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The Competition for Growth-Stage Investment Capital is Fierce - For a Successful Institutional Capital Raise, Learn How to Avoid the Most Common Missteps.

Preparing growth-stage companies for the 'next-level' of institutional capital.

Marc Patterson
Managing Director

Jonathan Musser
Managing Director

www.BennuPartners.com

Avoid the Most Common Capital Raise Missteps

Obtaining growth-stage investment capital has always been competitive. However, growth-stage companies currently face the most challenging capital raise environment in over a decade.

Save your company significant time and money

Ask any growth stage entrepreneur, and they can tell you that raising capital from institutional investors is a competitive and challenging game. This is the case in practically any investment market environment. However, the challenge is particularly acute in today's market.

The rapid increase in interest rates that the market experienced over the last two years functionally hit the brakes on the deployment of capital into growth-stage companies. Most companies responded to this by retrenching, cutting costs, and decreasing monthly burn rates. The plan was to kick the capital can down the road and survive long enough for the funding markets to rebound.

However, because this was the strategy followed by most companies, there now is a significant backlog of growth-stage companies across all sectors actively engaging the venture capital and private equity markets for both new and follow-on capital. The marketplace is more crowded than ever. Capital providers with dry powder now have many compelling opportunities to choose from. In other words, raising capital has unfortunately gotten harder.

At Bennu Partners, we have spent decades working with Private Equity, Venture Capital, Family Offices, and Strategic Investors. Each of these investor categories is unique and has very specific needs and expectations.

Unfortunately, many growth-stage companies lack expertise in raising capital and subsequently approach these investor categories as if they are all the same. In doing so, they miss the opportunity to connect effectively with the specific needs of each individual investor, often leading to a lack of success in the capital raise.

While each capital raise is unique to that specific company and situation, there are many similarities. Regardless of the product or industry, there are several major missteps growth-stage entrepreneurs commonly make. In most cases, these missteps lead to wasted meetings, wasted effort, wasted time, and most importantly wasted money. In extreme cases, it can lead to a failed capital raise or depressed company valuation.

In this challenging funding market, it is more vital than ever to optimize the engagement with every investor you meet. In order to help you with this goal, we have listed the three most common capital raise missteps that we see. Fortunately, each of these mistakes is easily avoided with the proper strategy and preparation.

Misstep #1

Total lack of planning. Racing headlong into a capital raise without an effective strategy or process.

Here is the truth - most growth-stage Founders and CEOs lack deep experience with raising capital. Most of these entrepreneurs started a company because they were passionate about the product or solution that they were building.

Raising capital is an afterthought at best, or a huge nuisance at worst. A great majority of entrepreneurs (at all stages) simply do not fully understand how private equity, venture capital, and strategic investors differ from one another. Nor do they understand how these different kinds of investors are evaluating their opportunity.

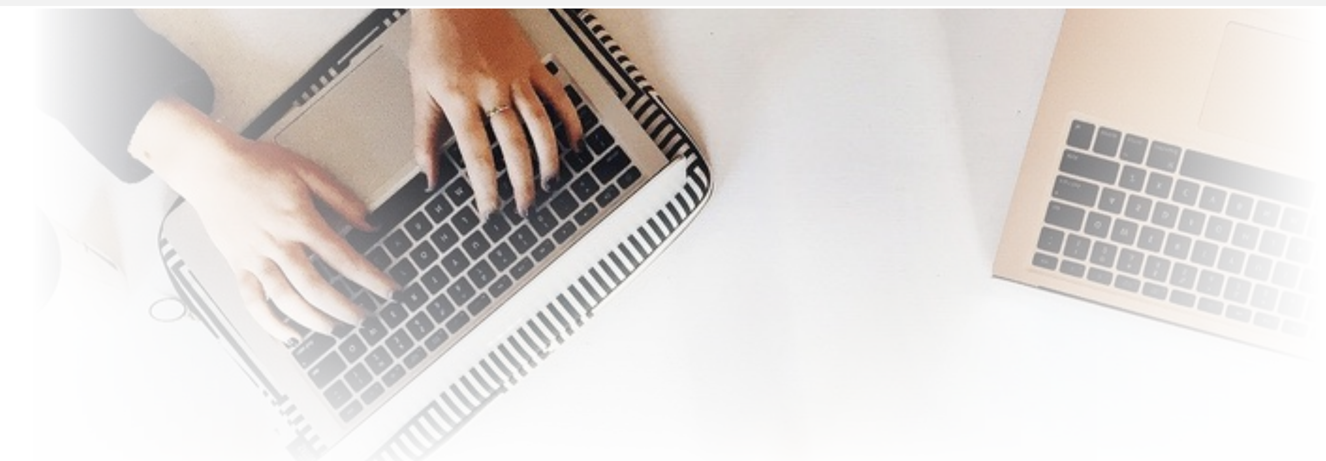
Unfortunately, this lack of experience often leads to a capital raise that is rushed, ad hoc, poorly planned, and unenthusiastically (or fearfully) pursued. Not surprisingly, this unplanned rush into the capital markets most often leads to frustration and disappointing results.

Too many times we meet Founders and CEOs who firmly believe that successfully raising institutional capital is simply a matter of having an extensive rolodex or completely outsourcing the raise process to a partner who does.

While it is understandable why that strategy is enticing, in most cases, it is a mistake that can waste significant time and money.

The key to a successful growth-stage capital raise is not an extensive rolodex or an outsourced group with extensive ties to the capital world. At the growth-stage, the truth is that you cannot outsource the entire capital raise process to an outsourced group. It simply does not work. Investors want to engage with the Founder, the CEO, and the team. They do not want to engage with a 3rd party representative.

The key to a successful raise is a strong executable PLAN. The plan needs to be systematic, programmatic, and disciplined. It must include the three core elements of success: correct positioning, a compelling message, and a well thought out and disciplined process.



Here are a few key areas to focus on to avoid this common misstep:

Start slow and begin with the end in mind. Create the internal structure you need to run a complete capital raise process. Set achievable goals and work backwards to create the plan that will help you achieve those goals.

#1

Based upon the goals and plan that you create, perform a current state and future needs assessment. Determine where gaps exist and how to fill them.

#2

Discuss your strategy with professionals that have gone through the process before. However, stay engaged and do not outsource the entire process. Assemble your team. Assign roles and responsibilities.

#3

Misstep #2

Positioning your company incorrectly. Not understanding the needs, expectations, and goals of your target investor.

As discussed above, private equity, venture capital, family office, and strategic investors all have unique needs and expectations when looking at growth-stage companies. Unfortunately, out of haste or inexperience, most growth-stage companies make the huge mistake of treating these investors as if they are all the same.

To run a successful capital raise process, the company narrative, positioning, message, and materials must be designed to meet the needs of the correct investor, with the correct expertise, at the correct investment stage. Unfortunately, in our experience, most investment decks, content, and messaging are generalized, poorly prepared, and are completely ineffective.

A vital step is to spend time upfront learning more about the needs and strategies of your target investor: how do they diligence their opportunities, what are their return expectations, in what other types of companies do they invest in, who are their stakeholders, what other types of investment firms do they partner with, do they require a Board seat?

For example, family office and wealthy entrepreneurs (Angels) often have different investment timelines and return expectations than institutional investors. In addition, they usually do not have extensive experience or processes structured around diligence. Instead, they tend to lean heavily on relationships. They want to know who you know, what you have done in the past, and if they can trust you. This type of investor will rely on the power of their connections and their network to confirm your credibility.

On the other hand, private equity, venture capital, and strategic investors operate in a completely different manner. They have very specific and rigid investment timelines, often higher return expectations, and limited partners with which they need to align.

These institutional investors (VC , PE, Strategics) by contrast, are more often than not, deeply engaged with your industry, product, or sector. They are far more intentional and programmatic than family offices. They seek entrepreneurs with domain expertise and proven success. Performing extensive due diligence is what they do, and most tend to do it well. If you can't succinctly communicate your investment edge as well as show why it is replicable, they will most often pass on investing in your company.

Urgency and speed are always on the mind of growth-stage founders looking to raise capital. We understand the instinct to move fast and break 'stuff'. However, spending the time upfront to diligently work through your positioning, messaging, and materials will ultimately save you significant time - and a LOT of your own money.

Going to market without mastering these aspects of your company will most certainly lead to countless wasted meetings, emails, and pitches over the course of weeks and months. Unfortunately, in the end, you will have secured little to no investment capital to show for your efforts. Understanding the unique needs and behaviors of your target investor group and tailoring your message for each can be the difference between success and failure.

Here are a few key areas to focus on to avoid this common misstep:

#1

Take the appropriate time upfront to research your potential investor target list. Profile the appropriate potential investor for your opportunity at the stage of growth that you are in. Understand that investor's needs, return expectations, and preferred communication style.

#2

Create a narrative specifically targeted to your specific investor. This narrative should have several methods of communication including the investor deck, company branding, social media campaign, customized outreach. These modes of communication should match and support one another.

#3

Don't run an ad hoc effort. Create a sales process around engaging with your target community including pipelines, method of outreach, prioritization, KPIs, metrics, and milestones.

Misstep #3

Running out of time and money. Not budgeting the necessary time, talent, and resources to complete a successful funding round.

Securing sufficient funding capital for the operations of your business is a vital function. It is just as vital as other core elements of your business such as talent, technology, product, marketing, etc. Therefore, don't make the mistake of treating the capital raise process as an afterthought. Treat it with the respect that it deserves. Allocate the necessary resources to the time, talent, and assistance that you are going to need to successfully complete a funding round.

Raising capital takes time. In most cases, it takes longer than you hope or expected. Regardless of the type of investor that you are targeting, most will move much slower than you prefer. In our experience, too many management teams have unrealistic expectations for the amount of time and effort needed to successfully complete a capital raise.

Time and time again we meet with management teams that expect to successfully close a round of capital in three to six months. The unfortunate truth is that most capital raise campaigns actually take between twelve and eighteen months to successfully complete. This is a fairly large expectations gap – one that often leads to trouble.

We frequently experience situations in which growth-stage companies run out of time and resources because they planned for a short raise timeframe and had to make suboptimal choices when that deadline was not reached.

In addition to inadequate funding, many growth-stage companies also fail to empathize with the effort and risk inherent in the diligence process for their potential investors. Most management teams fail to understand that institutional investors dislike the due diligence process as well.

Performing thorough and comprehensive diligence requires a lot of time, resources, and talent on the part of your potential institutional investor as well. By putting capital to work in your company, investors are putting their reputation and capital on the line for you. There is quite a bit of risk involved with their decision.

The most successful growth-stage companies understand and respect the gravity of the process that their potential investment partners are going through. With that in mind, building trust throughout the process is vital to success. One of the quickest ways to build trust with institutional investors is to demonstrate strong corporate governance, infrastructure, and transparency.

Many growth-stage management teams often overlook governance, infrastructure, and transparency issues. However, when pitching institutional investors, these elements can actually be the most important. Ensure that your company has the proper infrastructure (people, processes, and technology) in place ahead of time to help institutional investors through the diligence process. Institutional investors want to partner with a strong, well-capitalized, and professionally governed management team.

Give the capital raise due diligence process the respect and attention that it deserves. Budget the appropriate time and resources for the process. Pay proper attention to infrastructure, governance, and transparency issues.

Do this correctly, and you will not only distinguish yourselves from the investment competition, but you will also most likely shorten the diligence period – saving you additional time and money.

Here are a few key areas to focus on to avoid this common misstep:

#1

Create the budget necessary to actively run a capital raise with the expectation that it will require at least twelve to eighteen months. Budget the necessary time, talent, and materials. If outside professional assistance is needed – budget for that as well.

#2

Understand the due diligence process and necessary timeline for each engaged investor that you work with. Start an open dialogue with each potential investor. Doing so can help you more quickly discover their highest priority goals, their concerns, and a realistic timeline.

#3

Take the time to build the correct corporate infrastructure. Professional investment partners always seek management teams that have created strong corporate governance.

Final Common Misstep

Going through the process alone. In this environment, getting help with a capital raise is a necessity, not a luxury.

As mentioned earlier, at the growth-stage, you cannot outsource the entire capital raise. It simply does not work. However, you absolutely CAN get help from professionals to optimize aspects of your company's capital raise process.

Doing so can lead to more success, with less time, at an ultimately lower overall cost. You don't have to do it alone. We call this the 'Do it With Me' business model, and we have found that this is the model that most often leads to success at the growth-stage.

Investors want to meet with Founders & CEOs, but the process can be assisted by advisors and experienced professionals who can help with strategic refinements, pitch improvements, investment targeting and other optimizations that can make the process more efficient.

At Bennu Partners, we have spent the last decade helping growth stage companies create more meaningful and effective engagement with private equity funds, venture capital funds, family offices, and strategic investors. We completely understand the challenges that you currently face.

The power of our experience is that we have worked on both sides of the operator/investor divide. We've pitched, been pitched to, have asked for capital, and have invested capital. As such, we have invested alongside all of these investor types. We understand their needs, how they think, and what they are looking for in an investment. In other words, we have sat at both sides of the investment table.

In this challenging environment, your company needs to optimize every single investment connection that you make. Presenting the right message, satisfying the right need, to the right investor target is now more vital than ever. An effective strategy, process, and team will be the difference between success and failure.

Avoid the mistakes listed above, and you will help differentiate your company in this noisy, turbulent, and crowded capital raise market. If you are looking for some guidance, tips, or day-to-day help, give us a call and we can be your partner through this challenging market.

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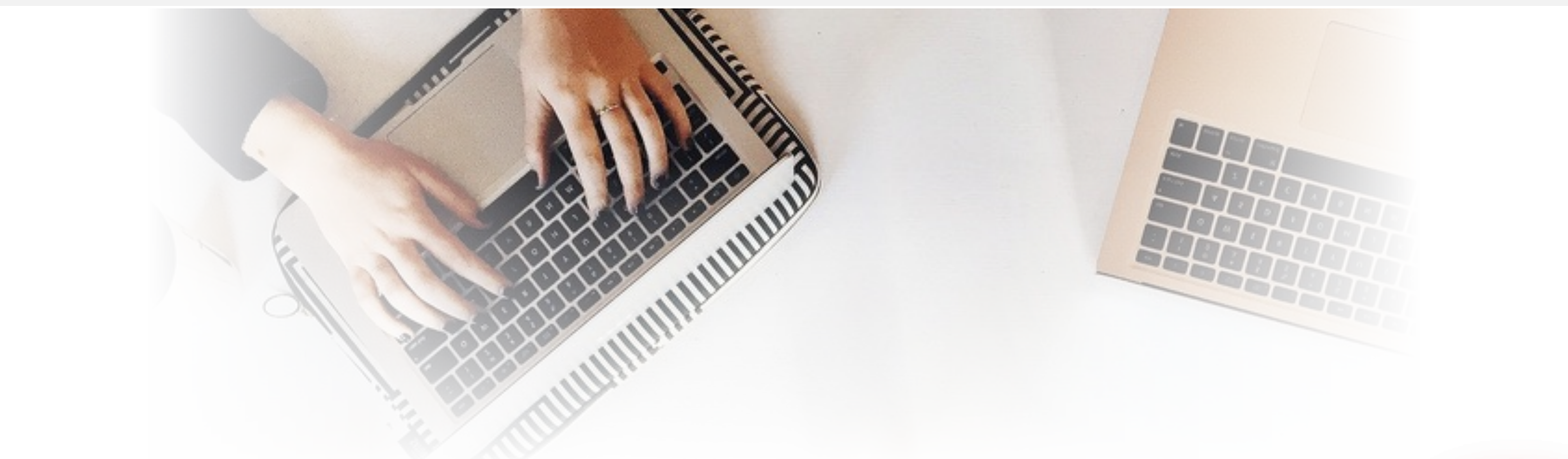

About
Bennu Partners

Many venture-stage companies raising between $5M and $50M struggle to attract institutional investors.

However, the problem is rarely access to investors.

The problem is most often a poorly planned and executed capital process, leading to wasted time and money – and frequently ending in failure.

Bennu Partners is a collaborative, cross-functional, team of capital operating partners that will help your company master the three crucial elements of a successful capital raise process

Authors

Marc Patterson
Founder and Managing Director
marc@bennupartners.com

Jonathan Musser
Managing Director
jonathan@bennupartners.com

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