How to Secure Investment: A Simple Guide For Startups

GROWTH STUDIO

Here is a guide for any startup founder or team about the do's and don'ts of securing successful investment.

From Idea to Exit : Where Are You?

One of the first questions to explore is what stage of the fundraising journey your own startup is on – and how that impacts investment potential. It's an important area to address as the money you plan to raise sets specific expectations with investors.

You may be at the idea stage – still refining and testing your concept. Or perhaps you have moved to pre-seed stage. This is where you have not yet created an MVP (Minimum Viable Product) but you are a capable founder, already showing (and able to prove) strong indicators of success.

Once you've reached the seed stage, you've developed your MVP and you're able to evidence business traction with a proven customer base and market fit. You have compelling research and insights about your customers – showing what they have been buying and what they are willing to pay.

Pre Seed Funding

What do investors expect to see? As an early stage founder, you are generally seeking low level investment. In general terms, you are perceived as being within the high risk investment stage. So what do you need to show?

1. Prove there is a market for your product or service.
2. Demonstrate that you can develop a business solution.
3. Show basic infrastructure and foundations of your business.

Seed Funding

At this stage you are seeking investment to validate and iterate on your MVP in order to find product market fit. And also you are beginning to shape the organisation, build the team and evidence how you will grow revenue.

Where will you get funding from?

Bootstrapping and Debt Funding

You might start out your funding journey with personal loans otherwise known as debt funding. Think carefully about using debt to launch your business because you are personally liable. If you can, raise your funds through bootstrapping eg. using your own personal savings. This type of funding is a good place to start but will only ever take you so far.

Grants and Crowdfunding

Consider government or institutional grants. They are a great route for early stage funding but right now due to a tough investor climate, grants are highly sought after and the sector is competitive.

You might also look at crowdfunding investment through sites such as Crowdcube, Ethex or Seedrs. Crowdfunding looks like an easy thing to do but the process requires lots of time and commitment. You need to convince 100s or even 1000s of small investors to believe in you, rather than just approaching one or two investors. And remember, there is nothing worse than a visibly unfunded business on a crowdfunding platform. If you choose the crowdfunding route, think about a plan to avoid the 'visible fail'. Maybe you use your own reserves to top up your fund to reach the final financial goal.

Angels and VCs

Angels are usually represented by passionate individuals whereas VC (Venture Capitalists) are institutional investors looking for an accelerated return.

There is however an exciting new breed of VCs emerging known as Seed VCs or Pre Seed VCs. They are looking to engage with a business earlier than most VCs – to out step their competitors. In other words, these investors are looking to get 'skin in the game' at an early stage.

Key Questions To Ask Yourself

1. Are You Ready for Investment?

Have you got a clear business case? Can you confidently articulate how the business will make money. And can you show how an investor can secure a healthy ROI.

2. Where's the Evidence?

What evidence can you provide investors? Evidence naturally comes from research. Speak to the right people and resources to get primary proof points. B2B organisations need approximately 10-12 credible customers to validate their proposition. With B2C, it's substantially more.

3. Do You Have The Skills?

Raising investment takes a lot of time, energy and skill. Do you personally possess the skills or have them within your team? Fundraising takes a lot of energy and commitment. Who will be leading your investment rounds and who is running the business whilst that is underway.

4. How much should you be raising?

Whether you are raising 100k or 500k, expect to give away an average of 15% equity. Most investors won't be motivated without this level of equity.

5. How much equity do you want to give away?

Have a benchmark. You want to avoid giving away too much too soon. But equally you need to be realistic about what you need. Think carefully about the funds you need to take you through the next 18 months. This gives you clarity on what investment you need.

6. Do You Have Support?

Building a business and raising investment can be exhausting and intense. And the stress is often shared by your family and loved ones. Are they able to support the venture you are undertaking? Both in emotional and perhaps even financial terms?

What are investors looking for?

Here's 5 simple steps that cover what investors are expecting to see:

1. A viable plan – do you have one? Your market may have many challenges open to resolve but are people willing to pay for this?

2. A killer team. Who's leading the business? Who is leading the technology? Whose marketing the business? It's not necessarily 3 people. It could be 5 or even 2.

3. Traction and Leads. Have you secured pre sales or commitments to purchase?. At pre seed stage, this could be about how many potential customers you have spoken to. In short, how much evidence do you have that shows the market wants your product or service.

4. Thesis Fit. What's Yours? At Growth Studio – our thesis is about supporting sustainable, planet friendly startups. Be clear about your core story.

5. What are you looking for? Remember investment is a two way street. Do you want a hands on or passive investor? Do you value an active investor with a great network and connections? You should do! They can help you validate your assumptions. Perhaps you want them on your Board? Can you trade this offer? Remember investment is a business partnership.

Let's talk pitch decks

A good pitch deck will get you an investor date. It's literally like dating! You want your investors to swipe right and although not every investor will end up investing in your business, you want as many as possible to engage. This is a numbers game and as a rule of thumb, only 2 out of 20 meetings or presentations lead to investment.

What to include?

1. The problem you are solving – and your solution. In clear simple terms. Get to the point quickly and with clarity.
2. Your IP, your technology and the business model that supports the technology.

3. Traction and evidence. You need to show your market is backing you.
4. Your growth plan. Show a clear, simple and visual story.
5. Your killer team.
6. Your Ask – how much you want to raise – with clear end outcomes.

Where to Find Investors?

Your Own Network

Start with your own network, your own colleagues and friends. Look at Crunchbase. Research who has invested in similar startups. Sign up to free business news alerts to find out who's investing in what.

Choose Your Events

Networking. Get out there! It's critical and if you can, invest in paid events because your competitors are all going to free events so there's less competition! Find out who the speakers are and if they are your targets, get to the event early so you can connect with the speakers during quiet times. Remember people buy people.

What's your digital footprint?

Have you got one? Invest in having a strong digital presence. Populate your Linkedin page which is free and at the very least, invest in a website landing page that shows your core story and has a sign up link to find out more about your business.

When You Get Told No?

If you get a no from investors, ask why. It might give you consistent feedback themes which are highly valuable. In the words of Google, learn to fail fast. And remember, get as much advice as possible and expect rejection and negativity as part of the process. In the words of clever people, if you ask for advice, you will get investment.