

# The Importance of Local Investors When Raising Capital

*Local investors have an impact when raising capital for your company. Not only are they more likely to invest than other investors - they also tend to invest larger sums. Since they already know about the company they do not need as much time to make an investment decision, which makes the pre-funding process more efficient. Targeting these investors should therefore be a priority for companies in search of capital - building a strong local foundation for future expansion.*

No matter how global your business is, the connection with your home region is important. Companies normally expand starting from their home region and will be associated with that place for the rest of their life-time. If you think about Apple - Silicon Valley pops into mind, and if IKEA is mentioned you will inevitably think of Sweden. People feel strongly connected with companies from their own region and could arguably be the company's biggest fans.

A recent study of eight funding cases found a strong local presence among the investors. In every case with an outspoken tie to their home region the local investors were over-represented compared to the population in that region. Not only that, it was found that these investors tend to invest larger amounts than others. People often prefer to buy local products and to support local enterprises, the study reveals that they also prefer to invest their money in local companies.

There are many types of investors and they can be divided in groups depending on different characteristics such as age, gender, geographical location, behavior etc. The different investors all contribute with different values and it is important to have a clear picture of the different types of investors. Knowing beforehand how investors behave and what drives their investment decisions is of course a good thing before raising capital. Of the studied cases, there was none who explicitly mentioned local investors as a target group; still, the group was highly represented in most of the cases. Either the companies were not aware of the

potential of local investors or they did not consider them valuable enough to target. The findings of the study can raise awareness about the value of local investors and that they should be an important part of any investor targeting strategy. Since the company with the highest local representation is the company which did most efforts to reach local investors the study shows that targeting efforts do pay off and might have higher traction when directed towards the home region.

Why local investors have such a strong presence among the investors can be explained in many ways. It can be connected with the regional identity of the area, with the type of product the company is selling, with how many employees or how much "good" they are doing for the region. Being hard to measure, the study has still identified some indications about the strong local representation. One of the companies were connected in a very fundamental way. Not only were they founded and located in the region, the company also had the hometown name as a part of the company name. Another company identified themselves with certain traits that were strongly connected to the characteristics of their home region - entrepreneurship and "make it yourself" spirit. That could possibly have made it easier for locals to relate to the company.

The research was conducted by analyzing investor data from the fundings and by interviewing representatives from the funded companies about which investors they were targeting before the funding.