

# STRATEGIES FOR SMALL AND MID-SIZE BUSINESSES

# FP ENTREPRENEUR

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PETER REDMAN / NATIONAL POST

Sean Wise, managing director of Wise Mentor Capital, says one key to raising money is to pitch to the right investors.

Entrepreneurs learn the secrets of getting funds for their ventures

## Keys to the capital

BY ELISA BIRNBAUM

A group of entrepreneurs gathered recently in a boardroom at Ernst & Young in Toronto with one common goal: getting beyond the thin green line — the imaginary division between entrepreneurs and venture capitalists.

The eager students were participants in a boot camp called Raising Capital Today. Led by Sean Wise, managing director of Wise Mentor Capital, a venture-capital consultancy, the event was designed to provide some strategic direction in the often-elusive and frustrating hunt for venture capital.

Most of the students were preparing to take part in the Canadian Venture Forum in Toronto tomorrow and Wednesday, when they will pitch their case for funding in front of more than 60 investment firms from Canada, the United States and overseas. More than 90 companies are seeking more than \$480-million in growth and expansion capital. Over the past seven years, about 40% of companies that made presentations at the annual forum eventually received funding.

Mr. Wise says this year's presenters have reason to be hopeful. "The CVCA's [Canadian Venture Capital Association's] 2004 numbers show the first increase in venture capital disbursements since the [technology] bubble burst. So, if you are an entrepreneur, now is a great time to be raising capital."

For the average entrepreneur, however, fundraising remains a difficult task. And one fact is clear: A good idea and a strong work ethic are no longer enough.

Like those at the boot camp, business owners know they need a lot more in their entrepreneurial arsenal to convert investors into believers.

Doug Hewson, managing partner at Ottawa-based Axis Capital Corp., says the first mistake entrepreneurs often make is approaching investors with the assumption their companies are eligible for venture capital without first assessing their own chances. A company should first ask itself if it has a unique and sustainable competitive advantage that it can exploit in either an established market that is greater than \$1-billion and growing, or in

think they should meet 20 to 30 investors and hope they win the numbers game. However, Mr. Wise cautions, "the best plan is to focus on three to five investors with funds that are interested in your product and the industry it represents, as well as the particular stage you're at, and the degree of traction you've attained."

Vikas Gupta, president of TransGaming Technologies, a registered Xbox and licensed PlayStation 2 developer, agrees. In his successful search for funding, he "looked at which institutions were providing seed stage capital and were also familiar with our particular technology

compelling reason or reasons to solve the problem."

If the technology is not different from every other technology, and if it doesn't solve a significant problem, Mr. Axon says, the meeting will be brief.

Perhaps the most significant requirement most venture capital funds have, however, is evidence of a good team behind the idea or product. "Investors would rather invest in a 'B' business run by an 'A' team than vice versa," Mr. Wise says. Companies looking for \$2- to \$5-million in venture capital need not be complete, but at this stage, the teams must boast strong management made up of equal parts: domain knowledge, business acumen and operational expertise.

There are exceptions. Venture capital company Brightspark, for instance, focuses on seed investing. Mark Skapinker, a founder and partner of Brightspark, says the strength and completeness of the entrepreneur's team is not as important as whether there is a good business opportunity. Once Brightspark has confidence the entrepreneurs know their field, it takes the entrepreneurial firm under its wing and a management team is organized.

Knowing your competition is another key to getting ahead in the funding game. One of the bigger pitfalls for many entrepreneurs is the erroneous belief they don't have any competition. But, Mr. Segal cautions, "Every idea, every product and every service has competition. This is a 100% rule with no exceptions."

The message for those searching for capital is clear: Do your homework. A sound strategic plan remains the best ammunition.

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### *'Focus on three to five investors that are interested in your product'*

an emerging, hyper-growth market with the potential to become an established market of greater than \$1-billion.

If the answer to the above is yes, Mr. Hewson continues, "then the company should further qualify itself with respect to whether its intellectual property, business model, or other component creates a barrier to competitors entering their target market." Only after diligently assessing these and other issues should entrepreneurs contemplate approaching investors.

What of this next step? What can business owners do to get in the doors and engage in successful meetings with the funding gatekeepers? To start, it is imperative that companies understand the investors to whom they are pitching, and that they pitch selectively. Many entrepreneurs

space." In the end, both Covington Capital and TD Capital were good matches. Finding the right fit is also a key motivator in Mr. Gupta's decision to look for additional capital in the United States.

Another must, says Robin Axon of Ventures West, is getting a good referral. Seldom will a venture capital fund, particularly one focused on early-stage funding, give you even a second glance unless someone trustworthy — an entrepreneur who received funding in the past or a reputable colleague — brings the deal to their attention.

Next, you have to get a venture capital fund to believe in you. Rick Segal, of JL Albright Partners, says, "During that first meeting you have to make certain things crystal clear, such as the problem you are solving, the costs of that problem, and the