Is Asking Friends and Family Members for Money the Right Move for Your Business?

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Asking your friends and family members to support your business monetarily can be hard, but almost every entrepreneur needs to know how to do this if they want to grow their business. Even Jeff Bezos turned to his friends and family to help fund Amazon when he was starting out.

The "friends and family round" is often the first step in raising money after self-funding your startup with your savings, yet nobody really tells you how to do it.

Stage2Startups recently hosted an online discussion with several entrepreneurs about this important step in growing their business.

We talked to Robin Rosenberg, CEO of Live In Their World (a virtual reality artificial intelligence sensitivity training company); Gopal Swamy, CEO of Conductiv (a data aggregator and assessment platform for the financial industry); and Richard Russo, CEO of Endomedix (a bio-technology company) about their experiences with raising money and their advice on how to ask those closest to you to support your business.

Here is some of their advice:

Know Who to Ask

Before you approach anyone about investing in your idea, think first about who that person is. Ask yourself, "Are they risk averse?" and "Can they afford to lose their investment?" and "Could this damage our relationship if something goes wrong?"

Rosenberg worried when she approached her family since most concepts in the counseling space fail.

"There was a good chance that my investors would lose their money," she said. "That responsibility weighed on me."

As a result, Rosenberg made sure her family understood the risk before investing. "My family ultimately invested because they believed in my product and my mission," she noted. "They understood the risk, but they believed in me."

However, family is not always the best route to take, said Swamy. Unlike Rosenberg, he did not approach his family members. Instead, he reached out to his old bosses and colleagues who did not have the same "emotional baggage" as with family.

"Unlike family, these people already know you in a professional capacity," Swamy said. "I would call up someone and ask for their advice. It is a natural and easy way to open the investment conversation."

Make It Simple

One of the hardest things to do is to clearly explain your idea to investors. You know your product and industry intimately and want to show potential investors that you have done your homework. But they can quickly get lost in the minutiae you are so passionate about. Instead, tell your story clearly and simply and let them ask for more detail, as needed.

Russo recommends thinking about telling your story as a series of "word pictures."

"Don't get caught up in the details," he cautioned. "Focus on the bigger picture and help 'connect the dots' for the listener so they can see the opportunity. Find a similar business as a comparison, for example, and then show how you are doing it differently or better."

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Rosenberg went a step further by actually creating a demo of her product so that people could experience it before investing. "Once they understood what I was trying to achieve, they were more open to investing," she said.

Practice Your Pitch

Once you have your story, or "pitch" prepared, you have to be able to present your concept clearly and confidently.

"If you want to raise capital, you must be able to get potential investors excited about the idea and you," said Russo. "That's why it is so important to practice how you will tell your story."

Swamy recommends finding a coach to help you with your presentation. "Even after having raised money before, I hired a coach to help me with my latest venture. An impartial third party is helpful in identifying areas where I could improve my presentation skills," he said.

Betty Wong, our panel moderator, added that she struggled to ask for money without beginning to laugh nervously.

"I finally decided to take acting lessons," Wong said. "I found the techniques that actors used to stay focused and calm very useful in improving my approach."

Make It Formal

Once you have people who are ready to invest, it is important to formalize your agreement. This will ensure that everyone is clear on how and when they can expect to see a return on their investment.

This is especially important with friends and family where a handshake may be easier but can cause complications down the road. A more formalized approach also establishes a professional relationship with rules and processes for founders to maintain with their investors.

There are many ways you can structure your financial arrangement, so be sure to hire a lawyer who has experience working with startup organizations. (https://www.nextavenue.org/starting--business-in-retirement-using-a-lawyer/)

If you want to raise money for your business from friends and family, it is important to take the time to prepare. Asking for money may still be hard, but your chances of success will be greater with preparation and practice.

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