A guide to Venture Capital for small businesses

Securing venture capital funding is not easy, especially if you don't understand the process and what investors are looking for. There is huge competition for finance and first impressions do count.

This page provides a range of useful tips and tools to help you determine whether venture capital finance is right for your business and what investors expect to see so you can fully prepare yourselves.

1. Its not what you know, it's who you know

There's a general feeling in the venture capital community that the best deals come them via their networks. Now the Mercia team analyse their investment data inside out, and they know that whilst this statement is not always the case, there is a strong argument to say that opportunities which are referred to them by a third party stand a better chance of success.

Why? Well there's a few different reasons we can think of:

- Think of the third party as a grumpy gatekeeper. Unlike friends and family who can often lack objectivity when it comes to giving feedback on your business, the advisor will look at the investment opportunity without bias. If your idea attracts their interest, then it's more likely to have potential. A good advisor can also help you create good quality investment documentation including a concise business plan.
- Having used a third party for introductions you are more likely to have had an early opportunity to practice your pitch. Of course, the investor will want to buy into your product/concept, but they also need to feel confidence in your ability to engage others

2. Know your investor

If you have developed the worlds most sophisticated fintech solution but approach an investor who doesn't back the fintech sector, then you are unlikely to be off to a good start. Take some time to review the different providers to see which provide support specifically to your sector, or the stage of investment you are seeking. Most investors will publish their list of portfolio companies and the markets that appeal to them. It helps to be familiar with their approach to ensure you are a good fit.

The following websites are really useful https://www.british-business-bank.co.uk/finance-hub/ and https://entrepreneurhandbook.co.uk/venture-capitalists/

3. Practice, Practice, Practice

Taking time to practice your pitch is crucial. You need to walk the investor through a journey which is both engaging and succinct, and this takes practice. Whilst it's tempting to use notes on presentation software such as Prezzo or PowerPoint, this means that you may have a laptop sitting between you and the people you are trying to engage with and that won't always work, especially if you are all sat around a table. Keep the presentation short and if you really feel like you need to, use short postcard prompts which you can glance at to remind you of the pertinent points to cover. A good presentation is best thought of as a way to facilitate the conversation.

4. Be Humble

Remember that investor will have seen many hundreds, if not thousands of presentations before and they may even know your sector better than you do. Don't assume you are the expert, even if the product is something you have developed from the ground up. Be aware of where your personal weaknesses lay and what elements of the wider team need building. Negative feedback is intended to help entrepreneurs refine their idea.

Investment levels for venture capital

£100,000 - £10,000,000

Mercia is a specialist asset manager and manages money on behalf of its own private investors, third party clients and its own balance sheet. This means we are able to support SMEs throughout the growth cycle, from start up to scale up and beyond.

Meet the venture capital investment team

Will Clark, Julian Dennard, Ian Wilson and Charlie Winward.

We have funds which we are actively looking to invest and would like to hear from you today if you need investment.

Preparing for Investment

Preparing your business for investment could be compared to having a good spring clean. If you are starting to think about other people investing their cash into your business, then now is a good time to get things in order. Having access to good management information and presentation material will be paramount as investors will want to know the detail behind how your business runs and the market in which you operate.

We have distilled our thoughts on how to prepare your business for investment into three steps.

1. Get the house in order

The first step is to get your management accounts together and begin to share these with your senior team. If the senior team is just made up of you, then now is a good time to bring in one or two close, and trusted members of the team who can start to help. The sorts of things which you should be able to track include -

- Revenue
- Cost of goods/services sold
- Gross profit
- Selling/Marketing costs
- Contribution to central overheads
- Central overheads recharge
- EBITDA.

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One of the most common stumbling points during negotiations is around valuations. The power of the money is more important than the price of the money. Where will investment take the business? How will it accelerate growth?

Don't fall into the same trap. Make sure you take time to understand your market share by mapping the resources available to you onto your forecasts and be realistic about your opportunities for growth. Achieving very high profitability very quickly after investment when you haven't yet broken even is unlikely and it's this sort of forecasting which switches investors off. Your projections will be far better received if you can balance ambition with a sense of realism and perhaps most importantly prove that it is sustainable.

2. Talk to other people.

You could argue that you should take specialist advice before you start work on your management accounts, but you really do need to get the fundamentals of your accounts straight. And when we say talk to other people, we don't mean people you know socially who you think could help. If you are serious about growing your business then you need to take specialist advice from corporate finance advisors who can offer objective guidance to you.

The sorts of things which they can help you with include determining whether you need debt or equity finance, or even if you should consider convertible loans. Very often we see people too focused on one type of finance when perhaps an alternative would be better suited. If you don't have any corporate finance contacts then you might want to speak to the local Business Growth Hubs and local advisors which can put you in touch with investors to kick start the process for you.

3. Prepare a great pitch and engage with the investor.

You can't really split these two things because you need to have both a great pitch and find some chemistry with the investor. Make sure you have built a compelling and succinct presentation and be willing to admit where the weaknesses are in your business plan. You should try to relax and engage with the investor during these early meetings, but don't relax too much - make sure you adhere to the basics of sending things over in good time, checking for spelling errors and always arrive to meetings on time. Very often investors back businesses because they like the people behind the businesses, as well the product or service. In addition to preparing your pitch deck, you also need to think about how you might come across, particularly when the pressure is on.

Mercia has reviewed tens of thousands of business plans and many members of the team have sat on the opposite side of the table raising their own investment having run their own successful businesses. If you are seeking investment and would like some help, then please do get in touch with the team who will be happy to offer some guidance.

The investment process

One of the most common questions the Investment Teams are asked is "how long does the process take?" And it really does vary, but the answer always lies in a range depending on the position of the company.

For example:

Company 1 – Just 30 days.

In the case of good management information, decent trading history/or product milestones achieved, clear market opportunity and support from good quality advisers, timelines can be short. If all these things fitted together then it could be as little as 30 days for debt finance, and a little more for equity transactions.

Company 2 – Anything from three months upwards.

In the case of limited management information, early signs of trading/working towards product milestones, clear market opportunity and time spent making refinements following feedback then timelines can be a little longer. This is more likely to be something which we would watch develop, so could be anything from a few months to up to three years.

The process for debt and equity finance will vary slightly but it follows the same broad path including:

Step 1- Application received

Step 2 – Investment Manager allocated and internal due diligence underway

Step 3 - Presentation to Investment Panel

Step 4 – Further internal due diligence completed

Step 5 – Offer letter issued

Step 6 – Investment Committee decision

Step 7 – External due diligence begins and legal paperwork prepared

Step 9 – Pre-completion review

Step 10 – Completion and funds cleared

How to write a killer business plan

Start-ups with a solid business plan and great pitch deck have a far greater chance of gaining investment. In this interview with one of Mercia's Fund Principals, Ian Wilson, Ian talks about the sorts of things he and the team are looking for when plans come to them for review.

You can read the full article here