9 plus 5 Common Capital Raising Mistakes

When raising capital, the stakes are higher than almost any other activity in business and a mistake can cost much more than anticipated, sometimes even the very existence of a business. A lot of these mistakes come from misconceptions and assumptions about capital raising, so we wanted to share some of the biggest myths and most expensive mistakes.

These capital raising misconceptions are repeated over and over again, because a (very small) percentage of those raising capital have gotten lucky or had great market momentum behind them, so their tactics did not matter as much as they will in any average market situation:

1. The "Wunderwuzzi" Syndrome *

Underlying idea: "All we need is to hire someone who has a current network with real first name relationships in order to raise capital."
This is the belief that all that is needed is to find that one person who will do all the capital raising because they are so well connected. These people are extremely rare, very expensive, and they are probably successful because they have invested in building their own capital raising system.
Never forget: Hiring an experienced person can help, but their network may not be the type of investors needed, they could not be as motivated, and the risk of losing them and their relationships at any moment is imminent.

**Wunderwuzzi" is an old Austrian slang term – the closest English translation seems to be "wonderboy"*

2. The "Centre of the Universe" Syndrome

Underlying idea: "If we build it, they will come." (Also known as the "fund of dreams.")
This is simply believing that if someone builds a great product or an impressive investment track record, investors will find them and they don't need to work at raising capital.
Never forget: Even the founders of the legendary firm Blackstone Group had to pound the pavement in the early years, travelling from city to city to pitch investors to come aboard.

3. The Ebenezer Scrooge Syndrome

Underlying idea: Not dedicating any resources to capital raising. (This is the most obvious mistake seen in the industry)
Performance does NOT market itself, pedigree does NOT swing all doors wide open. They need to have dedicated resources, an internal marketing person working at least 20 hours a week, investor databases so they can spend their time calling on real prospects instead of always having to qualify them, and have a growing internal CRM in place to track their investor relationships.

4. The Universal Conformity Syndrome

Underlying idea: Completely missing the boat on authority positioning, educational forms of marketing, and improving their own pedigree standing in the industry.
Many people are stuck in their old-school cold call and networking strategies. Sure, this works some of the time, but most prefer to rely on a more sophisticated system that works all of the time and builds real relationships with investors.
Never forget: What works in a certain environment need not necessarily work in a different environment. And sometimes it helps to invest in educating your target group, too.

5. The Bandwagon Syndrome

Underlying idea: A complete lack of capital raising training or investment marketing instruction.
One does not have to pay to have their marketing staff trained, but, at the very least, they should document their own best practices, processes, and investor pipeline plans. In this way,

their strategies and processes can be easily communicated to team members, board members and improved each quarter.
Never forget: Fund raising is not anything that can just be done “on the side”.

6. The “Numbers Game” Syndrome

Underlying idea: “We need to maximize outgoing phone calls and touches at all costs, because it is purely a numbers game.”
This is one of the most time consuming and painful myths to buy into. It’s a “brute force” mentality that doesn’t build much momentum.
Never forget: Good investors are not found by increasing the intensity of cold calls, but only by improving the quality of your research.

7. The “Supersonic Exercise” Syndrome

Underlying idea: “We just set a 3-month capital raising goal. That will be enough time …”
This is unrealistic and the wrong mindset with which to go out of the gates. They need to plan, build relationships, educate potential clients, and design high quality marketing strategies and materials for the long term. It takes time to raise capital and, usually, the more valuable the investor, the longer the sales cycle.
Never forget: Don't try to cram everything into a 1-3 month capital raise. It will take more time than that to gain sufficient trust by a qualified investor so that he will look at your materials.

8. The “Underestimate Private Relationships” Syndrome

Underlying idea: “Why invest in IR? It is not so important to be on a first-name basis with your investor relationships.”
Some professionals, especially those with technical backgrounds think that marketing is a numbers game. Yes, they sometimes have to reach out to many to develop relationships with a few; but relationships are at the core of everything that gets done.
Never forget: As sales expert Jeffrey Gitomer says; "All things equal, people like to do business with friends. All things being unequal, people still like to do business with friends."

9. The “Just for a Great Show” Syndrome

Underlying idea: Spending $10,000 on graphic design and website design but $0 on hiring someone who is an expert at sales letter construction, writing copy, and creating taglines for your positioning in the marketplace.
Many times fund-seeking prospects spend their whole marketing budget on a fancy website and a killer logo, but they don’t allocate any of that budget to the areas of marketing that actually bring money in the door.
Never forget: Professional investors are not impressed by fancy shows. Quite the opposite; spending money on fancy things makes them twice as suspicious.

*The above text is the revised version from **Richard Wilson**’s article:*
“9 Common $100,000 Capital Raising Mistakes”
Richard generously allowed us to use his article as a basis for our own paper, added by a few of our thoughts.

*Regarding Richard Wilson please see **https://familyoffices.com/***

*Richard is the founder of the **Family Office Club**, which – for 11 years running – is the premier community for more than 1,500 registered family offices who manage $1 trillion+ in assets.*

Please, let us **add a few more syndromes** based on our own experience during 30 years as an independent company and covering hundreds of years of fund raiser professionals. Maybe our markets are a little bit wilder than the sophisticated and developed US-American market. You would be surprised to learn how often we run into fund seekers who think they can create their own "rule of the market":

10. The "Sponsor Fund Raiser" Syndrome

Underlying idea:
"We are so great that anybody must like us; and anybody must like to contribute to our success - on success fee basis only" (a sub-version of above Syndrome Nr. 2)
Fund raising is hard work, and all the preparatory work, including pre-due diligence, valuation and documentation, is advisory work to be compensated for. Any minor professional contribution requires big payments, but the most vital contribution for a firm's future shall be done for free?
Never forget: There is an enormous asymmetry of information between fund seekers and fund raisers (and later investors, too!). Nobody can be expected to close this gap in good quality without compensation.

P.S.:
There is an even more advanced version of fund seekers thinking they are so great that it must be an honour for anybody to work for them completely free. Frankly speaking – more a case for the psychiatrist than for a fund raiser.

11. The "Prove Yourself First" Syndrome

Underlying idea:
"You (the fund raiser) must prove that you are worth our money – and you can prove this only by success. Hence, we only pay success fees."
What sounds like compelling logic at first glance, in reality can turn to be a fatal trap for both parties: When the fund seekers do not compensate for the hefty work to close the asymmetry of information efficiently (see the previous paragraph), who will then do the task properly? The result: an inefficient campaign will not be successful, with all the consequences for the fund seekers themselves.
Never forget: professionals who raised hundreds of millions or even billion+ of funds need not prove anything to anybody. As experienced professionals, they will only pick mandates where they know they will perform.

12. The "Get Your Fee From the Other Side" Syndrome

Underlying idea:
"We are not prepared to pay for any of your efforts or introductions. Get your fee from the other side …"
Putting another "level of pain" at the disadvantage of a fund raiser will demotivate him further to cooperate on a project.
Never forget: This way or the other – in the end it is always the investor who provides the resources to pay fees. Hence, it is a globally accepted rule that the one who always pays fees is the one who receives the funds. (Still, there are surprisingly many who are not yet connected to the globe …)

P.S.:
This should also be the rule for any cooperating fund raisers – never ask your partners to "switch sides" and go for investors' fees.

13. The "Your Investors at Hand" Syndrome

Underlying idea:
"Come again when you have got your investors at hand who will invest in us".
This is by far the silliest of all arguments I have heard during my lifetime. But it is so persistent and so frequent that I keep asking myself who keeps nurturing it.
No professional fund raiser "has investors at hand". Investors are independent decision makers deciding upon the merits of each single case. They do not cede their power of decision to any third party, least a fund raiser. And – fugitive as deer - they avoid fund raisers who lost their reputation because of working on phony projects.
Never forget: There is an unlimited supply of projects, but only a very limited pool of high-quality investors. Answer the question yourself of where the priorities of a professional fund raiser are to be found!

14. The "If You Have an Idea" Syndrome

Underlying idea:
"Just come back to us whenever you have got an idea on who might invest in us. We will then consider how to compensate you …"
Almost as stupid as syndrome Nr 13, and even more frequent.
Backers think it is enough to hang out their flag, and wait on "ideas" developed by fund raisers on potential investors.
Never forget: As a famous poet mentioned "Ideas are free …" Investment business is not about ideas, it is all about execution. This is valid both for the fund seekers as well as for the fund raisers.

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