Mistakes to Avoid When Seeking Investment Funding

After the “love money” (money provided by friends and family) is gone, start-ups often turn to angel investors for their next round of financial backing.

However, many entrepreneurs unwittingly sabotage their own efforts to convince potential investors their company is a viable venture. Some entrepreneurs take a very cavalier attitude to a potential investor, which doesn’t help their cause.

The pre-revenue stage, the stage when a business is preparing to go to market with its product or service, is critical to the company’s development and many entrepreneurs have very little idea of what they’re up against.

A typical mistake that entrepreneurs commit is to forget about the investor’s side of the deal. Some business owners think it’s about the technology and fail to impress upon investors how they intend to make money with it. Some owners go on and on about their product but forget to provide the potential investor with details of their business plan.

This is a critical mistake as investors, even if they are called angels, are in business to make a return on their investment.

Here are some of the things business owners should avoid when presenting to potential investors.

Talking About the Product, Service, or Idea Too Much

Of course you’ve probably invested a lot of your time and your family’s money on developing your business idea. However, at the negotiating table, learn to set this aside and focus on how the idea will appeal to the market and how the company, and investor, will make money out of it.

Investors want to hear a business plan. They want to know if the business owner has really thought things out about how he’s going to make a profit out of his idea.

The thing to remember is that investors want to back a business that will make them money in exchange for their investment.

Refusing to Let Go

In the Canadian start-up business TV series Dragon’s Den, many entrepreneurs that pitch their businesses to a panel of investors fail, but not because they have an inferior product or bad business plan. What kills the deal is often the owner’s refusal to share control of the company.

Investors putting their money on the line want to have a say in the company so be prepared to offer them a reasonable share of your company.

What would you rather own: 100 per cent of a company that's making $1 million or 20 per cent of a company making $100 million?"

Not Having a Good Team

One vital pre-requisite for a successful business is having very capable players in key positions that match their areas of expertise. Investors will be looking for such people in you company.

Investors want to see if the business owner can spot talent, recruit the right people and build alliances.

Being Unprepared

Missing documents, numbers that don't add up, or rumpled shirts with mismatched ties can be a huge turn off. Investors could read these as signs that you haven't taken the time to prepare for your meeting and by extension might not have placed the same level of attention to your business.

Coming to an investment meeting unprepared is a definite no-no. It shouts out that you either don't have the skill to pull this off or you don't care about the investor and just want his money.

Think of the investment meeting as a courtship, which you hope will lead to a union. You're there to impress so put out your best.

Misrepresenting Opportunities

Perhaps the opposite of coming to an investor meeting unprepared is showing up with a bunch of thoroughly "massaged" numbers.

Sometimes people show up with highly speculative figures. It's fine to be confident but entrepreneurs must be careful to not overstate revenue expectations.

In an effort to win over investors, some owners present very optimistic revenue figures that are not based on solid numbers. The danger is, if the numbers don't come through, the company loses its credibility.

Investors will feel that if a potential partner is trying to pull the wool over their eyes this early on, what other stuff could they be capable of later in the game?

The important thing to remember is that seeking out an investor essentially means you are looking for a partner and a partnership means sharing both risks and revenues.