Growing a business

Getting your business ready for outside investors

If you're looking to grow your business, and you need access to capital, getting investors on board can be a good way to secure the funds you need.

To successfully interest potential investors you need to plan carefully, and understand what investors are looking for.

What kind of investors are out there?

Who you approach depends largely on what kind of business you own, how much control you intend to retain and how large an investment you're seeking.

There are four common investment sources to be considered:

1. **Government-backed equity investors.** Almost every Province has a number of investment funds for different industries and targets, which includes loans, selling a share of ownership or even non repayable grants. Search the complete list on the Canada Business Network website.
2. **Angel investors.** They're usually wealthy individuals who provide capital in exchange for ownership equity. The best time to approach angels is when you can clearly demonstrate that their investment will help grow your business. For more information, check out the Canada Angel Investors website.
3. **Venture capitalists.** They typically invest in young companies they anticipate will be sold to the public, or to a larger company, at a high rate of return. If your business is in a fast-growing industry with a large market potential, you may just catch the eye of an investor. The Canadian Venture Capital Private Equity Association (CVCA) is a good place to start.
4. **Friends and family.** You'd be surprised at how many people you know that may be willing to invest in you (ideally for a return better than they'd get for any deposits in savings accounts).

Prepare your business

In much the same way that you'd get your business ready to sell, getting it investment ready is about eliminating any problems and enhancing the positive aspects. There are some key factors that investors will take into account when they're deciding if your business is worth their time and money.

Get your finances sorted out

Investors like to know that their money is being put to work to increase profits, not to pay off debt or pay you a higher salary. Similarly, they're not going to be keen on investing in a business that doesn't have proper accounting processes in place. Make sure you:

- Reduce your debts. Do what you can to get them paid off, and if that's not possible, make sure you can show that your business is making regular payments. It could be worth you using personal funds/equity in any property to pay down business debt.
- Reduce your fixed costs. Investors will like an efficient business that can operate on a lean budget, and that you've assessed and cut out any inefficiencies.
- Show investors how you'll repay any loans or pay dividends, based on achieving key milestones.
- Have good accounting processes and software in place so you have immediate feedback on business performance.

Focus on the positives

While you want to remain realistic, especially with sales predictions, it's still essential to promote the aspects of your business that will appeal to potential investors. To do so, you should have:

- A well prepared, clear business and strategic plan.
- Evidence that sales are growing, or you have the potential to grow with new contracts or customers.

- Products and services are innovative, and you can demonstrate a clear competitive advantage.
- Minimized any old or obsolete inventory or raw materials, and reduced wastage.
- New or recently refurbished equipment to reduce any burden of repair.
- Market insights on competition, growth potential and future need.
- Outline of any mission critical components and how you've guaranteed they will last; leases, contracts, supplier agreements, intellectual property, key staff and their agreements.
- A focus on the benefits not the features (or technology) unless it's part of your competitive advantage.

As much as you can, establish a good rapport with any investor by understanding what's in it for them. After all, you're going to be in business together, so it's important to get along. Make sure they know you've got an open mind when it comes to their advice – a good investor will have lots to offer in the way of experience and contacts.

Develop a clear exit strategy

Make sure you have a clear exit strategy. Venture capitalists in particular make most of their profit when they exit a business, so your pitch should include this. The most common exits are:

- A corporate buy-out. This is where a large corporation likes your business and thinks it will fit in well with theirs.
- A management buy-out. You and key staff buy out the investors.
- A management buy-in. Another syndicate buys into the business and manages it.
- An Initial Public Offering (IPO). This is where you list your company on a stock exchange, so that investors can sell their shares.

Summary

When you're considering investment options, be clear in your own mind about how much control you want to relinquish. Most investors will be expecting some ownership in your business, and therefore, a say in how things are run. So before you decide to approach investors, make sure you're happy with sharing the reins.

Finally make your pitch as clear as possible, and in just a few minutes. Investors want to know that you can explain your business succinctly, but briefly. It's worth practising the "elevator pitch" - the ability to explain your business to someone during a 3 minute elevator ride. You want to explain quickly and clearly how your business can earn a great return for the investor.

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