

VENTURE CAPITAL FUNDING FOR EARLY STAGE COMPANIES

There are always statements made by Venture Capitalists that funds are not a constraint for a good project. But it is easier said than done when reality hits the young entrepreneur when he approaches them for funding what he thinks is a great innovation and has a global market.

But what do VCs look for before funding?

There are a few critical aspects that they consider before investing in any early stage company or a start up project for funding. These include:

- How passionate is the promoter about his product, technology or service?
- How good is the current management team available or does the promoter have the ability to attract a good management team?
- Is the product or the service offering complete in all respects?
- Will the product remain competitive over a period of time or whether the product or service offering is disruptive in nature which may result in a paradigm shift in a given market?
- What is the market size, domestic / global- larger the size, the better it is for the proposal
- Who are the competitors and what are their products or technologies?
- Is there at least one paying customer for the service or for the product as the case may be?

The Entrepreneur is expected to have a complete knowledge of the product/service offered, the real knowledge of the market, its competitors, the customer's need for the product or service.

What are the few things which the promoter should work on before approaching the investor?

Business Plan

Before approaching any investor it is essential that the entrepreneur engage himself in preparing a business plan. It is the details of the business plan that helps the entrepreneur to showcase it to the investors and the devil is in the details covered in the business plan. Like an architect who first makes a design plan before construction, the entrepreneur should develop his business plan whether he approaches investors for funding or not. This exercise will allow the entrepreneur to identify the robustness of his product or service, identify road blocks, competitor's ability and the opportunity. The financial plan which gets developed based on the business plan gives a clear direction on where he is heading too. A well developed business plan will provide a clear picture to the entrepreneur on what product or service to introduce first, what markets, what pricing at what value offered what channels, the competition and the uniqueness of the offering. A well documented business plan provides a lot of confidence to the investors while assessing the investment proposal.

Executive summary of the Business Plan

An Executive summary of the Business plan, which is sometimes referred as the Teaser, is the initial document which is sent to the investor for assessing the fund's interest in the proposal. As most investors are chased with multiple projects for funding, investors have limited time to review the proposals. In such a situation, it is extremely important that within the limited time the investor attention is on the document, and the potential investor should get a good feel of the product/service, market, opportunity, uniqueness, management and competition.

Go to Market Strategy

Most entrepreneurs are good in developing products or service or business plans, but lack knowledge in the go to market strategy or how to sell his product or services. Any unique go to market strategy will differentiate the product or service offering which will ensure success in the market place. In today's highly competitive world, developing and implementing a unique go to market strategy is extremely critical. As a start up, the entrepreneur who develops a product or service need to understand his customers and should find different cost effective methodology to reach his customer. First time entrepreneur should look the need to develop a good market entry strategy with high level of planning.

Guidelines before targeting Investor

Some of the other golden rules to be followed when approaching an investor for funding in addition to the above include:

- Approach a VC firm only with a personal introduction from someone
- Send only the executive summary to assess the interest level of the potential investor
- Make sure that the project falls under the investors investment guidelines
- Identify some of the tough investors so as to get a good feedback on the negatives in the investment proposal.
- Be sure of what is the amount of funding required and don't approach them with a range.
- Look for investor who can add value to the business through their networking and global connections.

Guidelines during Investor interaction

During the detailed presentation to the investor, follow some of the basics:

- It should be the entrepreneur who should showcase the proposal and lead manage the discussion during the presentation and answering queries
- Never object if investors comes with new insights and observation
- Make sharp presentation with pictures and graphs, demos or samples
- Preferably have people who have fund raising experience and had done multiple investment transactions during the presentation to the investors
- Never discuss the valuation during the initial presentation
- Don't debate on investor's decision, if it is negative. Understand the reasons for rejection.
- Use the opportunity to find out which other investors may be interested on this proposal.

Conclusion

A unique product or service from a passionate entrepreneur ably supported by a good management, with a clear go to market strategy for domestic/ global markets and a detailed business plan will make the investment proposal attractive for most VCs. A rejection of an investment proposal by a VC may be because of investor's investment philosophy and may not be due to non viability or non attractiveness of the project.

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