Getting investors on board

Make sure you’re ready, and willing, for investors to fund your business. Securing investment capital is one of the best ways to help you grow your business.

But getting investors isn’t for everyone. It takes forward planning and careful consideration. You also need to be able to prove your worth to potential investors — and have the data to back it up.

Is it right for you?

Investment capital is best for:

- businesses willing to give up some equity
- companies in the early stages of business that need funding to bring a product or service to market
- existing businesses looking to grow.

If your business isn’t performing well or is just an idea that hasn’t yet been validated, you won’t likely find any investors.

A financial advisor can be able to help you decide whether getting investment is right for your business.

Tips on choosing types of funding (/getting-started/funding-your-business/choosing-the-right-types-of-funding/)

Seek investment money if you want to grow — not if you need a bailout.

Types of investors

Angel investors look in particular for a person or team they believe in. They usually get involved just beyond the start-up phase, when capital is needed to develop and commercialise products and services that have been validated.

You’re more likely to get backing from venture capitalists if your business:
They often invest large amounts of money, are more hands-on and expect more control and ownership for their contributions.

Pros and cons of investors

Even if your business model is ripe for investors, you’ll need to weigh up the potential benefits and drawbacks.

Investor benefits

The benefits include:

- Large amounts of capital that banks won’t necessarily lend to you.
- Expertise — it’s common for investors to become business mentors or board members (/getting-started/advice-and-governance/boards-and-directors/).
- Access to new networks and markets.
- A committed partner who wants to see you succeed.

Investor negatives

Investment capital also comes with negatives such as:

- Loss of control — depending on what sort of agreement you have with your investor, you are essentially relinquishing a percentage of your business or returns.
- Being forced to sell — investors make most of their money when you sell your business. They might push you to exit, even if you don’t want to.
- Time out from running your business — it takes time and effort to build relationships with potential investors and pitch for capital.

Case study

Picking the right people

After doing extensive market research and validating their accounting software idea, Carlos Chambers and his team at Common Ledger set out to find investors to raise capital to build their product.

“We got on the phone and rang anyone we could think of who might be interested in this opportunity and tried to build a lot of hype and awareness. We also really tried to build an audience so every person we met with, we added to our investor update list,” says Chambers.
After six months of contacting and updating potential investors, the team’s hard work
paid off.

“People wanted to talk and invest. That gave us choice, and choice is a good thing
when you’re a small business because it’s not something you typically have.”

Chambers then put some criteria in place. “We thought carefully about the investors
who had shown interest and who were really going to accelerate the business and
add value.”

Common Ledger ultimately got the most capital from private high-net individuals.

Plan ahead

Successfully pitching for equity capital takes time and strategic planning. Many
businesses put a plan in place years before they actively seek investment.

Most investors are putting their own capital on the line — so they’ll want proof their
involvement will be treated seriously and their contributions will eventually pay off.

You’ll need to plan ahead so you can show potential investors a history of solid
financial performance, or a strong business model and promise to grow.

An accountant or financial advisor can help you put an investment plan in place.

How to create a business plan (/getting-started/business-planning-tools-and-tips/how-
to-write-a-business-plan/)

Many businesses begin planning for investment two to five years
before they make any formal pitches.

What investors look for

You need to be able to clearly demonstrate how any capital will be used to grow and
yield good returns.

Potential investors will also want to see:

- you have invested in your business yourself
- you are a good leader, with a track record for success
- a robust and capable team around you
- sound projections and cash flow forecasts
- a history of strong profit and loss statements
- a solid business plan
- a proven business model
- a unique selling point or intellectual property
- potential for high-growth
good governance
- a well thought-out exit strategy.

In addition to the projected return, investors will also want to know what role they’ll play in your business.

An advisor can help you determine whether you are ready for investors and help you prepare to pitch.

Get to know potential investors

Do your homework on any potential investors before you accept their offer.

This will be the start of a long-term business relationship, so don’t rush into anything and choose wisely.

Remember investors will want to be more involved than those who provide other sources of funding, so get a sense of their motivations and experience. It might pay to get references from people they’ve done business with.

It’s also important to get clear on what they expect in return before you commit to any offers.

How to find investors

There are a number of ways you can find potential investors. They include:

- tapping into your personal networks
- speaking to your local chamber of commerce or Regional Business Partner
- approaching business angel networks that connect entrepreneurs with angels and private business investors. There are several networks in different regions of New Zealand.

If you’re not sure where to start, speak to a financial advisor and your Regional Business Partner Network for support.

Regional Business Partner Network (external link)  
(http://www.regionalbusinesspartners.co.nz)

Common mistakes

Avoid these common mistakes when you get investors on board:

- Not planning ahead — securing investment capital takes forward thinking.
- Approaching investors too early or too late — there is an optimal time to pitch for
investment capital.
- Not checking up on your investors — get references and establish what sorts of expertise they can bring to your company.
- Seeking investment because you need to be bailed out or don't want to spend your own money on your business.

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