Argona PARTNERS

Startup Guide:

The Whys Behind the What Startup Investors Are Looking For

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Knowing what investors are looking for and - ***more importantly – the why*** can drastically increase your chances at a successful fundraising campaign.
However, finding and analyzing the criteria of investors and funds is not an easy task. There isn't an investment thesis for every investor out there, but in most cases it all comes down to understanding what variables will make a particular startup attractive.

While other articles and blogs have been written on this topic, they focus on the what and not ***the why***. Distinguishing why investors are looking for that information can be a gamechanger for success.

Here are Argona's Top 11 Whys behind the What investors look for when evaluating startup investments. In this easy-to-read blog, we provide straight talk, today's realities, and our advice. We break down each so that you can cover all the bases, avoid common pitfalls, and develop your best plan to attract capital for your funding needs.

As a strategic consulting and startup development firm that helps companies with their investment strategies, we see what works and what doesn't. Our take will provide you with the unmissable startup investor criteria you need to meet and ***the why***, no matter what your startup is about.

Our ***Top 11 Whys and Whats*** provide critical insights on: Hard Data; Well-Grounded, Differentiated Idea; Solid Understanding of the Market/Market Size; Validation of Product-Market; Experienced, Invested and Passionate Founders; Measurable Momentum and Traction; The Right Ask and Where it Will Go; A Clear Investment Structure; A Strong Return; A Clear Exit Strategy, and; a Rock-Solid Business Plan.

Hard Data

The What:
Let's start with hard data. Investors want to make money. It's your job to show that your company will make that goal happen for them. Avoid vanity metrics, as investors will see right through them. If your company has been up and running for a while, then you need to show solid data that you've had excellent traction and financial performance. If your company is fledgling, then you need to show realistic data on what you can expect to bring in, when you'll hit your goal numbers, and when they can expect to start earning their money back. Several startups focus on just the idea versus the data behind it.

The Why:
Understanding the hard data about your company shows you understand your business, the market and the opportunity for their investment ROI. It increases your credibility and will drastically improve your pitch and get you more meetings. Without it, investors are likely to walk away.

Our advice – understand your financial model. It is your business roadmap, in numbers.

A Well-Grounded, Differentiated Idea

The What:
The reality is that if the market is saturated with hundreds of so called "new and innovative" similar products, your company isn't likely to be a huge hit. You must convey to investors what it is about your products or services that make it stand out and are differentiated. Is there market potential for your unique product? Does it solve a unique problem? Is it really a brand new innovation or invention? What's the burning imperative, i.e., why now?

The Why:
Your idea or concept will dictate the market you enter, production and/or operating expenses and overhead, number of employees needed, etc. For investors, this translates to the amount of capital required to fund the business, the anticipated return and the timeline to recoup their investment.

Investors don't want you to recreate the wheel, they want you to show why your idea is the new wheel. Before they invest in you, they'll want to see some sort of proof that your competition can't easily beat or replicate you. Your value proposition must be innovative and solve a unique need.

Our advice - nail your "competitive advantage" - this can make or break you.

The Solid Understanding of the Market/Market Size

The What:
Innovative ideas are crafted every day but fail to capture the market as anticipated. It goes without saying that preliminary market research and understanding the intricacies of your intended market is the key to success of your startup.

If the market you intend to enter or have entered is saturated or relatively unprofitable, then investors will quickly dismiss any possibility of providing funding. Likewise, if you plan to penetrate and opportunistic market but fail to capture customer/user data, interest or engagement, investors will easily sniff out the lack of preparedness and decline to fund at that junction.

You need to present a robust understanding of your intended market and have some metrics or some way of demonstrating the size of the market. You'll also need to know:

- What is the market maturity?
- What are the barriers and price of entry?
- Who are the direct and indirect competitors?

So, for existing or long-standing markets, you'll need to persuade investors on how your business differs from others and the added value you can offer that others cannot. For new or emerging markets, you'll need to provide the supporting data that affirms the market growth, sustainability and driving factors.

Complete market competency is one of the most valuable assets you can leverage to gain funding.

The Why:
When it comes to your market, size matters. Investors have funds of various sizes and you need to find investors who match the size of your ambitions. Whether you are talking with micro-VCs, seed stage investors or later series, investors want to believe that your company CAN be big one day. They might want you to start lean, but almost all VCs care about investing in big markets with ambitious teams.

A VC that needs to generate large returns won't hesitate to pass up an investment that will only top out at a million dollars, but if you are targeting a billion dollar market, even the most cautious investor will pause and consider your company if your plan is solid. Conversely, if you are targeting a smaller market, you'll need to target mid-market or angel investors. Our advice – focus heavily on showcasing your understanding of your market.

Validation of Product-Market Fit

The What:
If you want to attract investors, it is absolutely essential that you have an established minimal viable product (MVP) or proof of concept that meets the needs of the market. Principally this means demonstrated proof that customers understand, use, need or want your product or service enough to recognize its value.
When it comes to creating your MVP, here is a simple framework to map out your customers as well as the pain points you are solving:

- What is the pain point you are trying to solve?
- What is the overall solution?
- Who are the customers?
- Who are the end users?
- Why would they want it?
- How important is your solution to them and why now?
- Why are you developing it?

The Why:
According to CBInsights, 42% of startups fail because of poor product-market fit. That's why this is a critical point for investors. That's why investors need to see strong, if not flawless, product-market fit. Your product may solve a great pain point, but if it doesn't scratch the itch of the market, you are going to be out of luck. Judging a product at the early stage, when all you have is a working prototype is not an easy task. If your product is not supported by valuable metrics, investors will have to decide whether to invest based on their gut feeling or previous experience in the space.
There are a lot of examples of startups that have launched good products that have failed at getting users and traction. Sometimes the cause is that the product or service is not solving a significant problem – or are in search of a problem – or it is not the right time for that product.

Our advice – PROVE your product market fit. The more data the better.

Experienced, Invested and Passionate Founders

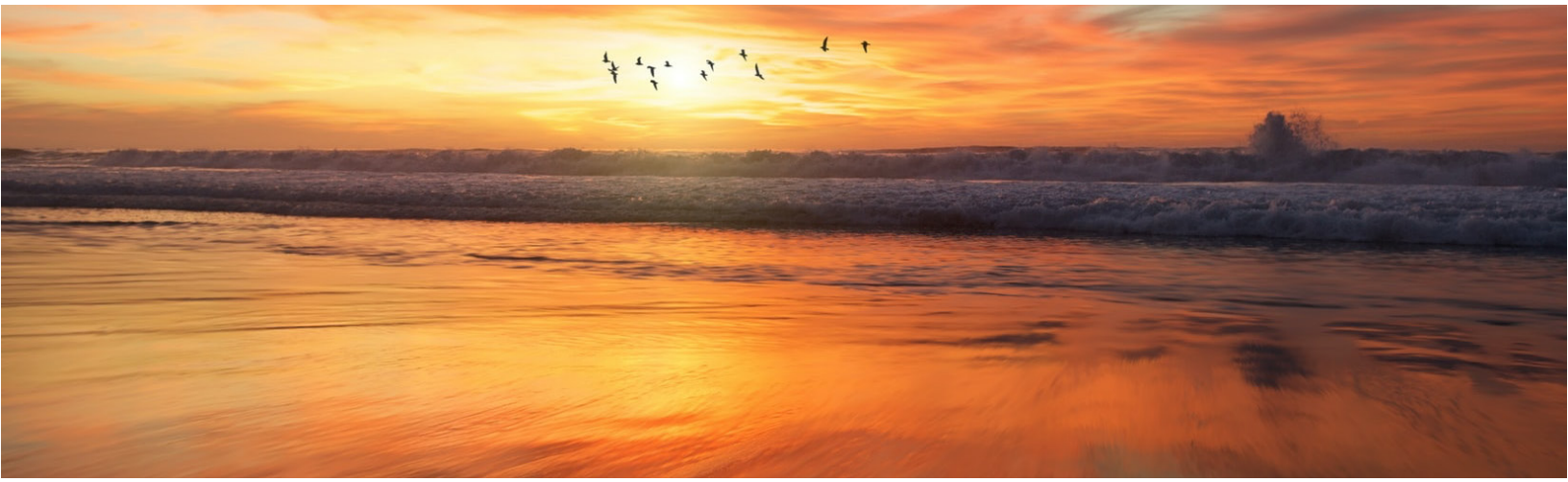
The What:
An experienced management team provides investors a greater sense of security than new or inexperienced founders. Therefore, it is critical that you can demonstrate why your team has the right experience and credibility to accelerate growth and elevate the organization they represent.

There's no written rule that applies to every single startup, but the combination of the following is a good start:

- Technical and business-oriented co-founders
- A team that complements each other
- Previous experience in the industry they are facing
- Co-founders trying to solve a problem they've previously had

The Why:
The inability to compose the right team will be seen as a huge risk. Investors just don't invest in ideas; they invest in people. The people behind the startup are going to define its future and will be the ones making the decisions that will push the company one way or another. They don't want to be the ones running your business. Therefore, investors place an incredible level of importance on teams and founders.
Investors want to work with founders that are truly passionate about the prosperity of their business. A founder who is fueled solely by profits is destined to fail, as they may simply be looking ahead to their next venture. However, a founder who is truly dedicated, passionate about and devoted to their business and accomplishing their organizational goals presents a much more appealing opportunity for investors.
They also want to see a significant degree of personal investment. This isn't exclusive to personal capital. They want to see your blood, sweat and tears poured into the business because if you won't invest, neither will they.

Our advice – don't compromise; form the right team.



Measurable Momentum and Traction

The What:
Momentum or traction can be defined in several ways. The key is to present measurable progress. This could be by building a product with bootstrapped resources, signing early customers, or hiring strategic talent. Month-over-month organic growth, continuous revenue growth, increased customers or users, staffing expansion, technology development, etc. all constitute progression.

These point to the fact that you are both passionate and resourceful. That you're committed to making your idea a reality. The further you can get on your own, without investors, the more likely it is the investor will have faith in you. Those that have an upward trajectory are more likely to land investment.

The Why:
Investors want to see more than just a great idea. For the investor, capitalizing on the opportunity while mitigating risk is an integral part of their decision. They hear hundreds of pitches every year. One of the most effective ways to secure funding is to show that you already have significant momentum.

Our advice – ensure you have an upward trajectory to land investment.

The Right Ask and Where it Will Go

The What:
Investors want to know exactly why you need the cash and the specifics on the use of proceeds. You must fully understand the details on where your investment capital will be allocated. Even if investors are just interested in categories such as R&D or Marketing, you need to aware of how each dollar will be dedicated.

The Why:
Internally generalizing an ask or delegation of investment leaves you vulnerable to an onslaught of investor questions. The more questions you raise, the faster the opportunity will start to dissolve, and it becomes an easy pass on their part.

Our advice – besides creating the right ask, more importantly, understand what the ask entails.

A Clear Investment Structure

The What:
Part of this involves having a clear and realistic valuation for your business – a way to back up your request for money in exchange for a certain amount of ownership. This valuation affects how attractive you are to investors. Entrepreneurs typically look for high valuations in order to own as much of their company as possible; investors the exact opposite.

The other part involves putting together a stockholder's agreement that clearly sets out the rights of all owners. This should include owner's rights and obligation, what happens if an owner wants to sell, what happens if there is a change in leadership, what happens is the business closes, and other issues. Will investors receive dividends or just an increase in the value of their shares over time?

The Why:
Buying ownership in a company has legal ramifications and investors want to know that you've already considered those issues. You'll need to have a business structure in place that allows for others to buy in. You also need to have a clear plan for how the investment will work. If the investors are partners or shareholders, will they have the right to vote on business decisions?

If an angel investor or VC firm considers that the risk associated with your startup is too high, they will try to own as much as possible, thus pushing down its valuation. Another risk is that startups with high valuations might have a hard time justifying future rounds of financing at even higher valuations.

This area will likely involve negotiation. Your investors may want a larger share for a lower price and they may want adjustments or additions to the stockholder's agreement. The secret is to come in prepared, knowing that these issues are important and that you've already thought them through.

Our advice – understand the ins and outs of your Cap Table.

A Strong Return

The What?
To get their attention, most VCs will want to be able to a put a certain amount of money to work and will want to own a large enough percentage of your company to make it worth their while. There are modern investors who think differently and are willing to invest $100k as part of a $1.5 million round. But they'll do this because they consider you part of their early-stage investment portfolio where they are less sensitive about ownership percentage. If you "take off", they'll likely want to own more.

All investors have a minimum ownership level and ROI threshold. It doesn't hurt to politely get these out in the open for transparency.

The Why:
Investors mitigate risk by balancing and hedging their portfolios. Your ownership and ROI offers must match their portfolio needs.

Our advice – know how your ownership structure and projected ROI influences which investors to approach.

A Clear Exit Strategy

The What:
This needs to be well thought out. When they want to sell, will you buy them out? Can they sell to another party? Is your strategy acquisition or sales of shares to principals, etc. Their exit strategy checklist is:

- Does the startup have an exit strategy?
- What would be the likely exits?
- When would the exit most likely to take place?
- How long can my investment be tied up?
- How much will my potential return be?

The Why:
Investors want a solid return on their investment, which means you need to have a firm exit strategy in place. Even if they are willing to be patient and make a long-term investment in your company, they still need to know that, at the end of the day, they are going to be getting a significant return. If they don't know that they can get their money out, they're not going to want to put it into your business in the first place.

Our advice – recognize how your exit strategy is attractive to investors and use industry data to prove your case.

A Rock-Solid Business Plan

The What:
A masterful, well thought out, convincing and complete business plan exhibits your knowledge and competency of the market, scalability, financial strategy, and experience and foresight into business operations and is a concrete tactic to prove your value as a founder and partner to investors.

A well-structured, data-driven, and profitable business plan is what every investor yearns for. It will be intensely scrutinized by investors. Use simple, common terms and avoid flowery adjectives and jargon.

Among other things, in addition to the standard elements, your business plan should include:

- Your intended market, with data to show why that market is solid
- Data-based, hard number financial projections
- Sales channels with data, not words, why those channels will be effective
- Marketing plans and goals, with data to show why those particular plans will be effective
- Analysis of your competition and other barriers to entry
- Realistic projected timeline for when you'll start making money
- Potential obstacles and your plans for dealing with them

The Why:
A solid business plan demonstrates to investors that you are serious about your business and you've been extremely

diligent as far as your plans to make money. They want to know you are not winging it, not overly optimistic, and are realistic about the future of your business. While your business plan alone won't be enough to convince investors to back you, no investor will put money in without one.

Our advice – shore up any holes in your business plan and use data-driven, compelling messaging to back up your claims.

Bottom Line

At the end of the day, investors are in it to make money. As a startup founder, your job is to show that you'll do just that with a solid plan that is better than their other investment opportunities. Despite how well-versed or passionate you are about your startup, if you aren't prepared to provide investors with the information they need – and the whys – for them to be interested, let alone make a decision, then you are not only wasting their time, but yours as well.

Developing an investment strategy is no easy task. Initiating and completing one is a whole other level. That business plan should be as watertight as you can make it. Your story should be compelling and well thought-out.

You should have a solid plan for what you are going to do with the money and exactly how the investment is going to be structured. Your task is to show potential investors that you are thinking about their future as well as yours – because it is their number one concern.

Don't be afraid to seek outside help in drafting a solid, winning investment strategy.

Argona Partners is a strategic growth and startup development firm helping entrepreneurs scale their businesses and increase market impact. From strategy to marketing, technology to product design, or operations to finance and investment. We are your strategic growth partner.

Author

Jeremy's experience and interests lie in Structural Management, and Consumer Behavior. He serves as CEO of Argona Partners and oversees the success of all Argona Partners projects, client relations, and its subsidiaries. This includes operations and executive strategy advisement across multiple industries, including Artificial Intelligence and Green Tech.

Jeremy operates as an Executive Advisor for multiple businesses as well, with specific oversight in investor relations, brand development, team oversight and financial operations. Jeremy has previous experience working for over six years at Apple, including management, sales, inventory management, technical troubleshooting, and leadership. He also has experience in data manipulation, management, and report building as a business analyst, in which he built a Data Team and Tech Stack from the ideation stage.