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## VENTURE CAPITAL HELPS WHERE BANKS CANNOT

An IoD survey recently stated that banks are still lending less, with one in three people being unable to source finance from their bank. Surjit Kooner, Investment Director at Midven, explains why venture capital is an alternative option for entrepreneurs looking for funding.

In the current environment, bank finance is less available for the entrepreneur wanting to grow a business. Banks are looking for profitability and consistent cashflows - features that are rarely prevalent in the early stages of an entrepreneurial enterprise. Even a profitable business can find that its ambitious growth plans do not suit the risk profiles of banks.

Venture capital is however, more comfortable with risk and looks beyond the basic facts and figures of existing profitability and cashflow. Belief that a business can achieve these in the future is obviously key and a judgement on the likelihood of this will be made by looking at a number of key factors.

Management is important. The old venture capital adage 'management, management, management' still applies. A strong commercial background and sector related experience are obviously helpful. For most entrepreneurial businesses, however, the full set of business skills often has to be integrated into a management team over time - a good venture capitalist will be able to assist with this and introduce the right people to the business at the right time in its development. For example, very few businesses that we see have a finance director - skills like this can often be accessed on a part-time basis or through outsourcing the finance function to a firm of accountants.

Product and market opportunity are also key drivers. It is surprising how many people develop a product without identifying the market need. The number of 'inventors' who develop a product to solve a problem that does not exist is significant. This often marks out the entrepreneur, who has usually identified a market opportunity to take advantage of.

An analysis of the market should be the starting point for identifying if a product is 'a nice to have' or a 'must have' - the latter clearly being much more attractive to an investor. Paying customers are always the best validation of a company's proposition.

In the realms of technological products, having protection of intellectual property goes a long way to ensuring you can best exploit your market opportunity.

For investors seeking a return, there needs to be a suitably large market opportunity for a company's product or service. The larger the market opportunity, the more competitive the environment but equally this generally means the level of market share that needs to be achieved to create and grow a successful business is somewhat lower.

Finally, there is the appropriate level of funding. Inevitably things do not always go to plan for the entrepreneurial business. Identifying the right level of funding to provide headroom for the ups and downs of the business world is key. Experienced venture capitalists will expect this and be able to provide additional funding to support the entrepreneur through tricky times. Accessing the right type of funding for each stage of development is important. Venture capital is generally seeking to invest to create commercial (i.e. sales) progress, not in research and development opportunities where grants and specialist seed funds have historically been the best form of initial finance.

All of these things represent challenges and risk. But true entrepreneurs thrive on challenges. And that in turn makes their businesses such potentially good investments for the the venture capital industry.