



## **An Educational Guide to Start-up Funding**

Many entrepreneurs seek funding to help bring their ideas to market. In most cases, many startup teams have never raised money and are unfamiliar with the process. This guide is designed to help answer many of the questions entrepreneurs often ponder as they create their business plans and prepare to meet with potential investors. This is not a complete guide, and your opportunity may (and likely will) differ from this and others. Consider this an educational guide, not advice, to help generate ideas for your project.

### **What types of funding opportunities are available?**

There are many different funding sources available to entrepreneurs, and you should decide which sources you intend to pursue as one of your first decisions because your business modeling, planning, financial projections, etc., all may differ depending upon the source of capital you pursue.

For example, how you write the business plan and what you include in it vary greatly depending on whether you seek grant money, funds from family and friends, angel investors, venture capital firms, crowdfunding, or an SBA loan. All these entities could be possible funding sources, but each one requires different business plan elements.

Generally, your first funding source is yourself. As soon as you decide to move forward with your project, you will likely put money into your business development plans. Some entrepreneurs use retirement funds or savings accounts. Many investors will ask you how much of your money (not sweat equity) you have personally invested in your idea. If you are unwilling to invest in yourself, investors may question your commitment to the opportunity. If you have invested very little thus far, you should be prepared to co-invest with potential investors. For example, suppose you need \$100,000. You might propose to an



investor that you invest (deposit) \$15,000 of your funds into the business account when the investor funds the project.

Your second source of funding is friends and family. They already know you, thus bypassing much of the traditional due diligence process. This is often referred to as a “friendly” investment. Before accepting money from friends and family, ask yourself this question – what might happen to this relationship if my business fails? Can this investment withstand our relationship? There are many instances of family issues due to business relationships. Even though this is a “friendly” investment, you should document the investment and consider the financial relationship as a professional transaction, fully documented in case issues arise in the future. Be sure your family and friends fully understand, in writing, the risks associated with their investment.

Crowdfunding is the next easiest way to raise money. Many platforms are available to post “qualified” projects for investment opportunities. Crowdfunding is often used for smaller organizations that need to raise a small amount of money from strangers who likely will never meet you and will invest small amounts because the product or service appeals to them.

Angel investors are often local individuals with excess funds to invest in local entrepreneurs when they can understand or see trends they want to be a part of. Often, these angel investors belong to local investment clubs or groups so they can combine their funds with other angel investors to take advantage of opportunities they normally might not be able to pursue. These angel investor groups often request a business plan, and a few members of the club will review the plan and make a recommendation to the rest of the group on whether they should fund the company or not. That means the business plan and all supporting materials must be comprehensive.

For those entrepreneurs who need significant funds and might need additional rounds of funding, venture capitalists often fill that need. VC funds are located across the United States, but many are concentrated in Silicon Valley, Boston, Austin, and Miami. A VC firm consists of a management team (GP – General Partners) that has raised money from smaller, “sophisticated” investors (LPs – Limited Partners). That means the management team is responsible for conducting due diligence to ensure that the funds they invest are carefully placed with entrepreneurs who have solid ideas, a strong business plan, a skilled team in place, and marketing, sales, and financial processes in place to achieve success.

Finally, entrepreneurs can apply for an SBA (Small Business Administration) loan through their local bank. While angel investors and venture capitalists may offer loans, they usually invest in exchange for equity (ownership in the company). The SBA offers loans to entrepreneurs who qualify under stringent conditions, including personally guaranteeing the loan. The process is stringent, but the SBA funds nearly \$200 billion to small businesses and is a viable option for those entrepreneurs who are able and willing to back their ideas with their personal financial guarantee.



## Funding Sources and Requirements



### What are the purposes of the business plan?

The business plan serves various purposes. First and foremost, it helps the entrepreneur decide upon key business model concepts. Who are the ideal customers? How much should you charge for your product/service offering? What is the best strategy to penetrate the market? What is your core competency? These and many other business modeling concepts should be included in a business plan.

Second, the business plan is the key marketing material presented to investors. Just like a resume is the key brochure representing a job candidate, the business plan is the brochure to investors. One of the main goals of the business plan is to attract the investor's interest so that you can get an invitation for a "meet and greet".

### Is the business plan a legal document?

Your business plan can be perceived as a legal document that protects you or can be used against you in a court of law. That is why your plan must be comprehensive and accurate. When an investor writes a check, that check is often accompanied by a legal funding document, and often, the decision to invest is contingent on what you present in a business plan. You must be very careful about what you present in your business plan, how you present your ideas, and your future projections. If you don't do what you say in the plan, you may end up in legal jeopardy with your business plan being used to see if what you said you would do is what you did.

For example, if you state you intend to raise one round of funding, you must stick to that promise. If you need more money and accept funds from another investor, you may be diluting the number and value of the stock issued to the first investor. This may likely find you in a legal battle.



While you may find a business plan template online or use software to complete your business plan, these plans are often guides for plans written at the most basic level. Make sure you customize and enhance the plan so it fully and accurately represents your project so investors can compare your performance as you use their funds to achieve your stated objectives.

### **What disclaimers should I put in the business plan?**

As noted above, your business plan is also a legal document. It outlines the terms and conditions under which you present your business ideas to investors. Investors, in turn, make decisions to fund based on that business plan.

Here are some examples of disclaimers that often appear in business plans. As stated below, this should not be considered legal or other advice and is merely presented for educational purposes. Ensure you reach out to your legal advisors to ensure your plan meets your needs and requirements.

*The information contained in this business plan was obtained from the company and other sources. Any estimates and projections herein have been prepared by the management of the company and involve significant elements of subjective judgment and analysis, which may or may not be correct. Neither the company nor its executives make representations or warranty, express or implied, as to the accuracy or completeness of the information contained in this business plan and/or other information given or statements made in addition to this business plan, whether related or unrelated to the company, or any transaction with respect to the company. Nothing contained herein or expressed in addition hereto is or shall be relied upon as a promise or representation, whether as to the past or the future. This business plan does not intend to contain all the information required to evaluate any opportunities. The company and its representatives assume no responsibility for its accuracy or completeness.*

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*No person has been authorized to give any information or to make any representations other than those contained in this business plan, and if given or made, such information or representations must not be relied upon as having been authorized by the company. This business plan does not constitute an offer to sell or a solicitation of an offer to buy any securities offered hereby to anyone in any jurisdiction in which such an offer or solicitation would be unlawful or to anyone who fails to meet the investor suitability requirements described herein. Delivery of this business plan does not imply that the information contained herein is correct as of any time after the date hereof.*

*These securities are offered subject to prior sale and to withdrawal, cancellation, or modification of the offer without notice. At its discretion, the company reserves the right to reject any orders to purchase securities in whole or in part.*

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*The information contained herein is considered a fair summary of relevant information pertinent to this investment and the material terms of the documents referred to herein, but references made to such documents for the complete terms thereof. This business plan supersedes and replaces all prior written or oral information about the company and should be referred to by persons interested in investing in the company. Investors are urged to read carefully this business plan and its exhibits.*

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*This business plan constitutes an offer only to the person to whom the business plan is delivered. Delivery of this business plan to anyone other than such person is unauthorized, and any reproduction of this business plan, in whole or in part, or any divulgence of its contents, in whole or in part, without the prior written consent of the company is prohibited. Each person, by accepting delivery of this business plan, agrees to return this business plan and its exhibits to the company if such person elects not to purchase the securities offered hereby. Prospective investors are not to construe the contents of this business plan as legal, tax, or investment advice. Each prospective investor should consult his own attorney, accountant, and business advisor regarding legal, tax, and investment matters related to the purchase of these securities.*

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*During the course of the offering and prior to the sale, prospective investors are urged and invited to ask questions and to obtain additional information from the officers of the company concerning the terms and conditions of the offering, the company and its proposed business, and any other relevant matters, including but not limited to, additional information to verify the accuracy of the information set forth herein. Such information will be provided to the extent that the company's officers possess the information or can acquire it without unreasonable effort or expense.*

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*These securities have not been registered under the act or any state Securities Act, by reason of specific exemptions they're under relating to the limited availability of the offering. These securities cannot be sold, transferred, or otherwise disposed of to any person or entity unless subsequently registered under the act and subject to an exemption from such registration. The investor agrees not to sell these securities without registration under applicable federal and state securities laws and exemptions therefrom.*

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*The securities offered hereby have not been registered under the act or the securities laws of certain States and are being offered and sold in reliance on exemptions from the registration requirements of said acts and laws. The securities are subject to registration on transferability and resale and may not be transferred or resold except as permitted under said acts and laws*





*pursuant to registration or exemption therefrom. The securities have not been approved or disapproved by the Securities and Exchange Commission or any state Securities Commission or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of the business plan. Any representation to the contrary is unlawful.*

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Your business plan is a legal document and should be treated as such. Please consult competent advisors to help you navigate the process. If you are using software or a template, or a sample plan found online to help you create a business plan, and it fails to contain any protections such as those found above, you should carefully evaluate those sources.

### **Should I ask potential investors to sign a non-disclosure agreement?**

Generally, no. It has been many years since most investors have signed confidentiality, non-disclosure, or non-compete agreements. Doing so often limits their ability to consider other similar investments in the future. Investors often consider it “amateurish” when an entrepreneur presents one of these agreements. Investors are usually financial experts. They don’t have the time or skills to pursue projects presented to them by entrepreneurs. It would be rare for them to “steal” your ideas.

That doesn’t mean you can’t build protections around you and your ideas. There are ways to limit your risk. For example, if your idea is patentable, file a patent before speaking with investors. Ensure your business plan, executive summary, and pitch deck are marked with confidentiality and copyright clauses. Subtly protect your ideas without asking investors to sign an agreement that could limit their opportunities in the future.

### **How do I know what to put in my business plan?**

Your business plan is your brochure to market your ideas and opportunities to potential partners. You must present relevant information you want to share with potential investors. This is your chance to package your business opportunity and how you want to share it with others.

It is important to write about the wants and needs of your audience. In this case, imagine you are an investor reading your business plan. What questions might you have about the opportunity, the team, the breakeven analysis, the return on investment, the exit, etc.? Be sure to write your plan for your audience, not just including what you want to share. Remember, the goal of the business plan is to attract the investor’s interest, so the investor invites you to a “meet and greet.”

### **I have an investor who is interested. What might an offer look like?**

Every offer and every term sheet might look different depending on the investor and the deal being presented. The term sheet could be a simple 2–3-page agreement to a book of documents and forms. Remember, agreements and term sheets are often written based on the wants and needs of those who create the document. While some aspects of the terms might be negotiable, other aspects might be



governed by the operating agreements within the investment firms. Be cordial and kindly ask the investors if aspects are negotiable.

You can also create a term sheet to present to friends and family. Remember, even at the friends and family level, accepting funds is a transaction often governed by state and federal laws, and you should consult your attorney and accountant to help create a term sheet.

Here is one example of what you might see in a term sheet.

*XYZ, Inc. (the "Company") is offering (the "Offering" on a "best efforts" all or none basis, 800,000 shares of its \$0.01 par value unregistered Class A Common Stock ("Class A Common Stock") at \$12.00 per share solely to "accredited investors" in reliance upon certain exemptions from registration under the Securities Act of 1933, as amended (the "Act"), including Regulation D promulgated under the Act and/or Sections 3(b), 4(2) and 4(6) of the Act, and is permitted in the jurisdictions in which the Class A Common Stock is to be offered.*

*The minimum investment is \$250,000. The Offering will terminate on the earlier of the date all of the shares of Class A Common Stock offered hereby are sold or January 15, 2026 (the "Selling Period"), unless otherwise terminated or extended as provided herein. Until 800,000 shares are sold, all funds will be held in an escrow account at JP Morgan Chase bank in Phoenix, Arizona. If all 800,000 shares are not sold during the Selling Period or any extension, all funds will be returned to the subscribers without interest or deductions.*

You will sometimes see this verbiage in business plans so potential investors know exactly what the deal is, and they can quickly evaluate the opportunity and decide. As cautioned before, please consult relevant legal and financial experts to help you manage your investment journey.

### **Can I use a template I found online or a software program to create my business plan?**

You can, but most investors will recognize that you used a template or software within the first few seconds of glancing at the business plan. It is not unusual for these business plans to be discarded. Investors like to see your thoughts, creativity, and ideas, not a "fill-in-the-blank" business plan template found online. Also, these generic business plans and software help you create a very basic plan that must be significantly enhanced. Often, it is easier to write your own plan than to spend the time to make all the necessary modifications to a template or sample plan.

### **What are investors looking for when they read a business plan?**

First, investors like to see your idea, the problem you are solving, or the opportunity you are pursuing. Investors are often looking for projects that match their investment portfolio and criteria, so you will want to make sure you are approaching investors who would be interested in your idea.

Second, investors want to learn about you and your team. They want to learn about the person and the passion around the idea. They also want to know more about the person responsible for generating sales.



Investors know the only way they will earn a return on their investment is if sales are generated. The key sales leader should have a track record of selling similar product/service offerings and generating revenue commensurate with the projections in the business plan.

Third, investors want to learn about the person responsible for controlling and monitoring the finances. They want to know who will monitor the cash “burn rate” and revenue and who will manage the organization's financial management. In essence, they want to learn more about the person managing the money, of which the investor participates as a contributor and recipient.

### **When should I formally start the business?**

You want to accept investment funds, not personally, but under the business name. So, before you reach out to friends and family or other investors, you will want to establish an organization such as an LLC, S-Corp, or C-Corp. Each has advantages and disadvantages, and you should discuss which option is best for you with your accountant and attorney.

Creating the business will also help you decide on the business name, branding, social media accounts, URLs, etc. Generally, you want to have traction on the internet (web page hits and/or social media followers) before reaching out to investors.

You will want to file for an EIN (Employee Identification Number) with the IRS. This is required before you can form any banking relationships. Some investor agreements and bank loan applications require this taxpayer number to be provided.

Your newly formed company will need to create a corporate resolution granting you and/or others the ability to manage financial transactions, such as opening bank accounts and accepting money on behalf of the organization. You will want to have a bank account and be ready to receive funds from investors when they are ready to fund.

### **Can I change the business plan once I give it to a potential investor?**

You can, but under certain circumstances. For example, you can make changes before you give your first copy of the business plan to a potential investor. If you make any changes after you provide the plan to a potential investor, you will want to notify that investor of the most recent version.

If an investor has provided you with funds, you will want to receive the approval of each investor before making any changes. Suppose you modify the plan in any way that could impact the overall opportunity and potential return shared with previous investors, including the dilution of shares. In that case, you will want the approval of all investor partners, or you could face legal challenges.

### **Should I seek “sophisticated” investors?**

In general, working with sophisticated investors is a good idea. Should there be issues related to the investment later in time, you should be able to state that your investors are all “sophisticated” investors (a formal term used by the Securities and Exchange Commission) and, therefore, know what they are getting into. If you are accepting funds from family and friends who are not sophisticated investors, you





will want to make sure you create a comprehensive risk assessment with risk mitigation plans and contingency strategies for those investors. Failure to do so could result in legal complications should the company fail to achieve its mission.

### **What laws are there for raising money?**

Raising money, even in small amounts, from friends and neighbors could involve legal issues. Offering unregistered securities to investors may fall under the Securities and Exchange Commission at the federal level and similar agencies at the state level. You will want to work with legal counsel to help guide you through the investment process.

### **How do I place a value on my idea or company?**

Everyone who watches Shark Tank® knows that before an investment is consummated, the entrepreneur and the investor must agree upon the company's value. This is because most investors require an equity position in the organization, and the number of shares issued and the value of those shares depend on the company's valuation.

For startup organizations that have not received any prior funding and are pre-revenue, the Berkus method is commonly used to value the organization. It is a quick and easy calculation, but determining the value of the 4-5 items may differ between the investor and the entrepreneur.

This is why it is very important to make sure you have created your financial model, including your investment model, use of funds, burn rate, sales revenue, P&L statements, proforma statements, etc., to justify the value you want to place on your organization. If not, investors will likely value your pre-revenue organization at the lowest valuation possible.

If you intend to involve more than one investor and/or raise more than one round of funding, you will need various financial models to illustrate the value of each transaction per investor/round. Stock issuance and dilution for each round can impact the organization's value. You must work closely with your legal and financial advisors as you navigate the funding journey.

### **When should I discuss “terms” with a potential investor?**

For those familiar with the television show Shark Tank®, the entrepreneurs usually come out onto the stage, introduce themselves, and state the funding amount and how much of their company (equity) they are willing to issue in exchange for that amount. While that may make for good television, entrepreneurs rarely want to “place all their cards on the table” this early in discussions.

Generally, with smaller investors, such as friends or family, you must lead the funding effort and offer terms to those investors. They likely do not know how to value your organization or the opportunity, how to read financial projections, understand industry trends, etc., but they would likely invest in you. Friends and family may depend on you to provide the funding Memorandum, and you can often do so early in discussions if they are interested.



Angel investors and venture capitalists will generally provide you with an agreement or term sheet describing the terms and conditions under which they agree to invest. They often set the timeline, often not as timely as entrepreneurs like.

### **Should I have more than one investor?**

The more investors you have, the more complex your funding plan must be. Previous investors must be involved and updated for each new investor, as their value in the organization likely will change. You will have to update your financial charts each time. This must be done for each investor who provides funding and each round of funding.

### **How much of my company should I give away to investors?**

The amount of equity given away will vary significantly from company to company. It should be noted that founders will want to retain some equity. Still, startup founders also recognize that they sometimes have to give equity to other original team members who help get the organization launched. Of course, you also want to reserve some stock in case you need it for additional funding or strategic relationships. The balance between the amount of equity to retain as a founder, the amount to issue to the team, and the amount to dedicate to investors will depend greatly on the organization's valuation. Also to be considered is the lettered stock that can be issued, designating ownership and voting rights in the organization. Equity decisions can be both complex and complicated, and you should consult with your legal and financial team when making these decisions.

### **How much funding should I seek?**

Determining the amount of funding required can be challenging. Startup entrepreneurs are unaware of many unknowns when launching a company, and not requesting enough funds to achieve their objectives can be detrimental to their success. Often, it is a balance between what the founders require for success and what investors are willing to provide for funding. For example, investors generally do not like to provide funds for founders' salaries. It also depends on the valuation of the company and the amount of equity the founder is willing to allocate to investors. At a minimum, the founder should seek the funds required to successfully implement the business plan or pitch deck provided to the investors. Be sure not to project a "best-case scenario" when calculating your expenses and the funding required to be a successful startup. Calculate a contingency amount in your budget and let potential investors know you have included a contingency line item. Investors recognize there is a great deal of guessing when creating budget / proforma statements.

### **When should I ask for funding?**

You should seek funding from investors as late in the development process as possible without restricting your growth. The more you can create on your own, the higher the potential valuation of your company, the less funding you will need to succeed, and the less equity you will have to allocate to investors. If you are an inventor, filing your patent application before requesting funding might increase the valuation of your organization. Having a company already formed, bank accounts in place, a website for your company, and social media in place adds value to your organization. Finally, if you are generating



revenue before requesting funding, that helps demonstrate a proven business model and a product/service offering that customers want to purchase.

### **What can I expect to pay for funding?**

Funding comes at a price. Whether you have to issue equity in the organization, agree to repay a loan, or pay royalty payments, investors will want a return on their investment. Some investors will ask for 1 or 2 seats on the Board of Directors. Others will request voting stock issuance. Some may request that their professionals or experts be placed on the management team. Each deal is different, but you should expect investors to want to minimize risks and maximum returns and will request reasonable safeguards to help ensure they receive their return.

### **What are the pros and cons of raising funds?**

**Pros:** You will have the ability to expand and advance your organization toward success. Not only will you have the financial resources required for growth, but you will also have access to experts and their networks to help you succeed.

**Cons:** You likely will have to relinquish some ownership and voting rights in your organization. Decision-making will be a collaborative effort, and you will have external partners to report to regularly.

### **How do I get an audience with an investor?**

Historically, it has been challenging for startup entrepreneurs to meet with investors and achieve funding. Today, with online platforms and virtual meetings, it is much easier for entrepreneurs to meet investors. Those with a solid idea and a well-created business plan can receive funding and create new businesses. While reaching out to investors still requires some protocols, getting your company in front of potential investors is much easier. Just make sure your approaches are legal and ethical.

### **How do I prepare to meet with investors?**

Meeting with potential investors can be daunting for entrepreneurs, especially if they are new to the process. Before meeting with any investor, inquire and learn about their process. What is the time frame for the meeting? Are they expecting a presentation or a general meeting? Who will be in the room? What is their process for conducting due diligence?

It is also a good idea to participate in some mock investor meetings. These can help prepare you for various formats, approaches, and personalities.

These and many other questions will help prepare you for your investor meeting.

**The Startup Guide to Funding is for educational purposes only and is not meant to be legal, financial, securities, or investment advice. Each situation is unique, and you should seek professional advice.**



**For additional information, please visit [www.theinvestorsarena.com](http://www.theinvestorsarena.com)**  
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Scott and Ed wish you the best of luck on your entrepreneurial journey. We invite you to visit [www.theinventorsarena.com](http://www.theinventorsarena.com) to discover how you can turn your idea into success.

START YOUR JOURNEY

## BEGINNER PROGRAM

- ✓ Hands-On Patent Search Mastery
- ✓ Save Thousands on Mistakes
- ✓ Product & Market Evaluation Frameworks
- ✓ Validate your Demand Fast
- ✓ Select a great Patent Attorney or Patent Agent
- ✓ and much more...



THE INVENTORS ARENA

MOST POPULAR

## PERFECT PITCH

- ✓ In-Depth Program with Lessons
- ✓ Every Critical Step Covered
- ✓ Starting Your Business (legal/setup basics)
- ✓ Preparing for Your Investor Audience
- ✓ Mastering Your Presentation & Speaking Confidence
- ✓ Preparing & Delivering Your Pitch
- ✓ Developing Your Plan
- ✓ Preparing for Battle (objections/negotiation)
- ✓ Preparing for the Marketplace (launch/licensing) 
- ✓ Mastering the Ask
- ✓ Achieving Success
- ✓ Valuation Models, Breakeven, 3-Year Proforma



## COMPLETE PROGRAM

- ✓ Includes Everything from Other Plans & Everything Here
- ✓ Master Invention Development: From Idea to Funded
- ✓ Reality Strategic Planning Tools
- ✓ Complete Business Plan Template & Financial Forecasts
- ✓ Professional Pitch Deck Starter Kit
- ✓ Comprehensive Patent Search Methodology
- ✓ AI-Generated Business Plan & Pitch Deck Tools
- ✓ Expert Education (14+ Lessons)
- ✓ Market Evaluation & Validation Techniques
- ✓ Financial Modeling: Valuation
- ✓ Mastering Investor Presentations
- ✓ Ongoing Support. Access to Inventors Arena Community

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**Scott Romeo** is a business and management consultant with 33 years' experience in nearly 100 industries. His strength is developing an inventor's idea into a viable business offering. He writes strategic business plans and conducts due diligence on business plans for investors. He is a Certified Business Negotiator and holds a certificate in Mergers and Acquisitions from the Wharton School, as well as a certification in Disruptive Innovation





from Harvard. He provides the business side to complement Edwin, providing the patent and engineering know-how.

**Edwin Wold** is a seasoned US Patent Agent. He enjoys helping independent inventors and small companies develop their invention ideas to fruition. Throughout his career, Edwin noted that inventors often struggle with developing their products and securing the investment needed to bring them to market. Edwin teamed up with Scott to bring both the patent and business sides together into a holistic program that teaches inventors the skills needed for their success.