# Attracting an Investor: Developing a Winning Proposition

**Money is the lifeblood of innovation. If you're pursuing an innovation opportunity – whether within an existing business or starting a new venture – the question of how to finance it will arise sooner or later. This Innovation Note provides some practical steps to help West Midlands' ICT companies secure finance, focusing on the value of business planning and investor readiness training.**

Successful businesses are built on winning propositions. A proposition may be an innovative technology, product or service, or a business idea that delivers early competitive advantage. In the ICT sector, successful propositions tend to rely on a combination of technology and business innovations. They also rely on the commitment and skills – largely non-technical – of the management team and on their ability to find and convince partners, especially those with finance, to support them in their early growth.

To increase your chances of winning over investors, as a technology-based entrepreneur you need to assess the state of readiness and attractiveness of your prospective business venture against a number of criteria. These include:

- The market potential for your product or service.
- The calibre of your management team.
- The status of your intellectual property.
- Your financing requirements.
- Your presentation skills for convincing potential partners and financial backers.
- Your existing partnerships and their requirements in terms of support.

## Planning for Success

One of the major tools to help set out a convincing case to secure finance for a business start-up or expansion is the business plan. It should cover all aspects of the project: the market, the product, the business and its trading position, the marketing strategy, the manufacturing strategy, the sales forecast, the management and the required financing package. A well conceived and periodically updated business plan will also be used to ensure the effective management and control of the business (see Box on Writing a Technology Business Plan).

The recipient of the business plan will be looking to see if the management has demonstrated a sound mastery of their business and the industry in which it operates. Most importantly, the readers will want to know how this mastery can be harnessed to provide a profitable return on the funds to be invested at a minimum acceptable level of risk to the investor or partner company.

Things rarely proceed as planned in a new venture. There are almost always unbudgeted costs or investments and other events that could not be foreseen. Therefore a sensitivity analysis should be included to demonstrate the robustness of the plan to unforeseen events. A plan which has little sensitivity between the planned scenario and the worst case scenario is unlikely to be considered favourably.

## Are You Investor Ready?

In the space available here it is only possible to give an overview of the types of issues you should cover in a business plan for a technology-based venture. Investment criteria vary markedly from one type of investor to another (banks, venture capitalists, business angels, etc.) and hence it is important to understand who you are dealing with and what their criteria are.

Often science, engineering and technology companies with good growth prospects fail to raise finance because they are not 'investment ready'. They may lack awareness of financing options and have a poor understanding of the expectations of the investment community. Consequently, these companies are unable to shape their business proposals into attractive investment opportunities.

The West Midlands has a number of schemes to help companies to bridge the equity gap and choose the right investment partners. These include the InvoRed programme run by Connect Midlands and investment advice offered through business incubators and Business Link.

**Useful Links**

Connect Midlands, InvoRed Programme: www.connectmidlands.org

Business Link: www.businesslink.gov.uk, tel: 0845 600 9 006

R2i: www.westmidlandsfinance.com, tel: 0121 607 0103

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## Writing a Technology Business Plan

The contents of a business plan for any particular enterprise will depend on the nature of the business and the organisation from which finance is being sought. Nevertheless, there are certain categories of information that must be included if the proposition is to be successful. The main areas investors will be looking at when they appraise your business plan are:

- Soundness of financial structure – liquidity and profitability
- Markets and products
- Physical and production resources
- Management

Think who the audience will be and write the document from their perspective. You must avoid being too technical at all costs, even though it's a technology business. Technical information, where included, must be simplified to make it comprehensible to non-specialists and must only be used to demonstrate the commercial or financial viability of the proposed venture.

The business plan will be compiled by producing the information and generating the forecasts required for each of the sections listed below. This data can only be obtained by making a detailed analysis of the whole business and its environment. Decisions taken under one heading will inevitably affect decisions taken under other headings and this will require the earlier decision to be reconsidered. Thus, writing the business plan is an iterative process. Many loops may be required until consistency is achieved, and the whole process may take several weeks or months.

### Structure of a Technology Business Plan

Executive Summary – Summarises the whole argument in not more than 500 words. This is the most important chapter, as it will be the first – and potentially the only – section that the prospective investor will read. It is essential that it puts forward a convincing case.

The Market – Describes the arena in which the plan of campaign is to be fought out. This section should define the market for the new product in terms of its size, state of development, the types of customers and the competitors.

The Product, Process or Invention – Answers the questions relating to what the product or service is and why anyone would want to buy it. Every effort must be made to explain the technology in simple terms and to spell out the innovation's unique selling proposition (USP).

The Business and its Trading Position – Gives an introduction to the business and the executives who are making the application for the funding. The aim is to inspire confidence in the potential financiers that the business is soundly-based financially and the executives have the appropriate management and entrepreneurial skills.

Marketing Strategy – Shows how the company will develop its USP and communicate this to the market. It is essential to differentiate between 'marketing' – identifying a customer need – and 'sales' – the process of communication with potential customers and converting their interest into firm orders and cash.

Manufacturing and Operations – Covers how the product or service will be produced or delivered. Manufacturing can involve significant capital investment for plant and equipment, which may require heavy financing expenditure. Alternatives such as sub-contracting, outsourcing and leasing may be more appropriate but have their own risks. For ICT-based businesses where no manufacturing is involved, service and aftersales support are likely to be significant issues.

Financial Forecasts – Presents forecasts of sales and cashflow, and hence ultimate profitability. These forecasts will come under severe scrutiny and critical judgement and must be based on sound information.

Management and Control of the Business – Sets out the management structure and procedures and how the senior management monitors performance (principally in finance, sales and operations). It assures the investors that the business is and will continue to be well controlled.

The Required Financing Package – the financing requirements of the new venture based on the information provided in the preceding sections. Investors will expect to see differentiation between working capital and capital for the purchase of plant and equipment. The timing of the financing must be specified and whether this will be required in phases or in a single lump sum.