MaRS | ENTREPRENEUR WORKBOOKS

Business Planning and Financing Management Series

Building Block 3

Identifying, Targeting and Engaging Potential Investors

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BUSINESS PLANNING AND FINANCING
Introduction: What to expect

In his book *Outliers*, Canadian author Malcolm Gladwell looks at the relationship between statistical probabilities and the chance of success in your chosen field of work or sports. His essential claim is that you need around 10,000 hours of practice to become really good in a particular field.

This workbook will not take 10,000 hours to complete, so you should not expect that you will become an expert in business planning and financing by going through the activities outlined within. Rather, the purpose of the workbook is to help you understand and focus on the key issues in the field of business planning and financing, and to introduce you to frameworks within which to think and discuss essential areas of your business. The process offered will provide sufficient grounding in the topic so that you will know what questions to ask advisors and consultants, and, in the case of consultants, how to evaluate their work.

Additionally, this workbook provides a launch point for a number of vital business decisions you will have to make to develop your start-up. As a best practice, it is critical to return to these workbooks and revisit facts and assumptions on a continuous basis. This will ensure not only that you build on your learning experience but that you adjust your assumptions to maintain the right course for your business.

Building Block 3: Identifying, Targeting and Engaging Potential Investors

This workbook is part three of a four-part workbook series covering business planning and financing. It is designed specifically for technology and life sciences companies.

Business planning and financing consists of four major parts, or "Building Blocks," each adding to the foundation of the previous one:

Building Block 1:	The Financing Strategy
Building Block 2:	The Business Plan and Executive Summary
Building Block 3:	**Identifying, Targeting and Engaging Potential Investors**
Building Block 4:	Developing and Delivering a Winning Investor Presentation

Each of these Building Blocks addresses an essential aspect of business planning and financing. Once you have completed the four workbooks, you will have developed a foundation that will allow you to develop a financing strategy and you'll have the tools that you'll need to raise money to grow your business. These workbooks have been designed so that you can adapt the curriculum to your company's specific needs.

How to use these workbooks

1. Make it a team exercise—but make it quick!
Preparing to pitch your business opportunity to raise financing for your business can be very time-consuming. But it does not have to be. We believe that much of the information you need is already known to your management team and advisors, so we recommend that you make the creation of your business planning and financing strategy a team effort. However, time is of the essence for high-tech start-ups. Work through the building blocks thoroughly, but as efficiently as possible.

2. Complete the process.
Work through all the building blocks in the business planning and financing series. The other workbooks contain useful information for completing this workbook. Take the time to think through your entries. You will ideally have completed many of the workbooks in the Entrepreneur Series. You will need to have completed all of the workbooks in the Business Planning and Financing curriculum before you begin engaging with potential investors.

3. Use the icons for help.
The workbooks are structured under the assumption that this is the first time you, the reader, has undertaken a business planning and financing exercise. To help provide context for some of the ideas in these workbooks, we have clarified the ideas by defining key terms and offering real-world examples. In addition, we have provided links to online articles. For this reason, you may find it easiest to use these workbooks on a computer with an Internet connection.

Look for these icons:


denotes a key business planning term that will recur in these workbooks


indicates an example drawn from a real-world business in order to illustrate an important idea


denotes a link to a more in-depth online article, video or template

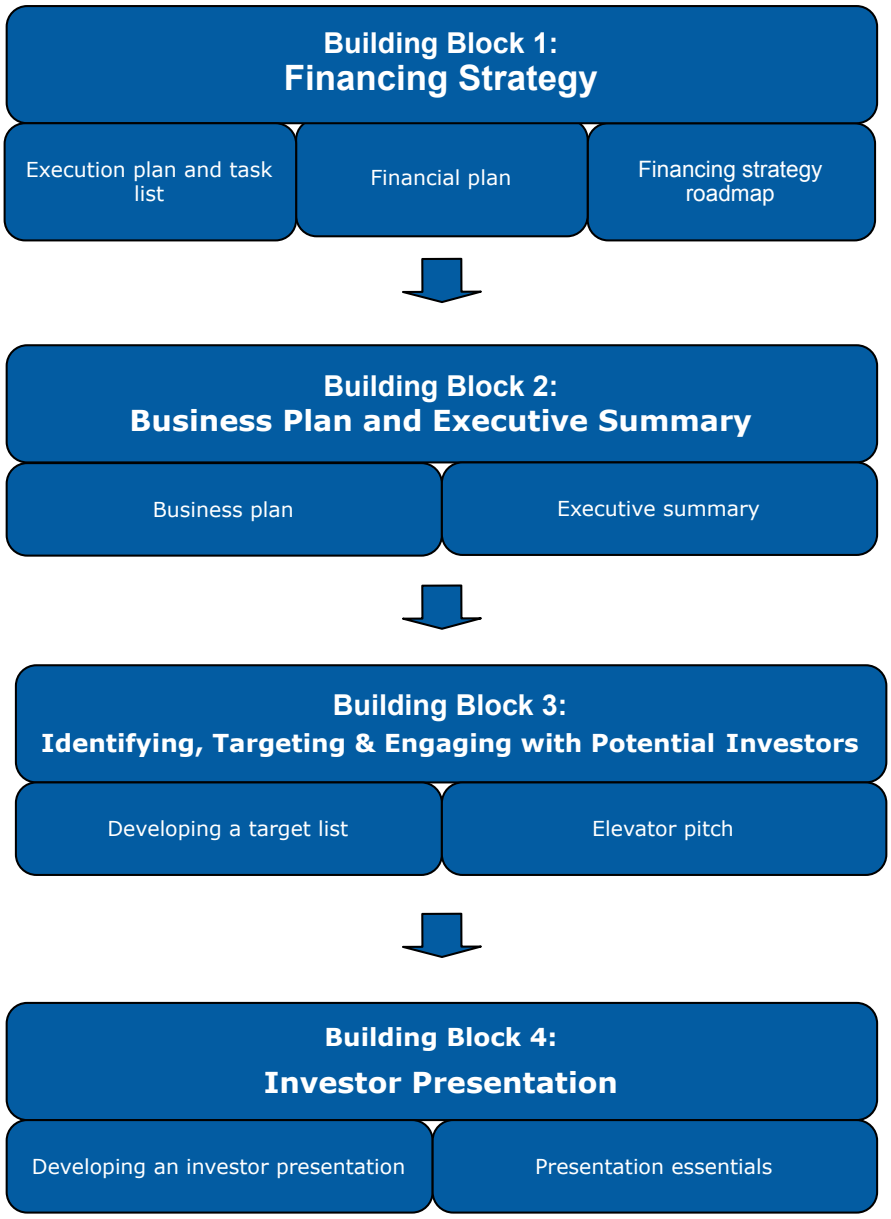

appears wherever you are asked to record something in the response form while completing the exercises


indicates key information for your business plan, pitch deck or other document you might be preparing for potential external investors

Before You Start

These workbooks are designed to assist entrepreneurs and their leadership teams in early-stage technology and life-sciences companies, and are based on tried-and-tested business planning and financing concepts relevant for start-ups in a wide range of industries. The following chart outlines for you the curriculum and the progression of each building block.

Building Blocks of Business Planning and Financing Management



BUILDING BLOCK 3: Identifying, Targeting and Engaging Potential Investors

You will need these investor communication tools to raise money and meet with potential investors:

1. **The elevator pitch**
2. The executive summary
3. The investor presentation or the "pitch deck"
4. The business plan

The fundraising process consists of several stages. Each of these documents or tools is used at various stages of the fundraising process, to convey the appropriate amount of information at the correct time. A good way to think about the process is to compare it to peeling back an onion—you will share increasingly more detailed and confidential information with the potential investor as you progress through the investment evaluation or due diligence process.

First you'll provide an elevator pitch and an executive summary to explain at a high level what your company is about. Investors will consider the information (and the way you deliver it) to decide if they are going to continue the process with you. They have their investment criteria, and based on the matching process will either decline the opportunity at that time or invite you in for a presentation. The business plan is provided at the same time or a little later in the process.

Learn more about the tools you'll need to raise money.

1. Identifying and Targeting Potential Investors

This workbook will enable you to develop a template that will list potential investors and track your progress with them throughout the fundraising process. You will develop your target list by thinking about the following criteria:

- What is the investment "sweet spot" for the potential investor?
- What resources will help me identify potential investors?
- What should I be looking for in a potential investor?
- How should I meet potential investors?

You will also craft the elevator pitch that you will use when you meet these investors for the first time.

a. Match your opportunity to the investor's sweet spot

Each investor group or venture capital fund (VC) has its unique set of investment criteria, typically based on the size of the fund, the stage at which they prefer to invest and their sector investment focus. In order to utilize your time effectively, you must understand each investor's specialization or sweet spot and target those investors that fit best with your opportunity.

Read more about how to identify an investor for your business.

You should screen for these five criteria:

1. Industry sector specialization
2. Preferred stage of company development
3. Preferred investment amount
4. Geography
5. Investor risk profile

I. Industry sector specialization

Investing in early-stage companies requires a good understanding of the marketplace. That's why most angel or institutional investors specialize in a particular industry such as software, communications, life sciences or cleantech. Make sure to target investors that fit with your business.

Record your industry in the corresponding section of the Identifying, Targeting and Engaging Investors planning document.

II. Preferred stage of development and preferred investment amount

There are many different definitions for the preferred stage of development, but the summary below provides a great outline:

Stage of financing	Amount of investment	Use of proceeds
Seed	$50,000 to $500,000	-Develop a product -Prove that it works -Market research -Some initial IP work
Start-up	$50,000 to $1,000,000	-Marketing and production
Early-stage	$500,000 to $15,000,000	-Typically the company is still pre-revenue, but has completed a prototype
Later stage	$2,000,000 to $15,000,000	-At this stage, companies usually have products, revenues and other partnerships
Mezzanine stage	$2,000,000 to $20,000,000	-Usually profitable, potential IPO or M&A candidate
Bridge	$2,000,000 to $20,000,000	-Funding is designed to bridge the company to an IPO within 3–12 months

Source: Cardis, J. (2001). *Venture Capital—The Definitive Guide for Entrepreneurs, Investors and Practitioners.* New York: John Wiley & Sons, Inc.

We have provided the full list, but we assume that you are somewhere in the seed to early-stage financing stage, highlighted above.

Record your stage of development, and target financing amount in the corresponding section of the Identifying, Targeting and Engaging Investors planning document. You will have determined the target financing amounts in completing Building Block 1—Developing a Financing Strategy for Your Company.

III. Geography

Early-stage investing is a hands-on exercise. Most investors will only invest in companies that are within a two-hour flight of their office.

IV. Investor risk profile*

Early-stage investing is a risky proposition. As part of your profiling exercise it is important to consider and assess the risk tolerance of the investors or VCs you're considering.

Product risk: Will the product actually work? This is a risk inherent in early-stage companies, especially those pioneering new science or technologies.

Market adoption risk: Will the customers buy the product? Is this the right product/market fit? This generally refers to all the risks related to getting your first customers, getting momentum in the market and issues such as how the value proposition and pricing will resonate with your target customer.

Market size risk: Lots of companies get to $15–20 million, but can't go from $20–100 million or more. This ultimately becomes a market size question. Many enterprise software companies hit the wall at $15–25 million in revenue and flatten out.

Market timing risk: Is this the right product for today or 10 years from now? Back in the late 1990s, products such as wireless applications and electronic medical records were hot. Fast forward to 2009, and their time has finally come. Market timing is the difference between the lack of success of Six Degrees of Separation and LinkedIn.

Competitive risk: Must you contend with dominant players or are there 25 other similar start-ups creating too much noise? This was always an issue in the IT security space where there would always be a dozen "heel nippers" in each segment. The robust capital markets in 2000 exacerbated this issue for all dot coms.

Financing risk: How much capital will it take to succeed? This risk was inherent in many of the communications services companies during the bubble days, and remains inherent in many cleantech and biotech companies. It's hard for an average size fund to manage through a company that requires hundreds of millions in capital.

Execution risk: Does this business rely on a specific execution approach that is uniquely complex and difficult? For example, a roll-up strategy requires a specific expertise. Running a young global business also requires expertise.

Management team risk: At the end of the day, VCs invest in entrepreneurs and managers. Is there a star on this the team that you are backing? If there is a lack of talent, often VCs have to decide whether they want to go through the process of helping to build that team—an exercise which brings with it different challenges.

Exit risk: So you build an interesting company, get some great customers, generate healthy revenue and margins—but will anyone care? This is often a concern with good businesses in niche markets. Niche markets may not be strategic to anyone. They may also be too small for the public markets.

**Source:* Adapted from Cheng, L. *Thinking about Thinking*

Identify the three top risks for your business from the perspective of potential investors and record them in the corresponding section of the Identifying, Targeting and Engaging Investors planning document.

Create an investor profile using the five criteria outlined above—industry sector specialization, preferred stage of company development, preferred investment amount, geography, and investor risk profile. Align your profile with your stage of development, industry, investment requirements, geography and risk profile. Finally, identify a handful of VCs that fit your profile.

Summarize the investor profile and record it in the corresponding section of the Identifying, Targeting and Engaging Investors planning document.

V. Investor search

What are some of the **resources** that you can use to identify those firms?

- **Websites:** The Canada's Venture Capital & Private Equity Association, the U.S. National Venture Capital Association and the National Angel Association publish comprehensive lists of their member firms. Once you've identified a few from these lists, go to the firms' websites to review their investment criteria. Use the websites to research the companies' investment managers, and decide which one best matches your company.

- **Word-of-mouth:** Other entrepreneurs or advisors can help you identify firms who are actively investing in your space.

- **Target conference list:** There are many industry conferences that provide detailed participant lists on their websites. You may be able to add a few more potential targets to your list.

- **Other:** It's a good idea to keep abreast of the financing in your industry. Venture Wire provides a daily roundup of the deals across various sectors and typically lists the investors. They also provide an update of new funds as well as other relevant information. This website also helps identify funds that could be a fit.

Based on some of the current investments in their portfolio you may get a sense for the risk that the investor is willing to take on. As you engage with the investor, you can have a dialogue around the various risks to see if there is a fit—ultimately you are looking for a partnership that will help you minimize some of these risks as you build up your company.

Read more about how to identify an investor for your business.

Record the investor websites and industry conferences that you are going to research in the corresponding section of the Identifying, Targeting and Engaging Investors planning document.

b. Investor tracking list

Once you've gone through all of the resources and have established a group of about 10 potential investors to target, it's a great idea to start a tracking list. We've included in the corresponding planning guide a template to get you started. It lists the various stages of interaction with a potential investor and makes sure that you and others in your organization are on top of the financing process.

You can also include on this list the other sources of financing that you're considering including government programs debt financing.

Read more about financing your idea through government programs.

Read more about financing your idea through debt.

List the potential investors that you're targeting in the corresponding section of the Identifying, Targeting and Engaging Investors planning document. Make sure to update the list on a regular basis. This can be used as a tool during your management team meeting to update and discuss the progress of your financing efforts.

c. How to meet an investor

Once you've created an investor profile and developed your investor target list, select the top 10 that are the best fit for your organization. You're now ready to get out and meet them to discuss your opportunity.

Resist the temptation to send your executive summary to the general delivery address on the investor's website. Most investors will tell you that they rarely give serious consideration to the opportunities that come to them that way. The best way to get a potential investor's attention is to meet them either through a referral or

face-to-face at a networking event. You need to demonstrate that you are assertive and connected enough to get personal access to an investor. This will help prove to them that you are capable of cold-calling potential customers and partners.

Read more about how to meet and engage an investor.

Add to your tracking list the names of individuals who can provide you with an introduction to a target investor. List the key upcoming events that you're planning on attending and identify which VCs may also be in attendance.

Don't be discouraged if you don't get an immediate response—eBay creator Pierre Omidyar was turned down several times before getting funding.

2. Engaging a Potential Investor: The Elevator Pitch

Investors will consider the information (and the way you deliver it) to decide if they are going to continue the process with you. They have their investment criteria and based on the matching process, they will either decline the opportunity at that time or invite you in for a presentation.

The elevator pitch is essentially a thirty-second commercial for your company. It should contain a brief overview of an idea for a product, service or project. Make sure you include a concise summary of your value proposition. You need to make it as clear and inspiring as possible—and be ready to deliver it at a moment's notice.

Remember the following hallmarks of a good elevator pitch:

- **Keep it concise**: Take only 30 to 60 seconds.
- **Be clear**: Don't use big words to sound smarter—use everyday language.
- **Be visual**: Use descriptive language that creates a striking image.
- **Show energy and passion.** Be confident and assertive.
- **Tell a story**: Frame your elevator pitch as a story to make it more memorable.
- **Have a hook**: Leave them wanting more.
- **Target your audience**: Tailor the pitch to the audience. Your elevator pitch for investors may be very different than your elevator pitch for customers or partners.
- **Be goal-oriented**: You want to interest the investor enough that they accept

an executive summary.

- **Outline what you want.** Tell the recipient what you want from them—such as a meeting, an introduction, or an opportunity to touch base in a few months.
- **Know your next step.** If the potential investor engages, be ready to expand your discussion.

Example: **Elevator pitches**

Intel
Intel, the world's largest silicon innovator, creates products and technologies that change the way people live, work and play. Whether it's a mobile lifestyle or a new way to enjoy entertainment at home, Intel is helping people all over the world accomplish things they never before dreamed possible.

SalesLogix
SalesLogix is a software company and has developed a customer relationship management (CRM) system that is both more powerful, and easier to use, than existing CRM solutions.

Write down your elevator pitch in the corresponding section of the Identifying, Targeting and Engaging Investors planning document. Practice it with a few close advisors and ask them to repeat what it is your company does and why it is important—did they get it right? Continue working on it until you can explain your business in 30 seconds.