Chapter Three:

How do I Become Investment Ready?

Is Investment right for me?

As you go through the process of getting your business investment ready, it is very important that at all stages you are asking yourself, is investment right for me? Getting investment is not for everyone and can sometimes distract a business owner from growing the business in a more organic way. Trying to get investment can turn into a fulltime job, which means that you often need another person in the business to focus on running the business while you focus on getting investment. We have seen a number of businesses, stop trying to get investment and focus on growing their business organically, and they have thrived. They have been able to put all their time and energy into growing the business, rather than having to split their time getting their business investment ready.

So, make sure as you go through this process you ask yourself, is investment right for me?

Identifying the Stage of Your Business

All businesses go through a business lifecycle, and each stage of that lifecycle requires a certain mindset and type of investment. Knowing what stage of the business lifecycle your enterprise is at will help you make better business decisions, including understanding your funding needs.

Below are three key phases in the lifecycle of business. Try to think about which one fits your business the best:

Start-up phase: In the start-up phase, a business is at the beginning of its journey. Start-ups are new businesses, are often innovative (but don't have to be), and are usually focused on gaining customers and getting momentum. They often have negative cash flow, meaning they are losing cash, because they do not yet have enough sales to cover their expenses. Start-ups often need to place their priorities on improving their products and building on customer feedback to take their products to the next level. The focus at this stage is normally growth, but important goals for this stage include making sure the product or service is something that people want (solving a problem) and reaching the target market.

Because most start-ups are not yet cash positive, they often need funding that does not require regular repayments (like a loan), as this puts the start-up under a lot of pressure while they are still just gaining customers. It is usually best to go for the cheapest funding when possible (grants, friends, and family).

Growth phase: In the growth phase, a business has a clear business model and many customers know what you do and who you are. It is now starting to generate revenue and sales and may or may not have positive cash flow. The business is getting closer to breaking even or may be profitable. Growth-phase businesses are usually a few years old and are focused on growing their team and operational success.

Businesses in the growth phase will normally look at equity investment as well as grants, as they may not yet be cash positive. However, if a business is very cash positive and can manage the pressure of loan repayment, a loan can be a good option as it is cheaper than other forms of financing.

Mature phase: A business in the mature phase has now solidified their position in the market and has managed their way through the growth phase. If this is you, congratulations! Mature businesses are financially and operationally stable and have a good share of the market. Mature businesses are cash-flow positive (incoming cash is greater than outgoing cash), and although they are often growing, they are growing at a slower and more stable rate.

Mature businesses will often look at getting debt investment (loans) because loans are generally the cheapest available financing and being cash positive means repayment is manageable. However, mature businesses also look for venture capital and other types of equity financing if they cannot obtain or are uncomfortable with debt investment.

Identifying the Stage of Your Business

Start-up phase

Key Features
Young business, negative cash flow, focus on gaining customers, developing business model

Common Funding Types
Friends and family, grants, angel investors, venture capital

Growth phase

Key Features
Good customer base, growing and stable revenue, growth of the team, focus is on operations and processes while maintaining product quality

Common Funding Types
Equity investment, grants, debt investment (if cash positive)

Mature phase

Key Features
Cash flow; slow, stable growth; strong market presence; solidified business model

Common Funding Types
Debt investment (loans), equity investment

Choosing the Right Type of Investment

Once you have an idea of the phase your business is in, you can start to think about the best investment option for you. This can be difficult, but knowing the stage of your business makes it easier.

Start-up or Early Stage

If you are a start-up or early-stage business, the best type of financing is the one that carries the smallest risk. This usually means grants, cheap loans, equity investment from friends or family, or just using your own money and starting small.
Start-ups can get formal equity investment as well; however, this can be more difficult without having proven that you have a good product. Investors usually want to see sales and customers before they invest.

Growth Phase

Once you have gained some traction and can prove that you have a good product that customers want, you will be in a good position to seek equity investment, as you can more confidently demonstrate that it is a good investment. If you have positive cash flow, you can look to get debt investment, but this can be risky if you are not certain you can make regular payments.

Mature Businesses

The best financing option for mature businesses is usually debt investment, or loans, as this is the cheapest way to get financing. Mature businesses usually have positive cash flow, which means they can be confident about making regular payments.

Type of Investment

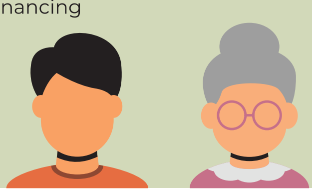
Friends & Family

Key Features

- Common early-stage funding
- Simple
- Flexible
- Can sometimes cause relationship problems

Business Stage

Start-ups are best fit for this type of financing



Debt Investment

Key Features

- Cheaper than equity investment
- Easier and quicker to process with adequate documentation
- Fewer complications
- Fixed payments
- May require collateral
- Business must have positive cash flow

Business Stage

Growth- and mature-stage businesses are best fit for this type of financing (if they have positive cash flow)

Angel Investors

(Wealthy individuals who invest in businesses)

Key Features

- Often heavily involved and can provide ongoing support and industry knowledge
- Often invest because they are passionate about the business or the entrepreneur and are willing to take on more risk

Business Stage

Start-up/ Early-stage and growth-stage businesses

Equity Investment

Key Features

- Investors will do a lot of research (due diligence) on your business to ensure they can make a return
- Often looking to invest larger amounts of money
- Will require you to report on the performance of the business regularly

Business Stage

Growth-stage businesses are usually best suited for this financing