

Corporate Governance: A 3-minute chance to fund your idea

By Paul A Zaman MBA, MSC



Paul Zaman advocates the right approach for entrepreneurs funding their businesses. The basic steps to achieve early funding from Venture Capitalists and the 3-minute pitch.

Innovation needs investment funds. Entrepreneurs need investment funds. Entrepreneurs inside corporations sometimes called intrepeneurs need investment funds. The process of research, development, product design and finally commercialization is the end-to-end innovation process. The costs are incurred before the sales revenue is earned. Entrepreneurial spirit is required in all businesses. P.F Drucker thought that innovation and selling where the two critical management processes and capability for survival and growth. So how does an entrepreneur get the investment funds?

The venture capital (VC) approach is the easiest to describe and the principles apply everywhere. A VC wants a single page summary followed by a 5-page business and financial plan. If after they screen this plan they are still interested they will ask for the management team to present themselves and explain the: business model and franchise; management team and track record; and investment opportunity. This presentation needs only the last three minutes as they are assessing the calibre of the management team and understanding the investment opportunity. VCs are usually polite and let the entrepreneurs have 30 minutes and waffle. If the VC is convinced on the calibre of the team, then they may discuss the investment opportunity. VCs contrary to popular belief is in reality an administrative screening process of thousands of candidate's ideas to find a few good ideas that have investment merit. The Entrepreneur needs to help the VC get through the process. Get the single page submission correct first time and know what and how to present the key points in three minutes.

In the corporate world the investment approach is similar. It is just not such a transparent and simple end-to-end process. Many well-run corporations have a step-by-step investment process. First, a good idea is approved by the department head. Then it is submitted into the investment process, which is often led by the finance group. Different levels and depth of submission are needed at the feasibility stage, production planning stage and the final commercialisation stage by the sales force. Often there is a

investment process committee chaired by the finance group, with representatives from corporate strategy to review and approve strategic fit, sales to review and approve fit with customer base; production to review and fit with production capability and so on. However even in a large corporate, a chance meeting with the CEO in the lift, gives the chance to tell the story and jump several steps in the investment process.

Any entrepreneur seeking a discussion with a business investor must describe in less than three minutes, one minute for a journey in a lift, the following: What do you want? What will you offer in return? What is your business model? Why do you have a great franchise? What is your management team track record? When do I get my investment return? Again for simplicity lets demonstrate this by considering getting attention and investment funds from a venture capital or business angel investor.

Entrepreneurs always think they have a great business idea and are baffled why they cannot convince others, apart from family and friends whom are duty bound, to investment in their company. Even more difficult is to get a discussion with a venture capitalist and the mythical business angel. Entrepreneurs need to understand the investor's viewpoint and get a powerful first conversation.

Venture Capitalists have preferences for types of deal, company size, industry and investment approach. VCs invests a pool of private equity funds. They also often syndicate investments with other VCs to share the risk by taking smaller bites. A business angel is investing their own private money, sometimes on behalf of a small private partnership or syndicate, in areas they can understand and are interested in.



The first step is to find the investor. The second step is to ask yourself if your idea fits their investment profile and selection criteria. If not move directly to the next, otherwise your time wasting reputation will move ahead of you. VCs follow a standard process starting with the one page initial application format. Get it and follow it. Business Angels tend to be more individualistic.

The best way to get an investor interested is to get referred by a friend whom has a professional connection to them. In California, this traditionally approach centered on a couple of coffee shops in San Jose and Stanford Village California. Often over early morning breakfast after jogging. This is California VC

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guanxi. Asia entrepreneurs will not have the guanxi so the office front door is the next best option. For an entrepreneur seeking a discussion with an investor, be prepared to describe in less than three minutes the following areas.

What do you want?

Be clear about how much money and when you want it. Be specific on any other business capabilities like alliance partners and distributors you want.

What will you offer in return?

Be specific in what you will be offering in return such as interest, equity stake, share of franchise fee, consulting fee and royalty.

What is your business?

Describe what your business is about from your perspective. Then describe the business from the customers' perspective of features, benefits and value adding. Specify how your product serves the customer's need in terms of: a solution, solution options, and getting into action.

Why do you have a great business model and franchise?

Describe why you have a great business franchise, which means you will be better positioned than current competitors and new entrants. Describe your competitors and their products and their likely reaction to your product.

What is your management team capability and track record?

What is the capability and track record of the entrepreneur and the members of the management team? What gaps are there and how and when will you fill the gaps? That's all there is to the pitch. The investor will be judging the calibre of the team first and the opportunity second. Always be convincing, committed, expectant and passionate. Remember, the investor does not invest in business plans, ideas or technology they invest in people. Investors, in the west favour entrepreneurs whom have a track record of starting business, even if the businesses failed. In Asia, failure is often seen as losing face. This is a poor perspective to hold as a VC as untried entrepreneurs increases the risk profile of the investment over tired and failed entrepreneurs. The profile of a good entrepreneur is being committed, passionate, flexible, innovative, balancing risks, visionary and having multiple back up plans. The investor will first assess if the entrepreneur and the management teams values in the above and then functional and customer know-how in terms of innovation, financial control, marketing and sales. Do not be surprised if a condition of investment is to strengthen the management team, which will mean sacking a founding buddy sooner or later. The investor needs to know the investment return, the downside and upside investment risks, and the exit

approach. He will be assessing if the business can be sold to a trade investor or listed on a public security exchange. Investors tend not to lend money that is the province of banks, rather provide equity, which they later sell for a capital gain. Often the starting point is a mixture of equity plus debt with the debt later converted into equity or just repaid at the investor's discretion or subject to pre-determined conditions. So do not be naïve and ask to borrow money and return it with a good interest rate, or ask for equity and suggest you will buy the equity back from your share of the profits. If you do not understand why this is naïve do not even attempt to raise investment funds.

Passion and commitment is wanted but not ownership. After all the investor wants to sell the business to a new owner either a trade investor or the public via a listing. Many new listings of companies have the founder and majority owner stay on for too long and the listed company fails after a few years. The new owners will choose the Board of Directors and streamline the old management team and the founding members. Many great investment deals never get started because the founding entrepreneur and family members are fixated on owning the business. This approach largely precludes venture capitalists and business angels from getting involved. A true entrepreneur is motivated by starting and growing a business, and recognises that they will exit themselves when the business has out grown them. Professor Henry Mintzberg an expert in business organizations and strategy suggests there are six organization states, the first being direct supervision, which is suitable for small business, family run or entrepreneurial. To grow into a large organization different organization states and capabilities, processes, and structures are required. Simply, entrepreneurs have skills, capabilities and passion for creating a business and not for managing a large business.

Good prospecting.

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