

A T T R A C T I N G I N V E S T O R S

Practical Guidelines for Avoiding the Big Mistakes

The following five-part series is intended to help level the playing field for you, as an entrepreneur, as you work on raising capital for your company. You may have a business plan, or you may just be starting to write one. You may even have already scheduled meetings with venture capitalists. Regardless of where you are in the process, I'll share with you my insights from sitting on both sides of the table—as an entrepreneur seeking capital and as an investor providing that capital—to help you avoid the most common pitfalls when trying to attract investors.

In Issues One and Two, I will address competitive advantage—what investors really want to know about your company. Issue Three looks at the realities of financial projections. Issue Four covers the business plan itself. And, when you finally get the “pitch meeting,” Issue Five will prepare you for success.

ATTRACTING INVESTORS

Issue One

Competitive Advantage—Why YOU?

When you boil it down, you really have to convince an investor of only two things: (1) the war you're fighting is worth winning and (2) you're the one who is going to win. I want to focus on the latter here, and will address the war itself in Issue Two.

Loosely construed, your odds of winning a battle or a war are based upon your competitive position or, ideally, your competitive advantage. Unfortunately, as a startup, your competitive advantages will be generally limited—and subject to some skepticism. So play it straight in your business plan and cover some or all of the following, making sure you put your biggest strength first:

- **The Competition** - First of all, never tell me there is no competition—or even imply it by saying that there may be competition, but you are unique or highly differentiated or blah, blah, blah—unless you can prove this beyond a doubt. Markets without competition are not markets. But I do want to know why you are better. So what's really critical here is educating me about the competitive landscape and how you fit into it. If, as a potential investor, I'm interested in the war you're fighting, I'll probe this issue in much more depth as we move along the process. So stick to the basics; there's no need to turn “research analyst” on me at this point.
- **Your Product or Service** - Once again, provide a solid big picture with illustrative examples. If you have a patent, it must be critically important to your business strategy for it to be a true competitive advantage. Owning patents just for the sake of owning patents is relatively useless in the vast majority of companies (with more exceptions to that rule in life sciences, obviously)—and it is the rare startup that can afford to prosecute patent violations anyway.

- **Your People** - This is an obvious one. Everyone has told you that investors invest in people, not companies. But in reality, if you were the kind of person who had investors beating down your door, you wouldn't need this tutorial. Since very few have earned that free pass, the "people" issue is one that can trip you up.

If I'm a potential investor, I want straight answers to three questions:

- 1) Do you have the right people, at this precise moment, to do what you need to do for the next several months—whether that be technical, sales, or even operations?
- 2) What are the gaps in your team and how do you plan to fill them? Out of a top management team of five to six people, you can't afford more than one first-timer. And be honest about this—don't list people as part of your company if they plan on joining only after you're financed.
- 3) What do you honestly see as your future role? This is a touchy subject that will probably be explored later in much more detail by a potential investor. But in general, you need to recognize that most investors don't look at the person across the table from them as the permanent CEO unless he or she has filled this role before. If that's not the case, show your willingness to do what's best for the company.

Always remember that any interested investor will be doing much more due diligence in each of these areas, so whatever you say now can come back to haunt you later. Keep it simple and to the point, and always expect lots of questions and meetings in the future that will really allow you to shine.

Next Issue:

Competitive Advantage – Why YOUR Market?

Jonathan York & Associates helps entrepreneurs and high growth companies eliminate barriers to growth through executive mentoring, expertise in strategy and planning, and assistance in applying proven funding strategies. We can be reached at jyork@jyorkassociates.com or 614.271.3500.

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Jonathan L. York, Ph.D.

Jonathan York is a recognized leader in helping technology and services companies. He has guided them in identifying and overcoming barriers to raising growth capital and in eliminating key impediments to growth through transition stages. He is also well known for helping his client companies focus and energize their sales and marketing programs.



A seasoned corporate executive, consultant, and trusted advisor to corporate leaders, Dr. York has raised over \$100 million in funding and participated in the financing of over a dozen technology and services companies. He estimates that, in his career in technology and business development, he has evaluated over 300 business plans. His experience in these realms makes him an ideal partner for ventures who are looking to move to their next stage of growth.

A graduate of Yale with a Ph.D. in psychology from Michigan State University, Dr. York brings over 30 years of entrepreneurial and leadership experience in the private, public, and nonprofit sectors. He has been on both sides of the venture capital and angel financing equation—as a CEO and recipient of significant investment and as an active venture investor in an early-stage VC firm. As an operating CEO, Dr. York grew a software company, in just 30 months, from a standing start to over 120 employees and a run rate of over \$12 million. He has served as an interim CEO and/or board chairman for multiple other fast-growth technology businesses and has sat on the boards of almost a dozen such companies.

In addition, he served as a CEO in the health care sector for over 10 years, was the president and CEO of one of the country's largest and most dynamic chambers of commerce and economic development organizations, and worked as a general partner in an early-stage technology venture capital firm. He has also served on numerous civic boards in areas as diverse as low-income housing and the arts.

He also studied at the London School of Economics and has attended the Aspen Institute program on technology leadership. Dr. York currently sits on the boards of several private technology companies.