

What Do Investors Really Want From a Business?



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Question: Should I send out market research surveys prior to approaching an investor? Also, how safe is it to pitch my business idea to an investor?

Underlying these two questions is another question and the crux of what this person is asking, “what do investors want?” Are they looking for new ideas so that they can create businesses of their own or are they looking for you to prove your idea will work? What do I have to show them to get funding?

Once we’ve answered the first question we will move onto the second two.

Getting into the mind of an investor

Hundreds of episodes of Shark Tank and Dragon’s Den have taught us that if you do not know your business inside-out and if you don’t come across as capable of running your business without the ongoing guidance of your backers, you’re not going to stand much of a chance. Investors are just as the title suggests – investors. They’re the deep-pockets with the connections that we turn to when we want helping launching and growing our business. They’re the PR and the security. They’re the step ladder. They are not there to run your business unless that’s part of the agreement. That’s what you’re supposed to be doing and what your partners and employees are supposed to help with.

While every investor will have their own requirements and be looking for something that aligns with their personal interests and pursuits, there are a number of things you should consider if you want to stand a chance at getting funded.

1. The right industry

“What’s comfortable to me is familiarity.”

– Marc Jacobs

According to business development consultant, Wyn Lydecker, both investors and venture capitalists are looking to invest in businesses and industries that they can understand. For this reason it’s best to target your pitch and to build relationships with those people that are interested in your industry.

Often, investors will advise or sit on a number of boards. As such, they have little time to learn a new industry and to make contacts within that industry. A simple online search should reveal your investors interests as well as the portfolio of companies that he/she has invested in.

2. You and your team

“It really takes likable superstars to get the attention of the masses.”

– Jennifer Wyatt

If your investor is a match with your industry, believe it or not, the next most important thing is *you* and your *team*. To illustrate this point, there’s no better story than that of Reddit. In 2004, Alexis Ohanian and Steve Huffman launched Reddit. They were funded by Y Combinator and originally approached by Paul Graham. When Alexis and Steve first pitched their

idea—MyMobileMenu, a restaurant takeout app—to the Y Combinator team, they were rejected.

Heading home a day after the pitch, Alexis got a call from Paul. He said, “We made a mistake. We don’t like your idea, but we like you guys.” He told Alexis that they needed to build the front page of the internet. Three weeks later Reddit was born and a year later, sold for millions to Condé Naste.

If you’re the type of person they can see themselves working with, you’ve won half the battle.

For venture capitalist [Paul Suster](#), it’s not just the individual; the “management team” is essential.

“I’m personally 70 percent management, 30 percent product [...] If I feel a priori that the CEO can’t cut it I’m highly unlikely to invest. Because management is so important, I always tell people to make the bio slide the first in your deck. If you have good experience then the VC will be leaning forward for the rest of the presentation.”

3. Market share and a competitive advantage

“We don’t have a monopoly. We have market share. There’s a difference.”

– Steve Ballmer

Now, what’s the next thing on the table? Your idea. Or rather, whether or not your idea is has a large market share and is competitive within that market. Starups.co, a company founded with the intention of connecting entrepreneurs and investors, advises business owners on what will attract an investors attention. Market size is one of those things. If your idea is only worth a million

dollars to them, they won't feel bad about turning it down. However, if you have the potential to make tens or hundreds of millions (even billions), passing on your idea would be foolish.

However, a large market is not enough. You've also got to have a competitive advantage within that market. What will make it hard for others to rise above you? What is your "unfair advantage" or the thing that no one can compete with? What makes you a game-changer? Make no mistake, you will need to have a business model or a business plan that shows just where you sit in relation to your competitors. [Understanding them](#) is a good starting point.

4. Traction

"No way of thinking or doing, however ancient, can be trusted without proof."

– Henry David Thoreau

Another great way to pique an investor's interest is to have a bit of traction as it demonstrates your ability to see your ideas through and it gives investors a glimpse of where you may be headed. If investors see that with just a little bit of money you can do what you've done, they might start wondering what you're capable of with a whole lot more at your disposal.

For investors, traction minimizes risk. It's a chance to see how you perform and what you're capable of. To demonstrate traction you might recruit a good management team, start making sales, build an advisory board or secure strategic partnerships.

Without at least a little traction, you're unlikely to get very far with an investor.

5. Cash flow and a financial plan

“Never spend your money before you have it.”

– Thomas Jefferson

Money. It's not hard to see why this one's important because really, this is at the heart of every investment. If your business is without the potential to make money, it is not a business. Ideally, you'll be approaching an investor with a business plan that has [your financials](#) worked through.

The most important part of the business plan is arguably the cash flow plan—how much money is coming into your business and how much money is going out. You will need to show that you can cover your own expenses without having to turn to the investor for a check.

Seeing a good return on their investment is key and your financial projections on the business plan are there to give them an idea of how long it will take for you to make a profit and for them to recoup their investment. This is where the “exit strategy” comes in. An exit strategy is not your plan for when the business fails, but rather, your strategy for returning money to investors. This may include planning for an IPO, a strategic acquisition or for management buyout.

This is one area that you can expect investors to seriously evaluate, so be thorough when planning.

In summary, investors are looking for these five things:

1. An industry they are familiar with
2. A management team they believe in
3. An idea with a large market and a competitive advantage

4. A company with momentum or traction
5. An idea that will generate cash flow

Should I do market research before pitching?

In order to run a successful business, you will need to have a good understanding of your customers, your industry and your competitors.

Investigating the data behind the products or services that are on the market will help you reduce business risks; identify new opportunities and trends, as well as spot any areas where you might have problems.

Prior to approaching an investor, you will need to ensure you've got an excellent understanding of your business. If you haven't performed any market research, how will you know whether you've got a good share of the market and a competitive advantage within that market? These are two things that investors will be looking for when they review your pitch or your business plan.

Will investors steal my idea?

Based on what you've read above, you should now have an accurate picture of what a typical investor is looking for. As you can see, 'ideas' are not high on the list. In fact, if you are planning on pitching an investor or handing over your business plan, you're not actually going to be able to hide your idea. If you do manage to skirt around the issue of exactly what you're offering, you're unlikely to get funding.

Naturally, if you've got an idea with patent potential, you don't have to give the exact details, but you do have to make clear what the product or offering does. Investors are busy people and don't have time to play games. If you're

going to require them to sign a confidentiality agreement before they can even get your plan, they'll probably move on to someone else.

If you're still worried about theft, there are a few things you can do to minimize your risk:

If possible get to know the investor you're interested in. Do you trust them? It may be best to opt to work with someone you know if you are really worried about theft.

Send only a portion of your business plan. Exclude any patents that you have filed for and let the emphasis be on your [executive summary](#).

Investigate your investor's portfolio. Are they involved in similar projects that share the same market/technologies as you? If this is the case, you may want to think about approaching another investor.

Include a confidentiality notice on the cover of your business plan (don't require they sign an agreement before getting the plan)

And remember:

“Good ideas are common—what's uncommon are people who'll work hard enough to bring them about.”

— Ashleigh Brilliant