

BOULDER COUNTY BUSINESS REPORT

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Startup capital sometimes toughest to raise

By Caron Schwartz Ellis

When it comes to raising money to get a startup off the ground, the adage, "Build it and they will come," does not apply. Money is hard to raise, whether you're in the drawing-on-a-cocktail-napkin phase, have a prototype to show potential investors, or even after you have customers. "It takes so much more time than you ever realize," says Jim Pollock, executive director of CTEK Boulder, a business catalyst that's part of the statewide CTEK network. "Go as long as you possibly can without formally looking for money; but rather, be doing a lot of parallel, low-intensity efforts to meet people along the way so that the money is easier to ask for once you really need it." Rule No. 1 is "live cheap, think cheap," according to Pollock. "No matter what stage you are in, always spend each dollar like it's your own, because it is." The further you can take your idea toward a product without outside funding, the more time you will be able to spend actually building your business instead of raising money. It will be easier to get money, and the money will be the "cheaper" because the further along you are, the higher the valuation on your company, meaning you will have to give up less equity for the amount raised. One easy way to "live cheap" is to avoid renting office space. Pollock suggests working out of your home, rotating with the other founders' homes, and using coffee shops that have free Wi-Fi. Small amounts of money, between about \$10,000 and \$100,000, are considered "friends and family" financing, says Alex Sammoury, director of CTEK Longmont, also affiliated with the statewide CTEK and also known as the Longmont Entrepreneurial Network. Anything more than \$100,000 is the angel arena. The first thing to consider, according to Sammoury, is what are you going to do with the money - write a business plan, build a prototype, hire engineers. "Investors, although they are willing to take a risk, they don't want to throw the money away," Sammoury says. The next thing is determining how to measure what you've accomplished with the cash you've raised. "If you follow through on milestones, raising capital will be much easier next time because you will have a built a trust." It's only after those two factors are determined that you decide where to get it, Sammoury says. "Where's that low-hanging fruit? It is a father and mother, grandmother, uncles? Or is it going to have to be debt financing like an equity line on a home or other assets you can pledge as collateral?" If and when more money is needed, then it might be time to turn to angels, outside individuals who are interested in investing in startups. But angels have become choosier in recent years, Sammoury says. "Angels have stepped up a notch in the investment world as they have become more sophisticated and created their own groups. They look at it more from a venture capital perspective - do they have a clearly identified market, a strategy to go to market, intellectual property, how defensible is the intellectual property, have they identified potential customers, do they have an exit strategy? They want to look at the total picture. They don't want to throw in a few dollars and see what happens." Entrepreneurs who are looking for cash don't have to go it alone. The Boulder Valley is home to a number of organizations that can help startups along the fundraising path. The Boulder Innovation Center has a program to help existing companies with \$100,000 to \$1 million in annual revenues. The program costs \$750 per month and gives clients access to business advisers, including the center's natural products or software "blue ribbon" panels, depending on their type of business. Clients also receive discounts on professional services including legal and financial expertise. Collier had been hoping to launch a "believer capital" program in 2006 to train entrepreneurs to raise between \$250,000 and \$500,000, but the program did not yet materialize. "Instead we've decided to offer a series of educational seminars beginning sometime in the second quarter of 2007," he says. Longmont and Boulder CTEKs, as well as CTEK centers in Denver, focus on working with early-stage, pre-revenue or first-revenue companies. The organization has a database of about 800 volunteer advisers who will spend time providing advice and connections, along with early introductions to angel investors. CTEK also sponsors networking events and educational seminars to help early-stage companies. Each CTEK center also can handle five to eight full-time clients. Longmont and Stapleton can provide inexpensive office space (about \$250 per month), while Boulder is completely virtual. The centers charge \$650 per month along with a "success fee" in the form of a debt note secured by the company (not by the founders) that is convertible into equity at a future significant funding event by angels or institutional investors. Since the note is secured by the company, if it fails the note disappears, and the founders are not held responsible. Clients that sign up for four months incur a \$10,000 note; for those that sign up for one year or longer it's \$25,000. *Contact Caron Schwartz Ellis at 303-440-4950 or csellis@bcbr.com. **Where to turn***

for fundraising help _ Boulder Innovation Center - 303-444-2111. Courses and programs for entrepreneurs _ CTEK - www.CTEK.biz. Seminars, workshops, networking events. _ MIT Enterprise Forum - www.highestmountain.net/mit. Three meetings per year about startup opportunities and funding. _ Rockies Venture Club - www.rockiesventureclub.org. Monthly meetings that link entrepreneurs, service professionals and funding sources _ Small Business Development Center - bouldersbdc.com. Counseling, training, workshops. _ TiE Rockies - www.tie-rockies.org. Monthly meetings for networking, education and partnership opportunities.