ATTRACTING ANGEL INVESTORS

Attracting Investors: The 5M Framework

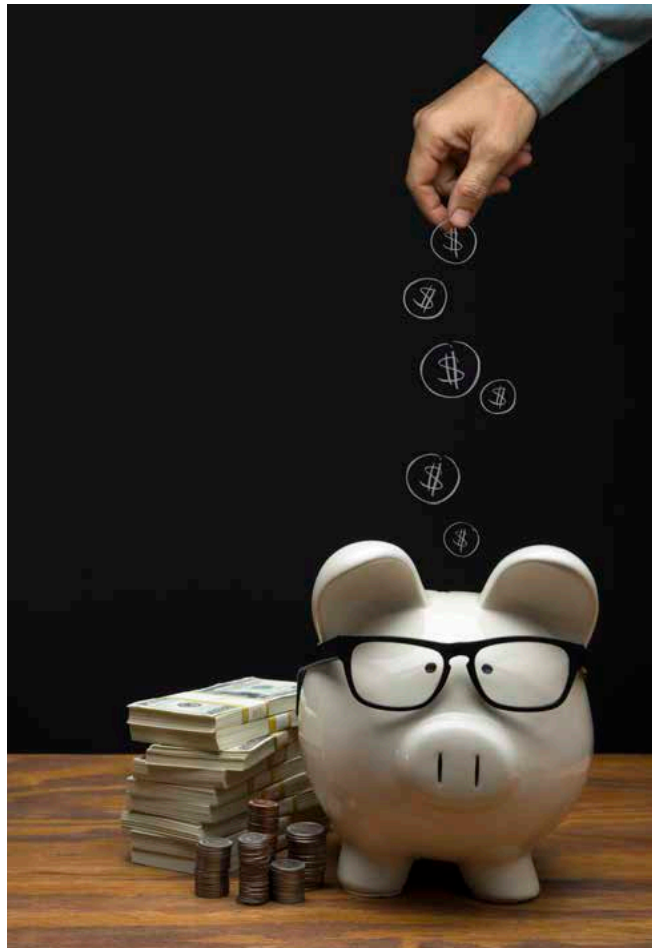
Attracting investors to a new concept revolves around 5 key areas: Management Model, Market, Money and Momentum.

In any entrepreneurial endeavor, there is no right way; there is only the way that works. As an entrepreneur and an investor, I've developed a "5M" method to help entrepreneurs turn their ideas into an investable business. This is also the framework I use to make early stage investments. These areas of focus allow me to work "on" the business throughout the week - preparing the business for growth and potential investor interest. I'd like to share these 5 key areas of focus with you.

M1: Management – Who is Responsible for Executing?

Entrepreneurship is a TEAM sport. With few exceptions, great companies are built by teams, not individuals. To lead a business – you need to attract a team that is passionate about your concept. If no one is following, you're not a leader. Management teams build the business, create value for investors and are responsible for executing. Who is on your team?

A startup business is going to have several key positions that need to be held within the company to be successful. For example, one of the easiest breakdowns in responsibilities is inside vs. outside (Marketing and Operations). Who is running the business? Who is selling the product?



M2: The Model – How Does the Business Make Money?

The term "Business Model" is an overcomplicated word used to describe this simple notion: How does your shiny object make money? Is the business based on a transaction where customers pay once and take the product with them? Is it a subscription model where customers pay a recurring charge? Is it "Razors and Blades" where the business gives away a product to create a market for complimentary products?

Investors live between two kinds of fear: fear of inviting in a startup that fizzles and fear of missing out on a startup that takes off.

Paul Graham

Ideas are cheap. The best ones are worth about $20. It's the execution of the idea that creates value.

These are some examples of business models. The differences between them can impact the expense structure of a business and its approach to marketing and growth.

M3: Market – Who Buys What You're Selling?

Market is best addressed by the following questions: What is your product? Who are your customers? Why do customers want it? How do you know? How do they get it? A phrase that entrepreneurs often hear is “Customer Pain.” What problems (pain) do your customers have that they are willing to pay you to solve? A product that solves a pain creates a market. By targeting your customers very specifically - entrepreneurs are more likely to get real traction in their market and create a core customer following that becomes the foundation for future growth.

M4: Money – When Does It Run Out?

Money is NOT “how much” the business will make. It’s “how long” until the business is profitable or runs out of money. Before things like revenue and profit, a startup will incur expenses. The number one reason startups fail is that they run out of money before the business reaches profitability. Entrepreneurs that know how much money they need, how much they have, and what goals need to be accomplished within their timeframe are more likely to build a sustainable business.

Money is the lifeblood of business. When it runs out, the entrepreneur can’t pay employees. It can’t buy product. It can’t fulfill customer needs. When that happens, the idea dies.

M5: Momentum – What’s the Proof?

How are you creating energy? Where’s the traction? Where’s the proof? Milestones are proof that a management team is executing successfully. How many products are pre-sold? How many strategic partners and core customers? What milestones have been achieved and what are the next steps?

Momentum drives investor confidence in an entrepreneur’s ability to execute. I find that working in weekly increments of planning, executing and building momentum provide the startup entrepreneur the opportunity to adjust to their market reality and quickly build investor confidence. The ability to show momentum, and turn ideas into action creates strong investor confidence in a startup business.

The Final Word

Investors are also looking to see how much you can convince them to take a leap of faith. Your passion, your story and your history matter. Sometimes similar educational or work background can prompt an investor to think about the investing in your concept. Most importantly, investors want to know you are deeply invested in the success of your business.

Do some research on the background of the investor you’ll be meeting with for an investment discussion. Be confident. Know your market, your model, and your value proposition. And if you don’t know the answer to some question the investor asks - be honest and truthful. Ultimately is the relationship between an investor and an entrepreneur is a trust relationship.