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Boulder entrepreneur community discuss the realities and relationships of financing

By [Jensen Werley \(https://bizwest.com/author/jwerley/?member=guest\)](https://bizwest.com/author/jwerley/?member=guest) — October 23, 2018

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BOULDER — Entrepreneurs question whether there is enough venture capital and financing in Colorado, and three players in the entrepreneurial space sat down to discuss whether that's so and what to do about it.

The fireside chat titled "If you build it, they will come" was all about entrepreneurial financing. Moderated by Jared Crain, a partner at Berg Hill Greenleaf & Ruscitti LLP, it featured Gina Cornelio, a patent specialist and partner at Dorsey & Whitney LLP; Jason Searfoss, chief financial officer at Boomtown Accelerators; and Zoe Welz, founder and CEO

of Uzio Technology LLC. The event was held at BizWest's IQ Awards. IQ, in this case, stands for innovation quotient.

Funding can come from many sources. When a startup is in its earliest stages, funding usually comes from bootstrapping and self-funding. It can come from friends and family or, with a little maturity to the company, come from angel investors.

Getting those meetings with angel investors is usually a slower process than new founders might expect, Welz said.

"I'll find investors through LinkedIn or Angel List, then see who I have in my network and then set up a coffee meeting," Welz said. "I'll ask how I can get a warm introduction to said angel. Then, it's important to be transparent in your meeting with the angel. Some of the best advice I got is to ask seed stage investors what they would want from you to invest, look at that, do what you need to do to hit that milestone, then start up a new conversation with the angel. It's a slow process and a long process. It's about being open, transparent and staying on track with milestones."

Some companies might immediately jump to crowdfunding as a way to finance, but all three panelists cautioned against it. Very few companies have been able to equity crowdfund well — Xero Shoes, trade name of Feel the World Inc., was able to do it — but it can be complicated. Doing crowdfunding like Kickstarter or IndieGogo, where customers expect a product, is really better for customer validation than raising funds. Searfoss said crowdfunding is misnamed, that it's really customer discovery.

What is more, crowdfunding can backfire. Welz said it can overextend companies: If they're too successful, they can end up needing to manufacture more products than what they're capable of. Cornelio said from a patent standpoint, it can be very bad. Selling a product kicks off a timeline for when a patent can be filed. If products are sold through Kickstarter before the company is ready to file the paperwork for a patent can mean losing out on filing one completely.

Patents and other legal paperwork should not be far from mind when entrepreneurs are thinking about financing.

"One of the biggest things any savvy investor looks for is competent thought about an IP strategy," Cornelio said. "It's much more difficult, if not impossible, to fix things on the back end. It's so hard for startups to spend money on legal fees when they have no money, that doing things right from the beginning is so much better."

Cornelio acknowledged that it can be difficult for startups to decide to invest their money in legal items like intellectual property rights and founder agreements. But at least putting some thought to it and having some sort of plan of what your strategy would look like is better than nothing.

"One of the biggest mistakes a company can make is operating on handshake agreements with nothing in writing," she said. She added that startups are risky investments as it is; no investor wants to buy a legal problem with their startup, so make sure there are founder agreements where if one person walks away there is no question what they own and don't own. Same goes for any employees — especially those who are doing coding — and contract workers.



Jared Crain, Zoe Welz, Jason Searfoss and Gina Cornelio discuss funding for startups at BizWest's Fireside Chat at the IQ Awards. Chris Wood/ BizWest.

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Have you noticed how consolidation in the U.S. banking industry has resulted in fewer Colorado banks? With the strength of the Colorado economy, one might assume that would lead to a growing local banking sector, but for Colorado businesses,

"A lot of companies underspend on legal fees," Searfoss added. "You're always looking to differentiate yourself from a vast pool of companies seeking financing, and one great way to not be considered is a messy data room with unforced errors and not filing things correctly. It's the simple, straightforward things that 95 percent of startups get wrong."

Welz added that there are many free and cheap resources founders can take advantage of, including university legal services and consultations with local lawyers who want to help.

And when in doubt: "Self-help is better than no-help," Crain said.

There are challenges to getting funding, especially local funding.

"A lot of time we assume founders have a rich network in their friends and family round, but not everyone does," Welz said. "Diversity plays a role and more VC firms are reaching out to diverse founders. But you want to be invested in because you're brilliant, your company is brilliant and you've been validated. You don't want to be invested in because you're diverse."

One challenge with funding in the region is getting local funders off the fence, Searfoss said. Boulder is a smart town and people will often wait as long as they can to make sure the company is right before they invest. One way founders can counteract the hesitancy is asking investors what they need to feel comfortable committing and then achieve that milestone, whether it be a certain amount of customers or revenue or filing their IP.

Another issue locally is getting someone to take the first plunge.

"There are investors in the region who value having lead investors in a round, but don't want to lead themselves," Searfoss said. "If you push over that domino, other investors will follow."

One key way to find that first domino can be looking at investing consortiums, like Rockies Venture Club, where investors band together.

When it comes to early stage entrepreneurs building the relationships to find capital, an important thing to remember is that your earliest funding will indeed be a relationship. That means going to networking events, Cornelio said, and meeting with as many people as possible. And it means going beyond treating each encounter like it's a transaction, Searfoss said, because it's more than that.

"So often when we think about finding investors, we think about money. But it's more than an investment, it's a relationship," Welz said. "You'll work with that person for 10 years or more.... It's important you're being honest with the conversations you're having. If something doesn't work out in an angel meeting, don't be disappointed because you have no idea who they could possibly introduce you to. Let organic growth happen."

entrepreneurs, and investors who prefer dealing with a local bank, there are fewer options due to continuing consolidation.

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