Keys to Success: Five Steps to Raising Capital

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"Take my money." Wouldn't it be great if every potential investor responded that way? If this is not the response you are getting, perhaps there is room to improve your presentation. Here are five steps that will distinguish you from the pack, help you get through the process more efficiently and ultimately secure the capital you are looking for to build your business.

Avoid inflated valuations unless you have the luxury of not closing the financing.

1. Needs and wants.
Know the difference between what you need and what you want. Know the amount of money you need to reach your immediate goals and stay focused on that message. If you do this you will be off to a great start, unlike those individuals who go into the market with a "wish list" of how much money they would like to raise. An investor is interested in knowing that you have command of the money situation, are focused on the next immediate milestones and are reasonable in your capital expectations. There is no bigger turnoff for a professional investor than hearing: "We are raising $x, but really only need $y." Know the difference and you'll be that much closer to success.

2. Prepare a two-page business summary.
Imagine that a close friend wants your help. What is more effective: a two minute summary of their needs, or a 20 minute ramble? A two-page summary allows you to cover 10-15 topics with a few sentences on each point. This summary should not include sensitive financial information, but act as an overview of your business intentions and the investment opportunity that can be shared with everyone. After reading this two-page summary, a prospective investor will either be more interested in the opportunity (a good thing), or less interested (also a good thing, because it will save you time).

3. Have a detailed business plan available.
While having a detailed business plan is a basic necessity, the key is not to bring it out before you have genuine interest. All too often people will share important, proprietary information before anyone has committed to anything. Dumping your 100 page "work of art" business plan has a number of negative ramifications: it's a turn off for those who have not yet reviewed a simple two-page summary; it shares confidential information too widely; and it can make you look desperate in certain instances. Share your detailed business plan only with those parties who have read your two-page summary, have expressed an interest in learning more, are capable of writing a check, and will sign a Non-Disclosure Agreement to protect the confidential information you are about to share.

4. Consider hiring outside professionals.
Raising money takes a lot of time and effort. Hiring a professional to do this for you can make sense but is not required. In fact, it can lead to disaster if the people you hire can not give your project the time and attention it deserves and are not able to bring in the money you need to raise. Be realistic and consider which scenario is most likely to lead to a successful outcome. If you are comfortable taking the lead and speaking in front of people, you may the best person to lead the effort.

5. Listen carefully to feedback.
Absorb market feedback and continuously make adjustments in written materials, verbal presentations and your business model. Listen to people you meet and take note of their questions. Questions indicate areas where the communication is not clear, not understood or not accepted. Your business proposition and opportunity are competing with dozens or hundreds of other investment opportunities. You have two ears and one mouth, so use that as your guide to maximize the effectiveness of your time in front of prospective investors. Incorporate the answers to their questions into your verbal presentation, two-page summary and detailed business plan and you will be proceeding much more quickly toward a "Yes."

If you can execute the above five steps, you will be well prepared to successfully raise your funding, unless you make a basic mistake regarding valuation. The valuation topic sinks more companies than any other single issue. Here's why:

Valuation dos and don'ts.
What is likely to gather the most interest from qualified investors: an inflated valuation or an attractive valuation? Which scenario is likely to gather the most investment offers? Which scenario is likely to possibly lead to a competitive situation that bids up your valuation? An attractive valuation will get you in the door, get the interest of the most number of people and often leads to increased valuations after investors put in the time to become familiar with your opportunity.

Consider real estate. It is a well-known fact that overpriced properties sit on the market while competitively priced properties sell. It is also known that overpriced properties often chase the market below what they would have sold for initially if they had been competitively priced. Inflated valuations are an obstacle to raising capital for all the above reasons, and generate quick "not interested" responses. Avoid inflated valuations unless you have the luxury of not closing the financing.

If you apply the above five steps and start with a realistic valuation you'll be more likely to reach a successful conclusion in your efforts to raise capital.