Getting the Funding You Need:
Finding Money to Get Your Business Launched

compiled by VTKnowledgeWorks

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Introduction

You have a fantastic idea. You've passed the Four Fundamental Factors self-test. But, you're missing one of the critical components for launching a business: money.

No one needs to tell you how important money is to transforming your concept into solutions for consumers and profit for yourself. But while everyone knows that money is necessary, not many know where to find it and how to persuade others to let go of it.

This resource will introduce you to different ways of accessing funds for your new company.

Financing Possibilities

These are some of the more traditional vehicles for obtaining money:

- Personal money and debt (home equity, credit cards, etc.)
- Friends, family and personal funds
- Traditional researcher grants
- Bank loans (SBA guarantees)
- Strategic partnerships and joint ventures
- Federal programs (SBIR, STTR, BAA, TIP, Challenge Grants)
- Angel investors
- Venture capitalists

Depending on where your company is in the funding cycle, certain vehicles are more appropriate than others. It is vitally important to choose the vehicle most appropriate to your business plans and personal aspirations.

Some quick notes on the above vehicles:

- Bank loans always require collateral.
- Credit cards are **debt**, *not* investment.
- Partnerships and joint ventures can provide necessary equipment, funds and help but need to be structured carefully. Such vehicles can turn into very sour relationships down the road.
- SBIR, STTR, BAA, TIP, Challenge Grants and ATP can provide inexpensive development funds, but have long proposal cycles.

Traditional Research Grants

Overview

Research grants are funding for scientific research, in the areas of both "hard" science and technology and social science. Typically requiring a competitive process, only the most promising proposals receive funding.

Two major sources provide most funding for research: private corporations and the federal government. Private corporations grant funds to research and development departments and companies while the government grants funds to universities, government agencies and some charities.

Applying for a Grant

Thomas Egwang, Science and Development Network (www.scidev.net)

In applying for a research grant, it is essential to start by identifying the appropriate granting body or agency to contact for your proposal, as each such body usually has its own particular work plan and/or priority areas.

The Internet is usually the best source for such information. Good places to start are searchable databases, which have comprehensive links to granting bodies and agencies. Two sites of interest are GrantsNet, a database of funding opportunities in biomedical research and science education, and the Foundation Centre.

It is also a good idea to keep your eyes and ears open all the time for possible funding opportunities while scanning journals and newsletters, or even talking to colleagues.

Once you have identified the appropriate granting body and checked that you can meet both the eligibility criteria and the deadline for the submission of applications, your proposal should be written out in the format stipulated by your chosen organisation. Almost all granting bodies now have electronic application forms posted on the Internet, although these can sometimes be both complex and cumbersome.

A grant request is generally broken down into the following components:

- Objectives
- Background and rationale
- Experimental design and methods
- Critical appraisal and limitations of the proposed research.

Objectives

Succinctly describe the goal of your research, and what you propose to do to achieve this goal.

It is a good idea to propose only those objectives that you feel relatively confident of achieving within the grant period. A proposal with too many objectives to be included in a relatively short time — for example, a grant lasting only two years — is likely to be considered too ambitious, and might well be rejected, even if it involves 'cutting-edge' science or a revolutionary new idea.

Background and rationale

Introduce the problem that the research is intended to address. The length of your description is dictated by the length limitations on the application form. You should cover what is already known about the problem in the scientific literature, and highlight the major gaps or limitations in the current knowledge base.

The final paragraph is the most important part of this section. Here you should state precisely what you will have achieved if the project succeeds, and the likely impact of a successful research project. For example, if you are working in a field relating to the control of diseases, describe how your research could lead to new drugs, vaccines, or diagnostics, or to the improved understanding of the pathogenesis of the disease.

In addition, many application forms, even for basic research grants, now have a section in which you are required to describe how the research is likely to contribute to economic development.

Experimental design and methods

This is the most crucial part of your grant application. In it, you must describe in detail exactly what you are going to do to achieve your stated objectives.

You should provide sufficient details to enable the review panel to critically evaluate your project. In particular, you must show how the experimental design will answer the questions that you are setting out to address; poor experimental design is the downfall of many applications.

Within this section, there should be several sub-sections, some of which are required for all types of grants, others of which are dependent on the topic of the research.

Preliminary data

Granting bodies like to see a concise description of the results of any preliminary work that you have carried out. You should focus primarily on the results that suggest that the proposed work will probably succeed.

Description of study area (field studies only)

If the proposed research involves field studies, your application should include a description of some of the characteristics of the study area. These will typically include latitude and longitude, elevation, vegetation, rivers, rainy and dry seasons, mean rainfall and temperatures, schools and health centers or hospitals, and distance from the capital city.

If it is relevant, include a brief description of the population, such as the membership of ethnic group(s), main occupation (e.g. fishing or subsistence agriculture) and religion.

Subject recruitment (clinical trials)

For clinical trials, it is important to briefly describe the design of the trial, how the sample size will be calculated, and what randomization procedure you intend to use.

If your research involves human subjects, describe how you plan to recruit research subjects and what criteria you will use for including or excluding particular individuals. Most importantly, include how you will obtain informed consent of the research subjects, and which national authority or authorities have given ethical approval for your research.

Sample collection (clinical trials)

Once subjects have been recruited and randomly assigned to different experimental groups, samples may need to be collected. The grant application must describe how this will be done, how the samples will be stored temporarily, and how they will be transported to the laboratory for permanent storage.

Laboratory investigations

It is important to provide sufficient detail in this section for the reviewer to agree that the proposed work is feasible. There is no need to go into a lot of detail if the procedures that you plan to use are standard and widely described in scientific literature. However, you must still provide some details of your proposed laboratory procedures. Make sure you include a brief description of the various analytical techniques that you will carry out in the laboratory.

Data analysis

Briefly describe some of the important aspects of the way in which the data obtained during the research will be analysed. This includes how the data will be entered into a computerised database and what software will be used. In the case of clinical trials, you should include how various variables, either continuous or discrete, will be compared among different groups studied using a variety of statistical methods, and how you intend to control for confounding variables.

Collaboration

It is important to identify the partners with whom you intend to collaborate with, either in your own country or overseas. This can be done in a separate section, or it can be incorporated into the appropriate sections under 'Experimental design and methods'.

The choice of research partner or partners is crucial for your research project. They should provide complementary, rather than identical, expertise and/or facilities, and it must be clear how their presence will strengthen your proposal. Reviewers often disapprove of 'artificial' partnerships where it is clear that one partner is in the driving seat (often the partner from the West or North who wrote the grant application) and the other (often the developing country partner) who has been recruited primarily as a conduit for the collection of field materials.

References

This is usually placed at the end of the 'Experimental design and methods' section. The style of presentation is a question of personal choice, unless the granting body has specified it.

Critical appraisal and limitations of the proposed approach

Describe the possible limitations of your proposed approach. For example, one of your proposed methodologies may have certain disadvantages that could impact adversely on your findings. A reviewer will certainly point this out, and might find it sufficient grounds for rejecting your proposal. To meet such concerns, you should therefore state clearly that you are aware of the limitations of your approach, and if possible propose an alternative strategy if you first approach fails to deliver.

You should also describe briefly the particular strengths of your laboratory that are likely to contribute to the success of the project if it is funded, (for example, the fact that it is located in a disease-endemic area, ensuring access to field materials, expertise and clinical facilities).

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This article was previously part of SciDev.Net's e-guide to science communication and has been reformatted to become this practical guide.

Article link: http://www.scidev.net/en/practical-guides/how-do-i-apply-for-a-research-grant-.html

Bank Loans

Bank Loans for Small Businesses

D&B Small Business Solutions, smallbusiness.dnb.com

Traditionally, banks are more conservative with their investment dollars. Unlike many venture capitalists or angel investors, they are far more likely to approve a loan for an established business over a startup or emerging company. This is largely due to the fact that they are investing the money of their depositors.

However, thanks to government agencies such as the Small Business Administration (SBA), which work with many banks, small business owners can get business loans from banks with a strong business plan and well-prepared business loan request. Moreover, banks are more likely to give modest-sized loans, whereas venture capitalists are looking for much larger deals.

First and foremost, prior to approaching a bank, you should have all your key documents in order, starting with a solid business plan. You will also need to have the most recent financial statements available, projections for the business (this is typically in the business plan), and a repayment plan, plus collateral. Collateral may include:

- Hard goods such as equipment
- Real estate
- Stocks or bonds
- Other personal assets
- Personal guarantees.

Banks also want to know that you're making your own investment in the business. A bank is more likely to approve a loan if (pending a solid business plan) it sees that the owners are investing a good percentage of the necessary startup capital into the business.

To maximize your chances of receiving approval on a business loan from a bank, it's wise to look at the situation from the standpoint of the lender. A lender wants to know:

- Exactly how this business will operate and why it's expected to make money
- Exactly how the money will be used

- How you plan to repay the loan and over what time frame
- That you're willing to take a significant financial risk in the business
- That you're responsible and can manage this business
- Who else is involved in management or operations, and that they will also be responsible for the proper use of the money from the loan.

The smaller the business, the more closely the individual behind it will be evaluated. Most small businesses, in the forms of sole proprietorships or partnerships, are closely tied to the experience, know-how, and overall character of the owner(s). Therefore, you need to make sure you get your own financial records in order before asking for a bank (or any lender, for that matter) for money to start a business. A solid personal credit rating is also very important, since a small business is typically an extension of the individual who starts it.

Article link: http://smallbusiness.dnb.com/business-finance/business-loans/2542-1.html

Strategic Partnerships

Overview

A strategic partnership is a formal alliance between two commercial enterprises, usually formalized by one or more business contracts but falls short of forming a legal partnership or, agency, or corporate affiliate relationship.

Typically two companies form a strategic partnership when each possesses one or more business assets that will help the other, but which the other prefers not to develop internally.

One common strategic partnership involves one company providing engineering, manufacturing or product development services, partnering with a smaller, entrepreneurial firm or inventor to create a specialized new product. Typically, the larger firm supplies capital, and the necessary product development, marketing, manufacturing, and distribution capabilities, while the smaller firm supplies specialized technical or creative expertise.

Another common strategic partnership involves a supplier/manufacturer partnering with a distributor or wholesale consumer. Rather than approach the transactions between the companies as a simple link in the product or service supply chain, the two companies form a closer relationship where they mutually participate in advertising, marketing, branding, product development, and other business functions. As examples, an automotive manufacturer may form strategic partnerships with its parts suppliers, or a music distributor with record labels.

Strategic partnerships raise questions concerning co-inventorship and other intellectual property ownership, technology transfer, exclusivity, competition, hiring away of employees, rights to business opportunities created in the course of the partnership, splitting of profits and expenses, duration and termination of the relationship, and many other business issues. The relationships are often complex as a result, and can be subject to extensive negotiation.

Article link: http://en.wikipedia.org/wiki/Strategic_partnership

14 Tips for Creating a Good Strategic Partnership

Don Anderson, The IntellaSphere, www.intellas.com

1. Dare to Trust. Have the courage to trust the other guy. Entrepreneurship is about taking calculated risks.
2. Establish the ground rules. Clearly decide on what the relationship will entail.
3. Determine each parties' responsibilities. Know who is providing what service(s) or product(s).
4. Have a well defined plan. Preferably in writing, e-mail or a fax will do.
5. Involve your partner(s). Make a concentrated effort to involve your partner(s) in your day to day business. Find ways to increasingly involve each other in projects.
6. Test the waters. Work together to see if the relationship works for all concerned. If its WIN-WIN you are in, if not its time to move on.
7. Keep the lines of communication open. Always keep each other informed. Short telephone messages, e-mail, even faxes do the job.
8. Don't be greedy. Share the wealth. Be sure everyone is amply rewarded.
9. Relationship first. More important than any one deal. Customers can spot tension instantly and make a decision to work with more positive, happier teams.
10. Be farsighted. Go for the long term both for your customers and partners.
11. Seek individuals and organizations with complementary skills. Good work and relationships come from pieces that fit together to make a complete picture.
12. Do cooperative marketing. Each partner has different contacts who may want to buy new and different products and services from the team. Communicate the mutual strengths and benefits to each organization's customers.
13. Develop customer service. Customers come first, regardless of who makes the sale or who has the direct contact with the client. There is no "them" in a successful partnership, just "us."
14. Be up front. Business practices like no poaching, payment policies, and basic office procedures like answering the telephone before the third ring are important to sort out.

Article link: http://www.intellas.com/blog/index.php?p=13

Federal Programs (SBIR/STTR)

Overview

The Small Business Innovative Research Program (SBIR) was started by Congress in 1982 to foster and stimulate small business development of technology for Federal research and development needs and to increase private sector commercialization.
The Small Business Technology Transfer Program (STTR) was established by Congress in 1992 to aid small businesses by requiring participating businesses to partner with a university, FFRDC or non-profit organization.

See VTKnowledgeWorks' "SBIR & STTR Resources" at the vtknowledgeworks.com/about_us/links.html OR here: http://tinyurl.com/yadz3c3

Angel Investors

Small Business Notes, www.smallbusinessnotes.com

Overview

Angel investors are individuals who invest in businesses looking for a higher return than they would see from more traditional investments. Many are successful entrepreneurs who want to help other entrepreneurs get their business off the ground. Usually they are the bridge from the self-funded stage of the business to the point that the business needs the level of funding that a venture capitalist would offer. Funding estimates vary, but usually range from $150,000 to $1.5 million.

The term "angel" comes from the practice in the early 1900's of wealthy businessmen investing in Broadway productions. Today "angels" typically offer expertise, experience and contacts in addition to money. Less is known about angel investing than venture capital because of the individuality and privacy of the investments, but the Small Business Administration estimates that there are at least 250,000 angels active in the country, funding about 30,000 small companies a year. The total investment from angels has been estimated at anywhere from $20 billion to $50 billion as compared to the $3 to $5 billion per year that the formal venture capital community invests. In fact, the potential pool of angel investors is substantially larger. There are about two million people in the United States with the discretionary net worth to make angel investments.

The Center for Venture Research at the University of New Hampshire which does research on angel investments has developed the following profile of angel investors:

- The "average" private investor is 47 years old with an annual income of $90,000, a net worth of $750,000, is college educated, has been self employed and invests $37,000 per venture.
- Most angels invest close to home and rarely put in more than a few hundred thousand dollars.
- Informal investment appears to be the largest source of external equity capital for small businesses. Nine out of 10 investments are devoted to small, mostly start-up firms with fewer than 20 employees.

- Nine out of 10 investors provide personal loans or loan guarantees to the firms they invest in. On average, this increase the available capital by 57%.
- Informal investors are older, have higher incomes, and are better educated than the average citizen, yet they are not often millionaires. They are a diverse group, displaying a wide range of personal characteristics and investment behavior.
- Seven out of 10 investments are made within 50 miles of the investor's home or office.
- Investors expect an average 26% annual return at the time they invest, and they believe that about one-third of their investments are likely to result in a substantial capital loss.
- Investors accept an average of 3 deals for every 10 considered. The most common reasons given for rejecting a deal are insufficient growth potential, overpriced equity, lack of sufficient talent of the management, or lack of information about the entrepreneur or key personnel.
- There appears to be no shortage of informal capital funds. Investors included in the study would have invested almost 35% more than they did if acceptable opportunities had been available.

For the business seeking funding, the right angel investor can be the perfect first step in formal funding. It usually takes less time to meet with an angel and to receive funds, due diligence is less involved and angels usually expect a lower rate of return than a venture capitalist. The downside is finding the right balance of expert help without the angel totally taking charge of the business. Structuring the relationship carefully is an important step in the process.

What Does an Angel Investor Expect?

There are almost as many answers to what angels expect as there are angels. Each has their own criteria and foibles because they are individuals. Almost all want a board position and possibly a consulting role. All want good communication although for some that means quarterly reports, while for others that means weekly updates. Return objectives range from a projected internal rate of return of 30% over five years to sales projections of $20 million in the first five years to the potential return of five times investment in the first five years. Most are looking for anything from a five to 25 percent stake in the business. Some want securities - either common stock or preferred stock with certain rights and liquidation preferences over common stock. Some even ask for convertible debt, or redeemable preferred stock, which provides a clearer exit strategy for the investor, but also places the company at the risk of repaying the investment plus interest. Additionally, the repayment may imperil future financing since those sources will not likely want to use their investment to bail out prior investors.

Some angels ask for the right of first refusal to participate in the next round of financing. While this sounds eminently reasonable, some venture capitalists will want their own players only or certain investment minimums so this strategy may limit who future participants might be.

Future representation of the board of directors also needs to be clarified. When a new round of financing occurs, do they lose their board right? Or should that could be based on a percentage ownership - when their ownership level drops below a certain level, they no longer have board representation.

In order to protect their investment, angels often ask the business to agree to not take certain actions without the angel investors approval. These include selling all or substantially all of the company's assets, issuing additional stock to existing management, selling stock below prices paid by the investors or creating classes of stock with liquidation preferences or other rights senior to the angel's class of security. Angels also ask for price protection, that is anti-dilution provisions that will result in their receiving more stock should the business issue stock at a lower price than that paid by the angels.

To prepare to solicit an angel, several critical factors will aid in making the approach successful. First, assemble an advisory board that includes a securities accountant and an attorney. Two important functions of the board are to recommend angels to contact and to work with the management team to develop a business plan to present to the angel. The business plan itself should define the reason for financing, how the capital will be spent and the timetable for going public or seeking venture capital funding. It should include: an executive summary (description of the business, opportunity and strategy, target market, projections and competitive advantages); the industry, the company and its products and services (including entry and growth strategies); market research and analysis (customers, market size and trends, competition, estimated market share and sales); the economics of the business (including gross and operating margins and break-even analysis); marketing plan (overall strategy, pricing, advertising, promotion, and distribution); design and development plans (product/service improvement and new products/services); manufacturing and operations plans (geographic location, facilities and capacity improvements); management team (organization overview, biographies and compensation plans for key employees); financial plan (tax returns, profit and loss forecasts, pro forma cash flow analysis and balance sheets, 5-year projections); and proposed company offering (desired financing, securities offering, capitalization, timetable).

Most of all, take your time in forming a relationship with an angel. You are going to be spending a number of years together at a critical time in your business' life. Take the time to assure yourself that this is a person who you are comfortable with through both the ups and downs the future will bring.

Article link: http://www.smallbusinessnotes.com/financing/angelinvestors.html

Venture Capital

Overview

Venture capital (also known as VC or Venture) is a type of private equity capital typically provided for early-stage, high-potential, growth companies in the interest of generating a return through an eventual realization event such as an IPO or trade sale of the company. Venture capital investments are generally made as cash in exchange for shares in the invested company. It is typical for venture capital investors to identify and back companies in high technology industries such as biotechnology and ICT (information and communication technology).

Venture capital typically comes from institutional investors and high net worth individuals and is pooled together by dedicated investment firms. Venture capital firms typically comprise small teams with technology backgrounds (scientists, researchers) or those with business training or deep industry experience.

A core skill within VC is the ability to identify novel technologies that have the potential to generate high commercial returns at an early stage. By definition, VCs also take a role in managing entrepreneurial companies at an early stage, thus adding skills as well as capital (thereby differentiating VC from buy out private equity which typically invest in companies with proven revenue), and thereby potentially realizing much higher rates of returns. Inherent in realizing abnormally high rates of returns is the risk of losing all of one's investment in a given startup company. As a consequence, most venture capital investments are done in a pool format where several investors combine their investments into one large fund that invests in many different startup companies. By investing in the pool format the investors are spreading out their risk to many different investments versus taking the chance of putting all of their monies in one start up firm.
A venture capitalist (also known as a VC) is a person or investment firm that makes venture investments, and these venture capitalists are expected to bring managerial and technical expertise as well as capital to their investments. A venture capital fund refers to a pooled investment vehicle (often an LP or LLC) that primarily invests the financial capital of third-party investors in enterprises that are too risky for the standard capital markets or bank loans.

Venture capital is also associated with job creation, the knowledge economy and used as a proxy measure of innovation within an economic sector or geography.

Venture capital is most attractive for new companies with limited operating history that are too small to raise capital in the public markets and have not reached the point where they are able to secure a bank loan or complete a debt offering. In exchange for the high risk that venture capitalists assume by investing in smaller and less mature companies, venture capitalists usually get significant control over company decisions, in addition to a significant portion of the company's ownership (and consequently value).

Young companies wishing to raise venture capital require a combination of extremely rare yet sought after qualities, such as innovative technology, potential for rapid growth, a well-developed business model, and an impressive management team.

Article link: *http://en.wikipedia.org/wiki/Venture_capital*

Perfecting the Pitch

Venture capitalists offer advice on what they look for... and what turns them off!

Ty McMahan, The Wall Street Journal

Early in his career as a venture capitalist, Steve Brotman received a knock on his office door and in walked a woman dressed from head to toe in an outrageous green costume. She reached in her bag and served Mr. Brotman a business plan for a company that had “avocado” in its name.

“Regardless of whether I was interested, you lost me at hello,” Mr. Brotman, now the managing director of venture-capital fund Greenhill SAVP in New York, says he told her. “I’m not about to do a deal with a lady dressed like an avocado.”

It takes much more than a gimmick to get the attention of venture capitalists. As a growing number of entrepreneurs compete for a shrinking pool of capital, it’s more important than ever to make a good first impression with an airtight pitch.

Venture-capital investment fell about 50% in the first quarter to $3.9 billion from $7.78 billion in the same period a year earlier, according to VentureSource, an industry tracker owned by News Corp., which also owns Dow Jones & Co., publisher of The Wall Street Journal. That was the lowest quarterly total since 1998 and significantly below the $5.95 billion invested in the fourth quarter of last year.

Even so, investors say capital remains available for promising start-ups. With that in mind, here is a look at what venture capitalists say are the common mistakes made by entrepreneurs making presentations:

Modesty Doesn't Pay

Venture capitalists say that they invest in people, not just ideas. Yet the most common mistake entrepreneurs make when pitching to venture capitalists is failing to present themselves well, says Mr. Brotman. "A pitch is like going on a date," he says. "A lot of entrepreneurs don't introduce themselves. They might give you a name and a business card; other times they'll go straight into the pitch. That's like going on a first date and saying, 'Let's get it on.'"

If an entrepreneur has been successful in the past, they need to say so, says Mr. Brotman, pointing out that modesty could equal a missed opportunity. "Seasoned entrepreneurs often downplay their experience and stuff it in the back of the pitch, and they shouldn't," he says. "People buy into other people. They buy their story."

In addition to introducing themselves, entrepreneurs should introduce the other members of their team and allow them to talk. Venture capitalists say they want to know that they can trust the other people involved in the business.

'Tell It to Mom'

Canaan Partners, a Menlo Park, Calif., firm that invests in technology and health-care companies, says it has endured many bad pitches over the years, including one in which the vice president of sales for a start-up fell asleep just as the chief executive was hitting his stride during a presentation. "The CEO kept blazing through his pitch, acting like it wasn't happening," says Gina Vakili, Canaan's director of marketing.

The firm passed on that deal, but its experience with bad pitches led to the creation of the Entrepreneur Pitch Workbook, essentially a "Dummies" guide to pitching venture capitalists. Among the book's suggestions: Practice so that a pitch will last one hour, including time for questions; prepare a 12- to 20-page slide presentation and bring hard copies; arrive 10 minutes early to set up; and dress business casual, unless you're more comfortable in a suit.

When it comes to the presentation itself, venture capitalists say it should be coherent and focused. Don't dance around questions, especially if they are asked multiple times in different ways. Be thoughtful and willing to explain concerns with the business.
"What's most important is to adequately explain all the assumptions on which the plan [is] based," says Larry Chaityn, New York chapter president of Keiretsu Forum, a global network of accredited angel investors. "Less is more. We want them to present a wealth of information in very few words."

Presentations should also avoid jargon. "I always say, 'Tell it to your mom,'" says Kylie Sachs, a partner at Ascend Venture Group LLC, a private investment-management firm based in New York. "Explain it like you would explain it to your mother."

Entrepreneurs should assume the investor believes the technology works, venture capitalists say. The presentation should focus on how a solution to a problem makes money, rather than explaining how the science works. "I want to know about the business of the business, not a tech demo for the first hour of the discussion," says Jeanne Sullivan, a general partner at New York-based venture-capital firm StarVest Partners LLC.

Don't Play With the Numbers

Entrepreneurs could hurt their credibility if they overstate the revenue opportunity for their product or service. That is why it is important that entrepreneurs be able to differentiate between market size and the addressable market for their idea. Take a food maker. The firm's addressable market isn't everyone who eats, but rather the people who eat the specific thing it makes. Saying, "We just need 0.1% of the population of China to be a success" ignores the importance of identifying and describing the target customer, says Ms. Sachs. "That's just math that tells me nothing," she says. "Also, if you tell me your financial projections are conservative, I'll look for a way to prove you wrong. I need you to show me how it scales and becomes profitable."

Ms. Sachs advises against revealing a valuation during the initial pitch. For example, don't tell an investor you are selling 25% of the company for $4 million, she says. Similarly, avoid negotiating too early. Ms. Vakili, of Canaan Partners, says entrepreneurs who come in and say, "Before we get started, I'd like you to know that we have multiple term sheets on the table" make the firm wonder, "Then why are we meeting? Why are you here having a first meeting if you're at the term-sheet stage with other firms?"

Stay on the Radar

The chance to make an impression doesn't end when you walk out of an investor's office. Mr. Brotman says he is often surprised at how many entrepreneurs disappear from his radar screen after the initial presentation. With the number of requests for meetings that investors receive, just getting an invitation to present your idea means there's genuine interest. Even if they receive a "no" in the first meeting, entrepreneurs should stay in touch with investors. While the investors may not be interested in backing the start-up, they may share it with others who are.

Addressing concerns brought up during an initial meeting is a good way to reconnect with an investor, venture capitalists say, so promptly answer any outstanding questions that came up during the presentation.

Finally, when evaluating offers, entrepreneurs should think beyond who will write them a check. "Take a look at who can give you the best acceleration for your business," says Mr. Chaityn. "Not just money, but industry contacts and high-level connections."

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Article link:
http://online.wsj.com/article/SB10001424052970204456604574201093794396418.html