

How to Network in 10 Easy Steps

Meetups are all the rage in early-stage investing these days. Many are as simple as a mingle, with alcohol. Others are more formal with a program, a panel or a video host beaming in.

Why should you care? People are getting funded from these events. But like everything else in life, there's a right way and a wrong way... let's consider ways to increase your odds of getting funded:

1. Sign up, RSVP. The first event TCA hosted had 100 entrepreneurs show up! This pissed off the venue because no one had any idea there would be such a response. There could've been more angel investors attending, too, and there would've been if we knew you all were coming. Tonight's event is limited to the first 30 to show up. Like they say about the lottery, you've got to play to win; don't get boxed out because you didn't RSVP.
2. Come prepared. There's an open mic tonight and if you're one of the best, you can pitch directly to Jason via the video link. So practice a 30 second pitch. Maybe you'll have more time, but it's good practice to be succinct. No mission statements; save the whales on your own time. Tell us what you're out to do and who your customer is.
3. Don't waste your time. In spite of what you see on Shark Tank, your food business isn't gonna get serious interest from a group of high tech investors. Cookies and ice cream, apparently they do get funded on TV. Personal services, too, are treated like a skunk at a lawn party, no pizza parlors or beauty parlors either. One exception, we do like alcoholic beverage deals, and not just for the free samples you'll have to pass around; we'd all like to be part of the next Grey Goose deal.
4. Know what's tired. Another social networking platform may be keeping you awake half the night, but it'll likely put us to sleep. Venture capital told us they didn't want to see any more of these deals 3 years ago. We have to listen because angels are just part of the early-stage funding food chain. If we fund you today and you need more money later, guess where that will come from? Likewise, clean, green, energy and water deals... Wow! Doesn't every investor want to cash in on the exciting opportunities in these areas? No. We know better. These deals need massive amounts of capital to affect change and create markets. Early-stage investors would get crushed (i.e. terribly diluted) with the enormous capital required to float these boats; go straight to venture capital instead.
5. \$400K is the new million. You've heard it so many times it's become a cliché. What does it mean? The cost of creating and launching software and web-based applications has dropped dramatically. What used to take millions can now be deployed with free application tools, royalty-free databases and the cloud. Investors like software; it scales nicely: if your product gains favor some day, thousands or millions of users could download it the next. So if it doesn't cost that much to build it, don't ask for millions to market it, at least not at this stage. How much do you need to accomplish the next milestone? Ask for that amount. You can always come back for more. It's not easy, like a couple of years ago, to raise \$500K or \$1M from angels; times have changed. Ask for only what you need and plan to come back.

6. No betas. Are the dogs eating the dog food? Years ago I would fund an idea, but today you've got to get beyond your alpha and beta releases; we want to see customers. And we can set such a high threshold because demand exceeds supply when it comes to seed-stage funding. Venture capital has moved upstream creating a large gap in funding for seed and early-stage. If you were an investor you'd only invest in later stage deals, too. It's already risky enough. Remember, angels are investing their own money and in California it's half her's, so our wives are watching us invest our grandchildren's inheritance in your schemes, knowing more than half will fail. Ouch!
7. Know what the market will bear. You've been telling your professor, your spouse and your friends that your idea could be huge. It will make a lot of people rich, especially the early investors, so you've calculated the pre-money valuation 3 ways and come up with a "conservative" number, say \$10M. What a rude awakening you're in for! There's only one formula for determining what your company is worth: what the market will bear. You don't know that formula and they don't teach it in Business School. Only we know it because we're in the thick of it every day. Actually, we have a lot to learn here, too; venture capital loves to lecture us: "you paid too much". Valuations today are too high at \$3M, and seed stage deals which are so risky often have valuations half this. Don't be offended, and no, we're not trying to negotiate a good deal (well, maybe a little).
8. Know lies. Guy Kawasaki published his [Top 10 Lies of Entrepreneurs](#); we've read them even if you haven't. That's why conservative is in quotes in the last paragraph. Making knuckle-headed comments, as Guy outlines, is a turnoff to investors. Do yourself a big favor and read these today. And once you've digested fibs from that perspective, check out my [Top 10 Lies Angels Tell](#); it's only fair.
9. Trust. I'm at number 9, so it's time to get serious: trust is the most important ingredient here. Yes, you've got to be passionate, but you probably already are. It's trust that takes some introspection; consider this from my guest, Palomar's Randy Lunn: "never take advantage of an entrepreneur". That's our credo as investors. We know that anything short of this is bad business and will likely come back to haunt us. Remember, at the next financing round when venture capital's sitting down with you, we'll be on the same side of the table with you and you'll have a bigger stake than we will and, what a good time for payback that could be! So we're not out to steal your idea, or gouge you on the valuation; we were in your shoes once, too. We like working with exciting startups. We want to help you succeed. If you believe any of this then change your perspective and instead of feeling threatened by that overwhelmingly preference-heavy term sheet, understand that much of what's in there has been learned the hard way. I love the way Expedia founder, Charles Seybold puts it: "Angels are probably smarter than you, definitely wiser, sophisticated and in the driver's seat!" Use some patience, as my dad would say, "breath through your nose"; take the time to understand why we're asking for what we're asking; be flexible and trust.
10. Be coachable. If you learn to trust then we'll see you as coachable and nothing sells a deal like when the lead angel can say to his peers, "this guy is coachable!". No one wants to work with an arrogant jerk! And remember, we're all retired; we're doing this for fun and profit. We want to work with people we enjoy working with, someone who will listen to us. That doesn't mean you'll do everything we say, but it does mean you'll consider our advice. Investing in seed and early-stage deals is a long process; we used to think of it as

3-5 years, now it's looking more like 7-8-9, so we're even more concerned about who we want to be in a long term relationship with.

A lot of things have to go right to get funded in this economy, but I see angels increasingly interested in seed deals and the entrepreneurs who show up at these meetups. Do your homework, know what investors are looking for. Know the turn-offs. Show that passion and conviction, but take the time to learn to trust. We're looking at you and thinking, "is this someone I want to be in business with for the next many years?". A lot of business is still done because one party liked the other, yes a good product and a promising market are a must, but at the end of the day an angel will write a check because he likes the team and sees himself making a contribution.