Early-Stage Fundraising: The Importance of Understanding Your Competitors

Although there are very few certainties in early-stage fundraising, you can guarantee that investors will ask founders a simple question 'Who are your competitors?'. Despite its simplicity, the response has significant consequences.

Whilst there is never a perfect answer, we regularly see responses that fail to address investor concerns. 'We have no competitors' is, without doubt, the worst possible response. You always have competition, with the key being how you define them. Most early-stage businesses are an improvement or variant of existing businesses.

Fundamentally, investors firmly believe competition is a positive thing.

The primary reasons investors value and seek information on competition include:

- Evidence of a market for your product or service and potentially validating the opportunity to monetise users, clients and consumers.
- No competition or a lack of identified competition implies the market is small.
- Potential exit opportunities are of crucial importance. Competitors are often a key source of investor exits, and every founder needs to convince potential investors of the exit opportunities.
- Credibility and being able to respond logically is an opportunity to reinforce founder experience, knowledge, research, and potentially demonstrate network reach.
- Investors seek individuals and teams who are credible and trustworthy. A knowledgeable response is an opportunity to reinforce founder experience, research and potentially demonstrate network reach.

Investors have a vast knowledge base and networks, so may have access to background information. If you don't address this question thoroughly, it will detract from the attractiveness of your investment proposal.

Additionally, founders need to understand and communicate their market's evolution and place the competition in context. This will also support conversations on future market evolution, including the structure and growth prospects ultimately reflected in the impact on forecast profitability.

In terms of positioning the competition in any investment documentation and conversations, there are two golden rules:

- Avoid Negativity - If your produce or service is at the minimum viable product (MVP) stage, a portion of the fundraising is to continue product development. Founders that are overly pessimistic about competitors inadvertently undermine investor confidence. Founders who can communicate the positives achieved by their competition while focussing attention on where they see the world differently, and the development roadmap, demonstrate belief and conviction to investors.
- Never (Knowingly) Hide Competitors – First and foremost, why ethically would you want to start a relationship like this? It immediately undermines credibility. However, it may be appropriate to be selective in which competitors you highlight to demonstrate market sizing/focus and accentuate differentiation and strengths. Analysing the market to identify your key competitors, position and why you are different better builds investor confidence and credibility.

The key challenge is how to present competitor information concisely within the investment documentation.

In summary, founders need to prepare thoroughly for investor questions surrounding competitors. Never respond 'we have no competitors'! Hopefully, we have demonstrated that the competitor question is much wider than simply 'who are your competitors', involving market evolution and development, the business model and an eventual exit opportunity.

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