Obtaining Venture Capital

Using a Different Route to Finance Your Business

Venture capital is an alternative to financing a business you want to buy. Not many aspiring entrepreneurs go down this route, opting to apply for SBA loans or other types of financing. The process of selecting, pitching and negotiating with a venture capitalist can be an intimidating one.

Most aspiring business owners are not accustomed to the world of high-finance, regardless of whether they have already owned a business or not at some point in their career. However, there are simple steps to help you achieve obtaining your financial backing if you do it correctly.

Selecting the Right Venture Capitalist

When you are looking to buy a business, you must target the right venture capital investment fund to pitch. Depending on the type of business it is you are buying, you will have to conduct some research. You will want to attend some venture capital and private equity conferences. Obtain a referral from an attorney or accountant.

You can also search online databases such as VentureSource. Most VC host websites will describe their specialty areas with a portfolio of recent investments. If you're looking to buy a software business, you're best not to pitch a firm specializing in restaurant chains.

Creating a Teaser Document

You will want to send a brief two-page document to the VC you've selected from your search as a way of introducing yourself. Remember, you have to make an impression – explain who you are, how what you're proposing can fill a need in the market and how it translates into dollars.

Every sentence of your teaser needs to answer the question as to why an investor would finance you in your venture. A VC will go through hundreds of investment requests, giving every one limited consideration. Therefore, every sentence has to stand on its own.

Also be sure to incorporate text and graphics into the document. You want to tease the investor into wanting to hear more.

Submitting Financial History

If you can achieve stirring up the interest from a VC, they will ask you to provide financial statements – including projections. It also helps if you're building out your business model and attracting paying customers. If you can show how you've reached your current stage (bootstrapping, assistance from family and friends, etc.), that investor will be easily sold on you.

Planning to Pitch Your Proposal

The next step will consist of arranging a meeting if the VC wants one after reviewing your financials. In most cases, you will only have a maximum of 30 minutes to pitch your proposal, so make the time count!

The Thirty-Second Rule

Always tell the investor in the first thirty seconds who you are and how you are going to make them money.

Presenting Clear and Concise Information

Make sure your visuals are short and concise if you plan to use them such as a slide show or online demonstration. You will need to set time aside for questions. You have to demonstrate your belief in the business and knowledge of the market and industry. The VC wants to gain an impression that you know what you're talking about. If the business has more than one buyer involved, you want to demonstrate that you are a strong management team – look at each other when you talk, show respect.

Reviewing the Investment Terms

If the VC likes your pitch, you'll receive a term sheet for a "series A" round of financing – later rounds are called, series, B, series, C, etc. This document will outline the deal the investor is proposing before they go ahead with the investment in your business. Be sure to have an attorney, specialized in venture financing, present with you, your VR business intermediary and advisors when you begin negotiations.

The term sheet will outline your voting rights, liquidation preferences and how much equity the VC will receive.

Valuating Your Business

Before you negotiate, you have to place a value on your business. Your VR business intermediary can assist you in valuating the business. You won't have to worry about how much equity to sell as much when you have a concrete number and work from there.

Perform Your Due Diligence

Any time you have a contract in front of you, take some time to consider the ramifications of your decision before you sign on the dotted line. Have discussions with other businesses in the VC's portfolio about their experiences.

Remember the VC will take board seats and expect progress reports at monthly meetings. Good VCs will understand the ups and downs of a business as you're moving forward. The bad ones will be overbearing and overreact every time the slightest thing goes wrong.