

21 tips for SMEs raising venture capital

1. Bear in mind that venture capital investment is a highly selective process – VCs typically invest in only 2% to 5% of the opportunities they see, and they see a lot of proposals. The proposals selected will have potential for high growth in sales, profits and shareholder value and have the management team to achieve that growth.
2. Remember that venture capital investment is a highly subjective business – it's got a lot to do with assessing the future – so be prepared to hear some subjective reasons if the VC declines your proposal.
3. Don't wait until the last minute – the process of raising venture capital will typically take 3 to 6 months, and VCs don't respond well to time pressure, unless of course they are in competition!
4. Plan to devote time and effort to the process – it's worth it. It might help to think of how much product you'd have to sell to generate an equivalent boost to your net assets. You will need to be able to develop your business and sell your products whilst the fundraising process progresses.
5. Know your investors: before you approach them find out if they have any industry sector preferences or experience, and the stage and size of investment they go for. Look on their website for details of the businesses they have invested in.
6. Personalise your approach: try to avoid making your initial contact look like a mailshot.
7. Consider using a reputable and knowledgeable intermediary if you are new to the game – they will help to focus your efforts and should know the preferences and criteria of likely investors – but you will have to pay them.
8. Keep your information memorandum and presentation short, clear, balanced and up-to-date. Make sure you cover: background, current position, products, markets, management, strategy, financials and the deal.
9. In an uncertain world, VCs like facts and figures – rather than projections, guesses and speculations – so do your best to give them what they need.
10. Don't be afraid to include a SWOT (strength, weaknesses, opportunities and threats) analysis in your proposal – the VCs will need it. Don't pull any punches on the weaknesses and threats – all businesses have them and VCs will expect you to know what they are so that you can deal with them.
11. Always keep in mind that VCs back teams – rather than individuals – so make sure you cover all the key management functions relevant to your business: e.g. general management, marketing, sales, finance, development, production, fulfilment etc. VCs will be looking for both breadth and depth of experience.
12. If you get to make a presentation to VCs, be professional, look like a team: work out in advance who will say what and when, and don't bicker, argue, or fight in front of your VCs – yes, it does happen!
13. Don't assume that VCs know your products, sector or industry, so keep it simple and avoid - or at least be prepared to explain – any jargon. Don't be afraid to go right back to first principles if necessary.
14. Be direct, open and honest – if you don't have the answer to a question, say so.
15. Remember that you are selling a stake in your company, so treat VCs the same way you'd treat any potential customer or commercial partner.
16. Be prepared to answer very detailed questions about projected sales and their related direct costs – and I mean detailed questions: market drivers, products, actual and potential customers, pricing, volumes, sales and marketing strategy, competition etc. – this is the heart of your proposal.
17. Know what you'll do if you can't raise the funding you are looking for – it will do wonders for your credibility.
18. It may help you to remember that VCs are investing other people's money and that they are highly regulated – to do their job properly (and meet their FSA obligations) they will need to have a detailed understanding of you and your business before they invest – this takes time, so you may need a lot of patience.
19. Get legal advice from a firm that understands venture capital – in the long run it could save you time, money and heartache.
20. At the end of the day venture capital is all about buying and selling shares, so be prepared to make a commitment to sell your company – most likely to a trade acquirer in three to five years.
21. VCs take a portfolio approach – some companies will fail so the valuation and rate of return sought on all investments will take this into account – i.e. the successes must compensate the failures!