

The Right Capital Fit

By Jay Taffet

Startup capital is truly a murky subject. It's colored by an array of definitions and terms, and stretched in all directions with investor expectation, preference and appetite. It's a big mountain with a very elusive summit.

That's the bad news. The good news is you can navigate this climb with the right gear and perspective. Here are a few tips on where the path begins.

Understand the terms. Startup capital is the genus, and angel investment, venture capital, and private equity are the species. Everyone has their own take on how to define each species, with a myriad of qualifying attributes related to capital threshold, business phase and market presence, but all you need to know is capital is capital, and the rest is conversation.

Just keep this in mind - the angel, simply a high net worth, accredited investor (per SEC Rule 501 of Regulation D of the Securities Act of 1933)

that you may know personally or professionally, is typically the most accessible of all investors, and your best shot at finding an inspired capital partner who appreciates you, understands your industry, and embraces the opportunity you've created.

Focus on simplicity. Forget the business plan and venture presentation textbooks you may have digested, a capital pitch is a simple introduction of Management, Product, and Market. Put even more simply - who you are, what you want to do, and where you want to do it. Yes, you'll need to tell this story in narrative and numbers, but never lose sight that you are selling You, Your Idea, and Your Customer, that's it.

And, here's the punch line: You represent about 90% of the investor capital pitch. You need to be enormously qualified and passionate, and clearly capable of converting Your Idea into a recipe that will sell Your Customer. Startup capital is patronage, and the patron is looking for a masterpiece.

Examine your timing. The capital raise process seems to have become a "rite of passage" for entrepreneurs. All venture founders want to join the big leagues of startup success, with the most visible metric of this

success being how much money you can raise. That couldn't be farther from the truth.

Startup success is simply your ability to convert an idea into a profitable business that has strong growth potential to produce more profit. How you fuel the idea conversion and profit potential is irrelevant.

In other words, if you have the best idea on the planet and you're the founder who can get it done, but you don't have the money to do the deed, then, yes, you need startup capital. But, if you have the best idea and you're the right founder, and you've presold your product or service towards revenue that will underwrite the expense to do the deed in the very near future, then, no, you don't need an investor. You simply need a bridge loan, from a bank or an investor, to get you over the hump.

Be leery of selling ownership away because you think it's the next step in your venture. If you can ring the bell without giving away the ladder, then definitely consider other funding options.

Make it respectful. Raising capital for your venture is not an act of supplication. It seems that way because the startup world has morphed into that dynamic, but it's just wrong.

Founders need capital, and funders need deals, and the startup process should reflect this reality. Put another way, entrepreneurs and investors need matchmaking, and, just like the dating world, the process should be mutual and respectful.

Thus, if you make your pitch to an investor or firm and you feel the least bit put out or dismissed, move on. The world is a big place and, now that you know that an angel investor could be the millionaire next door, you don't need to feel the least bit limited in your search for startup capital.

Always remember, you are the reason there is a startup capital process to navigate in the first place. It is you, your idea, and your vision that put you in a place where a potential investor will find exciting opportunity. You have as much to give as the capital and the person behind it.

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