



## A look at various funding options

For this final segment on funding programs, I am going to discuss venture capital, angel investors and grants. Learning what these funding programs are all about may help you to understand if they are an opportunity for your business or just wishful thinking. For all three of these programs, I am only able to give general information. There is a lot of variety that exists and as soon as I state one thing, there will be an exception.

### VENTURE CAPITAL

Venture capital tends to deal in large dollars. A starting range would be around \$1-2 million and goes up from there. The money comes from investment pools created by multiple accredited investors.

Venture capital firms are very sophisticated and are looking for large returns on the investment. Generally they take a share of ownership and have representation on the Board of Directors. They want to get in for a limited amount of time, maybe three to ten years then move on to the next opportunity. Exit strategies may include taking the business to an Initial Public Offering (IPO) or looking for the business to be acquired.

Many venture capital (VC) funds have targeted areas for their investment such as biotechnology, nanotechnology, or software development. Because of the need for a high return, they look for new product development and new markets.

Most VC firms are not willing to come on board at the idea stage. The product should be prototyped and tested and ready to hit the market hard and heavy. I am seeing more interest in early-stage funding lately.

VC's are not looking at restaurants or hair salons or small machine shops. However, there is a lot of new innovation that comes out of Utah and they are very interested in that new innovation.

### ANGEL INVESTORS

Angel investors are the next step down. In reality, angel investors can be anyone; Grandma or the friend next door can be an angel and many times are.

First we will talk about formal angel investor groups. These groups look a lot like the VC's, however they deal in smaller dollar investments in the range of \$250,000 to \$1 million. Just like the VC's, these groups have a pool of funds contributed by multiple individuals. They are looking for a substantial rate of return and they hope to exit in a few years. They are most likely still looking for new technology or new markets, but are a little more flexible at looking at any opportunity that offers a good return. They are more likely to do early stage funding than a VC.

Informal angels are generally family, friends or businesses with an interest in your endeavor. They tend to be unsophisticated and may not evaluate your opportunity based on return. They

tend to be more interested in you and giving you an opportunity to be successful. There is no listing on the internet or in the phone book for these people; you have to find them on your own. If you anticipate needing VC capital down the road, be cautious about diluting your business ownership with a lot of these types of investors. They can be your angel at the idea stage but a burden later on.

## GRANTS

Grants are very misunderstood thanks to the grant workshops that come to town and those late-night infomercials. There is a selection of grants available, but the criteria to qualify is very narrow.

First, it is very rare to see a grant go to a for-profit business. There is no bucket of funds in existence to help everyone start-up their dream business and it would create a total collapse in the economy if there was. There is a selection of grant programs available for not-for-profits, but you have to know the agency and the programs.

A set of grants that are available for for-profit businesses are referred to as SBIR (Small Business Innovative Research) grants. Most federal agencies including the Department of Defense, Department of Transportation, Department of Energy etc. are mandated to set aside funds for research and development.

Once to twice a year, these agencies put out solicitations for technology they would like to see R&D performed on. If your existing company has the capacity to work on this research, you may submit a proposal by the closing date and potentially receive grant funds to assist with this research.

Grant funds are dispersed in phases. Phase I is idea stage. Funding may be as high as \$100,000 for development of the idea. If it then looks promising, you may apply for phase II funding that will assist further R&D. The Phase II funding may go as high as \$850,000, possibly more. Phase III is taking the product to market; no grant funds are available to assist at this phase.

The business must prove the capacity to perform when applying for an SBIR grant. This means that you must already have the facilities and manpower in place to perform.

Another closely related grant program is referred to as the STTR. This program is very similar to the SBIR, but must have a relationship in place with a university or research lab.

And that brings us down to the hype that there are grants available for minorities, women, veterans and others. I can't say they do not exist, but they are few and far between. Most people, who attend the free grant workshops, end up paying hundreds and thousands of dollars only to lose it all. So next time you are watching Mathew Lesko on TV or hear of the National Grants Foundation free workshop, save your time and money. If there is a grant available for your circumstances, you should know the agency offering the grant. Don't pay someone to find that grant for you to start or grow your business.

By the way, if you have received a grant for your business, please let me know. I would like to be more positive, but see way too many people lose their money.

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