Entrepreneurs should avoid these mistakes when raising money

By: Randall Crowder

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There is a language and a protocol that entrepreneurs should understand before they set out to raise money. Unfortunately, many entrepreneurs make simple mistakes that raise red flags for investors.

Keep the following 10 mistakes in mind as you navigate the fundraising process.

Requesting a nondisclosure agreement

Many people will advise you to have investors sign a nondisclosure agreement, or NDA, but following this advice will make most of you look naive. Institutional investors see too many deals in similar industries to sign NDAs. Only a novice would expect them to sign a legal document that may create future conflicts of interest and a potential liability. Instead, develop a nonconfidential presentation you can use to generate interest. Don't fear sharing your ideas with others. Share them with as many people as you can and get as much feedback as you can. Investors are not lying in wait to steal your idea. In fact, savvy investors are less likely to invest if your idea is so elementary and easily executed that they could just do it themselves.

Failing to proofread

Sometimes you only have one shot to make a first impression because investors often read a book by its cover. Many devise ways to quickly eliminate potential investments in order to focus on the most promising deals. Most will conclude you lack the necessary attention to detail and professionalism required to be a successful entrepreneur if your business plan or presentation is not properly formatted, contains misspelled words or isn't visually appealing.

Pitching a solution looking for a problem

Don't become so infatuated with what you've created that you forget that someone must buy it for you to be successful. Investors will quickly lose interest if you avoid answering simple questions about your target market to continue discussing your product or service. Remember that investors want to fund businesses that solve real-world problems by commercializing "I-cannot-live-without-this" solutions.

Assuming investors understand

In the first meeting, don't showcase how smart you are by highlighting how little the investor knows. It is unlikely that an investor will know more than you about your particular industry, much less your specific business. It's your responsibility to educate them by crafting a compelling story that explains why a market needs your offering, what differentiates it, and how you are going to make everyone a lot of money.

Being defensive

There are two inalienable investor truths. One, they will not have read most of the material you sent prior to your first meeting, including your business plan. Two, you will not make it through your pitch before you will be interrupted with questions and concerns. Fight your natural instinct to become defensive. If investors weren't interested, they wouldn't be wasting their time meeting with you. They are not asking questions or voicing concerns to insult you. They are looking to gain a better understanding and help you think through things you likely haven't.

Believing they don't need help

Investors don't expect you to have all the answers, but you should be aware of what you don't know and be willing to accept help to learn it. While all successful entrepreneurs can point to mentors in their past, the road to success is littered with failed entrepreneurs who thought they knew everything. It would be foolish not to take advantage of the experience investors bring.

Relying on the initiative of investors

Investors see many deals and rarely act with a sense of urgency, especially during a financial crisis. Don't expect them to drive the due diligence process once you've had your first meeting. Whether raising money from a venture firm or an angel network, that is your responsibility because you have the most to lose. This likely means buying a lot of coffee and repeating yourself often, but that's a small price when you consider that you are asking someone else to fund your dreams.

Basing a premoney valuation on the future

Don't preach about where you'll be in five years and tell investors that they are blind if they don't see the value of your business opportunity. They are valuing your business, not your business opportunity. A premoney valuation is the value of your business before they invest. Investors are considering the opportunity, but don't expect them to pay today for your hope of tomorrow.

Overvaluing sweat equity

An investor will certainly ask how much money you've contributed. Don't even mention sweat equity. Every entrepreneur contributes this, and most investors understand you are foregoing a higher salary. Investors also understand that not every entrepreneur has a lot of money to contribute, but they do want you to have significant skin in the game. This means that you've committed real assets to your business that will motivate you.

Claiming no competition

The quickest way to tell investors that you are not ready to be funded is to tell them that you have no relevant competitor. Somewhere, others are doing things that target the same market. It's your job to find them and ensure you understand their offerings.

These are not meant to be all-inclusive, but I hope they will help demystify some of the process. You've done too much work to let a misunderstanding throw you off course. Remember that fundraising is like dating. You'll be nervous and constantly trying to figure out what the other person is thinking, but at the end of the day, it should be fun and, ultimately, rewarding.

Randall Crowder *is managing partner of TEXO Ventures in Austin.*