



# 096. LOOKING FOR FUNDS IN ALL THE WRONG PLACES

Fund-raising advice for 2004: What's hot? What's not?

BY RICK GIBSON

ALONG WITH GEORGE Bush's approval ratings, my best advice for fund-seekers is constantly revised, considering the economy, corporate profits, venture capital trends and of course, terrorist threats. The good news is that today's economic trends are looking well, and I pray that continues. And frankly, I do prefer the slightly positive, not-so-radical swings. As I say in most of my meetings these days, where can I sign up for more of this? I don't ask for it to get better, only that it *continue*.

We've had a solid stream of consumer spending and a great housing market. Then, we got positive corporate profits and surges in factory output. Now those indicators have helped loosen up the venture capital cookie jar. Thus, the only thing that worries me these days is the possibility of a new terrorist event on U.S. soil. Barring that, life is grand.

Ah, but things are always changing. So, while my perspective is still clear, here's my update on the best ways to get funds in 2004. And some of the worst. (Get out your sticky notes.)

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## WHAT'S HOT

### Starting with friends and family

This is just good common sense. Who else trusts you enough to give you money with no sure way of getting it back? When you don't have assets, equity or other such nonsense, getting money from people who love you is brilliant. Besides, these people actually know the real you. However, there's a warning that goes with this kind of fund-raising. I've told this story before and it definitely bears repeating. Borrowing money from relatives can stick with you for years, says Nolan Bushnell, world-famous entrepreneur and inventor of the world's original videogame, Atari. He told me that no matter how well your venture goes, you'll hear about the money thing every year on the holidays for the rest of your life. I concur, as I had the pleasure of borrowing money from my mother-in-law in the late '80s. In spite of paying her back in full, 5% over the going rate, she will never forgive me.

### Credit cards: use, but be careful

Again, this is a deal with the devil. Not because of the lenders, but because it is too easy to keep getting more. Can you believe it, no one checks to make sure you have the ability to re-pay principal or interest? Any neighborhood bank knows enough to ask you that. But herein lies the magic, you can get all you want and you don't have to prove either your business plan, or your ability to re-pay. In the beginning, this may help. But please, do crank up Excel. Make sure for your own self that your plan will work to make the vast fortunes you deserve.

### Finding strategic investors

Look for investors that get some kind of benefit in your company, whether they get their money back or not. The best are those that desire to do some kind of business with you, and want to see you succeed same as you do. For them, the return on their cash is icing on the cake. Think of your suppliers, customers, co-marketers and industry cohorts. Now, go get 'em.

### Searching for proximity

This is my favorite bit of advice for this year. To find investors, look for people that are already close to your business in some way. Don't first look for investors, but instead look for people with expertise, experience or influence in your industry. Forget for a minute whether they themselves have money to invest. They can be the ones to talk turkey to investors on your behalf. Their credibility will influence the money, and get you in the door. Betcha they all either know someone, or know someone who knows someone. I promise.

### Mega-boards

To build trust, you need to surround yourself with people who are known for success in areas related to your business. Find a way to entice them to join your company as an advisor. Listen to them and you will not only learn a lot, but also gain the value of their trust and the people they know.

### It's the revenue, stupid!

Remember George Bush Sr. and, "It's the economy, stupid"? Well this one is obvious. What's better than fund-raising? Making real sales. Your gross margin will give you some funding and you don't give up any equity. Before you waste time trying to convince investors you can get customers, spend your time convincing real customers they should buy. Later on, you'll get a better deal with investors for doing this.

## WHAT'S NOT

### Angels who have no idea

My advice: Do not go to groups of angels where no one is known to have experience with your business. It'll be hard to get them familiar with how your industry works, and why you're so good at it. It's only a distant fantasy to get them to part with their money.

### Shot-gunning venture capital

There are rules of thumb that guide most venture capital funds. They largely prefer investments that are referred to them by people they already know. Next, they look for experienced management teams—hopefully that they've done business with before—and proof that you already know the ropes. Last, VCs rarely get talked into an industry or product category they haven't already been considering. Usually they target a particular segment and scope out the top five to seven companies, and then narrow down the potential successes. Forget trying to convince them of some great opportunity they never thought of before. I suggest reading VC industry newsletters to get a feel for what areas each is looking into.

### Money-losing ideas

Pre-2000, investors already had several dances with businesses that didn't yet have revenues or customers. These days, they want you to have proven that the customer will buy. If you don't have proof of customers, work on that first. Concepts are out, proven businesses that make money are in. Get with it. ■

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