

Finding a Straight Shooter for Your Investor Hunt

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When Italian-based shoe company [Due Farina](#) decided to [relocate](#) to Brazil in March 2006, it needed extra funding fast. An industry colleague introduced the owners Marina Rosin and Fabiana Rigamonti to U.S. company [Wellfleet Partners](#), a boutique investment, merchant banking and venture capital firm.

Due Farina, valued at around half a million dollars at the time by Rosin's estimate, was having difficulty securing financing, so it paid Wellfleet a \$3,000 sign-up fee to find it an investor.

Rosin was unfamiliar with the broker world at the time, but says she "didn't have a good feeling about it all."

Wellfleet, who was not asked about its dealings with Due Farina but declined to speak with *TheStreet.com* when contacted, did schedule meetings with a few potential investors, but none that were interested in working with a company like theirs, says Rosin.

"We ultimately felt like a waste of time to anyone [Wellfleet] was presenting us to," says Rosin. After about two months, Harry Dannenberg, their business counselor at [Score NYC](#), advised Rosin to end her dealings with the company.

Now based out of Brazil, Due Farina is still searching for an investor in order to take the business to the next level, and is asking three main questions:

Is the Fee Fair?

Rosin initially felt Wellfleet should have taken a commission only after securing an investor, considering her company's size and limited funds.

But Kenneth Yager, managing director of consulting firm [Morris-Anderson](#), says an upfront fee is common practice and \$3,000 is nominal.

For a company south of \$50 million in value, a typical nonrefundable retainer should run around \$25,000 to \$50,000 for the duration of the engagement, says Benjamin Chang, principal of a private merchant bank, and usually involves the

merchant bank putting together a document describing the merits of the investment and a roster of potential institutional investors.

Dannenberg's clients, most of which are just beginning to work through banks or get capital investors from family and friends, come with bigger risk so brokers and investors tend to demand a larger initial fee, he says.

The real questions, says Yager, are does the broker understand my business well enough to articulate a clear plan for who should be investing, and how is the broker going to access this group? If you can explain what the broker said to another person and it still makes sense, the fee is most likely worth it.

Am I Ready for an Investor?

"Even if its Rolodex is deep ... a merchant-banking firm can spend 18 months with a company and go everywhere but the bull's eye," says Yager. As the business owner, be sure to ask in the beginning what kind of people the agent will approach and why they fit your business. Still, even if you and your agent are on the same page, your business might just not be ready.

"The success level [in finding an investor] may not be the broker's failure but the business' failure to come to terms with market rates," says Yager.

Large companies have investment giants like **Goldman Sachs** ([GS Quote](#)) and **JP Morgan** ([JPM Quote](#)) to turn to, so small companies may believe that private merchant banking firms offer a good alternative to find them investors. However, investors and agents often aren't keen on a business less than \$1 million in value.

A well-established business should only be looking for new investors when it sees the potential to expand and needs that extra capital boost, advises Dannenberg.

If you didn't get the money you wanted from a bank, even with a well [thought-out business plan](#), Dannenberg says, there's likely a reason. Hiring a broker to secure outside funding could leave you open to strange deals and rash decisions. First, re-evaluate if you should be in business in the first place and then think about waiting until you can better afford an expansion. "When people become desperate, they become vulnerable to the con," he says.

If your business is not well established and some broker promises you the moon regardless, beware, says Dannenberg. In Due Farina's case, Dannenberg feels their \$3,000 could have been better spent elsewhere.

Is It a Scam?

Many companies, likely including Wellfleet, are accustomed to charging a fee upfront and delivering later on investors, but others extract money first from inexperienced companies often desperate for funding, knowing that investors will never bite.

So how can you gauge a merchant-bank broker's intentions?

It's difficult to find a merchant-banking broker operating on commission, but if the monthly retainer, not the success fee (a percentage of the deal with the investor) seems to be the primary focus, then be suspect, says Chang. "People get scammed all the time," he says, but any legitimate investment banker won't ruin his or her reputation by taking your retainer money while knowing a placement is not possible.

Realistically, Chang adds, nobody will give you \$3 million or \$4 million when you have only a concept or an underdeveloped business. If a broker promises you this, you're in for disappointment and a wasted retainer fee.

Also beware of upfront flourishes like a fancy valuation or marketing plan for your company, which often mask the lackluster investor search that follows, Yager advises.

"Small businesses need to know there are hundreds of people out there who can find money for them," Yager says, so don't just go with the first broker you talk to. Shop around and get a picture of what's out there. Angel investors typically don't like dealing through brokers, but a broker can be a valuable conduit for vetting ideas so that an investor down the road can better understand their economic value, he says.

Angels You Can Trust

Instead of wading the uncertain and oft fruitless waters of finding an investor, Chang recommends angel investor associations like Boston-based [Launchpad Venture Group](#), of which he is a member.

These groups, says Chang, populate all major business areas in the U.S. and can be found with a simple **Google** search. "[Angel groups] are really the conduit to raising small amounts of capital," he says, referring to amounts from \$200,000 to \$2 million.

When selecting a broker, merchant banking firm or angel-investor group, Chang recommends seeking the aid of your most trusted business adviser, whether a lawyer, accountant or commercial banker. In the past five years or so, angel networks have evolved, says Chang, and are focusing more on businesses in

their early stages. Still, it's best to be referred to these groups by someone you trust.

If you go the merchant banking route, however, find a broker licensed by the **SEC**, says Yager, but keep in mind the compliance cost can be prohibitive for smaller deals. An unlicensed subculture of brokers -- usually called consultants and intermediaries -- do well at introducing smaller companies to investors, he adds. Look for an intermediary with good referrals or who is already working with you on something else like accounting or business processes. As with brokers, their proposed success fee should be around four to 10 times more than the initial or monthly retainer.