



## What a company should look for in an outside investor

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Many closely held companies, especially earlier-stage companies, seek equity investment capital in order to expand. The process of raising this capital is usually time-consuming and laborious, with no guarantee of success.

It is important that the company's pressing need for capital not distract management from a very critical consideration: if you are fortunate enough to receive a term sheet from an investor, you need to think about whether they are the correct investor for your company.

If the company is in dire need of an equity infusion, you might think that this is an irrelevant consideration ("any investor is the correct investor!"). You would be wrong. The wrong investor could be very damaging to the company, even with the best of intentions. If that's the case, what should management be looking for in an outside investor?

- Value of the investor's contacts. Any competent investors should bring more than just money to the table. They should be able to advance the business through their contacts – whether with potential customers, business partners, experienced consultants or executives, or other investors. If they cannot assist in these other areas, then management should seriously consider looking elsewhere for investors.
- Value of the investor's industry experience. This is closely related to No. 1. The investor should bring industry experience to the table so as to be able to provide guidance and support to management. This experience can be direct experience from working at a company in the same (or similar) industry, or perhaps experience investing in similar companies in the past, and bringing that experience to bear on behalf of your company.
- Commitment to follow on investment, if necessary. Management should sound out prospective investors with regard to whether they are committed to participating in subsequent financing rounds. An unwillingness to commit or seriously consider further investment going forward should give management some pause. Management can reasonably ask why this isn't a tenable possibility from the investor's perspective, and make an appropriate decision at that juncture.
- Fits with company culture. This is a very "soft" consideration, but one worth keeping in mind. If the investor doesn't fit with the culture, doesn't really understand or is not comfortable with management, think very hard about moving forward with the transaction. The odds are that, at some juncture, you will have to work very closely with these folks, possibly under rather stressful circumstances if things don't go quite as well as everyone had hoped at the outset. It is much better to be working in those conditions with people that you are comfortable and that fit the corporate culture.

If all this seems unrealistic because management feels that soliciting outside investment puts them at a disadvantaged position, please remember that a serious investor that has put forward a term sheet is very interested in closing the transaction.

It is as strongly in the company's interest to do robust due diligence on the investor as it is for the investor to do the same on the company.

At the end of the day, if you've resolved these and any other questions to management's satisfaction, the company and the investors will be on a much better footing to enter a truly productive and positive relationship with the closing of the transaction.

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