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How to Protect Yourself When Selecting Investors For Your Startup

Any seasoned entrepreneur will tell you that coming up with an idea for a startup is ultimately the easy part of this process. Figuring out how you're going to get the funds necessary to make that vision a reality? That part is a bit trickier.

In fact, selecting investors for your startup can be the hardest part of the process – not only because you want to make sure you're making the right choices for your new company, but also because it's important to surround yourself with individuals who will support you both now and years down the road as your business grows.

Thankfully, there are a number of best practices that you can use to help find not just an investor, but the right investor to meet your current and future needs.

Choosing the Right Investors: Breaking Things Down

By far, one of the most important things to understand about finding an investor for your startup is that you're trying to find a GOOD fit, not necessarily a PERFECT fit.

The odds are good that no investor will be 100% perfect for the vision you have for your startup – such is life. Even in the event that you could find a startup investor who would tick every box, it would probably take so long that it wouldn't be worth the effort. You would ultimately delay the building of your company, not to mention the amount of time it would then take to get your products or services to consumers.

Finding the Best Investor For You

The first step to finding the best investor for you is to make a list of characteristics and standards that are important to you. Remember, you are looking for someone who can help you bring your vision to life, so it is imperative for all of your startup investors to add value to your organization. Prioritize certain qualities above others and if you don’t check all of the boxes in the end,, that's okay -- hardly anyone does, and there are still numerous successful startups.

Another best practice to follow when finding an investor for your startup involves trying to sell them not on what your product or service can do in a literal sense, but on what problem it is trying to help people solve. In other words, don’t communicate in terms of technical specifications, but by sharing the unique value that you'll be able to bring to the table with a little help from a qualified investor.

Investors want to see that you're not pushing a "solution in search of a problem," so to speak. They want to see that you've identified a potential gap in the marketplace that you – and you alone – can fill with your business concept. That's how to get people excited and that's how you get people to invest.

What Types of Startup Investors Are There?

If you would prefer not to go the route of working with a venture capitalist or professional startup investor, there are numerous other options available to you as a small business owner.

Especially in those precarious early days, for example, some entrepreneurs often turn to friends and family members for assistance. They won't necessarily be permanent investors, but they can certainly help get you off the ground and buy more time until you can land something more stable. If you take this approach, make sure that you clearly communicate what the money will be going towards in terms of your current business needs and what type of positive impact it will make. Rarely will someone be willing to give you money based on a "great idea" alone.

Some new business founders also apply for loans from the Small Business Administration rather than immediately seeking out a private investor. The Small Business Administration doesn't lend money directly, but the organization does have a handy lender match tool that you can use to find financial institutions that have been pre-approved for situations like yours, whatever your specific circumstances happen to be. The benefit here is that the SBA also guarantees certain types of loans, which usually translates to lower interest rates and better repayment terms than you might be able to find elsewhere.

If you do choose to go with a private investor, such as a venture capitalist,, one of the ways that you'll want to protect yourself involves understanding what a fair percentage actually is. Again, nobody is going to give you capital for your startup just for the sake of it – they're going to expect something in return (you've watched ABC's Shark Tank, right?).

But you don't want to offer a percentage of your net profits that is too low – say, 5%- - because that really isn't worth the effort on the investor's part. Likewise, offering a percentage that is too high will almost immediately begin to eat into any profit you earn. Always spend time working out a fair percentage based on the amount of money you're being given and other situation-specific variables to create a deal that is beneficial for all involved.

If you have any additional questions about the qualities to look for in an investor for your startup, or if you'd just like to go over the details of your own unique situation feel free to reach out to our practice.

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