The No-Bull-Shiitake Investor Wishlist

You may never try to raise money from a venture capitalist, but unless you're a trust-fund brat, you'll probably have to raise money from someone to fund a business. Two pieces of advice before you begin:

First, don't confuse fundability with viability. Only a few thousand companies a year raise venture capital. These companies are fundable in the sense that they have fooled a venture capitalist into believing that they can achieve sales of at least $100 million per year within five years. Thousands of other companies failed this fundability test—or, more likely, didn't bother trying to raise venture capital.

Many of these companies are perfectly viable; they simply aren't fundable, because they probably won't achieve sales of $100 million/year, which is what venture capitalists are looking for. This applies to restaurants, bookstores, consultancies, blogs, and design firms. Venture capitalists are trying to fund the next Google, Apple, Microsoft, Cisco, and YouTube. Venture capitalists are not trying to help you build a nice $10 million business. However, angels, friends, fools, and family might think this a whopping success.

Second, don't ask any potential investor to sign a nondisclosure agreement (NDA), because asking them to do so will make you look clueless. Venture capitalists and angel investors are often looking at three or four similar deals, so if they sign an NDA from one company and then fund another, they expose themselves to legal action. If you find an investor who is willing to sign an just to hear your idea, you probably don't want his or her money.

I've never heard of a venture capitalist or angel investor ripping off an idea—frankly, few ideas are worth stealing. Even if your idea is worth stealing, the hard part is implementing the idea, not coming up with it. Finally, continuing the dating analogy, you probably won't get very many dates if the first thing out of your mouth is "Will you sign a prenuptial?"

These are the characteristics of an attractive and fundable date for a venture capitalist or angel investor.

Realness. This seems like a duh-ism, but few entrepreneurs do it. Most entrepreneurs focus on quick flips to an IPO or acquisition. don't get me wrong: Venture capitalists and other investors aren't necessarily good guys who want to make meaning and change the world. A simpler explanation is that entrepreneurs who make meaning and change the world usually also make money. Nothing is more seductive to venture capitalists than a company that may have a big impact on the world.

Traction. The easiest way to prove that you have a real business is to already generate revenue. It's one thing to believe your bull-shiitake pitch; it's another to have customers and cash flow. You show traction, and investors will suspend disbelief. Fundamentally, you're asking them to take a leap of faith, and it's easier to get people to jump off a diving board than the Golden Gate Bridge. If you can't show traction, then at least line up customer references who will really say, “If they build this, we’ll buy it.”

Cleanliness. Investors are busy, so you need to present a clean deal to them. Clean means that there isn’t a lawsuit by your former employer contesting the ownership of the intellectual property, or a disgruntled founder who owns 25 percent of the company but doesn’t do anything but sit around and complain. The more crap that an investor has to clean up, the less likely he’ll be interested in your deal.

Forthrightness. If you have crap that you simply cannot clean up, then disclose it right away—not necessarily in the first meeting, but soon thereafter. Also, have a plan ready to fix the problems. The worst thing you can do to an investor is surprise her with bad news, like a messy deal with lawsuits and conflicts, beneath the surface of the company.

Enemies. Woe unto you who claims that there is no competition. It means you’re clueless or pursuing a market that doesn’t exist. Investors like to see some competition because it validates that a market exists. Th en its your problem to explain why you have an unfair advantage. If you truly have no competition (and I doubt it), then either say that Microsoft or Google might go after you because these companies want it all or provide potential competitive threats.

Generally, in everything that you say, ensure that your results exceed expectations. Deliver a prototype early. Deliver your list of references early. Sign up your first customers early. Close a partnership deal early. Launch early. The only thing you shouldn’t do early is run out of money while trying to raise money. Investors seldom fund ships that are already sinking.

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