7 FATAL investor turn-offs:

Catching the interest of investors and getting past the first contact requires dedication, self-belief and some killer 'pick-up' lines. **Mark Robotham** puts you through your start-up paces.

NEW ZEALAND'S early-stage investment market is no different from others in the world. Investors need to filter through hundreds of 'potentials' to find the opportunities. Making money isn't easy; the local VC community lacks success stories. It's time for entrepreneurs to lift the game. We're beyond the pioneer days — the game has gone professional. Courting investors is no different to dating: get the first date wrong and there'll be no follow-up. Have you worked on your pick-up lines? More importantly, have you made sure you aren't committing one of the fatal 'turn-offs'? If not, you may continue going home alone (with no money in your pockets). You only get one chance to get it right. The investment market is small and bad news travels fast. Don't become known as the village idiot — get help before it's too late.

1 "What we do is complicated. I can't explain it in ten minutes."

Have a clear and concise message. Your product pitch is the number one accelerant for business growth.

Get your introduction right and you'll have attracted the three most important 'suitors': customers, talented staff and investors. Make it sexy and all three will queue at your door. Numerous companies leave money on the table by not getting their story right. Ring the receptionist of any technology company and ask them what they do; you'll be shocked at the replies. First engagements with investors are about baiting; giving them a reason to come back asking for more. Most global business is done via networks. The investor you talk to may not be knowledgeable about your sector, but he'll know at least ten other investors. If he doesn't get it, how can he pass the message on to his network or, better still, his network's network? A 30-second dumbed-down introduction to your business can provide the key to engaging 80 percent of your audience. If you can clearly describe what you do in 30 seconds, your ten-minute, one-hour and one-day presentations will benefit. Often, all that's required is a couple of sentences to help you engage 100 percent of your audience. Another great place to start is to ask your customers why they bought your product. If you cannot explain in 30 seconds how you save your customers money or increase their revenue, you may be better off quitting.

2 "I can't tell you what I'm working on. It's a secret."

Don't confuse your IP strategy with your marketing or investment strategy. Investors hate non-disclosure agreements (NDAs).

People who use this as an opening line rarely have what it takes to create a viable business. Investors only need to know what the business problem is and how you'll make money from it. They don't need to know the finer details. By all means protect the integrity of your patent pending registration, but save the patent for *how* you solve the problem rather than *what* you are solving — and how you make money for customers and yourself. Investors are more interested in market-size and a compelling need to purchase, rather than the technology and how it's constructed. If you've given your business away by telling your audience what the problem is, your barrier to market entry is too weak. You will frustrate, alienate and divide your audience by using the tactic of "my big secret"; you may be better off going to an Amway convention. Save NDAs for due diligence. Also, remember the network advantage of sharing your business proposition. Neither hamper your marketing machine with tools such as NDAs, nor create the world's best-kept secret. Tell the world.

3 "I have to retain majority control."

Ten percent of a $50 million enterprise is worth more than 51 percent of nothing.

Don't get hung up on a percentage share or control. Focus on the total value of your shareholding. Also, get ready to justify your valuation. If you're asking for $1 million for 20 percent of your business, simple maths implies it is worth $5 million now. Can you justify that? Focus on long-term shareholder wealth, not what percentage you have.

A valuation is the risk-adjusted value of your business. "No product" and "no sales" are the first two high-risk factors in the risk assessment equation. Without product or sales, expect a low valuation. Wait until you have these before approaching investors. Angel investment is a high-risk game. Angels balance this risk by keeping an eye on how their money is used. One of the key investment criteria will be your ability to work with your investors. Likewise, you should carry out due diligence, as they will very likely be at your board table. But remember, due diligence works both ways. Contact other companies they've invested in and use the Companies Office website (www.companies.govt.nz) to find out which companies they're involved in.

4 "I don't have any financials."

You may do this just for fun but investors need numbers and returns. That's the difference between a business and a hobby.

It's amazing how many people don't have any understanding or apparent interest in the numbers. You need to have historical and future cash-flow, profit and loss (P&L) and balance sheets at your fingertips. Investors won't be courting people who have a cavalier attitude to spending or controlling money. Before seeking investment you need to take ownership of this. By all means, employ an accountant, but your accountant should save you more than their fee. As a minimum use an accounting package, review cash-flow, P&L and loss and balance sheets on a monthly, or at least bi-monthly, basis and review with external advisors.

5 "I need the money by Friday."

Without proper preparation it will take nine months to close a deal and an investment of more than 200 hours of executive time to raise funds and get them into the bank.

Can you afford to raise money? Can you stay afloat and stay on forecast in the meantime? If your business is too fragile to take time out from sales, product development and delivery, you're not investment-ready. Many businesses nearly go bust while looking for capital. They take their eye off their business and sales fall. If you vary too much from your pre-investment forecast during courting, at worst you will scare away investors and at best weaken your negotiating position. It's best to start thinking of your investment finance plan two years out. If you do need money in a hurry, resort to founders, friends, family and fools. They'll generally invest based on emotion alone. For many companies it's the basics that slow down the process: shareholders' agreements, staff employment contracts and terms of trade. These need to be tidy before a professional investor will commit. The more prepared you are for due diligence, the quicker this process will be.

6 "I haven't invested my own cash. I'm going to spend the money on me."

Investors want to see you with 'skin in the game' and know you're sharing some of the pain.

Angel investors are investing rather than gifting. They will always ask, "What will you spend the money on?" The investment game is all about transformation of shareholder value: invest money at one valuation; increase business performance output-potential to increase valuation; and exit. Fatal answers include: "To pay my salary," "Pay off current shareholders' debt," "Buy myself a boat, BMW and a bach." An even worse scenario is when inventors ask angels to 100 percent fund the commercialisation of products. If it's such a great idea, why wouldn't you put some of your wealth on the line? Everyone's pain threshold is different, but zero pain is not acceptable. Most investors will be looking to expand activities such as marketing and sales development, not even more product development. This is not about selling your company outright. Angels will not want you to sell down your shareholding. They want you committed to long-term growth you can both share.

7 "Our customers need to be educated."

Are you one of these great innovators who has created a great solution, looking for a problem? No market equates to no business.

If you need to educate your customers about the problem you're solving, you're on a slippery slope to creating a money-pit rather than an investment. The solution may be complicated, but the need and resulting outcome should be a slam-dunk. Too many businesses forget to translate their offering into simple claims. The simpler the claim, the easier it is to sell. In fact, customers want to buy, rather than be sold to. The harder the message is to understand, the less likely you are to have investors knocking your door down. For $20 you can call anywhere in the world. Pick up the phone and talk to customers, or potential customers, now. History has shown that unless you have huge pockets, creating a new market without an easily identified problem takes more money than most Kiwi entrepreneurs can muster.

Gaining investment is about having a product that solves a real problem for identifiable customers, making money from it and having the right people that can make this happen. Not forgetting an identifiable growth in shareholder wealth, so the investor can realise gains better than by just putting the money in the bank. The seven fatal investor turn-offs may sound like no-brainers, yet the majority of budding entrepreneurs shoot themselves in the foot by trotting them out, killing their opportunity before it gets started. Entrepreneurism is like alcoholism — you can't tell when you've had enough. If you find yourself using any of these lines, it may just be that you're executing the wrong idea. It may be time to take stock, or even dump it and look for the next opportunity. Don't use up all your time, passion and seed money on the wrong idea or, worse still, have a winner and blow it by making the wrong first impression.

In the meantime, happy dating!

Mark Robotham is the GM for Escalator, a NZTE-funded initiative to help companies raise capital. He also is CEO of Growth Management Consulting, a public speaker and advisor. feedback@start-up.co.nz ■