Growth Insights

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# Fundraising Poker :

## three things not to bluff about!

Raising funds is a bruising encounter. Whether you are a first time entrepreneur or seasoned industry veteran it involves both pain and frustration and takes months of management focus. Like a game of poker the stakes are high, and bluffing only pays off if you've got the right aces in your hand.

Many companies waste time on the investment trail, preparing business plans and doing investor pitches. Many of these plans hide unspoken flaws. Before pitching to investors answer three fundamental questions:

1. Has your management team the DNA factor?
2. Have you the proof points?
3. What do you propose to spend the investment on?

Different investors look at different factors. Entrepreneurs will be told to adopt the investment template de jour but fundamental questions are frequently given less attention (or less honest assessment) than they deserve. Spending time on these will load the odds in your favour.

**1. Has your Management team the DNA Factor?**
People matter. Your key executives are the genes that make up the DNA of your company. They are the people who will determine how your company evolves and grows. Weakness in the senior management team leads to mediocrity in the business.

Sentiment has no place. You cannot afford to carry that person in a key position – you know the ones we mean. They have always been part of the management team and have been loyal to you since you started. Their growth may not have kept pace with the company's development.

Now, we are not suggesting for a moment that people are treated like commodities. Everyone deserves to be treated fairly and with respect, but unless you deal (compassionately) with weak executives you are putting everyone in the company at risk.

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### Insight in brief

Many companies waste time on the investment trail, preparing business plans and doing investor pitches.

Many of these plans and pitches hide unspoken flaws in the business.

Before pitching to investors their time would be better spent answering three fundamental questions:

1. Has your management team the DNA factor?

2. Have you the proof points?

3. What do you propose to spend the investment on?

### Insight in Action

Before embarking on the funding trail get your management team together and consider carefully whether you have a good enough hand to play fundraising poker.

Discuss and debate three core issues:

1. Have we the management team DNA? Does our team meet the criteria an investor

When investors assess an investment opportunity, they are asking themselves the following questions:

- Is the management team world-class? (or do they have the ingredients to be?)
- Have they the commitment and incentive to grow a valuable business?
- Have they an evangelical knowledge and vision for their industry?
- Does each individual have a proven track record of delivering on promises?
- Is there strong proactive business chemistry between the executives?

**2. Have you the Proof Points?**
Think about the proof points that investors will require before parting with their money. These proof points should address the key risks.

Even if you believe that you have a world-beating product, no one else will until you have reference-able customers. That means customers who have paid you fair value. You don't typically need large numbers but you need enough so that you can demonstrate a repeatable sales and delivery process.

Pick your competitors carefully because they will determine in your investors minds what market space you are in. You will typically want to pick competitors that are known to your target market. In that way, investors will understand the problem you are trying to solve. It also allows you to position your offering relative to that of the older, less-efficient approach of your competition.

Also consider what companies you have engaged with as (potential) partners that are willing to make a significant commitment to your offering? Partners who know your industry will most likely know more than the investor and if they judge your company as a good opportunity, then the investor will derive comfort.

**3. What do you propose to spend the investment on?**
Clarity about what you really need the funds for is important. It’s too easy to think if we just had some investment we could cover the wages for another 12 months. Be clear as to what the funds are actually for? How will it advance the company, de-risk it and increase its value. Too many investment powerpoint decks get to the final slides and use broad headings as to how they propose to spend investor's money on activities like sales and marketing and product development - showing complete investor naivety.

Instead, demonstrate more detailed thinking as to how the investment is going to bring your business to the next level through the achievement of real results based milestones. Think through how the investment funds will be sequenced based on learning from validating market assumptions, rather than just investment timelines to satisfy an Excel financial plan. Be clear as to what you would try to achieve in the first 30 days after investment

will be looking for?

2. Have we the proof points? Do we have reference customers who paid us fair value? Can we identify key competitors? Have we engaged with partners?

3. Are we clear as to how we intend to use funds raised? What milestones are in place? How will the funds be used to increase value?

funds hit your bank account.

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