

“Is Your Business Investor Ready?”

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Funding your business starts with the three F's of source capital for the seed round: FOUNDER, FAMILY, and FRIENDS.

As the founder, you need to put most of your money and time toward making this venture a success. Any outside investor will insist that you have a substantial stake in the venture. You should next go to family and friends. There isn't anyone that will value your business plan more than they will. Just remember that you can make money for them or lose it all! Ask yourself if you could face these people if your venture failed.

What does it take to get professional investment in 2003?

You need one of two things:

- 1) A management team with a track record of having done other successful startups or similar adventures.
- 2) A prototype or “proven concept” that has generated revenue and can be scaled up with additional funds. Investors favor providing expansion capital rather than putting capital behind what an entrepreneur thinks will happen.

Here is a simple check list that can help you understand what investors look at when rating whether your business plan may be a good investment (1 Low to 10 High):

The Management Team: How experienced are you in the domain where you are working? Have you run or grown a successful business before? How much passion and vision do you have? At the same time, how much flexibility do you have to change direction and heed others' advice? Who do you have as an outside board of advisors or a board of directors? What are the holes in your management team and how will you fill them?

Rate yourself a “1” if this is your first business venture on your own, have only done consulting work or you are still at your current job. Give yourself a “10” if this is the 4th business you have started where you sold two of them and went public with the other two.

The Market Place: How big is the market for your product or service you plan to sell and the potential customers? How will you specifically address that particular market?

Rate your plan a “1” if it's less than \$500 million. Rate your plan a “10” if it is over \$100 billion. If you capture 5 percent of the market, it has to be big.

Your Product: Does your product or solution solve a problem that people will pay money to fix? If you build your solution, who will care?

Rate your plan a “1” if you are unable to determine the cost to the problem or if your solution would be just “nice to have”. Rate your plan a “10” if you know exactly how much potential customers already spend on solving this problem with fragmented or poorly executed solutions.

Prototype or Proven Concept? Is this just a theoretical business idea that you think will

work? Or have you already built a product, have web traffic and customers with a revenue stream?

Rate yourself a “1” if your business only exists on paper? Rate yourself a “10” if you have a working product with customers that pay money to use it. Give yourself bonus points if these customers are not cousins or family members.

Strategic Alliances: Who else has bought into your vision? What companies have you signed significant agreements to partner with either technologically or from as a marketing strategy? What will your sales and marketing strategy be?

Rate your plan a “1” if the answer to this question is “no one.” Rate your plan a “10” if Microsoft, Yahoo, Google or Ebay has given you an “exclusive” relationship.

Sustainable Competitive Advantage: If someone came into your market after launch with a heck of a lot more money than both you and I have, would your business revenue model survive? Do you have a technology, key alliances or community that are not easily duplicated?

Rate your plan a “1” if your only response is that “you had the idea first” and besides “you have no competition.” Rate your plan a “10” if you have obtained a patent for your secret technology and have wrapped up all of the key players in the industry in exclusive strategic relationships.

Pro Forma Cash Model: How much cash will you need to attract the first institutional investors? When will you be cash flow positive? What do the future round requirements look like? What does your gross margin look like? Do you have a repeatable revenue stream?

Rate your plan a “1” if you need to attract \$5 million from angels and you won’t be cash flow positive until the Chicago Cubs win the World Series. Rate yourself a “10” if you need less than \$1 million and you’ll be cash flow positive within a year of launch.

Exit Strategy: Forget the IPO, who will you sell your business to? Every investor wants to know the shortest path to realizing a gain from their investment. Who are the likely candidates that can afford to buy your business at probably 10 to 20 times your valuation today?

Rate your plan a “1” if your response to the question is, “I don’t care about the market, we are going to IPO this thing in six months from launch.” Rate yourself a “10” if you have already had bona fide offers to buy your company even before angel investments.

Pre Money Valuation: The average pre-money valuation for a seed round investment is less than \$2 million. All investors will want an appropriate step up in value at every capital raising round.

Rate your plan a “1” if you scored a “1” in every other section but gave your plan a \$20 million valuation. Rate your plan a “10” if you are a “10” in every section listed here and have valued your business at \$2 million.

No business opportunity is perfect. There is a lot of risk and unknowns in every venture. The key is to know where your strengths are and to begin to build the areas where you are weak.
End.