30 Questions Investors Ask During Fundraising

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by Alex Iskold 09/13/2016

We've written a lot here about fundraising and how it is a complicated, and at times, confusing process. To fundraise effectively you need to prepare and have a strategy, understand different types of investors, understand how much to raise, and create a solid investor pipeline.

We have also talked about a fundraising deck, and how to go about putting one together. In addition to the deck, it is helpful to prepare to answer typical questions that investors tend to ask.

Below, I will address the typical questions you will hear from investors and discuss how you might go about answering them.

1. Who are your customers, and what problem are you solving for them?

Investors are looking for a simple and clear answer of who you are selling to. They are also looking to understand how clearly you know the pain point, and how big of a problem it is for the customers. This question also opens up a conversation about founder/market fit, as well as helps investors think about the size of the opportunity.

2. What is unique about your solution? What is your unique insight?

Investors want to understand how you are proposing to solve the problem, but more importantly, they are trying to determine whether you have a unique insight. Has anyone else thought about this before? How is it different from other solutions? Do you have a secret? Seriously, investors want to know this because the more differentiated you are the more defensible the business might become in the future.

3. How does your product actually work?

Investors naturally want to see the demo of your product, because a demo is worth a thousand words. A lot of investors want to fund product-obsessed founders; founders who get lost in the details of the product, founders who are super thoughtful and nerdy about features they build, and really understand customer needs. Always show your product to investors with an awesome demo.

4. What are your KPIs? How do you measure growth? How do you know you have product/market fit?

What numbers do you use to drive the business? Lack of clarity or hesitation is a major red flag for investors. If you as a founder aren't clear about your metrics or are not measuring the right things, investors won't believe that you can grow the business. Investors want to make sure you understand and measure your conversion and sales funnels, activation, retention, magic moment, churn, CAC, LTV, etc. Investors want to know how you think about KPIs. They will look at your dashboard and will want to understand how you think about growth. They will likely dig in to how you think about attaining product/market fit as well.

5. What is your traction to date?

The question of traction is really two-fold. Of course, investors will first want to know about your traction. But secondly, and more importantly, they will want to understand how you define traction. Many founders mistake progress or effort for traction. On the other hand, investors think of traction as revenue and paying customers or significant growth in weekly and monthly active users.

6. What is the size of this opportunity/total addressable market?

How big is your market? This is a question that matters to a lot of investors. Why? Because VCs' economics force them to only focus on very large markets. VCs look for big markets with lots of money so that when they own 20% of your business on exit, they come away with a meaningful enough amount to return all, or at least a sizable portion, of their fund. Otherwise, they don't make money.

In addition, investors expect founders to size up the accessible market, and do the calculation bottom up. Too many founders say they are operating in billion-plus markets without realizing that, because of their business model, they can't be addressed. Spend time sizing up your actual addressable market using your pricing and growth projections.

7. What are your CAC and LTV?

This is another typical question that investors ask founders during each round of financing to establish how fluent they are in the business. In the early days, founders are expected to know the terms, and have an idea of what the numbers are, but it's fine to say that you are early, and the numbers are likely to change in the future (typically, CAC goes up and LTV goes down).

The CAC conversation leads to the conversation about channels, marketing, and advertising spend. If you are B2B company with direct sales, you will talk about cost of sales, and how it will change at scale.

Life-time value of the customer is equally important. How long does it take to pay back the amount it cost to acquire this customer? How much money will you make on the average customer? The LTV conversation touches on churn and revenue per customer, and enables investors to understand how you think about your whole customer lifecycle.

8. What is your business model?

Naturally, investors want to understand how you make money. They want to know who your customers are, and how you are planning to charge them. This question combines not just pricing, but strategy and tactics as well. If you make money indirectly, via advertising, investors would then focus on how you acquire customers. If you are a marketplace, the conversation turns to whether you are going after supply or demand and the incentives to be on the platform. What will be the expected average revenue per user? Will you have recurring revenue? All these questions get explored when investors ask about your business model.

9. How did you come up with your pricing?

This is probably a less common question in the early stage, but it is an important one. Investors are looking for you to demonstrate that you've done customer research and competitor research. They are also looking for you to acknowledge that you are early and the pricing is likely to change. In addition, if you are currently free or have a free tier, investors will look to understand when you are planning to get rid of it and what will be the implications.

10. What are your unit economics?

Unit economics give an inductive case for your business. For example, a unit for Uber would be either one ride or one driver, depending on how you model it. The key thing in unit economics analysis is to capture all associated costs and revenues and then see if you are actually making money. Some startups have poor unit economics initially and say they will optimize costs later. Many investors, however, are now wary of this approach because as you scale, new challenges and new, unforeseen costs may arise.

11. What is your go-to-market strategy?

The go-to-market strategy question is a really important one and often is misunderstood. Investors ask this typically when founders say that their product works for everyone. Investors are skeptical, as experience says that focusing on a vertical or a segment is typically better. For example, if you are building developer tools, you could initially focus on freelancers and individual developers. Then once the product is solid, you can move upstream to mid and large enterprises. Tesla had the opposite strategy. It first made a high-end car and has since been moving downstream.

You can also focus on a specific vertical. For example, if you are a security software provider, you can first focus on insurance companies or law enforcement agencies. Having a focus narrows down the opportunity but allows you to really perfect the product and sales. When talking about your go-to-market, investors are really looking to understand your strategy and why you think it will work.

12. What are your customer acquisition and distribution channels?

How are you planning to acquire customers? In the consumer world you have paid and unpaid means. You can advertise or you can use content marketing, social channels, and word of mouth. Investors want to understand how deeply you understand your channels. The challenge is that most obvious channels often do not really work or aren't cost effective. That is, when you start, your CAC via Google or Facebook ads is just too high. Investors are looking to understand if you have figured out a growth hack or have an insight on how to acquire customers quickly and efficiently.

In the B2B world, investors want to know if you have an unfair advantage, like you've worked in the space before and have a rich rolodex. They are looking to understand if you are able to secure key partnerships that can help you distribute the product faster and win the market faster.

13. Why now?

This is a question that often goes unasked but is certainly on the investor's mind. Timing is everything, and really understanding why now is the time for your company to win is important. The VC industry is full of examples where a product or service was too early or too late and as a result didn't work or didn't get as big as it otherwise could. Before Facebook there was Friendster, before Google there was Alta Vista. Even Uber wasn't the first company to think of on-demand rides, nor was AirBnB the first company to let people host others in their apartments.

Before the current wave of VR and AI, there were at least three other waves. Why do we believe now is different? Why do we believe now it will actually happen? Some argue that we finally have enough cheap computing power and have evolved other key technologies necessary for VR and AI to go mainstream. When investors are asking, "Why now," they are really asking about conditions of the market, context, state of society—dozens of factors that will make a difference between success or failure this time around.

14. Why you? What is YOUR Founder/Market Fit?

We've written here before about the importance of Founder/Market Fit and most investors pay close attention to it. Investors don't want to fund accidental founders. They want to fund people with deep domain expertise, massive vision, and passion. Investors want to get to the bottom of why you started the business, and whether you have unique insight and unfair advantage.

15. Where did you grow up? Where did you go to school and work before?

In addition to understanding if you know the space, investors want to understand if you are resilient and smart. The question about where you grew up is really a question about how hard you have had to fight through your life to get to where you are. If you grew up in a well-to-do family where you didn't have to struggle, investors may not be as excited about funding you compared to, let's say, an immigrant. There are no hard and fast rules of course, but the environment you grow up in often defines your level of resilience. When things get difficult, and they always do, will you walk away? When you get knocked down, will you get up?

When asked where you went to school, people look to see if you went to a top school, what you studied and what you learned. Sometimes, this conversation leads to a common connection. Sometimes it is just a starting point for learning more about you. Investors are looking to assess your level of intellectual curiosity and honesty.

16. How did you meet your co-founders?

This is another interesting question that doesn't have a clear-cut, right answer, but is telling to investors. If you say you met your co-founders at a hackathon three months ago, what you are saying is that you don't really know each other well. Investors may think that the connection between you isn't solid. If you are saying that you have been friends since high school, investors know that you trust each other. However, they also know that you haven't worked together. Friends don't always make the best business partners and startups have ruined thousands of friendships.

Most likely, investors are looking to hear that you worked together before, ideally in another startup and ideally for a while. This would imply that you get along socially, but more importantly, that you can make things together under the stressful environment called a startup.

17. Who are your competitors and how are you different?

We've written here before how to think about competition. Investors are looking to understand how knowledgable you are about competitors and what is different. If you say you don't have competition or if you bad-mouth the competition, it is a red flag. Simply acknowledge competitors, and highlight what they are doing well. Explain how you are different and why.

18. What is your vision, your true North?

Some founders stumble on this question and this is a red flag for investors, particularly for VCs who want to back founders with a big vision. What do your want your company to be in ten years? This question reveals not only how you think about the business long term, but whether you plan for it to exist for a decade or more. If your plan is to sell quick, you won't have a broad long-tem vision.

Similarly, a question about your true North is an important one. It reveals what you aren't willing to compromise on. Great companies are always flexible on their path, but not flexible on the destination.

19. What milestones will you achieve with this financing?

We touched on this topic in our How Much Capital Should you Raise post. This topic is complex and founders often approach it with naiveté. A typical answer might be expressed in terms of specific product milestones and scaling of the team. This is not what investors are looking for. They want to understand tangible business milestones you will reach with the capital you are given.

There are really two outcomes investors are looking for—either profitability, which is very rare in early-stage startups, or the follow-on financing. That is, investors are asking if you will be fundable again once you get funding, execute, and then hit specific milestones. For example, if your plan says you raise $1MM, and then grow 20% MoM to achieve $40K MRR in twelve months, to you this may sound great, but to investors it is clear that it will not be enough to raise series A.

It makes sense to really think through your milestones and where you want to land and why.

20. How much will you be burning in a month?

This is a pretty straightforward question that follows from your financial model. A few things to pay attention to: a) Your HR costs should be roughly 70K-100K per head, b) investors will look for clarity around advertising spend—in the early days, before strong product/market fit, you should not be spending a lot of money to acquire customers, and c) investors will look for any outliers; anything that jumps out as out of the ordinary or unusual.

21. What will be your MoM growth in customers and revenue?

This is another straightforward question based on your financial model. As a startup, you need to make a growth assumption. The trick is that you don't have a ton of historical data to back it up. Whatever data you do have, include it in the model and explain it, because it helps establish credibility. Also, avoid using a cookie-cutter 20% MoM year-round growth assumption, as it may come across as sloppy. Really think through seasonality, and other factors that may influence your growth. Do your customers pay you right away or not? Does your cash in the door trail booked revenue? Reflect all the nuances in the model and your revenue forecast.

22. When will you be profitable?

Historically, many of the best startups have reinvested their revenues into the business and sacrificed profitability in favor of growth. Since the financing market has become tighter, profitability is fashionable again. Becoming profitable is important for many reasons, but the main one is that it allows you to become self-sufficient and control your destiny. When you are profitable, you are no longer in need of external capital in order to survive. Investors are looking to understand how you think about profitability, and tie this to the conversation about your burn and the need for follow-on financing.

23. Why is your business defensible?

VCs want to know what happens to your business over time. Assuming you can get a lift off, investors want to know what will happen in year five, and year ten. Why? Because this is a typical horizon over which more successful startups go public or get acquired for a significant return. Long-term defensibility is difficult to predict. That's why many investors look for natural monopolies, winner-take-all markets, and businesses with network effects. This is a complex and important topic that is less likely to be top of mind for the founders, but is certainly something investors are paying a lot of attention to.

24. What is your intellectual property?

If you are a startup that is creating new technology, investors want to know about your IP. Are there things here that can be patented? What is the true innovation in your business? While software patents haven't been effective in recent years, depending on the type of your business and depending on what kind of investors you are talking to, IP can be an important topic.

25. What is your tech stack?

This question will be particularly relevant for startups that are working in AI, VR, dev tools, and other areas that require deep tech. Some investors, particularly technical ones, will want to nerd out with you on your stack.

26. What are the key risks in your business?

This is one of the hardest questions investors will ask you—why might you fail? This question is a probe for a) how you think about risks in your business, b) do you acknowledge risks, and most importantly, c) are you self-aware and intellectually honest? Great founders bring up and face risks head on. They don't try to shove them under the rug and ignore them.

Risks range vastly from building incorrect products, to the market not being there, to the falling apart of a key distribution deal. Whatever it is, be prepared to talk about risks and show that you've been thinking about them deeply yourself.

27. Who is the natural acquirer for your business?

Investors aren't likely to ask you this question, but they will certainly think about it. Investors are putting money into your business to make more money, and historically, since the IPO market is tight, most successful companies are acquired. Although you may have no current plans to sell your company, it is good to think about who might in the future and why.

28. How much capital did you raise so far, and on what terms?

This is a simple question—just tell investors exactly how much you raised, and whether you did it on the note, or via equity. Don't stumble or hesitate, because that could be a red flag.

29. Who are your existing investors?

This is another straightforward question.

30. How much capital are you raising and what are the terms?

You should have clarity on how much you are raising based on the financial model. Depending on where you are in the fundraising process, you may not have
the terms set yet. If you don't have the terms set, then just say so; investors

will completely understand.

And now, please tell us what we missed. Share the questions that investors asked you during your fundraising conversations.

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