



## Raising capital is often a grueling, time-consuming process

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There are some signs that the permafrost in the credit markets is beginning to thaw. I am beginning to hear, anecdotally, of some activity in the private equity markets. When rumors like these begin to circulate, many an entrepreneur's thoughts turn to raising capital. Perhaps you are one of those.

As part of your conversations with people in the financial industry you may have heard the term "the cost of capital," a reference to the return on the capital being deployed, whether it is debt or equity. However, there is another cost of capital that the textbooks don't discuss: the opportunity cost of a capital raise.

What do I mean by that? Raising capital – especially equity – is often a grueling process. I have heard many CEOs refer to it as a second full-time job. It is time-consuming, fraught with risk of failure, and extremely distracting for management – and those are the raises that go well. It is not unheard of for management to get so tied up with the transaction that the performance of the company itself deteriorates from neglect. What is so time-consuming and distracting to management about a capital raise? If you are contemplating raising outside equity capital – and there can be plenty of valid reasons for doing so – consider the following:

- **You will need to develop robust investment marketing documents.**

This would be a private placement memorandum, containing information appropriate for investors, including, perhaps, financial projections, descriptions of product or service offerings, and descriptions of how management is going to execute their business plan, etc., arranged in a manner that interested investors would find compelling. You might also need to develop some presentations and other related materials. To do this properly will require meaningful time to assemble and will need input from everyone on the management team (CEO, CFO, marketing, operations, etc.). You will also need advice and assistance from competent legal counsel with specific experience in these types of transactions.

- **You will need to meet with many prospective investors.**

This is simply part of the game. There are many, many venture capital and private equity funds out there. Each one of them has its own particular investment profile and culture. Any quality fund will bring more than just money to the table. They should have business relationships or other portfolio companies that can add value to your firm. This stage of things is reminiscent of dating, and can take months before the right fit of investment profile, personalities and timing line up – and sometimes they never do.

- **You will need to submit to fairly intrusive due diligence.**

Once an interested investor proffers a term sheet and you agree to it, they will be digging deep into the financial records, operations, management dynamics and anything else that they deem relevant in order to come to a final investment decision. This process will consume a large amount of management time as the prospective investor is walked through the information in order to form a clearer picture of how the company operates day-to-day. This process will take at least some weeks (and, in some cases, months).

All of these steps, necessary if the company is to be successful in closing a financing, can add up to a significant time commitment on the part of management. If management has determined that this is an effort that the company should undertake, by all means do so. Just focus on effectively managing the process so that you can minimize the hidden cost of capital.

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