



STARTUP FUNDING SAFARI TRAIL GUIDE

By William W. Luciw © 2004

Enjoy Your Visit And Please Don't Spook The Herd ... or ... Here's Your Funding Booty Call!

OUR CONDOLENCES

So there you are! You're the classic definition of an Entrepreneur. You've maxed out your credit cards, got a second or (gasp!) third mortgage on Mama's House, sold your crap on E-Bay, and then there was that night in Vegas where you pulled a few handles and drank a few beers and then ... uh ... oh, Nevermind. We all get the picture. And we've posted the URL.

You're nuts. You're different. You're special. You perceive things that the regular folk just somehow miss. You have an ineffable and indefatigable momentum & drive to bring back Something Special of Tremendous Value, snatched from the formidable Jaws of Chaos and Confusion of the Unknown. Careful, IT BITES! HARD.

Well, I'm truly sorry to hear about your affliction. As with most aspects of life, there a Good News / Bad News way to look at your entrepreneurial condition:

The Bad News is that there is no real, long lasting cure except maybe a dirt nap.

The Good News is there is a great support group called The Investors that can help administer the sorely needed Medication.

Who are The Investors and What is this wondrous Medication and How do I get me Some?

Inquisitive little bugger of a skill, aren't you? When sit back and relax and pray this be your first step toward financial safety, in the Funding Jungle. After all, you ARE reading an article about funding in the Entertainment Section of a Blog for Chrissakes! If you actually had the requisite financial sense (not to mention dollars \$USD), then you'd be seeking immediate and paid professional financial counsel. Seriously. Unfortunately, you have to pay for that counsel. Not paying for quality financial advice was your first mistake. Number two would be getting any funding advice whatsoever in this article. Shall we go for the Hat Trick and perhaps actually follow this twisted Safari Funding Trail? Hey, Third Time's the Charm, so please read on ...

HELLO OBJECTIVITY! HELLO CONTRIBUTION! HELLOO VALUE!

First off, you must characterize your current condition, so please answer these questions, truthfully and with the most detachment you can muster. Oh, who am I kidding? Objectivity has likely been defenestrated long ago on your part, right? Well, it's time to go out and get some more fast BEFORE you try to bag any funding. Otherwise, The Investors will devour you.

Your mixed-metaphor self-examination questions are ready. Please close the door and draw the shades, and cough:

[1] Do I have Tangible Evidence that there is Booty to be gained by Venturing into the Unknown? And how much Booty am I talking 'bout here, anyway? Remember, there are MANY MANY MANY kinds of Booty, but unfortunately most Investors only prefer the kind that can be exchanged for Ca\$h or Equivalent\$ ultimately, as you will learn soon enough in your Mission.

[2] Do I have a Crew for the Mission? Are they able-bodied and well-seasoned sailors?

[3] Do I have any sort of Map or Plan to reach the Booty AND get everyone back in tact? Is there anybody else I know who maybe has a BETTER Map or Plan? If so, what's my relationship, if any. Any leverage at all, at all? 'Natch. Thought so ...

[4] Exactly how will the Crew safely traverse the Space? What have I done to prepare a proper and sturdy Vehicle or Vessel to get our collective asses, i.e. The Crew, to the Booty 'N Back? Can I protect the Booty from Pirates for the Duration of the Mission?

[5] Am I willing to go down with Vehicle or Vessel I am piloting for the sake of the Crew? If not, STOP HERE PLEASE! Thanks for playing. Don't let the door hit you on your Arse on the way out, but do scurry off now... with the other Rats.

[6] Am I ready to Share the Booty with Everyone who helped me with my Mission? Well?

[7] WHAT EXACTLY IS MY VALUE CONTRIBUTION TO THE MISSION? Hate to overuse the CAPS, but the crystal clear answer to that question is crucial. And please ALWAYS remember: HUMILITY BEFORE HONOR!

Congratulations and Now Welcome to the Funding Jungle! You are now ready for your first Funding Safari (of perhaps many). You have taken the first steps to establish your Value Contribution to the Mission. But remember, you are not the Mission. You are the Contribution to the Mission. The Mission CAN and DOES exist WITHOUT YOU, since there are plenty of Treasure Seekers (including Pirates) these daze. So please figure out what you believe is the Honest Value of your Contribution to the Mission, before attempting a Funding Safari. Otherwise, you most certainly will be eaten alive. And speaking of Funding Beasts, let's get ready for the Funding Animals we can expect to see on the trail ahead!

THE CONCEPTUAL MENAGERIE

Before we embark on our tour, let's double check the rigging of our mental models by going over some field terminology. Otherwise, you will quickly get lost and not even the sound of my voice will be able to bring you back. So please, Stay Alert!

[A] *The Medication, A Veritable Wonder Drug!*

It's Good Fer What Ails Ya! That right, it is called Investment Capital. You should be familiar with this concept, since you've likely been (ab)using your own Personal Investment Capital up to this point. In Financial Reality Terms, you are looking for an Investment Partner. A REALLY REALLY BIG Partner, no doubt, but an Investment Partner nonetheless. And make DAMN SURE you truly NEED the Medicine. Otherwise, it could KILL your Mission if taken needlessly. Got it? Good.

[B] *The Investors*

Duh. We will detail the various species a bit later on, but at this point it helps to realize who your Target Ideal Investors really are. Ask the Musical Question, "Who Are The Investors, And Whose Money Is It, Anyway?" Then Watch and Listen and Learn. You might be amazed, too. The Circle of Life in Action.

[C] *Smart Money vs. Dumb Money (aka the True Cost of Capital)*

There are basically just 2 types of Investors relevant to this discussion so far: Investors who have invested in or have analyzed (and subsequently NOT invested in) the same "Space" as your Mission and those who have no clue about the Space whatsoever. The former is called "Smart Money" relative to your venture. The other kind of capital will cost you dearly, much more so than the overt value exchange required to secure the "Dumb Money". In other words, the strings attached to Dumb Money will tend to tangle and perhaps strangle your Mission. Don't be stupid at so early a stage of your Mission. Plenty of opportunity for that later on, trust me.

[D] *Fair Value Exchange*

NEVER EVER forget that the name of the game is Fair Value Exchange. You are making a swap. Just like the marbles, trading cards, comics, porno, or whatever else you may have experience trading with in the past. There is no difference now except for the fact I had to point out this observation to you. And the Investors know the stakes are Trump-like, from your perspective only. Please go back now and clearly review Your Value Contribution from the prior section which you NOW handily happen to have. Just keep it real, ok? Thanks dog.

[E] *Value Creation Curve*

Strap on your skates and Groove the Curve, dude! Yes this is the Timeline for your Mission, divided into Definite Milestones. Each Milestone delivers tangible, valuable DELIVERABLES to the current Investors (remember that means YOU TOO). This process keeps everybody relaxed and happy since there is tangible evidence of progress and competent stewardship of the Investors' interest. As you successfully pass each Milestone, you should hear the distinct \$\$\$Ring\$\$\$ of the Value Cash Register. This means you have more Fair Value to Trade!!! See how funding timing works? Different rounds of funding mean that more Investors are joining The Mission at progressive Milestones. Just follow the Value Curves and things will be, well, groovy! :-). And always remember, Milestones Can Become Millstones Tied Around

The Captain's Neck. In other words, NEVER EVER accept investment funds for questionable milestones. You will most definitely be sleeping with Luca Brassi. You can run but you can't hide. Ooops, wrong article, sorry!

[F] *Liquidity Event Returns*

Ah, Liquid Refreshment ... DRINKS FOR EVERYBODY!!! Cash is King, Long Live The King! And It's Good To Be The King! Cash, aka Capital, is Fundamental for Investors, so get used to it. There MUST be calculated and definite liquidity points for Investors to exit The Mission. This is to accommodate a variety of needs and situations, so stay flexible. Remember, YOU ARE AN INVESTOR TOO! Say that again and again and again until you actually believe it. Otherwise, you will just not get \$\$\$it\$\$\$, ever. Liquidity events are the point at which Investment Returns are generally calculated, but there are so many financial (especially tax) nuances and veils here you'd think you were bathing in rosewater in Morocco drooling over a gyrating a pelvis or two ... ah, there was that time when we ... Ooops! I Did It Again! ... Just STAY ALERT & BE FLEXIBLE and you'll have a good time no matter what happens. If you get nervous, just review your Contribution that you created earlier to bolster Inner Strength.

NOW, WELCOME TO THE FUNDING JUNGLE!

Here they are for your inspection. Please keep all appendages, extraneous, conceptual or otherwise, within your Mission's Vehicle or Vessel of choice, at all times during the Funding Safari. No shit.

[I] *The 3Fs*

This is commonly known as "3F Money", Family, Friends, Fools. This is a very tricky and touchy beast. If you approach it incorrectly or otherwise press its buttons you could be in for a nasty surprise later, which would DEFINITELY detract from your mission. Best to avoid this funding source if at all possible, unless you possess quite a deep understanding of human emotional structure and psychological motivational dynamics. Or perhaps you are willing to learn about said subjects the hard way whilst piloting your vessel during The Mission...eh?... Good, didn't think so ... Go Professional, Early and Often.

[II] *Angels Everywhere*

For early stage Missions, this is your best bet for successful funding, if you are well prepared. How? Well, by making sure you are only talking to Smart Money Angels, as discussed earlier, namely only Investors familiar with the so-called "Space" of your Mission. Just make sure you are in a HIGH VALUE / HIGH OPPORTUNITY SPACE. Seems obvious, but you'd be surprised. And Angels can enlist other Angels and most are quite excited by early stage, high Capital return opportunities ... they generally understand the inherent risks involved, especially if it's truly Smart Money. Of course, to get that experience and "seasoning," Smart Money may actually have been Dumb Money in a prior incarnation. No matter, It's Smart Money NOW!

[III] *Institutional*

There are many types of institutional investors, and it is vital to know what kind of animal you are approaching lest ye be trampled!

Think Partners, Customers and Public (non profit) Institutions. They all have a vested interest in the success of your Mission, so why not ask them to join your Crew? Just be sure you understand your Mission extremely well before deciding who to add to your Crew. Each type of Institutional Investor requires a distinct approach and vocabulary in order to be successfully engaged. Think WIN-WIN-WIN. Otherwise, you could be just asking for a Mutiny instead of an Investment Bounty.

[IV] *VC Funds of All Shapes And Sizes And Colors*

There are sooo many different types of Venture Capital Funds and each has a purpose, a Mission you could say, of its own. Make ABSOLUTELY SURE your Mission is truly in alignment with the Mission of the VC Fund in question, assuming you've already qualified it as Smart Money. Do NOT attempt to adjust your mission to fit the Fund's Mission artificially. You will be Dead Meat on the Funding Jungle Trail and subsequently devoured by this beast if you are not truly Authentic with your Mission and Value Contribution. So, ask specific questions to assess your alignment and MAKE SURE TO HIGHLIGHT DIFFERENCES. Do this up front for everyone's benefit, since it will save everyone's precious and irrecoverable TIME, and stand you in good stead in the Investment Community.

Awwwrighty THEN!

You are NOW READY to be successful on your Mission!!!!!! Now go out and make me PROUD! And make us some GREAT INVESTMENT RETURNS, TOO!!!!!!

BOOTY CALL!!! HOWDY PARTNER! C'MON IN! HOW 'BOUT A DRINK?

FIN

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