What entrepreneurs should know before approaching a VC for funding

By Philani Sangweni

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As any South African venture capitalist (VC) will tell you, just keeping up with all the emails from entrepreneurs asking for funding can be a full-time job in and of itself. Unfortunately, even if we reply to every email, we have to turn down most of those applications.

Philani Sangweni, managing partner at Entrepreneurs for Entrepreneurs Africa

That isn't because South Africa is short on entrepreneurial talent. It isn't. I firmly believe that, with the right support, our entrepreneurs can transform the country and free it from its economic malaise.

The truth is, most of those rejections happen because the entrepreneur in question has made one or more common mistakes.

Do your research

One of the biggest mistakes entrepreneurs make is assuming that all VCs are the same. But a firm that primarily invests in e-commerce startups might not be interested in your agritech venture.

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Before you approach a VC, do your research. Find out about the investors' backgrounds and what companies the firm has invested in previously. That'll give you a better idea of whether they might be interested in your startup, and whether it's worth applying for funding.

Know what funding stage you're at

Similarly, many entrepreneurs apply for funding with the wrong VCs for their particular growth stage. Some investors only put their money into early-stage startups, while others are more interested in mature ventures that are in their final phase of growth before a buyout or IPO.

Research the differences between seed-funding and A, B, and C series funding. Once you know which funding stage you're at, target investors who focus on that growth phase. Doing that kind of research means you're less likely to waste both your own and the investors' time.

Be creative in your approach to funding

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Know your options

Depending on which stage your business is at, straightforward venture capital might not be the best option for it.

You might be better off applying to an incubator or accelerator which provides some funding, but also business support. The really good ones will put you on the path to growth and help build your business networks. That, in turn, will equip you to find VC funding further down the road.

If you've been through an incubator or accelerator programme, you'll also likely become better acquainted with the wider entrepreneurial ecosystem, further boosting your chances of securing VC funding.

Be able to tell your story

Most entrepreneurs can describe what their businesses do just fine. What they tend to struggle with, however, is clearly articulating their long-term vision and the growth steps they've taken or are currently taking will help get there.

If you can tell your story clearly, investors are much more likely to be interested in you and what your business has to offer. Remember, investors are interested in your and the business' growth, which will ultimately generate returns. They need to see that you're viable not just for now but also for the long term.

Embrace the South African opportunity

I firmly believe that there isn't a better entrepreneurial lab on the planet than South Africa. It allows entrepreneurs to test solutions to problems that affect both the wealthy and on people from less privileged circumstances.

VCs are much more interested in entrepreneurs who've learned and honed their businesses in circumstances that they truly understand, rather than in someone who's simply looking to replicate a business model that's worked elsewhere in the world.

Investing in entrepreneurs is key to the future of South Africa
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In fact, if you can demonstrate success in a relatively difficult South Africa, VCs are much more likely to trust in your ability to expand internationally. Don't be afraid of where you're from; it's an asset, not a liability.

Giving yourself the best chance

While my colleagues in the VC space might point out other mistakes that entrepreneurs make, getting the above right will give you a much better chance of securing investment.

But even if you don't, don't give up. Keep working on, and refining, your business. Quality will shine through. And with the right levels of success, investors will approach you rather than the other way around.

ABOUT PHILANI SANGWENI

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