Raising Capital for Your Business – How Long Does it Take?

Most companies vastly underestimate the time commitment necessary to successfully complete a financing. In actuality, a company seeking financing needs to budget between 500 to 1000 work-hours to the capital-raising process, spread out over a 6-9 month time period.

The key processes in the capital-raising process include 1) perfecting the business plan, offering memorandum and other company due diligence materials, 2) developing a comprehensive, targeted prospective investor list, 3) contacting this list and responding to investor due diligence requests, and 4) negotiating the transaction.

Completing the business plan typically requires at least 200 hours of work. This time is dedicated to conducting the market research to validate the opportunity, developing a comprehensive financial model, determining the most effective way to lay out the business strategy, and actually writing and proofing the business plan.

The next step, developing a comprehensive, targeted prospective investor list is also very time consuming. There are thousands of potential investors, each of which has very different tastes regarding the types of ventures that interest them. Some invest by market sector (e.g., healthcare vs. telecommunications), stage (seed stage vs. later stage), geography, or a combination of these. Many hours must be dedicated to determine which investors is the right fit for your venture. This process involves creating a master investor list, visiting each investor's website to view investment criteria and past investments, and determining who the right contact at the firm is.

To see how easily the time adds up, consider that only about 25% of prospective investors who show an initial interest in a transaction actually progress to detailed company due diligence. Only about 10% of this 25% actually progress to a bonafide offer of funds, of which only 25% of these actually result in an investment transaction. So completing a financing transaction requires, on average, contacting approximately 160 pre-qualified prospective investors.

The due diligence process, where investors scrutinize the investment, can also be very time consuming for the company. Investors often request many documents, some of which can be easily retrieved from files (e.g., prior tax returns), while others may take more time to prepare (e.g., additional market analysis, customer lists with past purchases, contact information, etc.). Finally, negotiating a transaction can take a significant amount of time depending upon the complexity of the transaction and number of parties involved.

Too many companies fail to raise capital since they are unaware of the significant time requirements to do so. Those firms who understand these requirements and budget accordingly are the ones most likely to persevere and end up with the capital they need.

About the Author

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