

How to Survive the Dragons' Den

Written by Alan Gleeson

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The Dragons' Den on RTE 1 pits entrepreneurs seeking funding for their businesses against a panel of investors. Aside from the entertainment, there are a number of valuable lessons that can be taken from the programme. Below are the Top Five Tips for participants' pitches.

1. Prepare a Thorough Business Plan

An essential component of starting up a business is the creation of a business plan. To stimulate interest from the reader/investor, you must ensure that the plan is researched thoroughly, explained clearly, and is financially robust. Try not to be excessively 'product focused', and when asked a broader set of questions relating to the competitive environment or the predicted demand, do not struggle. A well-prepared business plan addresses a broad range of issues that investors will be interested in and will not focus on just 'the product'. For further information on the main components of a business plan, visit www.bplans.co.uk.

2. Perfect that Pitch

Once a business plan has been formulated, it must then be communicated effectively. Many entrepreneurs fail to clearly articulate the key customer benefits of their new venture. In response to the opaque language used by many Internet-era entrepreneurs, business planners introduced the concept of the 'elevator pitch'. An elevator pitch is your idea, supported by your business model, company solution and marketing strategy, all articulated concisely and clearly in the length of time it takes for a short elevator ride. This simple idea reinforces how important it is for entrepreneurs to think carefully about the language they use when describing their new venture (particularly technology-based ones). The elevator pitch is a reminder to remain customer-focused and concentrate on describing the customer benefits, as distinct from focusing on just the product features. There must also be something unique about the business plan, and it must be pitched with conviction, so as to grab the attention of investors who deal with hundreds of plans every week. This was neatly summed up by Simon Woodroffe on the UK version of Dragons' Den, when he said, "You gotta make me feel like I'm going to miss out".

3. Secure a Route to Market

In an increasingly competitive landscape, it is vital that the entrepreneur has researched their 'route to market' or how they intend to access the customer base. Most new businesses will consider a multi-channel route—however, this is significantly more expensive than single-channel routes, particularly so for non established brands. Similarly, many resellers and

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retailers are increasingly reluctant to take on new products without some sort of upfront marketing commitment or 'hello money'. Internet marketing is one attractive route, as marketing spend can be tracked with greater transparency. Once there is evidence of demand through online sales, it is easier to expand into more traditional routes with confidence. Alternatively, identifying current suppliers who service a similar market niche can give some indication as to which marketing activities are most effective. Of course, this assumes the incumbent has got it right. The prospective investor will be keen to understand how exactly you intend to reach your market. You will also need to articulate the following:

Is it a retail or Business-to-Business (B2B) sale?

How will you secure direct sales?

How much will it cost to secure reseller distribution?

Are there downstream revenues, or is it a one-off transaction?

4. Establish Value When Seeking Equity Investment

If you are seeking investment in your business, it is important to clearly describe the investment opportunity.

Why would the investor be better off investing in your business rather than leaving their money in a bank account, or investing in another business?

What is the Unique Selling Proposition (USP) for the business?

Why will people part with their cash to buy your product or service?

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Beforehand, work out the following:

The value of the business.

The percentage of the business you are prepared to sell and its value.

The predicted level of future cash flows.

Use a multiple to estimate the value of the business and then decide what an acceptable level of equity is and what you are prepared to offer in return for a cash investment. Most investors you will meet are pretty sophisticated when it comes to financing, and hence, you will be at a disadvantage. After all, it is not called the Dragons' Den for nothing! This is their area of expertise; they are seeking an appropriate risk/return for their investment. Their primary interest will be to assess the ability of the company (including management) to generate free cash flows to enable the business to grow while also returning cash to them. Professional advice is highly recommended if you do decide to go down the equity investment route and it is important that you have the above points worked out prior to being put on the spot.

5. Negotiate Confidently

If you have succeeded in generating sufficient interest after your original pitch, the level of questioning is likely to become more in-depth, as the prospective investors assess whether or not there is a potential opportunity for them. In these instances, the presenter is on trial as much as the 'business plan', especially if the entrepreneur is seeking large amounts of funding and intends to continue to run the company themselves. It is worth remembering that the negotiation is not like haggling for a souvenir at a market, where the transaction is a one-off and neither party is likely to engage with each other again. It is not about small victories and getting the better of your opponent. The negotiation takes place in the context of a relationship and hence must be approached differently. The negotiation process consists of five main steps:

I. Preparation: Before you begin to negotiate, you must have a clear idea of the issues at hand, your objectives and your options, from what is the best deal you can get, to the best alternative to a negotiated agreement (your walk-away position). In relation to the Dragons' Den, you need to be clear on: a. How much you are seeking to raise? b. What percentage of the company you are offering in return? c. What type of investor are you seeking: a sleeping partner, or a 'Dragon'?

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who will actively play a role in the company?

II. Discussion: Given the relationship nature of such investments, you need to ensure that the focus is not solely on 'the cash'. You need to establish rapport and assess what exactly the investor requires from the deal. As Stephen R. Covey declares in *The 7 Habits of Highly Effective People*, "seek first to understand and then to be understood". Ask plenty of questions to ensure that the conversation is balanced. Finally, you must also be transparent with key facts, so as to avoid introducing 'surprises' into the negotiation at a later stage; for example, if you have existing investors on board, this should be disclosed at the outset.

III. Proposals: After you have had a broad discussion and have ascertained their interest, you can ask them to make you an offer. This offer needs to be specific: they are offering X in return for Y. After thanking them for their offer, assess it in the context of your objectives at the start. There is no need to rush to a decision and it is perfectly acceptable to mull over it or to seek clarification before responding.

IV. Negotiation: Once they have made an offer, you then need to decide (a) how close it is to what you originally wanted and (b) the bases for negotiation. It is highly improbable that the proposed terms (i.e. cash, stake, and their role in the business) will match your objectives exactly. You then need to understand their position in more detail, including whether there is scope to negotiate, and finally, seek to reach an agreement that meets both parties' objectives.

V. Agreement: Once you reach an agreement and have shaken on the deal, it is important to ensure that both parties feel that they have got a good deal. The last thing the Dragon wants to hear is you telling the TV Interviewer that you got a much better deal than you expected. After all, the real value only accrues after the investment has been put to work on the business idea. The last thing you want is to have issues with the investor, as a result of them feeling facts were misrepresented or they were 'had'.

In summary, to boost your chances of surviving the Dragons' Den, do not focus myopically on the product features, but instead ensure that you can clearly articulate the customer benefits of your idea and how you intend to reach these customers. It is also important to have a good holistic understanding of the wider dynamics at play, ranging from the size of the opportunity to the requirements of the potential investors.

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