BUILDING BUSINESS: Pitching for investment

PLAYING THE FIELD

When courting investors, you can be a star, or your own worst enemy. **Bette Flagler** outlines a plan of action – and points out common mistakes that can keep you from a happy investment relationship.

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Finding an investor for your business is a lot like finding a spouse. Everyone tells you there is a lot of choice out there – many will even have websites spelling out exactly what they're looking for. It should be easy, but the more desperate you are, the more impossible it is to get your hands on a good one.

If you're young and have no history, you make questionable choices and behave inappropriately; if you've got a few wrinkles, are stuck in your ways and have been out of the scene for very long, you're likely to struggle.

But just like the quest to find a life partner, if you follow some pretty basic rules of social engagement, you are more likely to find an investment partner. Choose to ignore the advice of those who have been successful, and you're likely to spend a lot of time alone or in unrewarding partnerships.

The approach

Your mother might think you and your idea are the best thing since sliced bread – but while that won't count for much, give her some credit for these words of wisdom: first impressions do count.

Not everyone is comfortable in a suit and tie, and that's okay; not everyone needs to wear them. But if you're trying to woo a potential partner, paying consideration to your own appearance is a way of showing respect to them.

Mark Robotham is the general manager of Escalator, a New Zealand Trade and Enterprise-supported service that helps qualifying businesses get investment-ready. He's seen young guns show up with slept-on hair, wearing a singlet and smelling bad. It's not too much to ask to step through a shower and then put on a shirt and some shoes.

Though always a tidy dresser, when Simon Malpas started searching for funding for his company, Telemetry Research, he thought VC meant vice-chancellor. Malpas is a career academic, so his lack of venture capital knowledge is understandable. But it points

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out an obvious gap that many entrepreneurs have: they need to learn to speak the language of the investor.

"When you're writing your business plan or preparing your presentation," says Matt McEndry, a partner in Deloitte's growth solutions division, "think about your audience. Entrepreneurs often write for themselves when they should be writing for investors."

That doesn't mean the plan should be written in financial lingo – but it needs to show that you understand the value your business has to the investor.

Still, even though you're not looking for a one-night stand, investors don't want to know everything about you in your pitch. They don't need to know how to synthesise the chemical compounds you are selling or how your telephone product connects to the microwave exchange. They need to know if this is going to make a good business that can be fun to run and provide a return on their investment.

"People do not buy or invest in complex answers," say Robotham. "Everything needs to be in grandma's language to start with."

In three minutes, he says, you should be able to answer these fundamental questions:

- What business are you in – and what compelling problem are you solving?
- How does the business make money – what is the business model?
- What is the investment proposition?
- What is the exit strategy?

Getting help

If you need to get on a freight elevator to deliver your pitch, maybe you should get some help. It's pretty hard to see ourselves as others do, and having mentoring sessions or attending workshops can certainly polish your presentation skills. You may be very successful in business, but it's not a sign of weakness to tap into others' knowledge. Think of sport, says Robotham: Tiger Woods still has a coach.

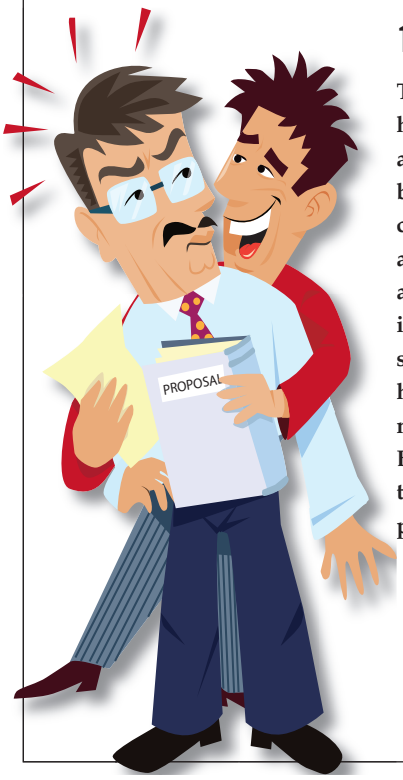
Deal preparation workshops are among the services that Escalator provides, and David Caselli, the founding director of I Grow, a business advisory company, is one of the coaches. Creating a pitch and practicing in a friendly environment in front of people who are sharing your boat is a good use of a few hours, he says.

But perhaps more importantly, there are legal risks involved with getting funding you're your company, and by attending a workshop, you'll at least be introduced to some of them.

And remember, says Caselli:

HOW DO OTHER PEOPLE SEE YOU – AND YOUR PITCH?

When preparing your pitch and your business plan, take a good look in the mirror. Are you the mad man, the inventor or the dreamer?



1. THE STALKER

The stalker has no discretion, handing out business cards left and right. The only business that benefits from this is the printing company. The stalker arrives at networking functions with a binder packed with product information, illustrations and fact sheets. The stalker hones in on his kill and traps it in a corner, not respecting personal space. Being too intense is not going to win you friends or business partners. Back off!

2. THE BULLDOZER

The bulldozer is closely related to the stalker. Like most professionally managed funds, BioPacific Ventures has established procedures that entrepreneurs are asked to follow when approaching the fund. Someone who tries to force their way through that process is, says executive director Andrew Kelly, just plain irritating. If someone has badgered him, by the time they get to the table, they are already behind the eight ball.

your pitches could be poles apart, depending on the investor you're approaching. It's completely different leaning across the back fence and telling your neighbour about your great company than it is sitting across the boardroom table at a professionally managed fund.

Liven it up

Less is definitely more, says Norman Evans, chief executive at Dunedin's Upstart Business Incubator, who puts it bluntly: don't bore the snot out of your audience.

Upstart is the third incubator Evans has managed; the last, Solutions, was a successful private incubator that spawned – and was then absorbed by – IT sister companies Prolificx and Endace. He's heard a lot of pitches and being "dead boring" is the most common mistake entrepreneurs make when they hit up potential investors.

Is it them, or their ideas that are boring?

Both, Evans says. Sometimes, he says, the plan is boring: it's paint-by-number and offers nothing special. But just as often, an entrepreneur will fail to inspire and won't have bothered to get into the minds of the investor.

Imagine the scenario: two scientists stand up in front of a potential investor and announce they've made a machine that slices tissue in a new way. It's really great, they say, and they describe the amazing new engineering behind it and the dimensions of the slices it can make.

"Yawn," says Evans.

Then imagine the same team saying: "we've made this new machine that slices tissues in one-tenth the time, takes half the effort to set up and is one-third the cost to run. Everyone wants one and we need money to expand our manufacturing facilities because we can't keep up with the orders."

This time, the pitch included far less detail about the product but more about the benefits to the user.

See both sides

Thinking only from one point of view is a common mistake entrepreneurs make going into a pitch. They haven't considered what it means to the investor.

Scott Gilmour co-founded US software company ABC Technologies, which he sold to SAS in 2002. He returned to New Zealand and became an angel investor. "I've been on both sides of the table and I look back now and boy has my perspective changed," he says.

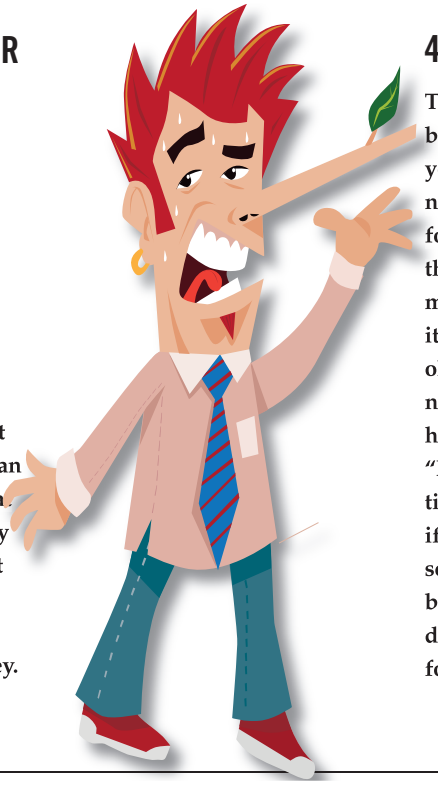
There are contrasting views, Gilmour says: the entrepreneur sees only a huge potential global market, while the investor also sees the risks and the clouds on the horizon. "This is what drives the valuation discrepancy. The entrepreneur sees nothing but opportunity, the investor sees nothing but risk. You have to get those two contrasting views to a point where it works for both."

So quit with the ridiculous financials. Telling an investor that your product is going to make a lot of money and they'd be dumb not to back you isn't going to get you a deal. Underestimating the cost to get a product to market and overestimating the returns are pretty typical mistakes for first time entrepreneurs.

Or are you something quite different? How do potential investors see you? Here are five archetypes to set your mind running:

3. THE COVERT OPERATOR

This is the entrepreneur who says: "I've got this fantastic opportunity, but I don't want to tell you anything about it. I want a meeting. I want a *three hour* meeting." "It annoys us," says BioPacific Ventures' Kelly, "because we don't want to lose a gem, but at the same time, we cannot have 300 meetings." Mark Robotham says this about trying to keep your business plan a secret: "If you can tell me what your business is and I can easily copy it, then your business isn't going to succeed. The barrier to entry is too low." Secrets never attract customers or make money.



4. THE PREVARICATOR

There are few guarantees in life but here's one: if you portray yourself as something you're not, sooner or later, you will be found out. If you don't know the answer to a question, don't make one up or side-step around it. Ignorance is okay, failure is okay. In fact, having failed is not a bad thing – as long as you have learned from your mistakes. "People come in here with scar tissue," says Andrew Kelly, "and if they can prove they've tried something and it didn't work, but they bounced back and have done it again, that's a good point for them."

"Often entrepreneurs come in thinking, 'if I ask for too much now, I'm giving up too much of my equity, so I'll ask for less and go back for more later, or I'll turn cash flow positive in three months.' And we just say, no, no, guys, it doesn't happen that way," says Gilmour. "It takes twice as long and costs twice as much, so you really need to raise a million, not a half, and your pre-valuation is half a million, not two million. There's a big reset of expectations during this period."

Getting intimate

If you have a product but can't show an investor how you're going to sell it, you're not going to go home with one in the bag. Market validation matters: with no customers, you have no market.

"It should be easy to identify customers," says Robotham, "and for less than $20 you can phone anyone in the world."

If your goal is to lose all credibility with potential investors as fast as possible, tell them that your product has no competition. This is a no-win comment. There is always competition, even if it's the status quo.

Let's believe for one half second that there really is no competition for your product or service. That's even worse: you've got to convince your target market to change the way they live. That's not going to happen. So in your business plan, explain what your customers are buying now, why they will change to buy your product, how you are going to tell them about your product, and how they will buy it.

Get with the plan, man

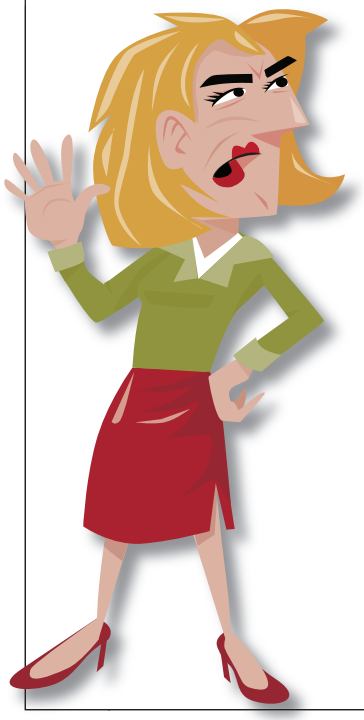
Getting help with your business plan is a good idea. After-all, the plan, says Andrew Kelly, the executive director of BioPacific Ventures, "is the essential thing we are investing in. It is a document that summarises exactly what you, the entrepreneur, plan to do, what you're going to spend the money on, where it will take us, what the risks are around it."

While it's a rare plan that is executed as written, if, in reading it, Kelly gets a sense of purpose, passion and capability to achieve it, he's more likely to consider investing.

"Dare I say, some are almost straight out of an MBA project – everything is theoretically covered and ticked off, but you don't see reality," says Kelly. "People who have experience tend to write their plans in a far more convincing fashion."

Remember this: the executive summary is the only part many people will read, so, as US-based angel investor Barry Moltz says, "Write it last and write it well." The plan should show that you really know your business inside and out. And that's a lot like finding a perfect fit in a spouse: there's no way you're going to be successful until you know what's happening beneath your own skin.

5. THE KNOW-IT-ALL



Most, if not all, investors will want a hand in running the business. They will question your decisions and offer alternatives. They may, as part of the deal, demand you adjust your business plan or change management staff. "One of the killers for us is the inability to listen," says Andrew Kelly. "We don't pretend to know everything … but in a round table discussion about investing in a company, some people seem to forget that we are going to become co-owners. We're not a bank. We're not going to lend money and sit back and ask them to do the work. We actively work within the company, so the last thing we want is someone who sits there and says 'you're wrong, I'm right, it's only my way, this is how it's going to happen'."

Load up on *Fuel for Your Business*

Fast-growth equity – like angel and venture capital investment – is still in its infancy in New Zealand. But rather than being discouraged by the immaturity of the capital markets for seed and early-stage companies, Chris Twiss, executive director of the New Zealand Venture Capital Association, says the NZVCA is optimistic about the funding opportunities that have come along in a relatively short period of time.

The professional venture capital market in New Zealand began when the government established its Venture Investment Fund in 2001. In the last four years, formal angel groups – like Ice Angels in Auckland and Powerhouse in Christchurch – have been established, helped out recently by the government's $40 million Seed Co-Investment Fund in 2006. To date, there are five SCIF accredited funds with plans for another seven to be added by mid 2008.

Twiss is enthusiastic about the increasing levels of investment and, in an effort to help fast growing companies be successful in their bid to access funds, the NZVCA is producing a booklet, *Fuel for Your Business*, due out in November.

"*Fuel for Your Business* is a hands-on guide for early stage investment in New Zealand," says Twiss. "It's filled with anecdotes and experiences of real investors and entrepreneurs."

The guide is aimed at ambitious business owners who aren't afraid to work hard and who want to create wealth for themselves and others, Twiss says. "These people have businesses that are capable of being grown and have export potential."