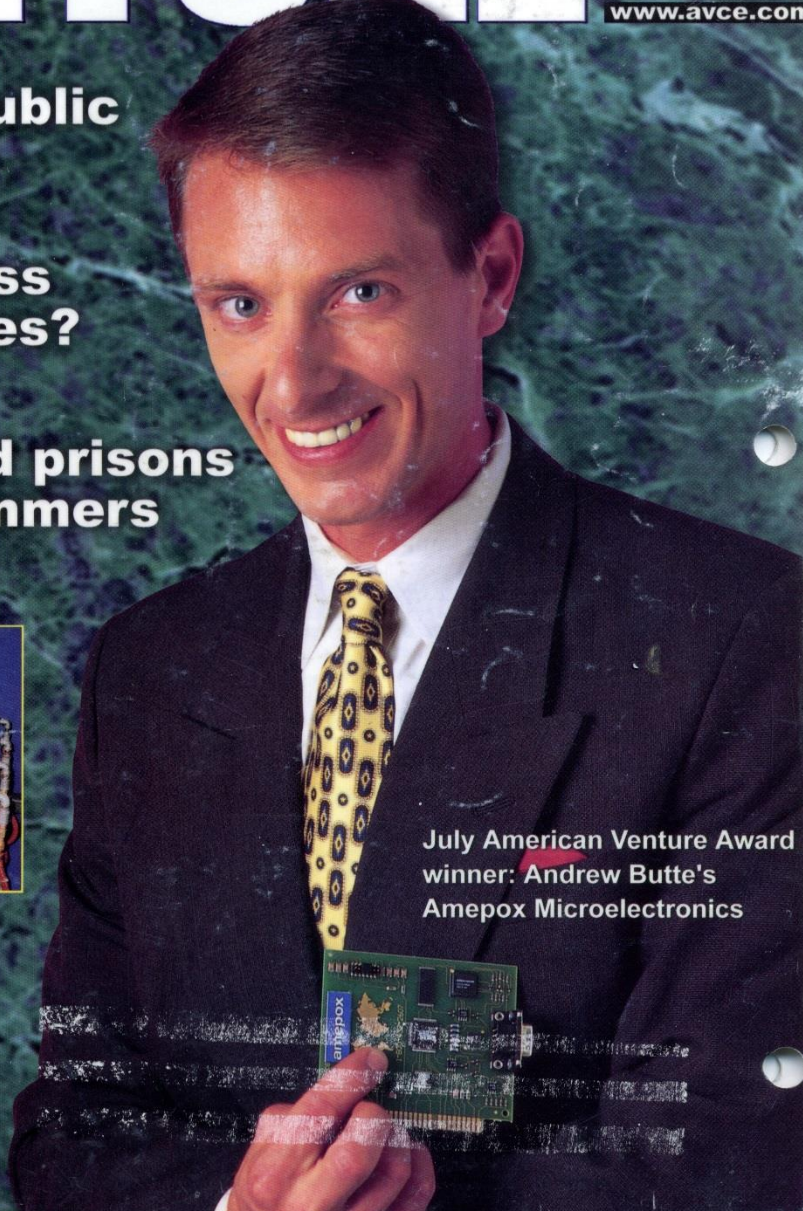

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Get your Docs in a Row
and Increase your Chances of Raising Financing

The largest flaw in most entre preneurs plan to raise money is a naive belief in financial "angels". Private accredited investors who go under the moniker "angel investor" do exist but they don't write hundred thousand dollar checks after only hearing a good pitch. Of course, we've all heard those stories. These stories, like those of individuals winning the lottery, fuse stubbornness and optimism together causing the entrepreneur to seek an instant big hit in spite of the odds. This keeps the entrepreneur from preparing the proper documentation required to attract sophisticated investors and encourages them to hold out when they should accept a reasonable offer.

A great business plan and unbridled enthusiasm are not enough to sell an opportunity to a potential investor.

By Gary Beers, Ph.D.

Many private investors expect to contribute more than just capital to an emerging business. They may want representation on the corporate board or a "mentor" role in the business operations. The reason for this is both their desire to add expertise to minimize risk and their excitement of growing a business. With a potential investment of time and money they will want to be sure that they have a through understanding of the business and its principals.

Thus, a major barrier to successful funding is the entrepreneur's lack of due-diligence materials on their business opportunity. A great business plan and unbridled enthusiasm are not enough sell an opportunity to a potential investor. To maintain the interest of a potential investor the entrepreneur must anticipate the investor's requirements and concerns and address them in the due diligence materials. There are three key documents private investors need:

1. The Due Diligence Kit

The due-diligence process involves obtaining verifiable information on the entrepreneur and his business. The due-diligence "kit" is a packet of various documents than can be provided to assist the potential investor in his review. Good due diligence builds a comprehensive story about the business that anticipates an investor's need for answers about both the business and the entrepreneur. Investors become attracted to projects because they make sense and are exciting. What makes them actually write the check however often has more to do with the principals than the business. Therefore your due diligence kit should contain enough materials to verify that you are both an ethical person and a successful manager. Negative facts should be included and explained. Nothing will end the interest of a potential investor faster than the lack of personal honesty by one of the principals in disclosing background information. Once finished the due diligence kit can act as the foundation of a business plan.

2. The Business Plan

A concise, balanced business plan is extremely critical to the investor since it shows that the principals possess business acumen within the target industry and have both a well-developed product and a decisive strategy to deliver it profitably. Business plans based on revolutionary concepts require more supporting documentation than ones based on the evolving an existing concept. Unknowns beyond financial projections, feasibility analyses and market demographics must be addressed in business forecasting. Nothing should be overlooked. Many business plans prepared by entrepreneurs contain information gaps due to the entrepreneur's familiarity with the project. An objective, third party can ask and perhaps answer questions that were overlooked.

The plan should benefit from the findings of appropriate due diligence and be prepared, or at least edited, by an unbiased party. Many software programs for business plans are good planning aids but should not be used to "cookbook" a business plan. Investors prefer a tailored business plan that reflects an entrepreneur's own knowledge of the business and creativity- an important ingredient for success. Whenever applicable, employ a technical presentation with bullet charts, graphs, and real references to aid the investor in understanding the opportunity.

One of the toughest chores faced by the entrepreneur is identifying how market forces relate to the growth of the business. While market analyses and surveys are expensive, there are inexpensive efforts that an entrepreneur can undertake to demonstrate some level of market support. Direct comments from potential customers are a great way to confirm demand for your product. Too often, eager entrepreneurs wait until the last minute to research market factors and don't spend enough time for producing this type of needed information for the potential investor.

A financial plan should be prepared as the context for the financial projections used in the business plan. The plan should address the uses of financing rounds during the stages of growth. It should show how customer trends and supplier patterns impact expected business revenues. The relationship with the business's banker and creditors should be discussed. In addition, every potential investor wants to see a significant commitment of money to the venture by the principals. This should be specifically addressed in the financial plan. If the entrepreneur will not put up any money, why should the investor?

Finally, one area frequently neglected is a detailed explanation of what the investor will receive for their money and how they will eventually cash out. As a result, many desperate entrepreneurs give up too much their business or are unwilling to part with enough to attract someone else's money. Valuable time can be saved if the entrepreneur considers in advance how much how he is willing to offer and how much the investor will want. A consultant can suggest the best exit strategy to propose for the investors so that they can exit and actualize the profits from their risky investment.

3. An Offering Memorandum or Prospectus.

This document is among those required by state and federal regulatory bodies such as the Securities and Exchange Commission (SEC) before you approach potential investors. It serves as a counterweight to the great opportunity described in the business plan and reminds the investor that they could lose their entire investment. This document will demonstrate the entrepreneur's thoroughness and desire to fully inform the investor of the risks. It also provides some protection to the entrepreneur should the business fail.

If the entrepreneur has thought through his needs carefully and given through attention to these documents, he will be more likely to receive capital. The potential investor will recognize his merit as an educated participant in the funding process. With this firmly documented advantage, the next step is to sell the opportunity based on real-world application and setup the escrow account.

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