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ASPENCAPITALFUND

# Insiders Guide to Attracting Investors

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For startups and established businesses.

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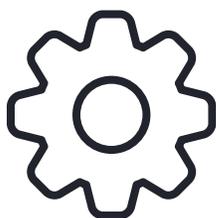
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Every year, we take on a limited number of clients –startups and established businesses (all industries) who are looking to attract investors and/or want direct feedback on how to improve their chances for meetings and deals.



## 1 on 1 consulting

Work 1 on 1 with our founder and managing partner, Gregory Tanner. Reach your goals faster. Get maximum value. Save time.



## Who this is for?

It's for people just starting out or those who are more experienced and already established who want to raise capital. It is for people who are raising capital for a fund, seed capital, follow-up rounds or other larger deals.



## Position with Aspen Capital Fund

Position your partnership with Aspen Capital Fund to attract the attention of new investors. You will get access to our community and weekly Q&A calls, where we offer all the support and coaching you need.

# Insiders Guide to Attracting Investors

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## Purpose of this guide.

In my many years as an entrepreneur, I learned that there is a big gap in knowledge and experience in the venture capital space. As a Latino myself, I learned quickly that I was fortunate enough to have learned during formal education, work experience the venture capital industry, hundreds of meetings and contacts.

After reviewing hundreds, if not thousands of business plans and pitches I saw the same errors and misconceptions repeat themselves. What I recognized is that too many people don't understand how to raise capital. This guide is to help those people who are ambitious enough to make their dream happen and need a single location to understand how to raise money for their company. It is for wannabes and early stage entrepreneurs. There are many investors looking for Minority owned businesses, but there are many unwritten and written rules to attracting investors, therefore I wrote this guide.

## About this guide.

Minority owned businesses have difficulty finding capital for their new ventures. The difficulty isn't finding capital, it's the lack of knowledge on the process of how to successfully get the capital. Much of the knowledge in this guide isn't something you find or can learn in a single seminar or classroom. Gathering this knowledge can take a tremendous amount of time and trial and error. This guide is designed from our experiences at Aspen Capital Fund from an insider's perspective. I have focused on the topics we see entrepreneurs struggle with the most. In this guide I have highlighted the top 11 topics that can help put your fundraising on track, avoid common pitfalls and make careful decisions.

## Interested in more?

Every year, we take on a limited number of clients – typically startup businesses (all industries) who are looking to attract investors and/or want direct feedback on how to improve their chances for meetings and deals. Aspen Capital Fund is available as a consultant for entrepreneurial teams that want to invest time, money and resources to strategically attract investors from Angels to Venture Capital. If you are looking to build your business to become venture ready, connect with investors and increase your opportunity for investment, Aspen Capital Fund is available to work with your firm through our Venture Readiness Workshop.

# Raising Money: The Reality

Raising money or “Raising Capital” isn’t for everyone. If you have a business that is a lifestyle business, you aren’t a good candidate for raising capital. A lifestyle business typically has limited scalability and potential for growth and without the founder’s deep personal involvement, such businesses are likely to flounder. Investment capital is a type of capital typically provided by some sort of outside investor. It could be what we call an “Angel Investor” or “Angel”, family or friends or an institution.

Generally, the investment is made as cash in exchange for shares in the company, venture investments are usually high risk, but offer the potential for above-average returns. This form of raising capital is popular among new companies, or ventures, with limited operating history, who cannot raise funds through traditional banking or debt means. This is a place where Minority owned businesses can find the critical funding they need without having a high credit score or collateral. But, it is important to understand how to structure your business, attract the right partners, and understand what you need to spend your time and money on.

You could raise anywhere from \$1,000 to 10 Million Dollars but, let’s not get ahead of ourselves. You need to be realistic and you will need to work very hard to get it. As a rule of thumb, it takes about a month for every \$10,000 raised. So, if you want \$100,000 plan on spending 10 months to reach your goal.

What is investment capital?

1. Investment capital is NOT a grant. Grants are given to never be paid back, almost never given to for profit businesses and require a lot of preparation to be considered.
2. Investment capital is NOT a loan. Loans are based on two things. Creditworthiness and ability to pay it back. Tradition has taught us that you need a business plan to get a business plan. Not true, if you qualify for a loan through the two things I mentioned above you will get the loan. Don’t expect that some banker is going to read through your business plan and say, “Now this is a solid idea that we need to back.” Banks want credit, collateral and income.

## You need money to make money

It is an old cliché. But it is true. You need to have money to make money. It's called investment. Investment means returns and building wealth. A company exists to build the wealth of the owners. This is what so many entrepreneurs fail to understand. Many new business owners start only to survive then learn to change that attitude toward building wealth. If you are short sighted and broke - everyone, especially investors can see it far away. A savvy investor will not rush into a deal. They will want to see how passionate, committed and creative the entrepreneur or management team is to the success of the new business.

What stands out the most is an entrepreneur that understands that they need to invest their own time, resources and most of all money. Plan to have a few thousand dollars to start a fundraising campaign. You need money to create marketing, branding, prototypes. But most of all you need money to meet investors.

### **Avoid this pitfall:**

**“Not investing any money at all into the new venture”.**

**You must know that to show progress in your idea and business, you'll need money.**

## Organize your personal life

It's all about you. They say business isn't personal, but business is about “all people”. The most important consideration for investors is the owner and management team. Investors want to deal with professionals. So, clean up your social media, clean up your resume, and update your LinkedIn profile. Google yourself to understand what information about you is available. Put together your personal strategy and story of what your life has been and where you are planning to go.

Surround yourself with success-minded people. Change your life to be a responsible, respected and valued entrepreneur. Be prepared to answer personal questions about where you live, how you spend your money and how you spend your spare time. Investors will want to get to know you, and spend time learning about you. Be sure to pay attention to the details, communicate well and put your best foot forward.

**Avoid this pitfall:**

**“Assuming that it is only about the business and the deal”.**

**It is not! You should have a compelling business story.**

**Be prepared. Investors will look into your background and personal life to get to know who is behind the business.**

## Friends & Family

Friends & Family are going to be where you find your biggest champions for your business. As you start to organize your personal life, share your plan with friends & family. Tell them you plan to do a round of fundraising and that they should be prepared to meet an investor or be called for a reference. Most importantly, start to think of this group as a place you can go to get a startup capital. Don't out rightly ask for money until you are fully prepared, have a plan and are organized to start your business.

If planned well, this will be where you get some or all your capital.

**Avoid this pitfall:**

**If you have a history of a poor personal life, be sure to change the perception and be patient enough to allow for time for people to notice.**

**Remember to clearly communicate expectations and get everything laid out in writing and with signatures. Keep your word and pay everyone back early and with interest.**

## Using your credit

Eventually, you will get asked this question, “So how much money have you put in yourself?” Most of their business deals fail, because the owner says nothing. Remember, this is an investment. If the owner doesn’t invest any money into their own business, why would anyone else? Now this doesn’t mean you have to say invest \$10 Thousand – but you should be able to discuss your time, personal resources and even a small amount of capital. Sometimes this is credit card(s) that you have been using or a personal loan or money from Friends & Family.

Be wise when you use your credit. You don’t want to seem desperate to pay the creditors when you talk to investors. Investors expect that you aren’t bankable for the amount you are looking for but don’t want to throw money at an entrepreneur that seems to need a lifeline.

### **Avoid this pitfall:**

**Don’t spend money lavishly on needless things but, don’t skimp and jump on the cheap.**

**Always bargain and shop for professional services, you can even outsource some services.**

## Planning and strategy for fundraising

Remember the term “it takes money to make money”? Here is where planning and having a strategy for that money comes to play. Have a clear path for the things you need for fundraising. You need to have some sort of legal structure and a bank account. You need to figure out how to do accounting and bookkeeping. You’ll want to work on branding

(name, logo, and sale materials). You will want to budget for expenses. That includes travel, parking, dinners, events and have well prepared materials.

### **Avoid this pitfall:**

**If you don't have a plan and strategy for the use of your startup capital, don't spend a dime of it.**

**It's better to take a week to carefully consider where you will spend your money to close the first round of capital.**

## The Pitch Deck

The pitch deck is a visual representation of your company. The pitch is how you present your business idea to potential investors. A well-designed pitch deck clearly conveys what your business does, why, and how you will be successful. A pitch deck is an engaging and compelling way that excites your audiences and spurs them to action. The story you craft in your deck gets people engaged to start filling in the blanks for themselves. You want to give enough information to grab their interest, but not too much as to overwhelm them or have your story lose clarity & focus.

Your deck should be able to stand on its own, without your presentation.

You must communicate your business to investors in a short period of time. Your message must be clear, or you can lose credibility fast. You really do only get one chance to make a first impression.

The quality of a pitch deck is an important measure of the entrepreneur. Unprepared, ill-at-ease entrepreneur presenters create concerns among candidate investors regarding of the entrepreneur's skill sets in recruiting a management team or engaging with customers. Entrepreneurs must be confident, self-assured salespersons: selling investors, selling potential employees and selling the vision of the business and the utility of the product. Total familiarity with all aspects of the plan - including the financials, the need for capital, and the milestones that can be met with the capital to be raised - is critical to the success of entrepreneurs in pitching to investors.

### **Avoid this pitfall:**

#### **Don't completely outsource your pitch deck.**

**You can hire out the design of your pitch deck and get help with writing. But it must have your work, ideas and financials in the deck.**

## Partners, Management Team & Advisors

One common and overlooked process that every new business can implement without cost is building a management team. A management team should consist of people who can routinely give feedback and help your business stay on track. They become the businesses biggest ally.

“Individuals play the game, but teams beat the odds.” A SEAL Team saying.

An incredibly common problem that causes startups to fail is a weak management team. Weak teams make mistakes in multiple areas.

- i. The first tragedy is choosing a partner too quickly.
- ii. The next mistake is going 50/50.
- iii. Then not properly laying out expectations in writing.

This has a water shed effect that weakens the team. There is the well proven saying: ‘A players’ hire ‘A players’, and ‘B players’ only get to hire ‘C players’ (because ‘B players’ don’t want to work for other ‘B players’). So, the rest of the company will end up as weak, and poor execution will be rampant. Putting the right people into your business will be the best work you do. A strong management team surrounded by great advisors shows investors that the business can be successful.

### **Avoid this pitfall:**

#### **Don't rush into partnerships. Just don't rush!**

**When hiring advisors (an advisor like an attorney, accountant, or consultant) be sure that they are invested into your business, not just someone who sees a business transaction from you.**

**Interview and take your time, also ask for referrals.**

**They should be working very hard to win your business.**

## Don't work for free

That's right don't work for free. Don't trade. Everyone must see the value in your work. Even if it's just \$10, it's money. Always offer the same back. If you get something for free it limits your leverage to hold people accountable. It also puts your priorities on the back burner.

Always pay yourself something. An investor should be wise enough to know that to be frugal is wise, but it would be foolish to have the founder not earn while he is working. It's simply good business to keep yourself happy, able and free from the distraction of where am I going to get my next check.

### **Avoid this pitfall:**

#### **Failing to include a salary in your financials.**

**Don't be crazy and ask for an exorbitant amount, be fair and you might have to take a cut in pay, but make it up in bonuses when you reach certain goals.**

**If potential investors don't want you to take a salary - don't work with them.**

**They would not want you working part time on this business and full time on a job would they? It's unreasonable.**

## Do your own diligence

Most people don't know it, but there is a huge difference between 'Smart money' and 'Dumb money'. The implications can affect your business for years. Smart money comes from savvy investors with the time and inclination to help you build your business. These investors are successful, exited entrepreneurs or experienced businesspersons who bring both time and money to their portfolios of invested companies. Funding from angel investors is smart money.

Many entrepreneurs have told me that the time angels invest in their companies is more valuable to them than the funding they provide. It is lonely at the top. Entrepreneurs have few problem-solving advisors and business counselors for vexing issues related to building management teams and growing businesses.

Smart money investors provide entrepreneurs with solutions through coaching and mentoring, and by serving on Boards of Directors of their invested companies. Furthermore, a good Board of Directors meets regularly and forces the entrepreneur to work “on” the business not “in” the business at frequent intervals. Stopping to look at the business from 30,000 feet, comparing performance to plan, and, if necessary, revising the plan are keys to success for high-growth companies.

Solo angels are considerably more difficult to locate, but they generally bring the same sets of skills and experiences to entrepreneurs as do their colleagues who join groups. Extensive networking locally is the only way to meet and attract solo angel investors to your company. Start by asking the head of the local entrepreneurship center, your attorney or your accountant for introduction to angel investors. You will find that angel investors know other angels, so don't forget to continue to network once you identify an angel or two. Perseverance is required to engage with solo angels.

Dumb money is invested by unsophisticated investors who have little or no business acumen to share with you. Unsophisticated, passive investors, who invest in your company and patiently wait on the sidelines for return on investment, can be valuable to entrepreneurs, but there is always risk involved in taking dumb money. Does the investor understand the risks involved in start-up companies? Does this investor really understand the difference between an equity investment and debt financing, i.e. will these investors appear at your door one day expecting to immediately collect their money with interest? Smart money always understands the risk involved and structures the deal with you so that it makes sense for both sides.

You want to do your homework on your investors. This includes anyone that wants to be a partner or is getting any shares of your company. Take the time to ask others about them. Spend time with them. Visit them at home. Travel with them. These are the people that are going to be with you through tough times as well as good times. How are they going to behave when things get tough? What is their personal life like? Are they organized, motivated. Are they the A team you want?

Take time to read everything in the agreements, negotiate terms to your liking. Always plan for the worst but expect the best.

### **Avoid this pitfall:**

#### **Rushing.**

**If you want to move quickly, be prepared with questions, follow up with referrals.**

**Most of all read and understand anything that is in writing, emails, agreements, contracts, EVERYTHING!**

## Understand the process

The process of raising money is straightforward, what is most misunderstood is the unspoken rules of how to pitch and the time it takes to get the round completed. You should know that it takes a lot of time and effort to do successful fundraising. It takes about a year to get the funding you're seeking. In that year you still need to build out your business, operate and get successful traction. Plan on working long hours to find the time to work on the fundraising efforts.

It will take a lot of time to do the preparation for pitching to investors. A pitch will require information on marketing, sales, operations and financials. You will need to do multiple scenarios. You will need to spend time on the valuation of your business so that it makes sense to the investor. Thought will need to go into how much money you need and when will you need it. All of this for the pitch.

Then you need to think about how you plan to market you're fundraising.

- i. Will you be calling investors, attending specific events, or competing in pitch contests?
- ii. Where will you need to be?
- iii. Who are your potential investors? You will want to track them.
- iv. Who will you need speak to?

Spend time chasing the smart money. Be sure to do your homework on firms and people you don't want to pitch to someone in the real estate industry if you have a high-tech company. Understand the investment criteria for the group to whom you are applying. This information can usually be found on the organization's website. If it is not clearly available, send an email or make a phone call asking for the criteria. You want to seek out the right people, the right industry and the right amount. Doing a lot of searching and networking will help you find those people.

When you think you have the right target find a way to make a connection. Attend an event you know they will attend and make it a point to meet them. Don't do a hard pitch just get an introduction with the intent to talk about your pitch. If you can't personally meet a target connect with them on LinkedIn. Once you have a connection, do a soft pitch. Learn if they are interested in a deal such as yours, what amounts do they invest in and what industries and stages.

When it's time to strike send your pitch deck, which should answer all questions and compel the investor to want to have a meeting with you. Here are some common mistakes made by entrepreneurs, which may result in being prematurely rejected. Avoid these and make it easy to move along to the next steps:

- An incomplete plan. Provide all the information requested. If the investor requires five years of proforma financials, get to work and complete them.
- Submit a carefully crafted and neatly presented application (or Executive Summary). Messy work with misspellings and irregular formatting does not make a good impression.
- Make sure your pitch is balanced. Avoid single-mindedly describing your product and/or your technology.
- Unless specifically requested, do not provide a full business plan, complete resumes, marketing materials or prototype products at this point.

Perseverance, knowledge and patience are required by entrepreneurs seeking investment in their startup companies. Due diligence, the process investors use to validate the plan and the opportunity, usually takes 2-3 months. Angels are part-time investors and don't necessarily work at the same pace as entrepreneurs. They are investing their hard-earned savings and want to assure the plan will lead towards a successful exit.

What can you do to expedite the process?

- ✓ Be ready to respond quickly to requests for information from investors.
- ✓ Provide complete answers to inquiries from investors.
- ✓ Anticipate follow-up questions and provide that information with the first request. Cycles of questions simply waste time. Don't expect investors to make a complete list the first time.
- ✓ Be completely honest with investors. Give complete and truthful answers to every question.

The terms and conditions of early stage investing are a foreign language to those new to starting companies. To negotiate reasonable terms with investors, entrepreneurs need to understand these terms but also to understand standard practice in their business vertical and in their geographic region. Be persistent yet patient with investors. It is difficult to chase investors without seeming pushy. Angels recognize that each round of investment must be closed before the entrepreneur can begin to execute on the plan. But angels are not full-time investors.

What can entrepreneurs do to expeditiously close a round of investment?

- ✓ Make friendly follow-up calls to investors, asking if you can provide any additional information to assist in their investing decision.
- ✓ During these calls, ask if the investor is ready to make a decision.
- ✓ If not, seek permission to follow-up by phone or meeting and attempt to set a date for the next discussion.
- ✓ Close the "low hanging fruit" and use those investors as leverage to close others.

## **Avoid this pitfall:**

### **Pitching to the wrong type of investor.**

**It can be a waste of time and drain your hopes.**

**Poor preparation is another pitfall.**

**Poor writing, horrible financials and narrow pitches never get a response back.**

## “And then what?”

The final questions that most entrepreneurs get tripped up on is “and then what?”

So you now have your money for your business now what? And you're successful and then what? This is where you should answer we start to put the investment to work, create returns on investment and work toward a successful exit. That's right, EXIT. Your job is to build up a business, get “Return on Investment” and have an exit plan for the investment.

Entrepreneurs are often quite surprised when asked early-on to define the company's exit strategy. In fact, this is a most logical question. It is critical that the interests of entrepreneurs and their investors be carefully aligned. The culmination of the investment process is the harvest, which is, exiting the business with an attractive return on investment for both the entrepreneur and investors.

Investors are not banks, to be paid back with interest after a pre-arranged period of time or upon the achievement of specific milestones. Angel investors and venture capitalists seek substantial return on investment in a relatively short period of time, say 5-7 years. What is substantial? Investors in startup companies seek 10 to 30 times their invested capital in 5-7 years. With these returns for a small fraction of their invested companies, angels seek portfolio returns of 20-25% per year.

When defining their exit strategy, investors are asking the entrepreneur to take off his or her founder/CEO/employee hat and exchange it for the shareholder role. Yes, entrepreneurs serve these two roles in their companies and the two functions sometime conflict with one another. By describing their exit strategies, investors are asking the entrepreneur to view the company solely from the perspective of the shareholders. Alignment of objectives is a critical ingredient in the relationship between investors and entrepreneurs. The ultimate goal is how can the entrepreneur and investors optimize the return on investment for all shareholders?

A common mistake made by entrepreneurs in defining their exit strategy is summarily state their exit will be by an IPO or via an M&A transaction. This is totally insufficient. Investors want to confirm that an M&A exit after successful execution of the business plan would in fact be attractive to potential buyers. It is incumbent upon entrepreneurs and their advisors to think through possible exits. What strategic buyers would pay an attractive price for a successful company in this space and why? What exit alternatives are likely to be available to the startup company in 5-7 years? Entrepreneurs need to be quite specific in defining possible exits

**Avoid this pitfall:**

**Failing to have a viable exit.**

**Make sure your exit is one that you can achieve, without one you won't be successful with serious investors.**



## A note from the Founder of Aspen Capital Fund

There you have it!

All of the leading topics and pitfalls that we see most often. These are a common thread that many angels and venture capitalists discuss among themselves. Our goal in creating this guide was to save you considerable time and money in planning your own fundraising activities.

If you've enjoyed this guide, I'd be thrilled if you could share your thoughts. You can send me an email and let me know what you think, or you can tweet: *@aspencapfund Insider's Guide is a great tool and I've already used the tips.*

The Insider's Guide is an important step to attracting investors, however there is more. If you're looking for a more one-on-one experience in planning your fundraising, launching your startup, please learn more about our Venture Ready Workshop.

Thanks so much for reading the Insider's Guide to Attracting Investors

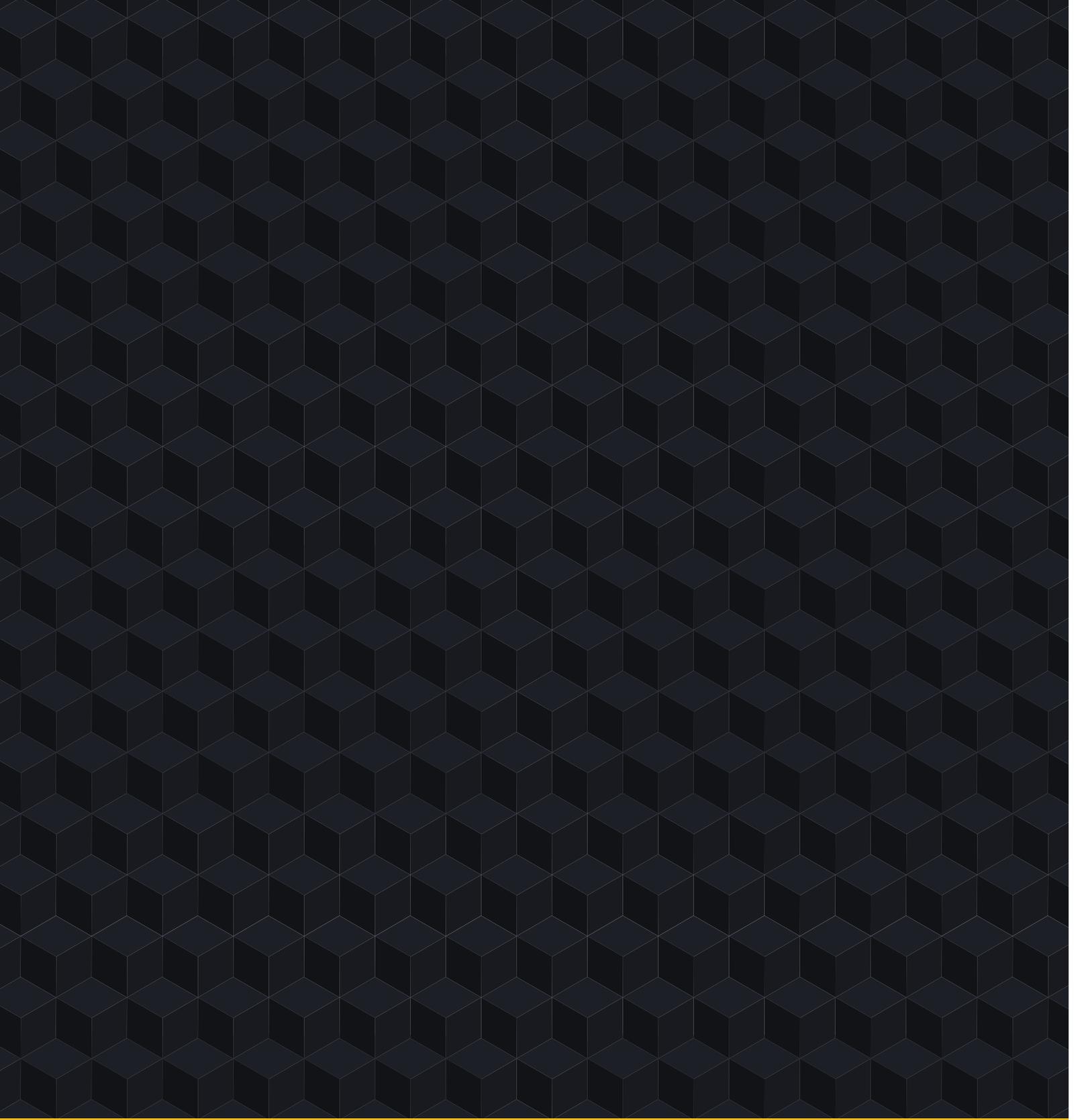
I trust the Guide will give your fundraising efforts a boost in a big way.

Kind Regards

Greg Tanner

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