Top 11 Things NOT To Tell Angel Investors
By Bob Norton

I am not writing this to create a list of things not to say so people can hide the facts or in any way mislead potential investors. On the contrary I personally believe you must be 100% upfront with any potential investors, and even volunteer some weaknesses to be credible. I am writing it to help entrepreneurs and CEOs "design" these issues out of their business so they never have to say them. Although there are certainly many exceptions to these, as a general rule there are many good reasons why all of these things should not be part of your company, if you are looking for outside investors. I have discussed some of the logic why, but this should not be considered a comprehensive discussion of the reasoning behind each item. You should also realize some of the reasons are a function or perception, of the market. I would never say they all make sense all the time. Each situation is always different.

Most entrepreneurs greatly underestimate the difficultly and time required to succeed at this task. They also underestimate the opportunity cost to their business while they are "away" focusing on something else. You only want to raise outside capital, if you really NEED to have capital to grow. I am recommending to many CEOs I coach and mentor today that because it is so difficult to raise money today, and valuations are not great, it would be a far superior alternative to spend the same amount of time selling, or adding value to your business in other ways, than to spend six to twelve months chasing investors. In many cases spending the same amount of time and effort selling your products, or service, could generate just as much money and not dilute your ownership and subject you to the whims, regulations and covenants of bringing in outside capital. This does not, however, mean you should not develop a complete business plan. This process will greatly increase your chances of success whether you are raising outside capital or not.

Getting angel investors is both much harder and more important than any time in recent history. Few venture capitalists are investing in very early-stage businesses without "traction" (no matter what they tell you).

This makes the quality bar higher and also the expectations for a company's development stage.

1. **I have not invested my own cash in the business, but have only put in lots of sweat equity.** Experienced investors know that a start-up is a roller coaster ride of both highs and lows. They want founders to prove their commitment by investing their own money to the point where it will REALLY hurt if they walk away during tough times. Skin in the game is your vote of confidence, so don't expect others to invest if you don't. This does certainly not have to be all your personal net-worth, but it must be a significant portion. You can take out a home equity loan, borrow or withdraw from retirement funds, or just invest personal savings. In the end this will pay off, if you do it right, because it will make you more efficient with capital usage and allow you to bring in investors later, after you have created some value and increased your company valuation. Ultimately, if you are successful, you will likely own more of the company as a result.

2. **This (or that) market research firm said this market will be a $2 billion market in five years, so all we need is 5% of that market to build a $100 million company.** Counter institutively this is basically saying you have NOT done your homework, and do not really know who your customers will be. This is "top-down", not "bottom-up" market research. Besides most of these analysts firm's lost huge credibility when the bubble burst and people realized some projected numbers beyond what the population of the entire planet for Internet users. You need to describe, if not actually list, the exact customers where you can win in most cases and why. Research says that 32% of angels site weak market

analysis and analysis of the competition as the most critical mistake entrepreneurs make in their business plan. You must design your launch strategy around a particular customer profile and offer something that that customer cannot get elsewhere. Smart investors would prefer an unfair advantage in a smaller focused market, because the marketing and selling costs will be lower (concentrated) and the sales close rate higher. This also shows you know what you are out to accomplish and are focused on a smaller market you understand well and can win.

3. **My spouse (or any immediate family) will be our other senior officers. – Or we are going to use my brother's company for distribution (or anything else).** Investors do not like nepotism and also know that a divorce could destroy the company. They are taking enough risk already, so why should they add another layer of risk with the divorce rate at 50%? Why should they believe out of all the management in the world your brother is the best qualified? Also, there can be no conflict of interest issues with "deals" that could be perceived as favored or the result of nepotism. This allows for shifting of costs and revenue in ways that are totally legal, but at the same time unfair to the investor due to subjective factors. This is fine in a wholly owned private company owned by a single individual (a lifestyle company), but should not really ever happen with outside investors. Enron, Adelphia, Worldcom and Tyco are perfect examples, and these have made everyone more aware of how easy it is to abuse executive positions. It is even possible that in the future institutional investors who allowed this could be perceived as violating their fiduciary responsibilities and have liability. After the fact, if something went wrong and the company shut down, the perception could be that things were done improperly. The room for interpretation on the dissolution of assets could easily be perceived as improper, even when it is done right, due to the wide room for judgement on the value of the remaining assets of any company that is closing. Since this is effectively a fire sale prices will be well

below "fair market value". In short, avoid any and all conflicts of interest, whether real or perceived.

4. **I am going to also be doing some consulting to cover my expenses because of my low salary. Or I have other businesses to run also. Or anything else I invent I will personally own the rights to.** These are all variations of the same theme. You are not fully committed to the business you want them to put their money in. This might work for Donald Trump, but for anyone who has not made his or her first $25 million don't expect that kind of latitude. Investors want and deserve your full-time attention as soon as they invest. This might be OK while you are pulling together your plan and don't have outside investors yet, but investors are buying YOU lock, stock and barrel and want your full-time attention and focus. This not only means your time at the office, but as a CEO, or any senior executive really, it also means they want to own your thinking in the car and shower, and all your ideas that are a result of your work.

5. **We have it all figured out**. The fact of the matter is that the only guarantee you can make is the plan will evolve and change and the business plan is pretty much guaranteed NOT to happen. Only naive investors would think you are going to do everything that the plan says and not make changes as you go. If they really believe this, you probably do not want them as investors anyway. If you say this, you are basically saying you are wet behind the ears or unrealistic. Besides, if you really had it all figured out and proven, you probably would not even need their money, you would be "bankable" and pay prime rate instead of twenty to fifty percent per year to get equity dollars.

6. **We have everyone we need on board in management to be successful**. If this were true, you are either spending WAY too much money on staff, or you do not understand the skills you will need to bring on as the business grows and

evolves. This is never true and saying it is like waving a flag saying I am an amateur. All investors assume you will need to hire other key players and set aside a stock option pool for that purpose.

7. **We are going to sell this product to everyone (even in a single industry), because everyone can use it.** This worked during the bubble for a while when $30 million was being dropped (foolishly) at a pop to fund some broad horizontal plays. Today, the smart money is mostly funding companies going after niches, and maybe some verticals (with top management teams, ideas and markets). Virtually every company today needs a market entry strategy that is narrow and focused to establish them as the "go to company" for a particular problem or solution. You NEED to be the big fish in a small pond first because small fish in the ocean get eaten alive more often than not. You can add niches, products or expand to an entire vertical later after proving every element of your business in a single niche. By the time you get there so much can change it is usually even a waste of time figuring out what that order will be in advance. Markets and technology are too dynamic today.

8. **We have no competition.** This is virtually never true, as people are doing something to deal with the problem you solve today. If you are a restaurant then the grocery store across the street is your competition. You can almost never view a market that narrowly, unless you just got the patent on nuclear fusion, even then coal, oil, hydroelectric and solar are still competition. Besides you really can't know who else might be working on the problem and if it is an attractive market you will clearly have followers. So you need to articulate how you will stay ahead of competition either way.

9. **Only our management team is qualified to develop and execute this business.** This is about as false, naive and arrogant a statement as anyone can

make, so don't even come close. To say you are the only people in the world who can do this is not only terribly unlikely, it is in FACT something you can not possibly know for sure, because you don't actually know everybody else do you? So it is always a false statement and shows overconfidence. It is better to err on the side of saying something like: "we know there will be competition and here is how we will be cheaper, different, better and/or faster."

10. **Our projections are very conservative.** This is the most overused expression of the lot and I would guess it gets said in more than ninety-percent of investor presentations. The fact is that entrepreneurs are always optimistic; they wouldn't be entrepreneurs if they were not, as they are certainly fighting the odds. Any good investor is going to make their own judgements on the ramp rate of sales and expenses anyway, so this is better left unsaid. The fact is you never know because you never know if there are fifty other companies working in stealth mode on the same idea. According to research 32% of angels site "unrealistic financial projections" as the number one mistake made by entrepreneurs.

11. **We don't know how much money we need, or we can do it on anything between $500K and $10MM.** Investors want to know you have a solid plan. They also all have a certain amount they want to invest. Do your homework and understand exactly who you are talking to. You should know exactly what you are asking for before you go in and have a business plan with a financial plan that matches this. Asking for the wrong amount is as good as blowing the presentation entirely. Although you may be able to execute a business plan more slowly, yet successfully on less capital, and you may have a couple of scenarios figured out (you should), you can really only show one plan to any particular investor.

Level of Management Team Needed

Getting investors today requires a strong team, idea and market (not the same as idea). What level of team do you need to have a good likelihood of obtaining angel financing? Here is a chart of the level of management team you will likely need and you can interpolate between these levels. Currently, you will likely need to reach level five to bring in any angel investors and probably a level 8 to get any money from VCs. This also assumes you have an attractive, and large, potential market, some barriers to entry and a good head start or patent protection.

Conclusion

You need to pull out all the stops today to obtain angel financing. This means getting further on less money than ever before. Which in turn means better focus and using virtual company techniques to get much further on your OWN personal resources, and/or friends and family money. It also means pulling together a team of people that address all the major risks in the business. This requires creative deals to bring people in and probably not be paying them, certainly not full-time, while you are creating real value in your business. Investors want to invest in something that already has value built in, not an idea or business plan with a "one-man show" today.

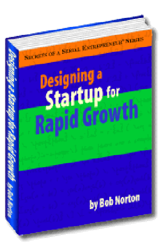
The most common mistake made today made by entrepreneurs is going out looking for money before they are ready. The competition is fierce out there, so don't burn your best personal contacts by approaching them with an incomplete or undeveloped business plan or company. If you have not successfully raised money before, get help from someone who has. C-Level Enterprises offers a complete financing review and critique that is guaranteed to improve your chance of obtaining financing. Go to www.CLevelEnterprises.com/pricing.htm for further information.

Books, CDs and Videos For CEOs, Entrepreneurs and C-Level Executives To Help Grow Your Businesses More Rapidly and Develop Long-term Competitive Advantage

These products were all developed by Bob Norton, a serial entrepreneur for over 25 years and a CEO for more than 15 years. Mr. Norton is one of the leading authorities in the world on entrepreneurship, intrapreneurship and growing businesses rapidly. He has participated in eight startup companies, grown two to over $100 million in sales and several have dominated their respective markets. He has also worked for two multi-billion dollar corporations running product development efforts. His experience goes across all size companies, and many types of businesses in various industries. During his career Mr. Norton has helped created over $1 billion in new shareholder value just while at those companies. Mr. Norton provides expertise on growing small and medium size companies more rapidly using eleven different proprietary tools and methodologies for business design, development and optimization, which he has developed over the last fifteen years. Many ideas are also contributed from over 1,000 business books in his personal library. He also runs the premier CEO and Entrepreneur Boot Camp in the U.S. today, which is design to cut years off the learning curve of CEOs and entrepreneurs and turn them into world-class CEOs. This exclusive event teaches practical business design and optimization systems in an intensive 3-day training program for any CEO or entrepreneur.

Mr. Norton has appeared in Inc. magazine, on CNBC, Good Morning America and many other regional and national media. He mentors and provides advice to entrepreneurs and CEOs through consulting, speaking, writing and seminars. He frequently speaks at corporations, associations, and universities on business topics.

These books are targeted at particular problems and stages of development where early-stage ventures commonly encounter critical issues while moving from raw startup with an idea to becoming an established company. They are guaranteed to improve any business's chances of success dramatically. They can be downloaded immediately and the ideas and systems put into action the same day. Unlike hardcover books, that need to be a certain size to justify the printing, distribution and retail markups, these books will not have lots of redundant information, essentially showcasing the same basic ideas five different ways. They are packed with totally unique content that comes from the experience of a real serial entrepreneur, not just an author who did some academic research, but practical advice and systems for CEOs and entrepreneurs proven to work over two decades. The philosophies and systems used in each are compatible so that, as a set, they will create a framework for successful and rapid business growth.



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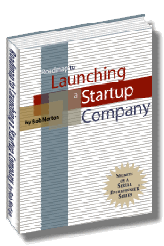

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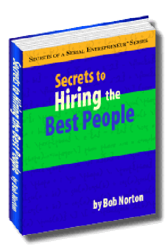

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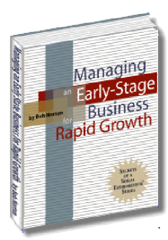

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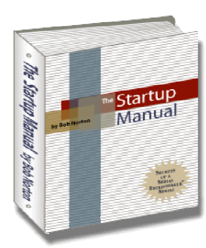

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