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Contest cash crunch

Business plan favorites find all-new competition on the road to VC funding

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Hemetrics Development Corp. made quite an impression last spring with its plan to produce a device that monitors a person's level of dehydration.

The Newton-based startup company made strong showings in three different entrepreneurship contests and looked to be headed down a smooth road to funding and eventual production. But summer has come and gone, and Hemetrics is still looking for capital to get out of the starting blocks.

It's not alone.

Business plan contest winners quickly learn that earning accolades can be easier than attracting investors. Sure, awards open doors, but entrepreneurs still face the ordeal of pitching plans to dozens of prospective investors. Pitches are adjusted, but investors may balk if the amount sought is deemed too small or too large -- or if the company has visited too many other VCs.

In March, Hemetrics was a semifinalist in the MIT 100K business plan competition. It was also a semifinalist in the Worcester Polytechnic Institute Venture Forum contest in June and was selected by Nanotech Briefs as one of the top 50 technologies.

But President David Kaufman said he's still trying to raise \$5 million for the company, up from an initial \$2 million goal last spring. He said he's pitched the business plan to four venture capital firms and two angel groups, but isn't disheartened.

"It toughens you up because you realize there's a hole in your plan you didn't see before," Kaufmann said. "Everybody has an opinion, but an opinion with a lot of money behind it you tend to listen to."

Contests are all about exposure, said Gina M. Betti, associate director of WPI's Collaborative For Entrepreneurship and Innovation. She said business plan contests increase the chances for entrepreneurs and potential investors to meet. "It's part of the networking game," Betti said. "That network will lead to investment."

But too much exposure can sometimes lead to skepticism by VCs.

Investors being pitched an award-winning business plan could wonder why its hadn't attracted capital before getting to them, said Brian Owen, general partner of Masthead Venture Partners, a Cambridge-based VC firm. "A lot of people have seen it, why isn't it funded?" he said.

In Middleton, laser technology startup SemiNex Corp. won the North Shore Business Plan Competition last year. Now it's working hard to receive the funding to back it up, President David Bean said. SemiNex is looking for \$750,000 to launch its technology designed to remove wrinkles. The amount is too small for consideration by a VC, so Bean has been pitching his award-winning plan to angel investors.

He's been at it for two months and so far has three investors, who he declined to name, of the six needed. "It's been much slower than I hoped, but that's the reality of it," Bean said. "Also, there's a lot of competition out there and a lot of startup companies going after a limited amount of capital."

Bean said he's made initial pitches to about 134 individual angel investors, some of them as part of angel groups.

"It's a difficult process. ... You have to network with people who introduce you to other people," he said. "A lot of it depends on how connected you are."

Hartford-based LiquidPiston Inc. was a third-place finisher in MIT's Clean Energy Business Competition in March. The pitch stressed the new technology of the product, a highly efficient internal combustion engine.

Such an approach makes prospective investors uneasy, said Seymour Friedel, named CEO last month. He has founded six companies and raised investment capital for two of them, Zydacon Inc. and Itran Corp.

Friedel is seeking \$3 million to \$4 million in capital investment from angel and VCs, so he has changed the pitch, focusing on the company taking existing technology and improving on it. That strategy engenders confidence in investors because it means LiquidPiston won't need to spend a massive amount of money on R&D.

Friedel expects to receive the funding within six months.



Sandie Allen
"Everybody has an opinion,"
but not everyone is an
investor, says Hemetrics
president David Kaufman.
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Although LiquidPiston didn't win the MIT competition, and investors aren't beating down the company's door, Friedel said it gave LiquidPiston credibility.

"It's been looked at by people with technical know-how," he said. "It's another check mark that what we have is viable."

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