Introduction

For many years effort has been concentrated on solving the funding problems of early stage companies by looking to improve the sources of cash available to them by stimulating supply by venture capitalists, business angels and government grants.

It is now realised that this is not sufficient, and that in addition there is a need to prepare entrepreneurs for funding in order to improve their chances of receiving investment. This process has become known as Investor Readiness.
Market Failure:

“Investment Ready”

- “The most important market weakness identified ... business development support and mentoring required to get business propositions “investor ready”


As the availability of funding options has approved it has been found that entrepreneurs continue to encounter a significant problem in securing funding. At the same time investors often complain about the lack of quality investment opportunities available to them.

This quotation from a Scottish Enterprise commissioned report in 2001 identified the lack of investor readiness as the most important market weakness.

It is important to note that this weakness is not just applicable to the entrepreneurs and their companies. It is applicable to the business development, support, and mentoring professionals who should be helping companies, but are themselves often ignorant of what investors are really looking for.
Lost Opportunities

“All investors continually receive investment proposals which intuitively have merit, but which are either not sufficiently developed or are inappropriately structured to be taken forward....”


The result of this lack of understanding is that investors continually receive proposals that they cannot invest in. And while those proposals may have some merit, or some hidden value the investors do not have the time or resources to fix these problems themselves. As a result, significant time and resources are wasted by entrepreneurs, investors and their advisers, and there are, potentially significant opportunities lost to the economy.
Poor Proposal Presentation

• “This was despite, or sometimes because of, the use of professional advisors to produce the business plan....”

(Loan and Equity Funding to SMEs in Central Scotland, Grant Thornton / Firn Crichton Roberts, 1996)

An earlier Scottish Enterprise commissioned report commented that this problem was often actually made worse by so-called “professional advisers” – accountants, lawyers and others, because of their all in misunderstanding of the needs of investors and the investment process. Too often, investor readiness is thought of as “a good business plan” and a set of financial projections. As we will see, this is far too narrow an approach to be successful.
Investor Ready:

Developing an understanding of what different types of investors look for and require from an investment so you can anticipate and address the investors concerns, and present you proposition in the most effective manner to improve the chances of receiving funding.

Investor readiness is really about a deep understanding of the investors characteristics, motivations, resources and requirements. An understanding that can be used to identify the best investors to match the entrepreneur's needs and to develop the tools necessary to attract the target investors.
Investment Ready – The Foundations Often Ignored

1. Explore the Entrepreneurs attitude to & understanding of investment. Which form of funding is appropriate for the entrepreneur and the company.

2. Assessment of the “Investability” of the proposal – can the underlying business be made attractive to target sources of funding –
   - Investment return
   - Potential exit opportunities
   - Attractiveness of sector to funders

Too often, the process of investor readiness is started at the point of writing a business plan, without looking at the entrepreneurs motivations and objectives, and what form of funding would be the most applicable to match these.

For example, taking equity funding implies that at some point there will be an exit to allow a return to the investor. This exit usually takes the form of the sale of the business. The entrepreneurs objectives may not be compatible with this, for example, they may wish to pass the business on to other members of the family.

Investors are often put off proposals by suggestions that some point in the future the entrepreneur will buyout the investor. This form of exit is not seen as attractive by the investor as they will ask where is the incentive for the entrepreneur to truly build the business to its full potential if all that that means is that the entrepreneur must pay the investor more money to facilitate the exit.

Some time, should therefore be spent with the entrepreneur, ensuring that the form of funding that is targeted it is compatible with the entrepreneurs long-term goals. It should not be assumed that equity is always the correct solution.

Entrepreneurs start businesses for many different reasons. Often they wish to have control of their own destiny, and have control of their own business. Part of the Investor Ready process should be to make entrepreneurs aware of the impact that equity funding, and the resulting involvement of a third party, the investor, is likely to have on the entrepreneurs freedom of action. Equity investors will, through the investment agreement, restrict the actions of the entrepreneur in order to protect their own investment. For an equity investment to work for both the investor and the entrepreneur, the entrepreneur must willingly enter into such a relationship and have a full understanding of its implications.

There should also be an assessment of the basic “investability” of the proposal. This should take account of local investment and economic conditions, and in particular the nature and characteristics of local investors.

In particular, can the proposed business provide the return on investment that investors are looking for? Is it a scalable business? Can it become a national, or preferably international business?

For early stage companies, most business angel investors are looking for opportunities that have the potential to provide them with a 10X return on their investment over a period of about five years. Many businesses are unable to provide that and cannot therefore provide an adequate return for the investor, but can provide a good living for the entrepreneur.

Such businesses are often referred to as lifestyle businesses. In fact the majority of businesses that are started fall into this category, and while attractive for the entrepreneur would not be attractive for any form of equity investment. Part of the investor ready process should include an assessment to determine whether the business and the aspirations of the entrepreneur will lift it out of the lifestyle category and into a potentially equity investable category.

Consideration also needs to be given as to whether an exit is possible for the investor. Some businesses are very difficult to exit from due to the inability to separate the business from the individual running it. For example, many consultancy businesses or businesses involving personal service (doctor or dentists) are difficult to structure for an exit.

Consideration needs to be given to the attractiveness of the sector or nature of the business that is being proposed. Some sectors are more attractive to investors than others and this is subject to local variation. As an example, while many business angels are interested in investing in medical device company’s they are, generally not interested in investing in drug discovery companies because of the high amounts of investment required and the time taken to develop a product.
Investment Opportunities

• Funding –
  - money to carry-out a project
    • Grants

• Investing –
  - laying out money with the expectation of profit.
  - using money to make more money.
    • Equity

Particularly in relation to University spin out companies, significant effort is often wasted in developing a business plan seeking equity funding for what is in effect, a research project, or the continuation of a research project, and not actually a commercial business. Few investors are interested in the funding of research projects. This is seen by them, as the responsibility of government agencies and other specialist grant providers.

Investing is about laying out money with the expectation of generating a profit. While the technology involved may be of significant interest, may be associated with significant science, the most important aspect of any proposition looking for equity funding is that the business model, How is this business going to generate cash from customers? This is often misunderstood by scientific entrepreneurs, who are very often more interested in the silence than in the business.
When Does Innovation Become an Investable Product?

- Solves a real problem in a real market.
- Market willing to pay enough for it to generate good margins.
- Well developed concept.
- Enabling or platform technology.
- Strong Intellectual Property in place or likely.

It is therefore essential that those helping entrepreneurs become investor ready have a clear understanding of the point at which an interesting innovation or scientific discovery becomes an investable proposition.

This happens when the science can be applied to solve a real problem in a real market and that market is willing to pay a sufficient amount of money for the product in order that the company can generate a significant profit.

It is also vitally important that the new product is or can be protected to prevent competitors stealing the market. Increasingly investors are looking for a clear description of the intellectual property associated with the product and are looking for reports setting out the intellectual property position on a worldwide basis. Business angels in particular will not be willing to pay for this due diligence work and any programme designed to help companies become investor ready should have a significant element and budget devoted to intellectual property.
Early Stage Funding: Alternatives -

- Bootstrapping
- Grants (free cash!)
- Founder (you!), Friends, Family (& Fools)
- Debt – Mortgage, Overdraft, Term Loan, Leasing
- Selling something!

As previously noted, the vast majority of businesses that are started in any economy are not suitable for equity funding. They are like style businesses. This does not however mean that they are without merit. They are likely to form the basic core of any economy. And while each may be individually small collectively they often provide the majority of employment.

They therefore deserve some help and support and as such businesses are identified during the pre-screening process for investor ready we have just described they should not be dismissed without some further guidance. It is appropriate for such businesses to be pointed in the direction of alternative sources of funding and to receive guidance on alternative methods of generating cash. In particular, the method of generating cash to fund the business through sales is often ignored. Yet this can be the most appropriate way for a business to grow and develop. Businesses based on retail in particular have the opportunity to grow significantly based on generating sales and balancing the pavement of suppliers appropriately.
Getting Equity Investment

• Decide that Proposition is Fundable, and by Whom.
• Understand the Investment Process.
• Prepare The Tools You Will Need.
• Get a Meeting.
• Make the Pitch (the presentation).
• Follow Up / Up Date / Adapt (and survive!).
• Start Negotiations for Investment.

So the first part of an investor ready programme should be a review to decide whether the proposition is fundable, and what form of funding is most appropriate to match all the entrepreneurs and the business needs.

This review should also determine which investors are most likely to be attracted to the proposition, and which are most likely to be a match with the entrepreneurs goals, objectives and, most importantly, personality.

The advisers helping entrepreneur’s become investment ready must therefore have a deep knowledge and working relationship with the investors available in the local area.

I believe that a major defect with many investor ready programmes is the attempt by so-called professional advisers to assist the company in isolation from potential investors. Many seem to believe that there is a standard format that is appropriate for each and every case. They produced a shrink wrapped business plan, and then send it to every investor they can think of. Investors quickly tire of such tactics and will usually ignore the business plans received in such a format.

This difficulty is often exacerbated by the economic development departments regarding the entrepreneur they are assisting as their client. This leads to a number of difficulties, not least, a desire often to not upset their clients by challenging them too much on their assumptions in regard to the business.

This means that the first time the entrepreneur is properly challenged is often in front of a potential Investor, by which time it is too late for them to adjust their plans and opinions.

It would be much better, if economic development agencies regarded the investors as their clients for an investor ready process and worked with investors to design it to meet the needs of the investor. In this way effort and resources can be concentrated on the factors that investors truly believe to be important and not those factors that advisors, usually incorrectly, believe are the most important. Specifically more time would be spent on intellectual property, the market, and the quality of the management team, and rather less on extensive financial forecasts.

Having decided that the proposition is fundable, and there are investors available who may be interested in the proposal the entrepreneur should be given a detailed understanding of the investment process. All too often entrepreneurs are surprised by, for example, the time taken for a decision to be made, the nature of the investigations that will be carried out into their company (due diligence) and similar matters, resulting in an unnecessary breakdown of negotiations.

Armed with this understanding of the investment process the entrepreneur can then prepare the tools necessary to improve their chances of attracting an investor’s attention. Whilst it is important that an investor ready review determines whether there is a viable business it should be borne in mind that often the primary objective can be forgotten. The primary objective that the entrepreneur needs to focus on is to get a meeting with an investor in order to grab their attention. Despite many weeks spent preparing business plans as few as 20% of entrepreneurs submitting business plans to investors, manage to get a personal meeting. It is vital that entrepreneurs understand why this is and adjust their tactics accordingly.
Those involved in helping companies to become investor ready should have a detailed knowledge of investors that have invested in their area. It is likely that the majority of these will be based in the local area. However, particular attention should be paid to any that are from some distance away, as their characteristics and needs may be different from those operating locally.

It is often difficult for the entrepreneur to understand that not all investors are the same and that not all investors would be appropriate for there are project.
**The Ideal Investor**

- Knowledge of your technology area.
- Marketing expertise.
- Good connections with skilled executives.
- Good track record.
- Connections with future sources of funding.
- Can provide auxiliary business services. (finance, IP, purchasing, etc...).
- “Easy” to work with.

While it is unlikely that an entrepreneur will ever find their absolutely ideal investor some time should be taken in determining what characteristics would be most helpful to the business. Is it necessary that the investor understands the technology? In areas where investing is just developing it is unlikely that business angel investors will have a relevant technology background. They are likely to have made their money from traditional industries, transportation or construction, for example. They are likely however to have experience in areas that the new entrepreneur does not, for example, sales and marketing.

Those helping companies become investor ready should have an understanding of the individual investors characteristics and should keep a record of the deals that they have been involved in in order to identify those that may be interested in the new proposal.

In all situations, the adviser should try and match personalities well. The entrepreneur and the investor are likely to have to work together for some considerable time. The knowledge gained of the entrepreneur during the initial stages of an investor ready process should be used to help identify key personality traits that can be matched with potential investors.

Investors also like to be involved in the company’s that they invest in. Investors can therefore be used to help companies in the areas where they may be weak. Again, this is often in areas such as sales and marketing. The assessment should also take into account of the future funding needs of the company and the adviser should be able to assess whether the investor is likely to be able to provide the funds needed in the future.
This slide shows an extract from a report prepared for Scottish Enterprise identifying which investors stated that they would be willing to invest in Scottish life science companies, and at what stage of development.

This analysis shows that while there were a significant number of investors claiming to like science investments very few were willing to do early stage or start-up.

It is vital that investor ready programs carry out such an analysis to ensure that time and effort is not wasted approaching the wrong investors.

It should be noted however that this needs to be balanced with an understanding of what later stage investors may be looking for in their all in investments. This should become the responsibility of the early stage investors, ensuring that their investment is put to the best possible use in attracting, where necessary, later stage investors. This perhaps brings out the point that investor ready is not just about new start up companies, but applies in different forms to companies at a later stage, trying to attract different types of investor. To get the maximum benefit for economic development investor ready programs should not therefore be limited to start-ups but should take a “whole of life” view of the enterprise being supported.
It is Angels, not VC’s who invest most cash in SME’s:

<table>
<thead>
<tr>
<th>US VC’s Q1 &amp; Q2 2006</th>
<th>US Angels Q1 &amp; Q2 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested - $13 billion</td>
<td>Invested - $12.7 billion</td>
</tr>
<tr>
<td>No of deals – 1,735</td>
<td>No of deals – 24,500</td>
</tr>
<tr>
<td>Average deal size - $7.5m</td>
<td>Average deal size - $518k</td>
</tr>
<tr>
<td>Total seed / early - $519m – 4% in</td>
<td>Total seed /early – $6 billion – 50%</td>
</tr>
<tr>
<td>136 Co’s - $3.8m</td>
<td></td>
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</tbody>
</table>

The nature of the investors available in any geographic interior is likely to change as the market is developing. While there are no hard and fast rules, and exceptions always exist, it has become clear from the experiences in the United States and the UK in particular that the vast majority of early stage companies are funded not by venture capitalists but by business angels. Generally speaking, venture capital funds have become too large to be interested in investing he smaller amounts of cash needed by start up companies.
Business angels should not be considered poor alternative to venture capitalists, as many of today’s best-known and global companies obtained their original funding from business angels. Often these companies owe their survival not only to the cash provided by these individuals but significantly to the business skills and mentoring that they were able to provide.
It is important however, to recognize the particular characteristics of business angel investors in order to best present a proposition.

Characteristics of particular note include the fact that as private individuals they do not have to invest their money at all. They can do many other things with it.

They are often therefore not responsive or seen to give a customer service in any way. Companies should recognize this and adapt to it.

Critically, particularly in developing economies, business angels are not scientists and are rarely engineers. They have made their money in more traditional industries. The entrepreneur must recognize this and must ensure that the material they provide to the investor does not frighten them off with technicality. It is vital that the entrepreneur understands that it is the business model, the method by which the proposition is going to generate cash from customers, that is of prime importance. Not the science.

Again, particularly in developing economies, it should be recognized that business angel investors are often themselves inexperienced investors. They may be experienced business people, but may not have previously invested in another person’s business. They too may need assistance in completing the investment. This is a new topic to be covered elsewhere - “Investee Readiness”. 
What does an Angel Deal Look Like?

- £250 total, made up of £10k to £50k from each individual.
- Angels invest close to home – easy to get to company.
- Due Diligence will take an average of 3.5 months.
- Will need 3 or 4 further rounds of funding.
- Expect about 6 years to an exit.

A critical consideration when looking at the characteristics of investors is the amount of money they actually have to invest, or are likely to invest in any one round.

For example both in the United States and the UK the average total amount invested in a first round deal is relatively small. The amount of equity taken in the enterprise is relatively large.

Most business angels wish to have a significant interest in a business, partly to compensate for their perceived risk, but they will also know that if the company needs further round of funding in the future they are likely to be diluted. The entrepreneur needs to be made aware of this during the investment ready process, as there is little point in developing a business plan requiring 2 million of funding and expecting to get this for 5% of the equity. Such a proposition will result in the business plan being rejected out of hand.
Many entrepreneurs send investors business plans without first obtaining an understanding of the investment process or the decision-making process of investors. This is rather like turning up to play in a world Masters golf tournament without ever having considered what are the rules of golf.
A. Investment ready program should take the entrepreneur through an understanding of how investors find investments to do (the best way to approach an investor is by personal introduction by someone he investment trusts. The worst way is to send an unsolicited plan by e-mail).

B. Entrepreneurs need to understand how investors screen or make initial investment decisions.

C. They need an understanding of the process of due diligence and have how to prepared for it.

D. They need to understand valuation, and as all entrepreneurs invariably overvalue their company in relation to local market conditions.

E. They need to know what a Term Sheet is and what they should be looking for in one.

F. They need to know what they are likely to find in a legal document setting out investment terms before it is presented to them by the investor.

G. Without this knowledge the entrepreneur is at a significant disadvantage, as they are always behind in the game, not understanding the implications of legal terms. They do not know which ones are nonnegotiable and standard and which ones they can negotiate sensibly. Such ignorance can give the investor the impression that the entrepreneur is simply not competent and may result in the investment not proceeding. This lack of knowledge results in unnecessary anxiety and fear on the part of the entrepreneur.

H. And investment ready program should take the entrepreneur through examples of the likely to stand documentation that investors now in use, and explain to them. The significance of each of the terms therein. What are glued leader provisions? What are warranties and undertakings? What form is the investment likely to take, ordinary stock, preference shares or convertible shares? What special rights is an investor, likely to demand? If an entrepreneur has not been educated as to what is standard and normal. Can they determine what is unreasonable or unusual?
Entrepreneurs often become demodulated and disillusioned because they do not understand how the investors decide which companies to back. Entrepreneurs often have an unrealistic expectation about the time involved and the work that they may have to do in order to obtain funding. Often they believe that the quality of their business plan is such that it alone sells the proposition. They do not understand how investors use information or what information investors see as being most important.

Understanding the investment decision making process helps the entrepreneur plan the funding process and prepare in an appropriate way.
Getting the Attention of Investors – Hard to Do!

- Investment rate is very low – often less than 1%:
- One US VC gave the following statistics –
  - Received 5,600 plans and proposals in a year
  - From these met with 300
  - From these invested in just 7.
- My Angel and Seed Fund experience:
  - Investment rate was 3% to 5%.

A significant area of misunderstanding is the number of business plans that investors receive and the very small number they actually invest in. Generally, it appears that investors are likely to invest in less than 5% of the propositions they receive.

This is partially due to investors being sent inappropriate business plans by entrepreneurs who have not done their research. When I was running an early stage fund that could invest up to £250,000 I often received business plans seeking £1 million or more. A waste of the entrepreneurs and my time. Similarly, investors who only invest in software companies often receive life science projects. Many business angels prefer to invest locally, often within a 2 Hour Drive of their base. They are unlikely to give close attention to a proposition from a mother part of the country or internationally.

Even when a proposition is exactly in the right industry and location for a potential investor it may be that that investor is already fully occupied looking after existing investments and does not have the capacity to invest in any new projects. One of the well-known Scottish business angel investment groups last year invested more than £7 million into companies. In however, less than £1 million of this was into new propositions, the rest being to support their existing investments.

Entrepreneurs who do not understand this situation, and those who have not done research into which investors are best approach, can quickly become disillusioned through continuous rejection. They need to understand that just because one investor has turned them down does not mean that the proposition is fundamentally flawed and that not one will fund it. On the other hand, if the 50 investors all state they don’t want to invest than maybe there is a message there for the entrepreneur.
A problem that entrepreneur must face is that if investors anticipate investing in less than 5% of the propositions they receive they are likely to approach each proposition with the anticipation that they will not invest in it and will therefore only look at the proposition long enough to find a reason not to invest.

A business plan that has all the good stuff in appendix six is unlikely to attract an investor attention. If that investor can find a reason not to invest on page 2 of the plan it is likely that the plan will only be read up until that point.

The same applies to presentations and meetings. Those lucky enough (less than 20% actually get a meeting with an investor), can fail because they have not put together a presentation address the interests of the investor. Entrepreneurs who are dull, boring, repetitive or unintelligible will not be asked back.
To help gain, and the retailing the attention of targeted investors entrepreneurs should as part of the investment ready process prepare a set of four tools.
What Tools Do I Need?

• Elevator Pitch.  
• Executive Summary.  
• Business Plan.  
• Presentation.

Primary Objective –  
Get a Meeting with the Funder

Primary Objective –  
Get them to ask Questions,  
Show some Interest

Each of these tools is designed to move the entrepreneur closer to a position where the investor expresses interest in the proposition and is willing to start discussing a potential investment.

The first three, the elevator pitch, the executive summary and the business plan, have the primary objective of persuading the investor to have a meeting with the entrepreneur. The forth tool, the presentation, is designed to excite the investor sufficiently that they will start the detailed investigation into the company and start talking investment terms.

Traditionally, the majority of time is spent on the business plan. However, it should be noted that without adequate tools to get the investor’s attention there is every likelihood that the business plan will not be read. Increasingly sophisticated investment groups are requiring entrepreneur is to submit a business plan through the investors website, and the preparation of appropriate and effective elevator pitches and executive summaries will help immensely in completing these abbreviated business plan formats.
The Elevator Pitch
“What Do You Do?”

http://www.yourelevatorpitch.com

A concise, carefully planned, and well-practiced description of your company that your mother should be able to understand in the time it would take to ride up an elevator.

A quick and concise way to communicate who you are, what you're trying to do, and why you do it better.

The first tool the entrepreneur needs is known as the elevator pitch. The idea of the elevator pitch is that the entrepreneur arrives for a meeting with his target investor just as he and the target investor enters the elevator to go up to the investors office. The entrepreneur now has one or two minutes to describe his business and excite the investor sufficiently that the investor will ask him to continue.

This simple description is vitally important as the entrepreneur never knows when they made meet someone who is a potential investor. It could be at a seminar, it could be at a meeting of Connect or at a reception. At such casual meetings you do not have the luxury of 20 minutes to get the message across. Its got to be short and exiting to the investor. It's got to make you stand out from all the other approaches he is receiving.

Entrepreneurs should be encouraged practice the preparation and delivery of these short business summaries. They should practice them on other people and get feedback to see if the other people have managed to understand the essence of their proposition. It is likely that the first efforts will be too long and too complicated.
Example

“We are a software start-up addressing the financial services and pension industry.
Our product will reduce transaction cost and gross errors by a massive 90%.
We have a pilot product that we can demonstrate to potential customers and partners.
We are looking for funding of £1.2 million to fully develop and deploy our product.
We have validated our offering with two potential customers.
We have a compelling two page executive summary that I would like to send you. Can I get your address?”

Here is an example of an elevator pitch. In just six or seven sentences the entrepreneur describes what business they are in, what is the benefit of the product and what is the current status of that product. The amount of money they are looking for is stated clearly as is what they plan to do with it. They show they have market awareness by stating that they have already validated the product with customers. The entrepreneur remembers at the end to ask for the contact details of the investor.

It is very easy for the investor to determine from this description whether the business is in a sector they are interested in and whether the amount of funding needed is within their capacity. The description clearly states the benefit of the product and that it has been tested with real customers.

Note that the entrepreneur does not asked to send a full business plan at this stage, but suggests the investor might be interested in the executive summary. We will talk about executive summaries shortly.
It Is Not -

• A 30-minute PhD thesis.
• Meant to explain the intricacies of your technology.
• An excuse to show off your knowledge of submicron cross talk, nanotubes, XML pages, paradigm shifts or crossing the chasm.

And the key is to make the elevator pitch simple and put it in terms relevant to the Investor. Don’t use it to try and show off how clever you are.
The Importance of the Executive Summary

- Investors get 100’s of plans each year.
- They are looking to invest in just 4 to 6.
- Most Plans are therefore declined.
- Investors are busy people.
- When they start to read your plan they are therefore probably thinking –
  “How fast can I reject this and move onto the next one?”.

At the end of the elevator pitch the entrepreneur asked if he could send the investor is executive summary.

The executive summary is vitally important given that investors see far more business plans than they are ever going invest in. Make your proposition stand out, by making it easy for the investor to read about your proposition. They are far more unlikely to read a well constructed executive summary than a full-blown business plan.
Executive Summary

“The reality being the recipient of a new plan probably spends less than two minutes evaluating the initial submission, so attention has to be grabbed by an articulate compelling and concise writing style talking about an exiting cash generating business opportunity.”

InvestorPluse 2003 Business Angel Survey

For those who have concentrated on the “perfect” business plan as the centre piece of an Investor Ready program this is a sobering quotation taken from a survey of English business Angels. It suggests that investors spend almost no time at all in making an initial assessment and probably deciding not to invest. Despite you having spent possibly months trying to perfect the “perfect” plan.
Executive Summary

• **What is your product or service?**
  What it is you sell? What problem do you solve?
• **Who is your market?**
  Who you are selling to? What industry is it? How big a market?
• **What is your revenue model?**
  How do you expect to make money?
• **Who is behind the company?**
  Your team's background and achievements.
• **Who is your competition?**
  Who are they and what have they achieved.
• **What is your competitive advantage?**
  How are you different? What is your advantage?
• **What do you want?**
  How much cash. What are you going to spend it on?
• **The Exit**
  How will you make money for the investor?

This slide sets out some suggestions about what the executive summary should contain. Remember, the executive summary should be short. Certainly no more than two or three pages. Note that the executive summary does not emphasise the technology or the science. It concentrates on what problem you solve, who are your customers, and how you are going to make money. It sets out your competitors (and there are always competitors!). And it details what significant advantage you have over those competitors.
And in terms of keeping the executive summary down to just two or three pages don’t try and cheat by making the type size really really small! Remember, most investors are old and wear glasses!

This is an example taken from a business plan where the executive summary has been typed out in a way that makes it really easy to read. It is not necessary to use dense blocks of text. It is far better to lay out the ideas in a simple manner so that the investor finds it easy to read. Use this as an advantage over the people with whom you are competing for investment. If your summary is easy to read it is more likely to be read.
And so eventually we come to the business plan itself. Not the starting place for investor ready, but a tool to keep the attention of the investor.

As with so many other aspects of investor ready the business plan is often misunderstood. Entire books and academic courses try and teach entrepreneurs about writing a business plan. And while every business should have a plan the investing business plan is too often misunderstood. It is not the blueprint by which you will run the business for the next five years.
A Financing Business Plan

• For an external audience.
• Reader does not know your business.
• Has a (vitally important) single objective:
  - to get you Funding.
• It is therefore fundamentally:
  - a Sales Document.

The financing business plan has special characteristics, because of who will be reading it and purpose for which it has been written.

It is not for of the internal use of the company. It is to be read and understood by someone outside the company, who is not familiar with the business. Its objective is not to steer the company over the next years but to excite the investor sufficiently to provide funding. It is therefore primarily a sales document.
Business Plans – Usually Dreadful and UNDAMENTALLY FLAWED

- Not Written from Investors Point of View.
- Not high growth.
- Too long / difficult to read / too technical.
- Unrealistic Assumptions
- No credible revenue model.
- No “Unique Selling Point”.
- No route to market.
- No evidence of customer demand.
- No consideration of exit.

The vast majority of business plans I see are a fundamentally flawed.

The basic problem is that they are written from the entrepreneur’s perspective.

This usually means that emphasis is placed on the science and the technology, because this is what has often occupied the entrepreneur’s attention for many years. The entrepreneur critically fails to understand that this is a document that must appeal to the interests of the investor.

Because the entrepreneur feels the need to justify their technology they make the plans too long, too difficult to read and to technical. It fails to identify why this is a high growth opportunity that can generate cash and make money. It talks about the technology, but it doesn’t talk about customer, or how the product is put into the hands of the customer. It usually doesn’t mention customers at all, and there is no evidence presented that product will actually be purchased for a price that can generate a profit.
What do Companies need to Demonstrate?

• High calibre team
• Management that will listen
• Proprietary technology (unfair advantage)
• Large, growing market
• Understanding of customers
• Scalable and sustainable revenue model
• Shared vision on future direction and exit
• Scope for 5+ times money return
  – (Seed 10x, Start up 8x, Early Stage 5X)

What the plan should be demonstrating is that the management team are of a high caliber and have the skills necessary to run the business, while at the same time they are willing, and in fact eager, to have the involvement of the investor. This is particularly important to business angel investors who have a strong desire to be involved within the business.

The plan needs to explain why this product is a winner and will succeed against all competition in the market, and that the company has a real understanding of who its customers are and why they will buy.

The plan has to show that the investor has an opportunity to make significant returns on their investment.

The detail of the technology can be put in an appendix at the back.
“Companies without a marketing and sales focus fare poorly in obtaining funding because they are asking the Business Angel to fund something that has no possibility of a return for them because there is no proven established need, market or customers for the product, and more importantly, no reference customers”

InvestorPlus 2003 Business Angel Survey

As this quotation from the business angels survey shows business plans that are regarded as being good by investors, are the ones that concentrate on the market and sales and customers.

Any investor ready program should therefore spend a significant amount of time ensuring that the entrepreneur has a real understanding of these factors and has real evidence that real customers will be willing to purchase their product at a specified price.

Too often entrepreneur is, do not understand who their customers are and make wild assumptions based on talking to a few friends about how well their product will be received. Too often, the entrepreneur fails to understand that as a start up company they have no chance of selling direct to an end user. For example, there is no way that a large institution such as a bank is going to buy mission-critical software from a start-up company with a tiny balance sheet value. Its just too big a risk for them. The entrepreneur must therefore identify an alternative to selling to the end user. Often the people they identify as their competitors are actually their customers. These people already have a distribution route to the end user.

The plan must identify a route to market, and how the product will be distributed. Investors are going to want to talk to real potential customers so to create value in a business plan the entrepreneur is going to have to find some who are willing to be references.

And finally before moving on from business plans a word or two about the financials forecasts
Presentation Skills Are Critical

• Understand experience of VC – PhD or £?
• Don’t bring too many people.
• Do one investor at a time.
• Confirm time you will have and the agenda.
• Practice, Practice, Practice.

And so finally, the entrepreneur is invited to present to the investor or the business angel investment group. Only around 20% of plans are ever selected to make a presentation and only around one in five of those who present actually go on to receive investment.

• Each investment group will have their own preferences for how and the presentation should be made. It is vitally important that the entrepreneur understand what these requirements are. Don’t turn up for a presentation which the investor specifies, must be 20 minutes long with a presentation that takes an hour.

• Understand the nature of the investor. If they are from a scientific background, then it’s OK to give them some technical information in the presentation. If they are from a financial background, then skip the technical stuff and keep to the financial returns.

• Get your best presenter to do the presentation. This is not necessarily the CEO of the business, particularly in a technology company. Scientists are notoriously bad at interpersonal communicators.

• Don’t try to do to many investors at the same time, they want to ask relevant questions in front of others. So do lots of presentations, one to each investor group.

• And practice, don’t just turn up and hope it will go OK.

• Remember, the chances are that your first presentation will not result in investment. But learn from the experience, collect as much feedback as possible, and adjust your presentation based on the feedback.

• Practising in front of the mirror doesn’t work, do it in front of real people. A good investor ready program will make their entrepreneurs present in front of groups, who will then ask difficult questions to help prepare the entrepreneur to the real thing.
Pitch the Plan – Not the Product

• To investors, the product is merely the vehicle to their real interest – return on investment (ROI).

• You MUST show the Investor in the first 2 or 3 minutes:
  – what business the company is in,
  – what important need it fulfils,
  – why the solution is superior to competitors,
  – why the plan and management team are credible,
  – why you are a superior opportunity for the investor compared to all the other deals.

As with the elevator pitch, the executive summary and the business plan remember the presentation must be designed to meet the interests of the investor.

So once again do not concentrate on the detailed specifications of the product, but instead talk about the problems that you solve and the customers you will have.

You must get the investor’s attention with in the first minutes of the presentation. If you don’t, watched them start to do their e-mail on the phones!
The Presentation
10/20/30
(The Art of the Start, Guy Kawasaki)

1. Title – who you are, what you do.
2. Problem – that you can fix.
5. Your Unfair Advantage – the technology, IP, etc.
6. Marketing and Sales – how to get a customer.
7. Competition – how they make $.
8. Management Team – why you?
9. Finance – how much / how long / what next?
10. Current Status – what have you already achieved.

This presentation style was suggested by a well-known investor in United States.

The 10 20 30, is based on 10 slides, taking 20 minutes, and each slide using not less than a 30 point font (remember Investors are all old and wear glasses!).

The objective of this presentation is to get investors to select you as one of the companies they wish to start doing more detailed due diligence on. Use the presentation to show that not only are you a world-class cash generating potential business that can provide the investor with a great exit, but also that you fully understand what the investor really wants. And that you are willing to work with the investor to achieve that.
Investor Ready
Summary & Conclusions

• Providing more cash alone will not solve the funding gap.

• Entrepreneurs need to be educated as to the nature and needs of local investors.

• This needs to go much deeper than just a good business plan

• There needs to be real understanding of the entire investment process

• Investors should be asked to be involved in developing the process.