

Are you ready for venture investors? You'll have to prove it first

Many early-stage companies seek outside investment capital in order to grow the company through additional infrastructure – both physical and human resources. I have met many companies through the years that eagerly sought funding and could explain why they deserved funding.

Passion is admirable, but regardless of how passionate you might feel about the opportunity the company is addressing, there are several criteria that management should consider in assessing the probability that they will actually be successful in attracting outside capital. Remember that any outside investor is going to take a very hard look at facts before deciding to invest. What are some of the facts they will consider?



THE RECTOR FACTOR

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■ The quality of the management team.

It really doesn't matter how wonderful your product or technology is – you could have invented the wheel – if you don't have a robust management team, or at least a credible plan for building one. Many investors will pass on the opportunity. Why? Companies simply cannot outgrow their management team. If they are not credible and able to execute, nothing else really matters. It is the most fundamental issue that needs to be addressed by the founders. I have heard more than one investor say "I'll take a 'C'" business idea with an 'A' management team any day over the opposite." Never let your wonderful technology or business idea blind you to this critical need.

■ A plan for getting to revenue quickly if the company is pre-revenue.

If the company is not generating revenue, then management needs to be able to reasonably characterize the timeframe for revenues to happen. Many investors will pass on pre-revenue companies; most will pass if

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management cannot explain when revenue should begin.

■ An understanding of the costs of building out and developing the business.

This is basic blocking and tackling, but necessary. The founders and management must understand exactly what it's going to take to get the business to where it needs to be. This includes the most accurate characterizations that they can provide to set expectations with regards how much capital is needed, and how it will be used. Working through this will take major effort on the part of the founders, but is a necessary exercise quite apart from any aspirations of rais-

ing capital. You need to understand how you expect to build the business.

■ All corporate governance documents are in order.

Again, this is really basic, but really important. Founders must ensure that shareholder/operating agreements are appropriately documented and executed. If these are not in order, there will be no deal, as legal due diligence is a very basic part of any transaction. If you need a clearer understanding of what these documents entail, I would encourage you to contact competent corporate counsel to get guidance.

Successfully executing each of these steps is critical to the proper functioning of the business. Putting them in place will help ensure the company's success, and increase the probability of a successful capital raise if that is also management's intent.

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