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## Small firms likely to get startup funds from family, friends

The Business Journal of Phoenix - by [Ruben Hernandez](#) The Business Journal

Small-business startups should forget venture capital and instead rely on the "4Fs": founders, family, friends and foolhardy strangers, according to a new report.

The Global Entrepreneurship Monitor, a research coalition that studies entrepreneurial activity around the world, found informal investors put up far more money for startups and early-stage businesses than venture capital firms.

And these four investor types do it for a variety of reasons, not all based on sound investment practices. Many informal investors say they follow the axiom: "Invest in the people, not the business."

By any measure, informal investors are the lifeblood of U.S. entrepreneurship, according to local entrepreneurs, a venture capital consulting firm and some of the investors themselves.

"You have to grow before you can attract venture capital, and friends and family investors are what get you there," said Tamryn Doolan, a co-owner of Surface Gel Tek LLC in Mesa.

William D. Bygrave, the lead researcher for the GEM study at Babson College, Wellesley, Mass., agrees.

"If informal investors -- whom I call the 4Fs: founders, family, friends, and foolhardy strangers -- dried up, entrepreneurship in the United States would wither," said Bygrave.

Daniel and Tamryn Doolan founded Surface Gel Tek five years ago based on a chemical process invented by Daniel Doolan. The process uses gel and acid technology to create products used in decorative concrete and other products.

The Doolans say that without the 4Fs, their small business could not have been created or survived. They now have 25 distributors around the country.

Their loose coalition of informal investors includes friends and family.

"Our friends and family have provided startup money and basic support," said Tamryn Doolan.

"We also used the money for advertising. It takes a lot of advertising to let people know that the product is out there."

In addition, she said, the couple attend trade shows across the country, and the investment money funds the trips and exhibits.

Nancy and Charlie Yeldell invested \$35,000 in the Doolan's business. Retired, the Yeldells live in Scottsdale and met the Doolans through friends.

"The decision to invest was a gut-level call based on how the product worked and that the market for the decorative concrete business was growing," said Charlie. "But a lot of it was based on friendship."

James Robinson is president of The Gideon Group Inc., a Phoenix-based venture capital consulting firm in Phoenix. The group helps early-stage and emerging businesses acquire growth capital.

His firm just helped Nevada-based startup Vector Cogen snare a \$500,000 equity investment from a group of private investors.

"We get early-stage companies, and it becomes clear that the only place they are going to find financing is from friends and family," Robinson said.

Robinson said that while "there is money (venture capital) out there," the odds are so slim for most startup companies that "it's almost not worth the effort."

He added, "One of the first things we advise small companies is to look for investment from friends, family and other what we call 'strategic partners.' And we define those partners broadly."

Francisco Gutierrez is another informal investor. He is a personal injury attorney and head of Francisco X. Gutierrez Law Firm in Phoenix.

In 2000, he invested \$25,000 in an independent movie, "Luminarias," shown in movie houses nationwide.

At the same time, he invested in a small public relations firm, now defunct. Gutierrez provided rent-free space that was worth \$12,000 per year.

The firm went belly up after three years, yet Gutierrez said that's the risk any investor must accept.

"I think it's important to assist others when you have the opportunity to do so," he said. "I also did it to help get a Hispanic business get off the ground. These kinds of investments can provide indirect returns because if the company had become viable, it could have generated business back to me."

Robinson said that informal investors play by a different set of rules than formal investors. Most times, these people are not experienced and have never run their own businesses. Emotions play a big role in their investment decisions, he said.

However, the three most important points remain: the management team and product, the market and trust.

"There has to be some notion of trust that underlies the relationship," Robinson said. "Once you turn over the money to them, it goes into their bank account. For all intents, you lose control over that money."

The best time to get an understanding of any investor relationship is before any money changes hands, he said. That understanding can be written or verbal.



Sarah Berrett/The Business Journal

Charlie and Nancy Yeldell invested in Surface Gel Tek, a Mesa company co-owned by their friend Tamryn Doolan, right. Doolan said the company received startup funding from a loose coalition of informal investors that included friends and family.

In addition, should a group of informal investors get together, it's best to designate one or two of them to negotiate the deals and do any research or due diligence.

"The biggest mistake I can think of is that people invest too quickly in a company," he said. "That does a disservice to all parties involved. You haven't asked the tough questions that help everybody down the road."

The last thing he advised is akin to the warning: "Don't gamble if you can't afford to lose money."

"You can't invest the money you need for next month's mortgage," Robinson said. "It can be three years or more before you ever seek a dime back."

Informal investor Charlie Yeldell acknowledged that his \$35,000 investment wasn't "peanuts," and for retirees, "there's no such thing as disposable income."

He said his money is a "true investment" and he expects a return on the money some day.

"It was an amount that I thought I could have a decent return on it, but on the other hand, if the investment, doesn't pan out, I can still walk into a Safeway and have something to live on."

#### Get connected

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