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Attractive packaging carries deal, regardless of sector

By Rana Gupta

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What technology sector is hot in the venture capital world? Is it biotech? Is it middle-ware (still haven't figured that one out yet)? Is it security — web, assets (anything from shipping containers to cologne) or software?

I couldn't tell you, but regardless of what sector you're targeting what's really hot is a well-packaged deal.

What do I mean by this? Imagine handing a box over to someone who's getting on a plane to deliver it for you. You'd make sure there is stuffing, the right type of box, a sturdy box, tape and an address.

Now imagine you're presenting your deal to an investor. In essence, you might say something like: "Here's my deal.



Rana Gupta



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Please help me deliver it to the next financier. Thus far, I've completed the stuffing and I have a box, but I don't yet have the tape or the address." I'll not belabor the analogy further — just make sure the parameters of your deal are clearly presented.

This concept of how to package your deal to make it attractive to investors has several facets.

Too often, the product receives disproportionate attention during the pitch and the key factors of market and the business you're getting into are undersold.

The market sets the stage. It dictates your business model including pricing and management. And it's the one criterion that is immovable.

The fatal flaw in a deal is the market because it's the one parameter you cannot change. It is what it is, so it had better be big (enough). It has to be easily accessible and it has to be a segment or industry that buys new products.

Insurance, publishing and utilities are examples of industries that are big, but are not known for buying new products. Selling into these can be a lengthy process.

Concurrent with these issues of size and buying characteristics, an investor wants to know the situation.

Define this clearly, simply and at the beginning of the presentation. Explain the pain in the market and translate this pain to dollars. A well-packaged deal has specifics.



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Explain how you have a direct relationship with the president or executive vice president (in a business role, not in a technology role) in a customer company, one that has given you a letter of intent, is willing to talk with the investor, and has stated clearly that your product is desired.

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Look at high pain in the market as low risk for your deal, from an investor's point of view. If the addressable market needs your product, customers will pay and pay fast.

This type of fast adoption is one very tangible factor that makes a deal low risk, and as we are all too aware, risk is akin to the bogeyman in the investment world today. Show that your product will be swept off its feet.

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Next, tell the investor what type of business he's buying into. This second point is divided in two: business model and product.

Too often, entrepreneurs are not clear about the business model. Tell the investor, 'this is a pure, shrink-wrapped software play,' or "this is an OEM deal to so and so type companies and we can expect X percent margins based on...."

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As an investor, I see many deals now that include the magic phrases — razor blade, toner cartridge or disposables revenue stream. But I'm seeing it so much, it's beginning to smack of eyeball counting during the bubble. It's just that I don't believe that many companies have to have the disposables revenue stream.

Investors don't have to have the disposables revenue stream to like a deal. But maybe your deal really does have more than one revenue stream. Is there a licensing component? Separate the revenues streams clearly in your financials so that in 2004 the investor can delineate these products.

Make sure the business model matches the market's buying characteristics. Forty years ago, the door-to-door salesman was commonplace in the United States.

Now, the homeowner expects to use a catalog, the web or go to the store. Although the example is simplistic, you'd be surprised how many entrepreneurs match the wrong business model with the wrong market.

Discuss your business model simply and compare it with a successful business model that the investor is familiar with, even if it is in a different industry.

Too many entrepreneurs don't include comparables when introducing their deal. Comparables ground you in the investor's eyes. It's the type of descriptive tool that gets you to 'aha, I get it!' with an investor.

Most people think of comparables only as it pertains to exit valuation. You can use comparables for market entry strategy, business model, and of course the mandatory cashing out data (where you list comparable companies who went public or were acquired).

These two parameters of a well-packaged deal are big-picture ones. This is the place to start. If you want to use

specific anecdotes to drive home the market's pain or some aspect of the model, fine, but start with the situation and the problem it has. This establishes demand. Money is made when a demand is not being met.

Technologists, in love with their technology, want to tell you about their baby, so this is where they start. This is understandable. Ask me about my children, and I'll go on for half an hour.

But you're not selling the technology. You're selling an opportunity to satisfy a quantifiable, urgent need and a business that matches the opportunity.

Investors are investing in a business. One of the signs that a deal is still unpackaged is a presentation that launches into the technology first.

Instead, tell me right up front why and how I'm going to make a lot of money, fast.

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