10 Mistakes in Approaching Angel Investors

By Bill Warner, Triangle Accredited Capital Forum

Much is written about how to successfully approach angel investors, but do you know what the major mistakes are? I mean the ones that will spell instant rejection if you make them? You can blow up an attractive business opportunity if you make one of these killer mistakes. Angel investors run in packs and the word about your mistakes will rapidly reach them all, eliminating your chances of getting any further consideration. You only get one good chance with any angel investor or angel investor organization. Make the best of it by avoiding the following mistakes:

1. Not Knowing Your Market and Buyer. The foundation of your entire business proposition is based on a large and growing market in which a compelling problem exists that a buyer will spend money to fix. You must know everything about your market opportunity and what drives it. You need to know all about what constitutes your market: market size, market growth rate, market drivers, competition, competitive market share, buyer's problem, buyer's purchasing preferences, key alliances, sales and distribution channels, and many more things about your market landscape. If you are not able to explain these and answer the hundreds of questions you will get, the investor will conclude you don't have a business and your chances of getting any further interest is near zero percent.

2. Not Considering Your Competition. It's going to be a bad day when your investor knows more about your competition than you do or identifies competitors that you have not considered. Even worse is saying that you do not have competitors because you are in a new market or nobody has a product or service like yours. Your potential investor will conclude that you have not done much research and not considered the various alternatives that your potential buyer has to solve the problem that your product or service solves. After all, your primary competitor is the status quo; which is however your buyer solves the problem today. If you show that you don't know your competition, your potential investor will have little regard for your understanding of how to win in your marketplace.

3. Overstating Business Progress. If you say that you have made certain progress in product or service readiness, customer traction, strategic partner interest or investor interest, and it is later discovered not to be true, the investor relationship will be over. You will have shown a lack of integrity and precision in your communications which will be extrapolated to everything you have previously said. This is a breach in trust which can be impossible to recover from. Avoid this mistake by always telling the truth about the status of your business; doing it as objectively as possible using straight forward facts.

4. Being Resistant To Additional Management. As Dirty Harry once said, "A man has to know his limitations." Well, so do entrepreneurs. Investors are going to make sure that the right management team is in place. Sometimes that means bringing additional people into the company to fill necessary roles, including the CEO. If you resist this by unrealistically insisting that you can play a role that you are not really qualified for and you are not acting in the best interests of

the company, investors will not work with you. You will be showing a level of immaturity that indicates that the investor’s money is not going to be managed well, so they will not take the risk.

5. Insisting That You Are Right. Chances are that your potential investors know more about starting and running businesses than you do. Their accumulated wealth is proof that they are good business people. If you come across as arrogant and not willing to listen and be coached, your potential investor will conclude you will not be a good business partner. I know this is common sense, but sometimes entrepreneurs get totally wrapped up in their perspective of the business and are not able see other points of view. If your mind is closed to other perspectives, the door to investor money will be closed as well.

6. Being Disrespectful and Pushy. Most of the time the process of raising angel investor funds is an exercise in patience. Investors don’t know as much about your business as you do so they ask a lot of questions that may seem obvious to you. Investors have certain perspectives of how business models work that will have to be reconciled. They have a lot to do and often don’t get the due diligence done in a very timely manner. Some angel organizations have rather bureaucratic procedures that take a lot of time. Complaining about the process and trying to push it faster than it will go will only frustrate you and more importantly anger the investors. If you complain too much and push too hard, you will lose them.

7. Not Knowing What You Will Do With the Funds. Not knowing exactly how much money you will need is usually forgiven, especially if the amount has been determined by a cooperative discussion with the potential investor. But, not knowing what you need the money for is a mistake. It indicates that you have not thought about what you have to do next to launch your business and that you don’t have a clue what your next few milestones are. The investor has to feel comfortable that money is going to be spent wisely and on the right things. If you don’t show that you know where the money needs to be spent, you will not get funded.

8. Unrealistically Insisting on Ownership Control. Too many entrepreneurs underestimate the importance of the investor’s role. In order to be successful, an entrepreneur needs a good business proposition and the money to finance it. Both are equally important in every respect. Some entrepreneurs think that the investor’s role is much less significant than the entrepreneur’s. After all, the entrepreneur had the idea and is doing all the heavy lifting. The investor is only writing a check. This attitude is both insulting and demeaning to an investor. The entrepreneur is forgetting that the investor has already done a lot of heavy lifting to gain the money with which an investment can be made. If the entrepreneur does not show fairness in sharing ownership of the company commensurate with the risk that the investor is taking, then the deal will not happen.

9. Misrepresenting Financial Status. A sure death blow to an investor opportunity is to lie about your current financial status. If you misrepresent how much money has gone into the company, your debt

position, your financial obligations, the promises you have made to others concerning their financial interest in the company, your revenue, your payables, and much more, your potential investor will conclude you do not know how to manage money. Therefore, they will not let you manage theirs.

10. Not Disclosing Material Facts. The intent of the due diligence process is to discover all the material facts about the company. Upon entering this process, the entrepreneur must disclose all information that represents a material risk to the business. If you hid these facts and the investor finds them without your help, the deal is blown. This is another breach of trust that is nearly unrecoverable. Make sure you are accurately disclosing intellectual property status, all business obligations, contractual arrangements, customer relationships, alliance negotiations, personnel commitments, and all material facts about your business.

Good business judgment coupled with straightforward integrity will avoid all these mistakes and many more. Your investor is your partner and has to be treated as such. Bringing your potential investor into the business, in full disclosure and in the spirit of creating a long term respectful relationship, will keep you on the track of getting the financing you need. Good hunting.

About the author: Bill Warner is the Managing Partner of Paladin and Associates (www.paladinandassociates.com), a business consulting firm in the Research Triangle Park area of central North Carolina, and is the Chairman of the Triangle Accredited Capital Forum (www.capital-forum.com), an angel investor network with over one hundred members throughout the southeast.