

Raising Capital? Follow These 3 Rules for Building Strategic Investor Partnerships

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When I founded my first company, I looked at reports and updates for investors as administrative tasks. Homework, in other words, outside my core duties as a CEO. But then I had an epiphany that changed my whole perspective – and my business.

I discovered that having involved investors who held me accountable was actually a boon to my business. The interactions stemming from that “homework” would turn into strategy conversations, a chance to tap their collective wisdom and gain insights. They taught me quickly that the value of investors can go way beyond a check.

Nonetheless, some founders focus solely on the cash investors bring to the table. That’s a mistake. What you should really ask during a funding round is this: Who can contribute the most *value* to my business? Value might mean funds, sure. And there’s definitely a time and place for silent investors. But often, value can come in the form of expertise and connections, too.

Billionaire venture capitalist Marc Andreessen recently wrote that “raising money is the easiest thing a startup founder will ever do.” Running your business is the true challenge, and for that, you need the smartest, most well-connected

people you can find to help you. As the founder of a consumer finance company, I get it: Sometimes, a cash injection is useful. But cash doesn't offer wisdom, and it doesn't bring experience.

To grow your business, it's essential to train your fundraising efforts on building partnerships, not just securing investments. When I'm searching for partners, I follow these three rules to keep my focus on what's best for my company's long-term success.

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Rule #1: Fill the gap

I take an honest look at my own skillset and connections. Then I ask myself, "What am I missing?" Those are the attributes that I need to find in investors.

If numbers aren't your thing, then the value of an investor with a finance background is immeasurable. And just about everyone should be grateful for an investor with a law background. A legal expert who gives you \$100K in cash, for example, might make a far greater contribution down the road by helping you avoid \$500K in legal fees.

I'll also seek out investors with deep product or industry expertise specific to my company's offerings. A KOL (or Key Opinion Leader) can provide advice on market fit, the competitive landscape and industry trends that are nearly impossible to obtain on the fly. The number one reason startups fail is that they misread market demand, so insider access is a goldmine.

Finally, I'll look for investors who open up a whole new contact list of industry leaders that I don't personally know. Every connection with an investor is, ideally, a path toward

your *next* connection: Researchers find that who a leader can link you with (be it other investors or industry partners) is one of the most concrete signals of their value.

This concept of “filling the gap” is similar to the idea of “hiring into your weaknesses.” It’s always important to look for complementary skill sets that augment your own. By turning to tapped-in investors and soliciting their guidance, or even just employing them as a sounding board, your brain trust and proficiencies will expand.

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Rule #2: Search for alignment

Enthusiasm for my company’s product or service is great – but that’s table stakes. I also need a solid agreement about our timeline and growth schedule. Beyond that, agreeing on motivation is crucial. Is the goal to help successfully bring a product to market? To be acquired as soon as possible? To grow the business into a public company? Or just to increase personal wealth? Transparency and alignment on these points – early on – is the surest way to avoid conflict downstream.

Perhaps the subtlest kind of alignment to negotiate, though, is involvement. Will an investor get a board seat? How much reporting and feedback can they expect? And will you be answering their texts at 2 a.m.? Get on the same page, and get there before you accept a check.

If I imagine that an investor’s expertise will come into play in the company’s initial stages, for example (maybe they know a lot about board governance, say, and I want their advice as I set up my own), then I’ll be upfront about where and when I anticipate needing that support.

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Rule #3: Say “No” to “Rubber Stampers”

A willingness to hold you to task is one of the most valuable assets an investor can bring. It may sound like a headache at first, but founders don't thrive when surrounded by “rubber stampers” who seek to avoid confrontation. In fact, while a culture of constant agreement may sound nice, I know it will only hinder my success by blinding me to key problems. And I, like everybody, have my blind spots (just don't tell my team that). We all need partners who promote good governance and accountability.

At the end of the day, the board makes me a better leader. I embrace that truth. A well-functioning board will force me to answer any questions I've been avoiding. And they'll make me a more effective CEO as a result.

Search from a position of strength

Of course, following these three rules is only possible if I have the luxury of time and a position of confidence. I always take the long view and build investor relationships before there's an immediate need for funding. That gives me the chance to curate a team of true, complementary partners. By contrast, founders who have a scarcity mindset will grab at the big check and make that the only price of admission to their boardrooms. They'll inevitably regret it.

On average, there are 18 months between funding rounds, but the smart founder never takes a break from cultivating investor relationships. I search for true partners, which is a serious and ongoing practice because money isn't the most challenging asset to find.

What is? It's people – those with just the right expertise and professional network to round out your own. That's what you're

really buying when you hand part of your equity to an investor. Finding those perfect partners can make the difference between long-term success and a flash in the pan.

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