

What should I be willing to give up?



Mark Lundquist, CEO of Fulcrum Edge, held senior leadership positions within the aerospace and defense industries before shifting to executive roles in the automotive and industrial marketplace.

One of the biggest worries for companies considering private financing options is what they will be asked to give up in exchange for funding. During this contemplation time entrepreneurs balance the need for money against an imagined loss of control. Frequently, business owners choose to self-fund their company with limited finances rather than risk losing control by accepting large cash infusions. Is this a good plan? Let's examine a few of the most common myths that companies face when seeking investment.

Myth 1: You will lose control of your company

It depends. In order to properly determine the correct response to this myth, one must insert the missing adjective: some control, no control or all control. The good news is that virtually no investor takes complete control of a company. Therefore, the remaining choices range from no control to some control.

Investors invest in companies because the reward outweighs the risk and, ultimately, the reward will hopefully pay off better than traditional investments. These rewards typically take the form of interest on the investment (usually deferred for some period of time) and some percentage of ownership in the company that will hopefully accrue in value as the company grows. The payback for investment comes

when the investor cashes out, is bought out or the company goes public.

Business owners should expect private financiers to demand a percentage ownership in the company. The level of ownership reflects the level of investment compared to the realistic investment by the original

founders. Cash helps companies grow. The ultimate question is: Would you rather have ten percent ownership in a \$200 million company or one hundred percent in a \$200,000 company?

Myth 2: You must have an exit strategy

Wrong. The answer depends on the type of investor and their expectations for pay back.

Angel investors range from very hands off to those that want direct involvement in the direction of the company. Matching the needs of the angel investor and the business owner is just as critical as the money. Find the right partner and the relationship works well for everyone.

Venture capitalists on the other hand

Cash helps companies grow. The ultimate question is: Would you rather have ten percent ownership in a \$200 million company or one hundred percent in a \$200,000 company?

earn their money by investing wisely, growing a company quickly and effectively, and then nearly always exiting the market through merger, sale or initial public offering (IPO). If a business owner is searching for venture capital they should expect to sell off their company in four to seven years. The business plan should reflect potential exit strategies and anticipated timing.

Myth 3: I'll never have another great idea, so I must make this one count

This is one of the hardest myths to crack. Most people believe they have only a single chance to write one great book, create one great masterpiece or invent one great product. The reality I see contradicts this myth. Most business owners I have interviewed admit an entirely new problem: too many new ideas and not enough time. Starting a company frees the mind. Quickly new ideas appear: spin-offs, new applications, related products, different markets.

Don't let myths rule your decisions

Myths abound in the investment world because most people have never lived in it. Before you allow fear of the unknown rule your decisions, seek out professional help, meet with government-sponsored advisement organizations, or talk to other business people with real experience in starting companies. Then launch your company. Be willing to give up something to get the financing to make it grow. You can decide on the future of your company if you choose the right investor partner. Keep the faith that this will not be your only invention.

Mark Lundquist, Founder, President & CEO of Fulcrum Edge Inc., a business advisory and consulting firm. He cut his teeth in the aerospace and defense industries before shifting to executive roles in the automotive and industrial marketplace. The company helps individuals; organizations and businesses realize their greater potential. ■