Three of the biggest mistakes founders make when raising equity investment

Raising investment is time-consuming and a distraction from your real job of running and growing your business. Before you embark on raising equity investment you want to ensure your startup has reached a stage in its development cycle where it is ready to attract investment. You also want to be sure that you want to accept investment.

Temps de lecture : minute

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Selling equity in your business and having shareholders join the business isn’t the right option for everyone. If you have decided that equity investment is the best option for growing your business then here are the three biggest mistakes founders make when raising equity investment, and which you will want to avoid!

Having a good idea is not a business

Having a business idea is not the same thing as having a business. Investors back business - not ideas. They will want to see credible evidence of market demand, not just your ideas for products. Investors will ask “What traction do you have?” This is your cue to provide figures that evidence you have developed a product customers love that you have your first paying customers, and you know have a marketing plan that will get you more happy paying customers. To stand out and attract an investor you need to focus on providing as much evidence of traction as you can. Your pitch desk must not only look professional, but it should

also demonstrate customers love your product or service with customer quotes and feedback, present the roadmap of the progress you have made to date and detail the financial forecast that shows how your business will grow in the future. You will also want to showcase the team you have built around you. After all, it is people who make things happen so investors will want to see who you have recruited to make your business a reality.

Don’t “guesstimate” your valuation or adopt too "founder friendly" a position - you’ll just put investors off

As the founder of your business, you may be unsure what proportion of shares in your business you need to sell in order to attract the investment you require. Valuing startups is not an exact science so you will probably recognise that any valuation is going to be a negotiation. You might choose to open negotiations with a “founder friendly” valuation but, starting with an unrealistic valuation is more likely to lose you investors than provide you with opportunities to negotiate! Investors won't take you seriously if your valuation is out of kilter with the market. Your valuation should be grounded in your financial forecast and should also be benchmarked against other business that have recent raised funding in your sector, and at the same stage of the development cycle as you, to ensure your valuation is to be seen as credible. If you are unsure how to value your business, take advice so you don’t inadvertently present an unrealistic valuation and put investors off. Investors want to have confidence in you and your business, so presenting accurate information and acting professionally is key.

Don’t assume all investors are the same- find

the right investors for your startup

Investors don’t come in a “one size fits all” package. Different investors have different preferences about the types of businesses they will back. They also have different attitudes to risk so back startups at different stages in the development cycle. The sooner you recognise this, and adopt a targeted approach to investor outreach, the sooner you will stop wasting time talking to the wrong people! The smart way to approach investor outreach is to develop a targeted list of investors who are experienced or shown interest in your industry and have invested in companies similar to yours. Start doing your investor research early, perhaps even before you are ready to launch your investment campaign, that way you can start to build a relationship with investors before you ask them for their cash. You don’t ask someone to marry you on the first date, so don’t expect investors to back you the first time they met you. Start building rapport, trust and a relationship with investors before the conversation turns to investment. Be selective in who you talk to, methodical in your relationship building and you should find the right investors will want to talk to you.

As a founder, your time is precious. You have more than enough to do running your business without adding the demands of raising investment to your “to do” list. Raising investment may seem really important to you but consider the progress you have made with your business first and weigh up the pros and cons of taking investment before you launch a funding round. If you do decide to raise equity investment, make sure you have strong evidence of the progress you’ve made in the business, that you have taken advice about valuing your business - so as not to put off investors with an unrealistic valuation - and then make sure you are talking to the right people. That way your time - and your chances of success - will be maximised.

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