

Writing an investment proposition for an early-stage company

A Guest Article by Thomas Youngman
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What makes a good investment proposition?

Investors receive hundreds of investment propositions. To cut through the clutter, you need to share something concise and immediately compelling.

The golden rule is one page. One page is easy to assess and provides ample space to tightly communicate the opportunity: if you're struggling with this the chances are that the proposition is not clear enough.

Remember, the aim of this initial document is not to communicate everything you know, or prove it to the nth degree. Your intent here is simply to capture their attention firmly enough for them to request more information or a follow-up meeting.

Finally, don't send speculative plans to venture capital houses. There are enough events available where you can meet people in person. Go prepared with an elevator pitch and you'll be following up with a warm contact.

The following is intended as a simple structure for an investment proposition.

1. The opportunity/market need

The main question an investor wants you to answer is: "Why will people pay money for this product/service?" This is the most critical part of the business plan, and communicating a clear and substantiated argument is key.

First, in as few words as possible, explain the unmet need or problem that your customer faces and that they will pay to resolve. Be as single-minded as possible. Then, substantiate the need in order to really capture the attention.

Evidence of demand

Ideally you would have data showing actual sales to customers, supported by quotes from them explaining the benefit your product delivers. However, if your business is pre-revenue, quotes from potential customers (five to ten ideally) stating that they have the particular pain or problem that you propose to remedy is the next best thing.

Not only will these tangibly demonstrate that the business can tap into a real demand; they will also demonstrate that you already have relationships with potential customers and really understand the opportunity and how much people are willing to pay for it. This substantiates the revenue and pricing model.

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2. Your solution

If you've done the first job well and they're excited by the opportunity, the next question is: "Do you have what it takes to meet the need and will it generate money?" The answer requires a simple overview of your product or service, tightly focused on:

- why it meets the specific need
- why now is the right time to provide the solution, and
- why this solution is the best option (versus any competitive offerings).

The key is simplicity and clarity. Of course you have a very natural desire to demonstrate your expertise. But if you make it difficult to understand the business model, it will not be understood, and you will have lost them.

Your expertise will come through from the fact that you have an *apparently* simple solution to a demonstrated problem. Above all, avoid jargon and overly technical terms.

The other big win is to demonstrate that the solution is scalable and that the business therefore has real scope for growth. Show investors that you have what it takes within the solution to respond to demand and become a sizeable enterprise over time.

3. The team

If the investor is still reading at this point, you're doing well. Now is the time to ensure that you get the phone call, by showing them that you have the team that can turn the plan into a reality.

The team should comprise:

- the leader/founder
- sales (the people who will bring in the cash)
- operations (the experts who can deliver the product/service), and
- finance (the person who will make the numbers balance at the month end).

Be as specific as possible on the team's experience. Here I'll give you a green light to be as detailed as you would like – but only as long as everything you share is clearly relevant and that, as far as possible, you focus on communicating results, not projects.

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If the relevance is not immediately obvious, make it immediately obvious. The key question you're answering is: "What uniquely qualifies this team to be able to make this business work?"

If you have anyone on the team who has previous start-up experience, lead with this, as it will drive significantly more confidence. This will set you head and shoulders above the vast majority of teams currently pitching to venture capital firms in the UK.

A few things to watch out for:

- Don't overly emphasise corporate experience when working in a start-up, as this can trigger alarm bells. The corporate world is a very different beast from a start-up.
- Don't overplay your experience or you will risk coming across as trying to be something you are not.
- Don't worry about titles – they don't mean much in a start-up, so don't try to sound overly formal when a start-up is not about formality.

General observations

Don't compare yourself to other companies that have exited within the industry. It is irrelevant; they had a business when they sold. As an early-stage company you have pretty much nothing.

Never promise returns, and don't talk about the exit: at this stage they are going to be guesses. The people to whom you are sending the pitch will likely have a much better idea than you about the valuations that companies are likely to achieve.

The aim of this document is simply to land the message that you have what it takes to create something fantastic that addresses a real problem that customers will pay to solve – in short, a viable business model that an investment house will want to find out more about.

Thomas Youngman
Venture Partner – Blue Depth

If you would like more information on any of the points covered in this Guest Article, please contact **TCii** on **020 7099 2621**.