Investor check list

Mike Downey details what investors look for in a business opportunity – and what puts them off.

Characteristics of a good proposal:

1) Excitement factor – communicated clearly, believably and without rhetoric.

2) Development of an existing profitable business or a well-researched new idea or product. It is important to explain what the business is about and in objective terms, why the plans and assumptions are reasonable.

3) Existing proven management.

4) Good gross margins. Leaves room for unexpected downturns.

5) Not too high expectations on market share.

6) Commitment and cash from the management team before investor cash is put at risk.

7) Something genuinely new or different. No point in trying to do something already being done.

Turn offs, in no special order:

1) Start ups. These have to be good to get funded, but some investors are looking for them.

2) Products dreamed up by technical wizards, which might be amazing, but for which there is unlikely to be a market.

3) Products that still need a lot of development – a potential black hole.

4) Global launches. Prove the product and the market first.

5) Ideas that would be better licensed to someone who already has production or marketing capacity.

6) Investment to be spent on directors' salaries, cars or repaying loans.

7) Where the best route would be friends and family or industry contacts. This includes films, music, games, nightclubs, or indeed any media or trendy retail proposal. This is not to say that external investment cannot be attracted, but it can be more difficult.

8) Where the funds looked for are out of proportion to the share in the business offered. Classically the sort of start up where the company has no opening value, the management team have put in £20,000 and their time and effort, and are offering 15% for £300,000 or more.

9) Where the assumptions are too good to be true and the forecasts are unbelievable – makes the whole proposition lack credibility.

10) An investor would normally wish to take a stake in the holding company. It is a turn off if the investor is asked to take a stake in a new subsidiary.