# Give A Little, Get A Little (*Entrepreneur Magazine* – April 16, 2001)

---

**Q:** I'll be meeting with some investors soon to attempt to obtain financing for my start-up. Should I expect to give up a great deal of control of my company if they decide to fund me?

**A:** One of the biggest questions involved in the deal-making process for business financing is what the two sides have to give up to get a deal finalized. The entrepreneur has concerns about ownership positioning and relative control of the company's future direction through a majority equity stake. But that same issue is actually one of the biggest concerns for the investors who provide the growth funds for the business. The funding partners also want to be sure there's a tangible means of monitoring their ownership stake in order to provide a measure of risk reduction given the potential downsides to launching a new venture.

Owner-entrepreneurs must get out of the mind-set that capital providers are going to "give" them money and then be content to sit on the sidelines and watch the enterprise grow (or crash and burn) from a distance. In the same way that the owners want to get as much funding for as little ownership transferred as possible, so, too, do the investors want to put in as little capital as possible in exchange for as large a stake as they can secure.

The key to coming to agreement on a funding deal is to know going in what a reasonable positioning is for both parties, and then head in that direction with clear goals in mind. First, the entrepreneur must have a very solid investment schedule in place. This "use of proceeds" must delineate exactly how and when funds raised will be allocated. For example, it's not uncommon for a new client to tell me when we first meet that he wants to raise $500,000. My next line of questioning is simple. "OK, what are you going to do with that money, and at what points in time will you need it?" So I would help prepare that use of proceeds alongside a calendar, and it might look something like this:

Month 1

$50,000: tenants' improvements of facility

$25,000: office equipment secured

$25,000: licensing agreement contracted and signed

$200,000: working capital cash flow management account opened

Month 2

$40,000: distributor deal finalized and signed

Month 4

$20,000: first major trade show

Month 6

$40,000: two additional trade shows

Month 8

$50,000: second national distributor deal finalized

Month 9

**$50,000:** Web site catalog finished and launched online

Second, the owner must now present the proposed revenue stream that will happen within the time-frame of the "use of proceeds" investment schedule. In this same example, there might be no sales in the first three months, with revenues starting in month four (at the first trade show). Once the investors see the entrepreneur has a tangible plan to generate sales, the risks to the enterprise can now be noted, and the relative ownership stake in the firm can be determined for the capital providers.

From the investors' positions, the prior numbers and timeline are certainly helpful, but they are also not guarantees. No one is going to fund your business from a distance. Investors will want to have a material representation in how the company strives toward meeting specific sales goals and managing costs. This will come either through seats on the board, senior managerial positions or the placement of a representative among the senior managers. It's unreasonable to assume an angel investor or capital fund will provide funds and then be comfortable stepping away from daily operations and allowing the owners to run the business without some means of systematic oversight.

The final issue is to determine what percentage of ownership the $500,000 (from this same example) represents. There are numerous methods that can be employed to calculate this, so I'll deal with this in detail next month. But know this: Early-stage investors are taking on a great deal of risk in funding a new venture. If the entrepreneur maintains majority control for all decisions and company directions, investors will insist on detailed disclosure and regular oversight in order to monitor the firm's progress and limit risk exposure where possible. So be prepared to negotiate a deal that's fair not just for you and your firm, but also for the ones putting up the money that makes everything happen.