

M.B.A

Mommie
Business
Administration

NEGOTIATING WITH INVESTORS

The unvarnished truth:

Just because you have a great idea into which you've poured your heart and soul doesn't mean people are going to throw money at you to help grow your business.

The reality of how investors think:

The bottom line is that investors want to make money, so they'll want a clear vision of how your business helps them do so.

Rack up some measurable sales early in the game. Many new entrepreneurs want everything to be picture perfect and have their funding in the bank before they start selling; it should actually be the other way around. An investor will always want to know your sales history – if there's no interest in your product, it's usually not going to be a good investment for them.

Patents are an investor's best friend. Most small business owners are passionate about their brand/trademark, but most investors won't consider your brand a valuable protection against your competition.

Don't be greedy. It's unrealistic to think an investor is going to be excited about 10% ownership in an overvalued company. In fact, most individual investors will want control, if not an equal partnership.

Don't forget that you may already know potential investors.

Family, friends, previous business partners and even banks may all be sources of funding, but they'll also want a clear, believable plan for getting their money back (with upside potential, of course). Have a clear plan for what you will do with an investor's assistance and you're much more likely to come away with win.

Are you ready to face the sharks? Answer the 10 questions on the next page to see if your business would be attractive to investors

How good is your negotiating? Answer these 10 simple questions. 

10 Questions to see if your negotiation skills can hold up under fire.

1. *Do you have a solid business plan in place?* Investors want to see that you have thought through your business completely and have a strategy for marketing, manufacturing, growth, etc. See our worksheet on business plan development. <http://www.suresparkinternetmarketing.com/docs/biz-plan-eval.pdf>
2. *How much skin do you have in the game?* Investors will often ask if you've backed your business with any of your own money. If you believe enough to invest in it yourself, it'll be more attractive to a potential investor.
3. *Do you have a solid management team in place?* Investors will want reputable people with proven track records handling their money. Let them know about the past successes of the people in power within your company.
4. *Do you know what sets you apart from your competition?* Be sure you know who the big players are in your space and be prepared to prove why you are different and better than your competition. How does your pricing and quality compare?
5. *Is your elevator pitch perfected?* By the time you get to this point you should be able to explain clearly and concisely what your company is about. You want to sell investors on why they want to be part of your company – and you want to be able to do it quickly.
6. *Do you have customers?* Be prepared with real sales numbers. If necessary, get signed letters of interest from potential customers. Prove that people are willing to purchase your product.
7. *Are you ready to give someone else some control over your company?* The biggest challenge many entrepreneurs face is losing complete autonomy. Investors will always want some control in exchange for their money.
8. *Do you have an exit strategy in place?* Investors often go in hoping for a three to five year investment after which they'll take their profits to invest elsewhere. An important part of your pitch to an investor is showing them you have a plan for how you're going to pay them back.
9. *Do you own the patents to your idea?* If your product or idea is unique enough to be patented, having that done before you talk to investor will give you a leg up in the negotiation.
10. *Can you be flexible?* Go into the negotiation knowing where your bottom line is. You probably won't get exactly what you ask for in the first round. Are you willing to take less money or give up a greater percentage of ownership?



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