

Your Growth Plan Needs A Sponsor (*IW Growing Companies, January/February 2000 issue, page 18*)

There are virtually dozens of potential venture-capital deals waiting for your growing manufacturing firm — if you have the right introduction to the right funding source.

Given all the various sources and levels of funding groups in the capital markets, matching up with investment partners is, in many respects, a relatively easy step in the overall deal process.

In 1998 more than 3,000 equity funds, investor groups, and venture-capital firms across the U.S. provided more than \$150 million in growth-capital deals. Yet trying to piece together the perfect structure and terms for your growth-capital plan probably comes down to *who* you know much more than what you're asking for or what kind of performance you think your company can deliver outside investors.

Your written plan can take two basic paths getting into the hands of a potential deal partner. First, you can send it “cold” to several dozen investor groups and companies. You'll include a cover letter introduction and one of your firm's glossy product brochures. Someone at the funding firm will open the envelope, check the letterhead to see if they recognize your name, and then may (or may not) quickly peruse your executive summary. That two-minute skimming of your proposed deal is rarely ever enough time to attract investor attention, and usually results in a thanks-but-no-thanks form letter being sent to the entrepreneur.

The second route can go one of two ways. The firm owner might hand off the growth plan to a referral who personally sponsors the proposal to an insider at a venture-funding company. This person will directly represent the venture's prospects to a key decision-maker within the funding group. Another option is for the firm owner to provide a copy of the business plan directly to the principal at the capital group after the referral has already personally introduced the entrepreneur to a key insider. If this initial meeting goes well, the funding principal will personally solicit a copy of the plan that will circumvent the normal review process for unsolicited entrants. Either way, sponsored and solicited plans have an advocate who can open up and

maintain dialogue with a key insider to further represent the strengths and attractions of the investment opportunity.

Having a personal referral to represent your growth potential is crucial to opening up serious negotiations. Research confirms that sponsored or solicited growth plans are far more likely to get a second read-through and move on to serious due diligence by the capital firm. The typical growth plan is perhaps 20 to 30 pages in length, and clearly communicates who you are and what you do; size of the targeted market; who else is out there doing something similar; why you are different enough to be the buyer's' choice; and what kind of performance you can deliver for those willing to back you.

It's all about improving your chances for serious review. When a growth plan is submitted cold your proposed deal rests completely on an initial perusal of the plan's executive summary. For the reader screening your plan, an obvious and distinct investment opportunity must jump off the first one or two pages and capture the imagination and vision for significant growth opportunities. A sponsored plan, on the other hand, has provided a valued advocacy on your behalf. Familiarity with the deal already has been generated, and substantive ideas discussed at length. Face-to-face dialogue positions the business plan far ahead of any unsolicited proposal where the principal has no prior background, and enhances the likelihood that the plan will receive a thorough due diligence by the funding group and, if all goes well there, an offer to do the deal.

So find a sponsor, even if it could mean a little more out of your pocket. Typically an outside sponsor will receive an upfront finder's fee from either you or the funding group. When the bill is billed to you, it's money well-spent to get your proposal in front of insiders who have an introduction to and an interest in your firm, and a genuine desire to know more. So never leave your growth plan out in the cold.