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James Berkeley's Profitable Growth Notes:

Creating A Siren Call For Potential Investors

Why do initial meetings with investors so often reveal little about the business and so much about the fears of the entrepreneur or executive? If the intent is to accelerate the relationship building process and attract appropriate funds, shouldn't the entrepreneur or executive first increase their own probabilities of success by telling a compelling story and generating a high degree of enthusiasm? That is rarely accomplished by an abundance of facts and figures. It necessitates creating an emotional connection between the investor's heart and their wallet.

This is why taking time to build trusting relationships is essential. The investor won't trust you enough to disclose their own emotional needs until they are extremely comfortable with you. You accelerate that process through your own self-disclosure. For example, I loathe the trend to commoditise professional services to the point that the only negotiation with a client is on price. I have found that statement has elicited a knowing smile from professional investors and comments such as "I have seen businesses wiped out in a matter of months when the management's focus has switched to price rather than value. I nearly had my head handed to me on more than one occasion."

There are analytical or forceful bankers and investors, where getting to their heart is like dragging blood out of a stone. Yet, there is every prospect with expressive and friendly people to elicit their emotional imperatives. With those who do shield their own emotions, you always have the option to tilt the discussion towards the public's emotional appeal to the product or service. I am frequently amazed how the poker-faced investor suddenly becomes the font of all knowledge about other people's emotions and their resulting actions.

Starting out: You may choose to approach a potential investor directly, via a professional financial adviser or a personal contact. Let's be clear, they don't need to see a long detailed business plan. They would prefer that you save your time (and theirs) by getting straight to the point: What is your business, and what is different about it? How big is the opportunity? What stage is the business at? And who are the team behind it? If they are intrigued and they think it might be a big opportunity, they will arrange a meeting.

As the conversation hopefully develops in a positive manner, what are investors looking for in the "getting to know you" phase, the subsequent investment presentation possibly with other investment partners, and the due diligence that follows agreement on broad terms (2-4 weeks) before final documents are exchanged and the money lands in your bank account?

There is the obvious:

1. Return on Investment (timing, amounts)

2. Sales risk (the probability of achieving the business growth, supported by hard evidence or strong anecdotal observations)
3. Execution risk (the probability that execution will succeed, the demonstrable evidence and the riches that could potentially accrue to the investor in *their* preferred timeframe)

Then there is the less obvious or often overlooked:

4. Telling the brand's story.
    - What does it stand for?
    - It is easy to explain the quality of the product/service
    - Offers a compelling story about how people, communities and the world are better off or personally better supported after using it.
    - Clear, sustainable competitive advantage versus existing alternatives
    - An important human problem is solved (challenge), an important human need is satisfied (affiliation or excitement) or a human spirit is dramatically nurtured (collegial).
    - The brand's value in potential markets, not just growth in current markets
5. Targeting markets of significant size which are ripe for transformation or poised for significant growth. If the market cannot develop beyond US$1bn, it will probably be difficult to build a substantial company.
6. You have a simple plan to meet or exceed your objectives with indicators of success and a complete understanding of the levers that need to be pulled on that often treacherous journey, to arrive safely at the desired future state
7. The Company's principals: Absolute credibility established and a demonstrable track record of success in the sector or with highly similar challenges (focus, discipline and most importantly, the resolve to turn a strategic vision into an organisational reality)
8. Build value the "traditional way", growing revenues and generating profits. Profitability must be achievable in a reasonable time period.
9. The principals' "skin in the game": financial including "friends and family" money, personal time commitment, repute, learning, career impact, family support network, life balance and so on.
10. Contracts with customers, letters of intent, memorandums of understanding, and other formal documentation to show customer interest
11. Supplier and Provider relationships, history, stability, scalability.
12. Proprietary intellectual property
13. Exit strategy
14. The principals experience with failure and what they plan to do if this doesn't work
15. Board positions for major investors
16. Common shares convertible to preferred shares if targets aren't met
17. Macro risks impacting the industry sector: preventative and contingent actions in place for each

Investors come in many different colours, each will have their own preferences and style. You must customise your examples, dialogue, exhibits and so on to your target audience. If you are not familiar with those nuances, get qualified help. Don't try and wing it.

If you would like to discuss this personally, contact us at telephone: +44 203 440 5072 or email: james@elliceconsulting.com

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