Why funding doesn't have to be a founder's job

The head of a scaling, fast growth company wears many hats. Being the business's corporate finance adviser doesn't need to be one of them.

Regular attendees of entrepreneur forums, small business conferences and the like will have seen the subject of fundraising come up time and again. As countless tips and potential pitfalls are shared by founders and investors alike, those that have been there and done that, as a founder yourself it might appear that navigating the funding process is solely your responsibility. And a daunting one at that to an already busy founder trying to run and grow a business.

Why funding doesn't have to be a founder's job Cont.

While the decision on fundraising ultimately begins and ends at the desk of a founder or CEO, the job of finding the right funding, at the right time, and running that process is a task that in many circumstances might be better delegated to a professional adviser. Often, founders can feel pressured to take on this responsibility themselves, fail, and only at that point do they seek out an adviser.

"The main problem with this scenario is that, once you've put your investment story out to the market and not got the result you wanted, it can be difficult to get a second hearing," says Zuleika Salter, Co-Head of Private Growth Capital, finnCap Group. "An important element of the adviser's role is to pre-empt any potential hurdles and work with management to ensure these are addressed before going to market."

When is the best time to find an adviser?

A founder looking for seed capital to start their business might go to friends and family as a first step to help grow what is essentially an idea. This would certainly come under a founder's remit – finding capital from people who know you can deliver on a concept. This might also go as far as finding other high net worth individuals or angel investors, who typically are more willing to take on risk.

"It is often at the point of Series A financing that things start to evolve," says Zuleika. "Series A is generally the first time that institutional capital is introduced in structured way – in other words, the investors are likely to request a more formal structure to protect their downside risk, which in turn can impact a founder's rights and control over the business. At that point, it's wise to have an adviser by your side."

As a founder you might have impressive connections and have a good network of friends and acquaintances who know a lot of venture capitalists. However, without a very broad and agnostic view of the entire market, you may still be doing yourself a disservice. Put simply, a huge amount of time can be wasted, distracting a founder from running their business, and there's a chance you won't find the right partner and even if you do, you may not achieve the best deal for your business.

"There might be a handful of investors that a founder finds from a direct approach, from whom they receive term sheets," Zuleika continues. "Be that as it may, the founder won't have a run a proper competitive process as they've only captured a small amount of the addressable market."

"Ultimately, maintaining a full, relevant network of investors, speaking to them constantly, finding out where their heads are, and ensuring we're speaking with all of them, is a full-time job."

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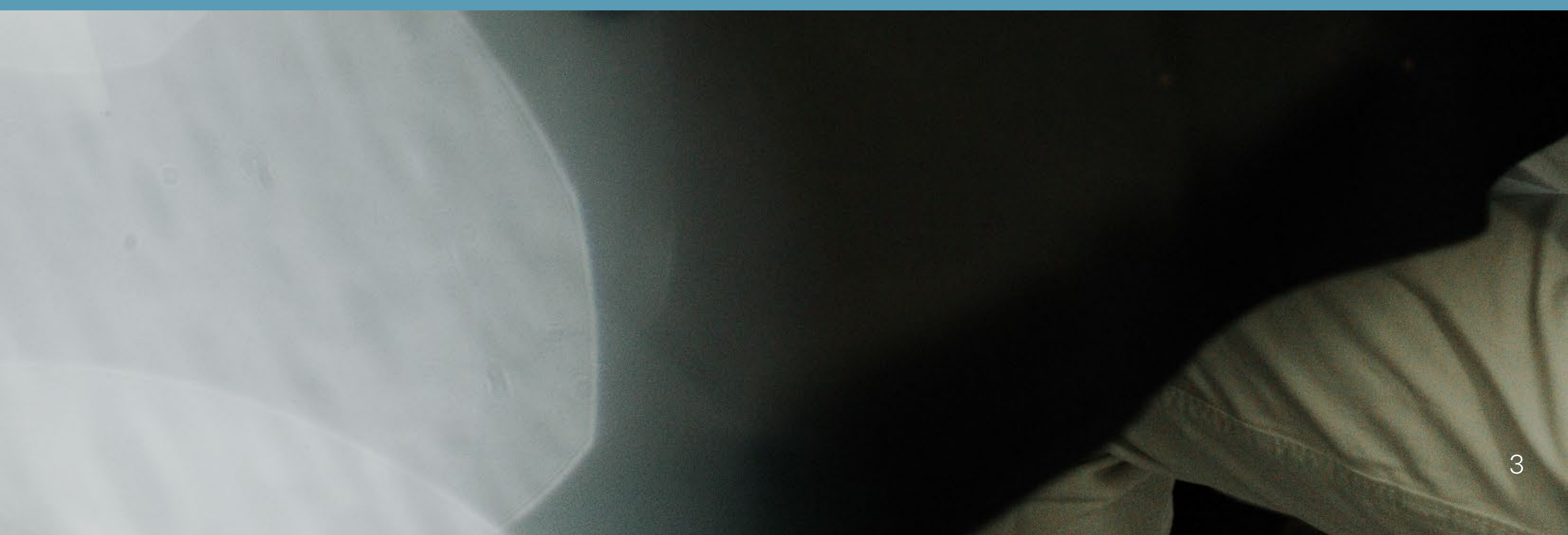


When is the best time to find an adviser? Cont.

The prospect of paying an adviser might seem like a sting in the tail, when you could be going out and getting introductions to the investors you know, by yourself. But by not having a complete view of the investor ecosystem, this can be a false economy and a poor use of time.

“A founder may come to us, having been unsuccessful in their fundraising process, despite talking to 50 investors,” says Zuleika. “We could put them in front 15 investors and receive competitive offers. This is simply down to the fact that we know who to speak to and what will interest them about the opportunity.”

In other words, when it comes to pitching, a skilled adviser ensures the founder is coming to the investor fully prepared. They know the different questions that different investors will ask and have predetermined the answers. Approaching each investor in the right way will elicit the best response from that meeting.

Let’s say you’re an ecommerce company with a strong brand image – one investor might be particularly interested in creative branding, while another is passionate about great consumer tech. The pitch is therefore tailored to focus on exploring each investor’s individual areas of interest, showcasing that part of that business that is likely to excite them.

How do advisers work with founders?

The first port of call is for the adviser and founder to work to gather the business story together. A founder will usually come to the table with some prepared showcase material aimed at investors. The adviser will work with this material and assess what stage in the business cycle the company is at currently, and accordingly draws up a shortlist on the best investor target audience.

"Once we've identified the target audience, we optimise the pitch deck to ensure we're addressing the likely questions an investor will ask," says Zuleika. "Once we've fine-tuned the business plan, we organise for the management team to pitch the business to select target investors, negotiate offers on their behalf and managing the deal execution."

The big benefit of all of this is of course to give founders their time back, so they can continue to run their business. But it also brings context, transparency and expertise at a critical time. With a few offers on the table, the adviser will go back to the founder and explain what constitutes standard market practise and what doesn't; they would help the founder visualise the reality, implications and potential impact of the terms of each of these offers; and help them understand more about which is the most valuable offer for their business.

"Shared values and alignment of vision are very important when considering an offer and as adviser we can help clarify that for a founder and offer guidance so they can make an informed decision," says Zuleika.

Another important point to consider in all of this is the emotional wear and tear that inevitably accompanies this process. The entire fundraising process – especially the diligence and legal parts – is a tense time with, certainly for a passionate founder, a lot at stake for their company. Having an adviser acting as a middle person between the investor and founder can help to relieve some of this tension.

Zuleika adds: "At the end of the day this investor will sit on your board and have a say in the running of your business, so you want to maintain a healthy relationship with them that comes from a good starting place."

What's next?

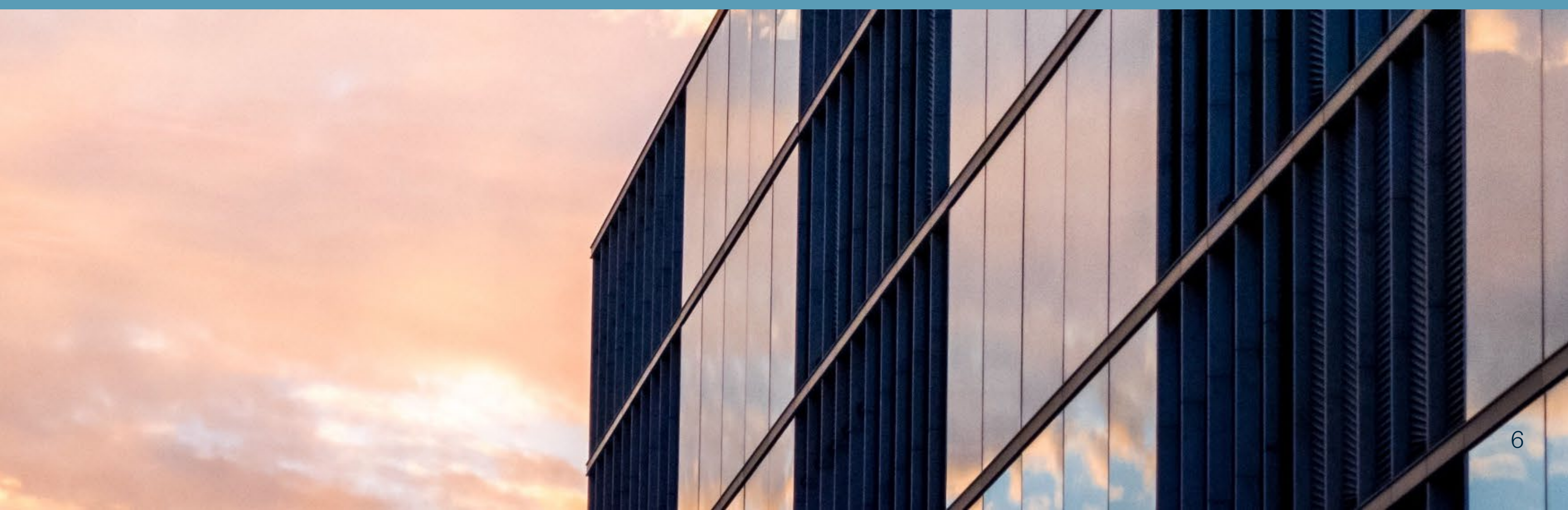
Fundraising is usually not an isolated event and no sooner has a founder secured one round of funding, they should then be looking towards the next round.

"If we know that the company will need more money within a year or so, we would be looking for investors that can follow on with a further funding round, and would likely advise on that," says Zuleika. "Moreover, something to generally keep in mind is ensuring that the first round of funding isn't prohibitive to a second round – this comes back to alignment and control. This does happen, and leaves the founder in a difficult position. Again, this is something that your adviser can be mindful of."

On a basic level, coming to an adviser first for fundraising guidance ensures that a founder saves time. You can rest assured that the adviser has an overview of the investment ecosystem and can vet the target investor list that is right for your business. They can ensure you understand fully the implications of any offer on the table and carry out the often-stressful due diligence and legal proceedings that come with accepting an investment, as well as future proofing the terms for future funding rounds.

Many founders come to an adviser first because they have little experience or knowledge of the funding process and need trusted guidance. However, it's often the case that founders – especially those with a business background, that perhaps frequent the entrepreneur forums, and that have an established network – will approach an adviser only after they have exhausted their own fundraising opportunities. Not only has this already taken up valuable time and energy, potentially by fishing in the wrong pool investors from the off, that track record can even jeopardise the chance of receiving the investment that's needed further down the line.

Having the right adviser by your side from the beginning ensures you have the best chance of creating maximum value for your business.



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