

# How to Talk to Prospective Investors

**"ALL MONEY IS A MATTER OF BELIEF."**

# HOW TO TALK TO PROSPECTIVE INVESTORS

**There may come a time that you want to bring investors into your business. You may want investors to provide money, or expertise, or a combination of the two. Yes, you will need a business plan, but the process always begins with a conversation. This article is about that conversation. Having participated in hundreds of them, I have noticed that investors want five questions answered early, before they put a lot of time into detailed analysis of your offer. It is highly unlikely that they will even look at your business plan, let alone invest in your business, until you have answered the five questions.**

## INVESTORS WANT TO KNOW WHAT THEY ARE BUYING INTO.

They want early answers to big picture questions such as: What industry? What do you sell? Why do you need the investment? How big can this become? That sort of thing.

Increasingly, investors also want to know if your business and vision align with their views and philosophies. Are you thinking locally or globally? Are you in a green industry or mining coal? Will your business provide a "social return," or just money? Is your industry sustainable or exploitive? There are investors on both sides of every such question, but if your prospect's ambitions don't align with yours, you won't make a deal.

## INVESTORS WANT TO KNOW HOW YOU ARE GOING TO MAKE MONEY.

What are you selling? Who are your customers? Why would they buy your product? Why would they buy it from you? How do you reach your customers? What does it cost to acquire a customer? What does your product cost to

produce? Who are your competitors? How many do you have to sell to break even?

Your answers to these first two questions must be clear, concise and exciting or the conversation will not proceed beyond this point.

## **INVESTORS WANT TO KNOW WHAT YOU WANT.**

What's the investment? Money? Expertise? Time? Something else? How much money or time do you need, or what else do you want? When do you need it? Although everything you say in early conversations affects negotiations, this is the first step in the actual negotiation process.

## **INVESTORS WANT TO KNOW WHAT THEY GET IN RETURN FOR THEIR INVESTMENT.**

What specifically are you offering in return for their investment? Equity? A note? What kind of equity and how much? What is the term, interest rate and security if you are offering a note? When and how can they cash in on their investment? This is the second step in negotiations, the time at which the prospects have enough information to estimate a rate of return on their investment. Investors will also want to know how they can exit the investment.

## **INVESTORS WANT TO KNOW THE LIKELIHOOD OF SUCCESS.**

Every investment opportunity has both business risk and management risk. They will have formed some opinions about business risk from your answers to the first question. If the business proposition makes

sense, they will increasingly concentrate on you. Can you pull it off?

Prospects have been judging you all along, but will ask increasingly specific questions about your offer. What are your sales, cost and profit projections? What were your assumptions when creating them? What is your marketing plan? Who is your team? They will want to hear detailed, rational answers that show whether or not you have mastered your own plan. If you do not understand your plan, it will show and they will lose confidence.

## LET THE 5 QUESTIONS GUIDE YOUR BUSINESS PLAN.

The more confident and enthusiastic you are, the more confident and enthusiastic your prospects will be.

BUT, you can't fake this stuff.

One of the two main reasons for a business plan is to answer the five questions, and it is worthwhile to keep that in mind as you prepare it. (The other reason for a business plan is to guide your activities.)

If your plan does not answer the questions, and if you are not excited about your vision, you are not ready to talk with prospective investors. Don't have the conversation until you are.

And one last thing.

Although they want an additional something, collateral, you can substitute the word banker for investor in all the above. Sufficient collateral can compensate for a multitude of weaknesses, but bankers

want to know the same things investors want to know.

I am committed to providing clear, practical and useful information to business owners. You can help me by giving me your feedback. Was this article useful? Can you relate to the issue? Is there a subject you'd like to learn more about?

If you have any further questions, please don't hesitate to mail me at [Martin@annealbc.com](mailto:Martin@annealbc.com) or visit [www.annealbc.com](http://www.annealbc.com)



## Martin Holland

Martin Holland is the son of a successful entrepreneur. He grew up hearing about margins and markets, R&D and sales, risk and return on investment. He learned to love the language and rigors of business and grew to believe that business is both the most human of all endeavors and the highest calling. After selling a company in 2011, Martin became a coach in order to help other owners build profitable businesses that do not require their day-to-day involvement.

A native of Norman, Martin earned a B.A. degree from Hastings College in Hastings, Nebraska and a Masters in Business Administration degree from the University of Oklahoma. Over the past 7 years he has written business plans that have raised over \$52.4 million in bank and investor financing. He has helped 157 (and counting) business owners reduce stress and increase performance through clarity of purpose, better marriages, more money, and more free time away from the business.