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Finding Venture Capital in a Time of Crisis

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In the wake of a financial crisis that spread quickly from Wall Street to the rest of the world, many small businesses are finding traditional funding sources, including debt financing, harder to secure. Many entrepreneurs are consequently turning to venture capitalists to finance the growth of their businesses.

The decision to seek venture capital is a strategic one that requires thought and planning. Venture capitalists generally invest in high-growth companies that have potential to create a sizable return. Venture capital isn't for everyone, but it's ideal for companies aiming to acquire a large market share in their industries until they can be acquired by a bigger player or go public.

When looking for venture capital, it's critical to target a firm whose mission and goals align with your own and to understand the firm's economics and investment patterns. Doing this important legwork before seeking venture-capital funding will allow you to be more efficient and successful in achieving your funding goals.

Sizing up the venture-capital alternatives: The first step is to qualify the firms you plan to approach, beginning with fund size, the clearest indicator of a firm's investment strategy. A firm that operates a \$50 million fund might make investments between \$2 million and \$5 million, while a \$500 million fund might make investments in the range of \$15 million to \$20 million. Understanding the amount of capital a firm is willing to invest helps you determine if it can meet your funding needs.

Identify an investment pattern: Aligning your goals with a venture capitalist's investment pattern means understanding the stage at which the firm invests, the pace of investments and the market sectors in which the firm invests. Be clear about the type of capital you need — capital for research and development, for initial product rollout or to help you enhance an existing revenue stream.

The pace at which a firm invests is crucial because some venture capitalists like to invest a lot of money up front to allow for dilution, while others prefer to make smaller, incremental investments, usually tied to the business reaching specific milestones. Your strategy for building the company and your funding needs determine which pace is best for you.

Make sure your company is in the market sector in which the venture-capital firm invests. Venture capitalists can and do offer their expertise to help your company grow, so it's advantageous for you to work with someone who has expertise in your business sector.

Closing the deal: Many resources exist to help you understand a firm's economics and investment patterns. You can review the firm's Web site and see what types of companies it has funded. Social networking sites such as Linked-in and Facebook can provide useful information on the types of investments a firm typically makes.

Once you have qualified and decided to approach a venture-capital firm, your goal should be to get a "warm" introduction from someone who has a relationship with the firm so you can stand out from the crowd. While persistence is necessary, be prepared for rejection. If the firm expresses interest in your venture, establish a meaningful relationship quickly. Ask hard questions about difficult topics early in order to avoid wasting time.

VC funding is an excellent option for companies that want to grow, and taking the time to target compatible firms will make it more likely that funds will flow your way.

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC), New Mexico Small Business Development Center (NMSBDC), Empowering Business Spirit (EBS), the New Mexico Venture Capital Association (NMVCA) and other partners to assist individuals and businesses in obtaining skills and funding resources for their business or idea. To learn more about resources available to New Mexicans, go to www.FinanceNewMexico.org.

