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Raising finance isn't a one way street: here's how to choose your investors wisely

Despite the pandemic throwing multiple industries and businesses into jeopardy, figures show that almost 20,000 tech startups launched in 2020 – and this sustained level of innovation and creativity brought with it a flurry of cash from sharp-eyed investors.

According to Dealroom, European startups raised €43.8B in the first six months of 2021, with venture capital funding already surpassing the record €38.5B invested in 2020.

The tables are turning when it *comes to investment*. Purpose-driven startups care more than ever about their people and having a positive impact on the world – and it seems that cash, at the expense of everything else, may no longer be king.

While startups need capital to grow, attracting the right people from a reputation perspective has crept up the priority list. Ultimately, it has put the power back into the hands of ethically-minded entrepreneurs.

Innovation in recent years has honed in on addressing some of the world's most pressing problems with inclusive, scalable and commercially-viable solutions. It is perhaps then no surprise that investors – with one eye on their return on investment and the other on future-proofing their portfolio – are sitting up and paying attention.

Startups have more choice than ever when it comes to choosing their investors, but with choice comes complexity. So, where do you start?

Be specific

Every founding team will come with particular areas of expertise, but no one team can cover everything. Look for investors who can plug gaps within the team – either technical, business-related or sector-specific – so they can provide useful advice and guidance from the outset. Be specific about what you need so your investors become a core part of your business journey, not simply a cash injection.

Consider how you like to work

Taking the time to define what you want your working relationship with your investors to be like will help you choose the right people. For us, it was important to have investors with hands-on operational experience and we wanted investors who we could brainstorm with and pick up the phone to. That is why we chose a first-time fund with only nine other investments. Being intentional about this from the beginning will set a strong foundation.

Values matter

Similar to cofounders, the investors you choose early on show what you stand for as a business and they tend to stay with the business for a long time so it's important they align with your values and vision. Honesty and clear communication are key – investors can quickly become blockers if you have different views on how the business should grow.

Your investors should reflect you

While you may have different areas of expertise, your cap table should reflect you where possible so you have a shared set of personal values. For example, our team comprises two female founders so we intentionally chose female-led *Capital T* to lead our investment round. This adds another layer of connection and makes for a much easier working relationship based on mutual understanding.

Research your investors

It’s an obvious point but investors from different markets require different information and will want you to talk to your business plan in varying depth. For example, cultural differences may mean that some investors want a very conservative summary of your financial projections, while others will want to see ambition and where your business could get to if there were no constraints. This will mean very different things when it comes to preparing your growth projections.

Tech startups are in an enviable and powerful position when it comes to raising investment but to sustain this growth, choosing the right investors is important. Startups need to stay laser-focused and uncompromising on their purpose and values. Doing so won’t just benefit them and the people they serve, but it also has the potential to level the playing field and create more equal opportunity within the investment community too.

Namrata Sandhu is CEO and cofounder of *Vaayu*.

Article by NAMRATA SANDHU