# Tactical Plan for Raising Money from Private Investors

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# Essential deal elements

- Capital commitments
- Deal
- Closing date

# How much money do you really need?

- What do your financial projections say?
- Double that

# How much money do you really need?

- What is 20% of that number?
- **THAT is your funding target!**

20% is your fundraising target

# How can that be?

# Fill in the Private Investor Risk Matrix

| | | THE BUSINESS | |
|---|---|---|---|
| | | KNOW | DON'T KNOW |
| THE PEOPLE | KNOW | | |
| | DON'T KNOW | | |

# Compile a list of potential investors

- Brainstorm – no bad ideas
  - One idea begets other ideas – some of them good
- Sources
  - Your "Rolodex" of contacts
  - Your Christmas card list
  - Industry members (trade associations, directories, professional societies)
  - What entrepreneurs have been successful in your industry?
- Don't limit yourself to people you know personally
  - You're probably separated by no more than 3 degrees
- Think about <u>companies</u> as well as individuals

# Massage the list

- Might they really invest?
- Would they lead or follow?
- How much could they invest?
- Might they provide access to other potential investors?

# Select initial pool of candidates

- Rank candidates by investment potential
- Identify a group that cumulatively represents 2-to-3 times what you want to raise
- How deep down the list do you have to go? What is the investment amount of the smallest investor on the list? That's likely to be close to the minimum investment you will consider accepting.

# Begin communicating to that list

- Don’t ask for an investment
- Let them know there will an opportunity in the future
- Everyone will be “interested”

# Why the Private Investor Risk Matrix is important

| THE PEOPLE INVOLVED IN THE BUSINESS | THE BUSINESS | |
|---|---|---|
| | KNOW | DON'T KNOW |
| KNOW | • quick decisions<br>• great anchors<br>• halo effect<br>• can add value | • quick decision<br>• lower economic cost<br>• highest psychological cost |
| DON'T KNOW | • moderate decision time<br>• halo effect<br>• higher return expectations<br>• can add value | • long decision time<br>• highest return requirement<br>• costly & time intensive because of due diligence<br>• largest pool of capital |

# Get anchor investors

- Look at the names in the left-hand boxes of the Matrix
- Select 10 whose credibility will positively influence other investors
- Find 1-to-3 who will commit to invest 20% of the total (as long as the total requirement is raised)

# Negotiate the deal

- Type of security
  - Convertible note
  - Common stock
  - Preferred stock
- Board structure
- Protective provisions
- Reduce to a 1-page term sheet

# Drive investment decisions

- You’ve got anchor investors with independent credibility
- You’ve got a deal with terms
- You can ask, “Are you in or are you out?”
- Some will respond, “Yes.”
- Most will say, “Maybe.”
- That’s likely to get you to 40% committed

# Build urgency

- Deal was originally committed at 20%
- Now at 40%
- Deal is moving fast – better get on the train before it leaves the station
- This is likely to get you to about 60% committed

# Set a closing date 45 days in the future

- You've got a deal that's 60% committed
- It's closing fast
- There's an imminent closing date
- Potential investors will have to make a decision
- "Maybe" is no longer an acceptable response
- It can no longer be delayed

# Related dynamics

- Your committed investors are likely to be your most effective sales force
  - To justify their own decision, they will solicit their peers
- Momentum will pick up
- Commitments are likely to exceed your goal by 25%-50%
  - You'll have to decide whether to take it and suffer the additional dilution of your ownership
  - My advice: Take it

# Recap

- Manage the fund raising process proactively & strategically
- Raise 20% from independently credible investors
- Structure the "deal"
- Build your commitments from 20% to 40% to 60%
- Set a closing date
- Push for a decision
- Close on your investment (and then some, perhaps)