

What to Look for When Considering Seed Financing – A Blog Post by David Goldenberg

Taking seed investment should involve more than just finding someone to write a check.

To say there has been a lot of disruption in the markets in the last few months is probably an understatement. However, the early stage financing market has held up remarkably well. In addition, many businesses have pivoted, and retail is starting to reopen, but in new ways with new needs. All of this creates opportunity for new companies to fill the new niches. If you have a new idea that you are getting off the ground, outside financing is often an early consideration. Most people will bootstrap or rely on friends and family for their first round of funding. If you have done that, you may be considering angel / seed financing to take your idea to the next level. One might think any source of funding is a good source of funding. However, that is not always the case. You and your investor or investors will be in a relationship for several months to several years, depending on your business plan and your exit strategy. Consequently, it's a good idea to consider a few issues before jumping into an investment agreement.

Consider Your Style and How You Work Best

The only thing needed to be an angel is money to invest. Obviously, people with money and the desire to invest in new companies come in many shapes and sizes. Some angels regularly invest, scanning the web and their connections for opportunities. Others may invest sporadically. Some angels are active in monitoring and/or helping their investments. Some take a completely hands off, silent approach. How will you feel if your angel wants to replace you at the helm of your company? Or wants weekly updates or for you to change company direction or modify or expand your product base? There is no one right answer, but before aligning oneself with an angel, it is best to determine their expectations.

Can Your Angel Provide Added Value?

While all investors provide money, some angels also offer added value. This added value comes in many forms. Those with direct experience may offer their advice or share their experiences and lessons learned. Some angels can offer introductions to customers, partners or other essential people in the industry. Perhaps your angel can offer introductions to other people in other industries, who can advance your business or enhance your business team.

Important Questions

Asking certain questions of a potential investor will assist you in determining if an angel is a match for you. These include the following:

- ➔ How many deals have you done?
- ➔ How long have you been investing?
- ➔ Tell me about your favorite investment. Why is it your favorite?
- ➔ What's your investment approach?
- ➔ Are there any control terms that would make or break the deal?
- ➔ What is it about these control terms that make them essential to you?
- ➔ What are your performance expectations?

Asking certain questions of yourself may also assist you in determining if an investor is a good match for you. These include:

- ➔ Do I trust this person?
- ➔ Do I believe their background and experience will enhance my business?
- ➔ Am I ready and willing to let go of complete control of my “baby?”
- ➔ Do I want to do business with this person?

Investors can be hard to come by, regardless of the nature and quality of your product and your market. However, while you may benefit in the short term by closing on funding, selecting an investor who is not a good fit for your business can create issues for both parties in the long run.