Raising capital requires business savvy

Tri-City Herald, September 26,1999

"Ignorance is bliss," goes the old saying. But when you're trying to establish a new business, ignorance about obtaining financing could create a not-so-blissful outcome, even delaying your company's growth.

This sobering caution was part one of several points made by William Van Valkenberg, a business lawyer from Seattle, at an event for local entrepreneurs in June. Van Valkenberg spoke at the first meeting of the Tri-Cities Venture Group, hosted by the Pacific Northwest National Laboratory. Marv Clement of the Laboratory's Economic Development Office launched the Venture Group as a resource for upcoming technology-based businesses in the Mid-Columbia area.

Van Valkenberg's firm specializes in legal assistance for startup businesses. Many of the firm's clients are entrepreneurs seeking money to start new companies based on high-tech services or products.

At the Richland meeting, Van Valkenberg spoke to about 35 local business owners, entrepreneurs and community economic development stakeholders. He discussed how new companies can position themselves to raise capital:

- **Go beyond a dream to a business opportunity.** This means having a business plan, a management team and the ability to raise capital. Technology-driven companies should be based on a patentable innovation that will create significant value for the customer. "The market is merciless," said Van Valkenberg. "You must have a markedly better product or service than your competitors to succeed. "
- **Know where to get money.** The most flexible sources of capital are personal wealth, friends, family, government grants and foundations. More common sources, however, are customers and investors. Investors can take the form of joint ventures where one partner contributes capital and the other contributes the service. Another investment source, venture capitalists, draws from a funding pool to invest at various stages of a business. Private investors, called angels, often have a strong knowledge of a particular industry; many are personally motivated by the excitement of helping bring an innovative idea to the marketplace.
- **Use "smart investors" for early stage financing.** Van Valkenberg distinguishes between "dumb" and "smart" money. Dumb money, he says, comes from investors who don't participate in the business, merely contributing money and expecting a return. Smart money comes with tangible contributions that increase a company's potential for success. The smart-money investor understands your industry well enough to evaluate your plans and make strategic recommendations. He or she also connects you with key business contacts who can help shore up your weak areas and move your company to the next level.
- **Understand investor accreditation.** Investors can be accredited or unaccredited. Because of securities laws, accredited investors pose the

fewest complications and risks. Using an unaccredited investor in an investment mix, Van Valkenberg said, can increase personal liability, complicate reporting requirements and may scare off accredited investors.

U.S. securities laws define accreditation for investor individuals and organizations. A key criterion is annual assets or income. Accredited individuals such as angels must have a minimum income of $200,000 annually ($300,000 with spouse) or net worth of at least $1 million. An accredited investor organization, such as a bank, investment company or nonprofit organization, must have assets of $5 million or more.