



Attracting Investors to Your Business - Part 2

In part one of this series (published in the April/May issue), I discussed how to prepare for an investor meeting. The second part focuses on some of the different types of investors and the selection process.

What Are the Different Types of Investors?

There are several types of investors. You have to understand what each type of investor offers before you can decide which type to approach. There are angel investors, venture capitalists and investment bankers. There are other types but I will focus on these three. In order to know which one would be most appropriate for your type of business let's look at how they differ.

First, within all of these categories there are investors that invest in certain segments of the marketplace. For example, you may have investors that invest only in early-stage technology companies or you may have investors who focus on minority-backed companies or even investors that focus on a certain industry, such as biotechnology. So there are many investor types from which to choose.

Angel investors usually invest in companies in the earliest stages. The size of the investment can range from a few thousand to a few million dollars but there is no official range. These investors are usually the first, outside of friends and family, who formally invest in the company and understand the strategic vision of the business. Angel investors are willing to assist an early-stage business idea that is under funded. So if you have exhausted other resources, then angel funding would give the business enough money to continue in its direction. A disadvantage of angel investors may be a lack of management guidance when granting the funds. In other words, they are usually less available for advice and counsel on business issues. They are more like business partners who

allow the founders free reign but offer very little guidance. An angel investor may be advantageous to the company where management already knows how the money will be used and already has a good strategic direction.

The next type of investor is the venture capitalist, or VC. Venture capitalists invest in companies in return for a percentage of the company. Since VCs are insistent upon achieving stellar financial results, they are much more involved in the company than an angel investor. They may request a board seat, a position on the management team or other things that would allow them to closely watch over the money that they have invested in the company. VCs will usually be involved in the strategic decisions of the company and will advise management on issues regarding the focus of the company. Depending on the current management style of the company, this could be stifling or it could complement the company's management. You have to decide what level of intrusion you will allow in your organization.

The next type of investor is an investment banker. Investment banks assist in matching investors with companies and sometimes choose to invest directly in the company. As a former investment banker, these are the people who can help you most from a full service perspective. They have the ability to take a company from the idea stage all the way through an initial public offering (IPO). For example, an investment bank may find strategic investors for your firm. Let's say that your business is in the wireless infrastructure space and the investment bank decides that there may be a fit between your firm and a large firm that distributes wireless products. An investment bank will determine if there is a strategic fit and, if so, may facilitate the transfer of funds between the two companies. Sometimes these deals involve giving a board seat to the investing company and/or a percent-

age of the company in return for funding. The investment bank also gets a percentage of the deal, meaning a percentage of the dollar amount that is invested. In addition, investment banks can assist in finding funding by having your company go on road shows. A road show allows you to present the goals and strategies of your company to a large number of prospective investors in a short period of time. This allows prospective investors to learn more about your company and it allows you to evaluate whether you are comfortable with this type of investor investing in your company. A definite advantage to working with an investment bank is that they have a vast network of people and resources. For example, if you are interested in making investing opportunities in your company more global, an investment bank can help you in this endeavor since many have branches throughout the world.

What Are Investor Selection Considerations?

So what type of investor should you seek? Investing is a two-way street and you should only take money from investors that you feel will help with your overall strategy. Some areas to consider before accepting money are:

- Level of non-financial commitment to company from the investor
- The amount of ownership you give up
- Overall expectations of both parties

You have the option of refusing money if the deal is not a win-win situation. For example, if an investor approaches you for funding but to accept it would entail your company giving up the rights to future patents and a large percentage of the company, then you must weigh the long-term effects of your decision. If the deal does not seem equitable, then consider alternate sources of funding.

A common mistake early-stage companies make is to accept money from inves-

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tors without the investors fully understanding the business. The ideal investor relationship is where the investor brings not only money to the table but also brings contacts, a healthy network of partners and strategic direction for the company.

I have seen first-hand how frustrating it is for a company to receive funding, not have any guidance from the investors and then be berated by investors for not achieving expected financial results. I have seen investors suddenly take over a company and bring in their management team instead of working with the current management team. Investors may also choose to change the strategic direction of the company without any input from the founders and, basically, use the company's services or technology platform to launch other products or services. The company is then so different from what the original founders intended that the current company no longer resembles the founding company.

As a business owner, you must be aware that once you accept funding from an investor, you have just gained a partner whether silent or active. It is to your advantage to decide what type of partner you would like before accepting funding.

In my experience, the most successful companies have investors who are proactive in helping the business find partners, giving business advice and helping form an effective management team or educating the current one. In other words, the investors understand the long-term viability of the company and want to be an integral part of the company's success.

So before you accept funding, make sure you understand the responsibilities from both parties.

Where Do You Find Investors?

At this point you might be thinking that you would like to have the "problem" of deciding from which investors to accept money. True enough, it is definitely nice to have these types of options, especially in this economic market but how do you connect with prospective investors?

The number one way is through referrals! I can't stress this point enough. As an investment banker, over 90% of our clients were referred to us from fellow colleagues, partner organizations, other banks and other places we respected. While we received many unsolicited requests for presentations, they were not our priority. From an investor's point of view and in this particular case, the investment bank, referrals meant that there was one less level of screening to do. From the company's point of view, they were able to present in front of decision-makers.

Referrals — So where do you find these referrals? Everywhere! If you are currently in a business and you have a business account with a retail bank, start there. Ask if they know of prospective investors. If you have a board or an executive management team that have corporate experience, ask them about prospective investors with whom they may have a relationship. Remember, it never hurts to ask but it may hurt you in the long run if you don't ask.

Another very good strategy for early-stage companies is to attend as many seminars and industry talks to network with a variety of people. If investors don't know you exist, they cannot learn about your company. The nice part about networking in this way is that it enables you to find out what investors expect of the companies in which they invest, allows you to

check out competitors and builds your communication skills.

Friends and Family — Do not overlook friends and family when looking for funding. They may invest in your business or they may have connections with prospective investors. You never know where your next source of funding may come from.

Since you have decided to start your own business, you already realize that your day does not end at 5pm but that you are working all the time. The same is true for networking to find prospective investors. It never stops. The good thing is that the more you network, the more prepared you are to speak concisely about your firm.

Databases — Last but not least, another alternative in finding investors is to use databases that have listings of analysts with their contact information who cover a certain industry. The advantage is that you can pinpoint exactly whom you would like to contact. The disadvantage is that the cost of the list can be more than an early stage company is willing to pay and you must still overcome the hurdle of not having a personal referral when setting up an appointment.

Now Get Started!

So as a company, you must decide which investors you would like and how you will attract them. I can't emphasize enough that once you have attracted a prospective investor, this is your chance to shine. Once you have captured the interest of an investor where a meeting is requested, you should be comfortable presenting your business plan. If you can explain your company to a group of investors, then you are well on the road to success. Good luck and remember that it is up to you to choose the most appropriate investor for your business.

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| CHECKLIST FOR INVESTOR ANALYSIS | ANGEL | VC | INVTMNT BANK |
|---|-------|----|--------------|
| What is my preferred type of investor? | | | |
| What are the disadvantages and advantages for my company for each type of investor? | | | |
| What should I consider when choosing an investor? | | | |
| Where can I find investors? (Business partners, associates, etc.) | | | |