Entrepreneurial Strategies to Seek Venture Capital Funding

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Abstract

Innovation is vital for progress in any industry. Evolving technology, paired with human ingenuity, brings ideas for prototypes and business models. Many physicians conceptualize platforms to serve their patients; however, many struggle and ultimately fail to bring their product or service to market. Financing is often the limiting factor. Studies have proven venture capital (VC) funding to be a pivotal source for helping a business survive in its early stages. Plastic surgeons can benefit from learning how to seek out VC funding. In this presentation, common terminology and key players will be defined, from seed capital to angel investors. Doing recommended “homework” will help the plastic surgeon identify a financier tailored to their specific needs—ideally one with a focus in the medical space. A clear-cut approach to assembling a “pitch deck” presentation will be outlined to prepare the plastic surgeon for their first meeting. Insider pearls will be presented from the VC perspective. The plastic surgeon should be prepared to answer fundamental questions expected at different stages of the process. Nevertheless, each meeting also serves as an opportunity for the plastic surgeon to probe the VC firm and their intentions. The role of background checks, social media, and electronic profiles will be discussed. Transparency from both parties at all times can help establish a successful relationship, even if it ends in a referral to a better suited VC firm. Between January and September of 2017, \$12.1 billion of seed and VC was invested into life science companies in the United States. Growth is exponential. The surgeon is at the frontier of developing ideas and cutting-edge products that help us serve our patients with enhanced care and improved outcomes. In seeking out the proper financier, your product or service can become a reality in the market, contributing to the betterment of medicine and plastic surgery.

Keywords

- venture
- seed
- capital
- funding
- startup
- entrepreneur

Innovation is key to the progress of any industry. In plastic surgery, lasers, microsurgical tools, and implants are a few examples of revolutionary devices used to enhance our abilities to serve our patients. A prototype may be easy to conceptualize yet difficult and expensive to bring to market. Venture capital (VC) firms are among many who are investing capital to bring these products and services from the idea phase to practical use. Today, National Venture Capital Association is investing more into U.S. life science companies than ever before—\$12.1 billion from January to September

2017 alone.^{1,2} This article will discuss entrepreneurial strategies to seek funding from a seed VC firm during the early stages of product/business development.

Terminology

Seed VC is a reference to the early stages of the investment. *Seed funding* is capital invested in exchange for an equity stake in your company at the earliest stages of your company. Typically, the investment occurs prior to any product/market

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fit. The product, business, and service relies on this funding until it can generate its own revenue or go out and raise larger sums of VC.^{3,4} The *seed investor* can be an *angel investor*, VC firm, or in today's market—a crowd-funding source.^{5–8} An angel investor can be a previous startup founder who now invests their own money. To become an angel investor, one must have a minimum net worth of \$1 million and an annual income of \$200 thousand. Most seed VC funds will make the early investment with the hopes of reinvesting a portion in later fundraising rounds should the company show positive signs of growth and scale.

Investors at this stage are exposed to a high risk of failure; however, Kerr et al demonstrated that companies who rely on this type of funding are less likely to fail than those who seek funding from the *three F's*: Fools, Family, and Friends.^{6,8} The timing of how these players interact, with respect to revenue earned, is best demonstrated in the startup finance cycle (► Fig. 1).⁹

Introductory Phase

The initial approach requires an introductory phone call or meeting and signals that you are commencing the potential funding process. Do your research to find who the most relevant VC funds in your sector of health care are. The purpose of this initiating step is to let the seed fund know that you, the entrepreneur is in “fundraising mode.” You should have a calculated number of how much money you are looking to raise and what that money will be used for.^{4,7,8,10} Do not walk in looking for a blank check. If you are asking for \$2.5 million, have a detailed breakout of where you will be allocating that money: \$1.5 million for research and development; \$500 thousand for office space; and \$500 thousand for hardware purchases. Have a *Fundraising Deck* ready to grab the interest of your investors. Chance Barnett, Founder and Chairman of Crowdfunder, offers an example of a successful Deck outline in his Forbes article “*The Ultimate Pitch Deck to Raise Money for Startups*.”^{11,12}

- Investor Pitch Deck Outline:

1. Elevator Pitch.
2. Momentum, Traction, Expertise: Your key numbers.
3. Market Opportunity: Define market size and your customer base.
4. Problem and Current Solutions: What need do you fill? Other solutions.
5. Product or Service: Your solution.
6. Business Model: Key Revenue Streams.
7. Market Approach and Strategy: How you grow your business.
8. Team and Key Stakeholders (Investors, Advisors).
9. Financials.
10. Competition.
11. Investment: Your “Ask” for funding, Basic use of funds.

Insider Tips

Personal relationships within the sector are a reality in helping the success of your product. Knowing an executive/investor who can vouch for you and your company can go a long way.^{1,10,11,13} Another hidden caveat to consider: if the idea is in high demand, the investor may not be able to ask for the depth of diligence they would like. Furthermore, the bigger the fund, the less diligence was done for the same size check.^{1,10}

The First Meeting

The first meeting after ignition of the fundraising process should include brief introductions of yourself and your background. Your investors' time is valuable—do not spend it chatting about the weather. The entrepreneur should expect questions about the history of the company, basics of the product, planned market strategy, the business model, and insight to potential competition.^{1,3,7,10}

This is also a chance to ask questions of your potential investor. What is the firm's ownership target? On average, how much capital do they offer clients? Can they take us through their decision-making process?^{1,3,5,8} Questions like this will help manage your expectations of the fund and shed light on the practicality of the relationship between the two parties.

It is highly recommended that the entrepreneur be over-prepared going into this meeting. Doing your homework on the investor will give insight as to whether the fund has backed companies in your sector before. The investor is looking to match your background with the type of fund they are constructing; however, this is not make or break criteria—valuable fundraising advice and strategic decision-making advice can be obtained through this meeting.^{1,3,6,8}

Insider Tips

In reality, unless you have a close relationship with a partner at the fund, you can expect to meet with a nonpartner member. The smaller the firm, the more weight this individual carries—do not take this person lightly. However, if possible, you should strive to meet with the highest ranking individual in the firm as this will save both parties' time and energy.^{1,3}

Fig. 1 The timeline of a successful startup company from private funding phase to the initial public offering (IPO).

The ultimate goal of the first meeting—get a *second meeting*! Tips to accomplish this are to give just enough information possible to keep them wanting more. Capture interest without showing all your cards; cover the basics and let your investors guide the conversation. Be comfortable in discussion and do not stick to a rehearsed script; be able to break free and pique specific interests when asked.^{1,3} Do not be discouraged by difficult questions, these are usually a good sign! Do not ramble or go off on tangents—investors tend to have short attention spans. And always be honest—do not exaggerate or make up numbers. If you do not know, better to say that you will follow-up and let them know.^{11,12}

Following Up

This is a crucial transition period to capturing the *second meeting*. If the investor is interested, they will likely ask for follow-up materials. Do not wait more than 1 to 2 days! If there is a long pause, the investors will likely move on. Be prompt and brief in your response.^{1,3}

Second Meeting

Now is the time to etch out the nitty-gritty. The entrepreneur should expect focused questions from the investor such as those regarding product demos, financial models, unit economics, customer acquisitions costs, lifetime value, expansion, etc. Be ready for questions off the beating path. Know what gives you an advantage over your competition, be it patents or being first-to-market. Know how large the market is you are tapping into. Know who your customers will be. Are there regulatory hurdles? If so, how will you address them?² Remember, do not lie, ramble, or go off topic. Again, let them know head on if you do not know, and that you will find out and follow-up. The investor is continually building trust with you.^{1,3}

Background Checks/Diligence

As part of the diligence process, the investor will perform due diligence on the founders of the company including seeking out background checks, formal and informal, as well as financial checks.^{4,8} They may turn to the Internet through platforms such as LinkedIn or Facebook. Ensure your electronic profiles are an accurate and professional representation of yourself. The investor will also seek out your customers to ask questions regarding you, your company, and your specific product or service. If you think it is too soon for the investor to reach out to customers, let them know. Do not hesitate to perform your own check on the investors.^{1,3}

Insider Tips

Your team is an extension of yourself and what you stand for. The team makes up a substantial part of an early investment decision. Ensure you have put together an educated, experienced team, and continually seek out mentors and advisors who are knowledgeable in your space.

Medical Space

As you look to raise capital in the health care/plastic surgery innovation realm, be sure to do your homework on potential investors. Remember that VC firms are not patient with their money. Regarding medicine, rarely can firms be strategic given most have little to no experience in our industry. Focusing on the experience among the board of advisors is key. Strategic corporate sponsors and large VC firms typically stack their boards with advisors which can be helpful as you go through the process of innovation.

It is equally as important to understand your end user. Who is your target market and why? Is the total addressable market large enough to grab anyone's attention yet?

Conclusion

Plastic surgery is a deep-rooted practice with many cutting-edge developments that have allowed us to serve our patients with heightened care and enhanced outcomes. The surgeon is at the frontier of developing novel ideas and products to advance the field; in reality, developing these ideas and prototypes is challenging and requires time and energy yet can still fall prey to failure due to lack of funding/poor business strategy. Throughout the fundraising process, seeking out the proper financier, following the pearls, and avoiding the pitfalls we present throughout the process, your product or service can become a reality in the market, contributing to the advancement of medicine and plastic surgery.

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