Five tips for obtaining startup funding

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It's hard to be an entrepreneur these days when most of the advice out there focuses on what not to do. Fortunately, there are a few things every entrepreneur can do to increase one's chances of raising money.

If you are an entrepreneur, I would encourage you to keep the following five things in mind as you navigate the fundraising process.

1. Perform due diligence internally. From stock purchase agreements to contracts to marketing collateral, you will be asked for more information than you can imagine, and it will save you a lot of time and trouble if you've been through a self-imposed full-dress rehearsal of the due diligence process.

   It's critical that you start organized and stay that way. There are countless due diligence checklists available on the Internet. Pick several and develop a dynamic table of contents for everything that pertains to your business. Implement an easily understood methodology for labeling and locating files, which should be stored physically and backed up virtually. Whether it's during due diligence for raising money or for a liquidation event, these files represent a body of work that will better convey the value and potential of your business.

2. Prepare video demonstrations. If the only true constant is that time marches on, then a close runner-up has to be that live startup demonstrations never go according to plan. Fortunately, there is a simple and effective solution. Prepare a list of the critical aspects of your business that you want to ensure investors understand. Then record videos that address each one. For example, you may film your product or service in action, giving your business pitch, a customer testimonial, or the history of the management team.

   Not only will these videos paint a compelling picture of your business, but they will save you a lot of time. If you post these videos, you'll be able to direct potential investors to them so they can quickly get up to speed without having to attend multiple meetings.

3. Perform due diligence on potential sources of capital. Understanding your audience is critical, whether you're raising money from venture firms or high-net worth individuals. Targeting investors who have an interest in your industry will greatly increase your chances of success.

   If you decide to raise money from individuals, it's imperative that you find a lead that understands your industry. It doesn't matter if he is the largest investor, but he should be one of your first. These investors will not only lend credibility to the deal, but also help you convey the opportunity to other investors.

4. Understand the impact of deal terms. There was a time when an early-stage term sheet could be scribbled on the back of a napkin. Today, term sheets have become increasingly complicated, and it's critical to involve lawyers throughout the process to protect all parties. A good lawyer like **Alex**

Allemann at Winstead PC will walk you through every aspect of the term sheet and ensure that you know not only what each term means, but also how it compares to current industry trends. For example, convertible debt is not always better, dividends are not a critical term if you are going to be as successful as you claim, and you should ensure that you understand the implication of drag-along and redemption rights.

You should also assess follow-on capital requirements and possible exit scenarios to determine how much your ownership needs to be worth at the end of the day to make everything worthwhile. If you do this properly, you may realize that you have more room to negotiate on your valuation than you might think.

5. Be your own champion. I can’t tell you how many people present to an angel network or get an initial meeting with a venture firm and think that the hardest part is over. Make no mistake; you have the most to gain as well the most to lose, so it’s up to you to drive the process regardless of whether an angel network establishes a deal lead or a venture firm assigns a partner to your deal. After all, you know more about the opportunity than anyone else.

Once you have your foot in the door, consider yourself an event planner. First, establish a time line for the due diligence process to ensure critical topics are covered in a timely and efficient manner during group meetings, conference calls and one-on-one coffees or lunches. Second, consider a series of open houses, and don’t worry if you don’t have an office. Most good law firms will gladly accommodate such an event and may even help you bring in industry experts to further explain the opportunity. Finally, cultivate relationships with anyone and everyone who deploys capital.

As an entrepreneur, fundraising doesn’t end until you have an exit event.

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