

## 6.5: Your Equity Circle

### 6.5.1 The fabulous Fs

Your first taste of equity will likely come from your family and friends and maybe some fools. In a university environment, faculty frequently add to the mix, though some argue that they fit into one of the first three categories. When these people invest money in the early stages of your company, it's called a seed round of investment. Seed money helps pay for the business plan and the prototype, and supports you while you find additional management talent and secure the next round of financing.

### 6.5.2 Angel investors

In the wake of friends and family come angel investors. As we mentioned previously, angel investors are affluent individuals who provide capital for a start-up, usually in exchange for ownership equity. The friends and family round of financing comes from your own personal relationships with people. But angel investors are typically not people you know. They're people who are judging you based on the business concept, the team and the opportunity for their capital to propel the company to the next level.

### 6.5.3 Building your credibility

To secure angel financing, you need to make a credible case for your business. You may not have tremendous successes under your belt, but if your business concept is worth anything, and if your entrepreneurial skills are up to the task, you'll find a way to assemble a team of advisors who have more experience and credibility than you do, and will let you borrow a piece of their reputation as currency when you present your business to the angels.

Typically, a group of angel investors contribute less than \$1 million. Often that amount is significantly less with an unproven team and an early stage concept. Your task is to make that money work. You need to hit such significant milestones with that capital that you can use your accomplishments to secure the next round of money.

### 6.5.4 Venture capital

How do I apply? People often assume that venture capital funding is akin to a bank loan process. Recently, online firms have made moves to democratize the venture capital process, but a fair number of these have failed. In reality, securing venture capital remains a complicated process without a specific formula for success. Venture capital access is a networking game. It is not democratic, and because of several factors, it is inherently elitist. If you live in a major metropolitan area, you have better access to VC resources (though [www.villageventures.com](http://www.villageventures.com)) is aiming to change that. Unfortunately, if you look like the VCs you're targeting (who are frequently white, male, Ivy Leaguers), that may also up your chances of success.

That said, VCs are also hungry. Once you're in the door, your presentation will stand or fall on its own merits. Alternative VC sources and investor networks are a good resource if you don't fit the above profile. A source for venture capital for women is [www.springboard2000.org](http://www.springboard2000.org). Entrepreneurs from the Indian-American community should investigate [www.indianceo.com](http://www.indianceo.com). If you're affiliated with a college or university, visit [www.universityangels.com](http://www.universityangels.com).

Here's a general framework for thinking about your business, the type of capital that is appropriate, and some of the key criteria that may help secure the jet fuel of a high growth business. (Of course you have to do something productive with the money and provide a return to your investor.) Here are some basic questions that an investor asks to assess a business.

Is the management team proven? Does its experience reflect its competence? If it's not proven, what are its attributes? How can the missing elements be filled with additional seasoned managers? How committed is this team to the business?

How big is the market for this product or service? Typically, an equity investor wants to see a market for a technology product that is, in total, greater than \$1 billion. A good market is one in which customers feel real pain, where they will readily adopt your product because of an immediate and urgent need.

What does the competition look like? Is this company the first to market? Is it defining the market? Will it be able to quickly gain market share?

Is the product/technology difficult to replicate? Does it have some proprietary position (meaning patents or other intellectual property protection)? Will it take the competition a long time to replicate what the company does?

Does the business plan present a credible story that suggests that the company can forecast results? The financial plan is a financial expression of your business strategy. It shows the interrelation of timelines, functions, and hires, and reflects a detailed understanding of the business.

Capital intensity. Is the business appropriately scaled to the money that might be available? Your business can't require too much money to be successful.

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