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Selling Innovation

Marketing innovation towards Danish venture capital investors

by

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1 ABSTRACT

Selling Innovation

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In this report we examine how innovative entrepreneurs best market their business idea towards venture capital investors, in order to attract the capital and competencies needed to turn their ideas into successful businesses.

Through a review of the literature, we examine the paramount importance that innovation plays for the economic growth of the post-industrialised world. We establish a 4P-4C-4D framework, by combining the 4P and 4C marketing frameworks with the four recommendations of innovation expert Peter F. Drucker, and use thus combined framework to examine the factors that are particularly emphasised by investors, when making investment decisions. Five interviews are conducted in total, at least one with a representative of each type of entity in the Danish venture capital market, and a questionnaire survey is carried out to cover the market in its breadth.

Based on the interviews and survey we find that there are three main 'moments of truth' in the marketing process, namely the initial contact, the business plan and the personal meeting, which must be passed successfully by the entrepreneurs, in order to attract investments. To do this, the entrepreneurs must form a tight team that covers the competencies needed to formulate and effectuate a business plan. We conclude that the novelty of the innovation, the business plan and the competencies of the team form the core of the proposal to the investors, and all three must be presented effectively at each encounter with potential investors.

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3 DEFINITION OF TERMS

Some common business terms are used throughout this report. To avoid confusion or misunderstanding, the following list of definition of terms is included for reference.

Term	Definition	Synonyms
Business Angel	A person investing capital and business development and management know-how in a rapidly developing business	
CVC	Corporate Venture Company – a venture investment company, fully owned by a larger mother company.	Corporate Venture
Core team	The team of entrepreneurs behind a newly started company	Team
Core technology	The innovative technology that forms the basis of the newly founded company's proposed product(s)	
Early Stage	Usually used denote the union if the Seed Stage and the Start-up Stage.	
Entrepreneur	The person, or one of the persons, who undertakes the formation of a new company	Founding entrepreneur
Equity	Ownership interest possessed by shareholder	
Equity capital	Money invested in a business by the owner(s) – as opposed to liabilities, such as bonds and loans	
Exit	The process of realising a venture capital investment. This most often means selling the venture to a large corporation or making it public on the stock exchange.	
Expansion Stage	The stage when a marketable product of known profitability has been developed. This stage involves mainly growing the company, based on its initial product(s)	
Growth rate	The rate (in %) by which the value of a venture grows	
Incubator	Public or private investors that provide counselling, capital and physical facilities to start-up companies. They usually also help companies attract capital from other investors, such as Ventures or CVCs.	
Innovation	The invention of a new product or service, or the (significant) improvement of an existing product or service	

Innovation Entrepreneur	The entrepreneur(s) behind a company that have developed the core technology	Innovator
Return on Investment	The multiplier of the return in relation to the investment (i.e. an investment of one million, yielding a return of 5 million equals a ROI of 5)	ROI Return rate
Seed Stage	The stage of a venture where the company has been formed, but no product has yet been developed. This stage involves mainly product prototyping (proof of concept).	
Start-up Stage	The stage of a venture where products has been prototyped. This stage involves mainly product development and marketing of the product(s).	
Venture	In this report used either in the meaning 'new business venture', i.e. a newly formed business entity, based on the idea of a new product or service, or as a venture company, investing venture capital and competencies in new companies.	New / Start-up company (first meaning only)
Venture Capital	The money available from venture capitalists for venture investment	
Venture Capitalist	A person investing in a venture in hope of high return	
Venture Investment	Equity investment in a venture	

Table 1: Definition of terms

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5 INTRODUCTION

Most people who take an interest in innovation are familiar with the phrase "Build a better mousetrap, and the world will beat a path to your door"[1]. The same people will also have learned – some of them the hard way – that the world is unfortunately far from that simple. Innovation in itself has little value if resources cannot be raised for product development and marketing. Who will beat a path to the door of the innovator, if nobody knows that he has built a better mousetrap? And why would they do so, if the mousetrap cannot be reproduced at a competitive cost?

Without marketing and product development, innovation is little more than the pastime of originals - but with sufficient capital and professional management, innovation can be the fuel of economic growth. How does the innovator attract capital and professional management?

If he is part of an existing company, the financial reserves and executives of that company may provide capital and management. But what if we are talking about a start-up company, without any considerable capital resources and management experience? Such a company needs to attract venture capital investors and professional managers. This will be the focus of this report, where we shall examine the marketing aspects of attracting venture capital and management resources to start-up companies. The process shall be considered in the framework of the 4Ps of product-based marketing and the 4Cs of customer-centric marketing. As the success of the venture hinges on proper management, and most investors are well aware of this, we shall introduce also the 4Ds of entrepreneurial management. Based on this '4P-4C-4D' framework, we shall develop recommendations for the successful launch of innovative start-up ventures.

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[1] This phrase has been attributed to Thomas Edison, but is more likely a misquote of a misquote of Ralph Waldo Emerson (Wikiquote, 2005)

6 LITERATURE REVIEW

6.1 The nature and importance of Innovation

Encyclopædia Britannica (2005) defines 'Innovation' as either 'the introduction of something new', or 'a new idea, method or device'. Innovation is the result of untraditional thinking and/or technological research, and may emerge from individual people (creativity driven), research institutions (research driven) or established companies (competition driven) (Porter, 1990, pp. 48-49). Untraditional thinking comes to light when we are faced with changes, such as changes in industry, market, perception or demographics, unexpected occurrences or scientific discovery. Adapting to such changes forces us to 'think outside of the box', and therefore is often the source of innovation. Such innovation can be directed, ordered and managed (Drucker, 1985, pp. 30-129). However, most innovation is the result of the sporadic 'bright ideas' of individuals, which can be difficult to manage and control, and which are risky business at best, since they are not directly geared towards solving an existing problem or meeting customer needs (Drucker, 1985, pp. 130-132).

Since the middle of the last century and up to present date, the focus on the role of innovation in economic development has steadily increased to the point that it has been hailed by popular economic literature as 'the industrial religion of the late 20'th century' (Valéry, 1999). This elevation from concept to religion might seem exaggerated, was it not for the hard fact that innovation now accounts for more than half of the economic growth (The Economist, 2002), and the vast majority – if not all – of the job growth in the post-industrial US (Drucker, 1985, pp. 7-11).

The concept and significance of innovation is first explicitly defined and pointed out by Joseph A. Schumpeter, the first economist to treat the subject systematically. In 1935 he analyses the process of economic change, and points to innovation as the modus operandi for economic growth, besides that caused by natural events, population growth and outside factors. He defines innovation as distinctive steps in productive and commercial methods (Schumpeter, 1935). In his classic work 'Economic Theory and Entrepreneurial History', printed in 'Change and the Entrepreneur' in 1949 (Schumpeter, 1949), Schumpeter points

to the close relation between innovation and entrepreneurship. This comes to light as he examines the role of the entrepreneur, and notes that the common perception of an entrepreneur is that of one who simply combines resources into tools of production – but, Schumpeter argues, the role of the successful entrepreneur is much more than that. In order to produce high gains, the entrepreneur cannot simply combine resources according to established custom. He must add something new, either to the product he wishes to produce, or to the process of production. Thus, the successful entrepreneur is not merely a manager of resources – he is an innovator. Furthermore, Schumpeter also touches on the distinction between capitalist and entrepreneur, and outlines the relationship between them. The capitalist provides the financial resources, and the entrepreneur provides the innovation.

In his monumental work, 'The Competitive Advantage of Nations' (Porter, 1990), Michael E. Porter also recognises the paramount importance of innovation in economic growth, by its importance in creating and maintaining competitive advantage in both companies and nations. For entrepreneurial innovation, Porter remarks that new business formation *feeds the process of innovation in an industry* (Porter, 1990, pp. 122). Later on in the same work, he emphasises the role of innovation in the evolution of markets, as he points out that innovation driven growth is the distinction mark of the most highly competitive economies (Porter, 1990, pp. 546). In the innovative phase of economic development, the four deciding economic factors identified by Porter ('factor conditions', 'firm strategy, structure, and rivalry', 'demand conditions' and 'related and supporting industries') all work together to create economic growth. A highly educated and wealthy workforce creates sophisticated demands. Competitive and internationally successful companies, employing the highly educated workforce, are capable of applying innovation to meet the customer's demands. The high level of innovation and technology enhance the factor conditions through automation and specialisation. Porter regards factor conditions in a wider context, including education, efficiency of the production facilities, communication and computing infrastructure, etc.. All these effects also enhance the related and supporting industries. This innovative driven stage is the signature mark of most competitive first world economies (Porter, 1990, pp. 552-556).

We see that all the authors mentioned above agree that innovation is the key to success, both on individual firm level and on the national level. However, as Clayton M. Christensen points out in his two books 'The Innovator's Dilemma' (Christensen, 1997) and 'The Innovator's solution' (Christensen, 2003), innovation poses a challenge to business leaders, because, as it can be a source of growth, it can be equally well be the cause of decline or outright failure. This is because of what he labels 'Disruptive Innovation'. Disruptive innovation distinguishes itself from benevolent innovation in the sense that the technological advance it introduces is not in line with a company's established methods or area of business, and that there is no immediate customer need for the resulting products or services. These two factors cause business managers to ignore - or even actively resist - the change in business that these technologies could introduce, with the result of missed opportunities and declining market share as the result. Christensen mentions several examples in the introduction to 'The Innovator's Dilemma', for example the failure of Sears to exploit the advent of discount retailing and home centres and the failure of IBM to capture the market for personal computers (Christensen, 1997, pp. xi-xii). C.M Christensen comes up with two possible solutions for handling disruptive innovation. Rather than resisting or ignoring disruptive innovation, it should be either moved to a separate business unit, where it can evolve without the reactionary pressure of the established management methods or technological paradigms that pervades the existing business units. Alternatively, if the prospects for the new technology are so uncertain, and the technology is so expensive to exploit as to warrant concern by the company's executives, it could be completely separated from the company into a new start-up company, or venture (Christensen, 2003, pp. 177-203). This would limit the liability of the Mother Company, and allow additional capital for product development to be attracted in the form of venture capital investments.

In this report we shall not consider the aspects of innovation outside of a free market context. However, as William J. Baumol argues in his book 'The Free-market innovation machine' (Baumol, 2002), the free market is by far the best environment to motivate and foster innovation.

Henry Mintzberg is one of the most distinguished authors in the fields of management and organisation, and throughout his academic career he has examined closely the formation of

strategy in business. According to Mintzberg, Ahlstrand and Lampel (Mintzberg et al., 1998), of the ten schools of strategy identified by the authors, Porter is considered as one of the 'founding fathers' of the Positioning School (Mintzberg et al., 1998, pp. 82-83), while Drucker and Schumpeter are considered part of the Entrepreneurial School (Mintzberg et al, 1998, pp. 125-129). The positioning school lays its emphasis on positioning in the marketplace, and considers company strategies as generic and related to this positioning. The entrepreneurial school considers strategy as the visions of an entrepreneurial manager, who decides on the production of the right product and at the right price, and leaves the rest to the market dynamics of supply and demand. It is therefor not surprising, as we have seen above, that Porter thinks innovation into a wider global market perspective, while Drucker and Schumpeter are more concerned with the immediate challenges and opportunities of innovation and the innovative process. Mintzberg, Ahlstrand and Lampel do not place Christensen within the schools, but based on the examination above, he too should be placed in the entrepreneurial school. Indeed, Christensen is today known as one of the leading thinkers in the area of innovation and entrepreneurship, which he sees as vital to the development of business and the economy. Maybe he should even be considered as the founder of an 'Innovative' school, since he places the greater emphasis on innovation – see for example his most recent book 'Seeing what's Next' (Christensen, 2004).

6.2 Managing innovative start-up ventures

As Schumpeter, Porter and Christensen (see above) point out, the innovative start-up venture is an essential entity in the development of the global economy, competitive national economies and the successful handling of innovation. Whether the innovation emerges from a single person, a research institute, or from an established company, ventures may emerge from a need to limit the economic liability and risk of the innovators and to attract the capital needed for product development and marketing.

Drucker identifies the main management challenge of venture companies (Drucker, 1985, pp. 188-206) as being the need for market focus, financial foresight, a top management team and for the entrepreneur to consider critically his own role as the business develops. Failure to address these issues in a venture, Drucker argues, will stunt the growth of the

venture at best, and at worst result in outright bankruptcy. Let us call these issues the 4D's (for 'Dos of innovation management' or 'Drucker') of entrepreneurial management:

1. Market Focus: The entrepreneur needs to be aware of the market for his products. This includes systematic background market research, but also openness towards new customers and applications that the entrepreneur did not initially consider as his target. If not handled correctly, there is the danger of missed opportunities because of preconceptions, which causes the venture to loose initiative to potential competitors.
2. Financial Foresight: The rapid growth that the successful venture undergoes demands financial planning, including attracting the right investments and capital to support growth, but also the processes to control and manage the finances and resources internally in the company. The danger is lack of capital and inability to utilise correctly the resources of the company. Christensen labels phases of financial crises as 'Stall Points' and gives an elaborate description of the symptoms and causes (Christensen, 2003, pp. 236-258).
3. Top Management: As the venture grows, the entrepreneur cannot control the company by himself. He needs to delegate responsibility to professional managers, and he needs to build a team of top managers with clearly defined responsibilities. Drucker points out that it takes time to build such a team, so the entrepreneur should start this process long before the management team is actually required. For rapid growth ventures, the process of putting together a top management team should probably be initiated from the very outset.
4. Entrepreneur's Own Role: With the need to delegate responsibility to a top management team comes also the need for the entrepreneur to ask himself what his own role should be in the company. The successful innovator is not necessarily a successful CEO. To maximise the growth potential of the company, the entrepreneur might need to relinquish control to professional managers, and focus on the areas where he can contribute the most. Note that this may give rise to a conflict of interest, because what is best for the company may not necessarily be in the personal interest of the entrepreneur.

6.3 The marketing process of attracting venture capital investments

An entrepreneur wanting to attract venture capital investments and management expertise needs to sell his innovative idea and company concept to potential investors. He needs to convince the investors that his idea is sound and his company viable, so that the investors can expect a large return, and preferably at a reasonably low risk. He needs a strategy for how to ‘sell’ his innovation. We shall examine this process in the context of marketing.

Several frameworks have been suggested for analysing, formulating and managing marketing strategies. The concept of using a set of parameters to describe how companies can manage marketing was developed mainly by Arne Rasmussen, who in his doctor’s thesis mapped the basic parameters of marketing (Rasmussen, 1955), which were mainly related to price, product and quality. While lecturing at the Copenhagen Business School, Otto Ottesen expanded the parameter space with parameters dealing also with communication; how to establish contact to the customer, and how the customer becomes familiar with a product (Ottesen, 1966). The idea presented in the lectures were later published in book form (Ottesen, 1977), and the book was edited and with foreword by Arne Rasmussen. In the field of marketing, the parameter theories of Rasmussen and Ottesen became known as the Scandinavian school.

In response, US and UK marketing thinkers formulated a framework, which became known as the '4Ps' or 'marketing mix' framework. E. J. McCarthy first proposed the 4Ps in 1960 in his 'Basic Marketing: A managerial approach (McCarnthy, 1960, pp. 74-81), though they are perhaps better known through the works of marketing guru Philip Kotler (Kotler, 1967) & (Kotler, 1971). The 4Ps stand for:

1. Product: Overall quality and suitability of the product in the marketplace
2. Place: Venues of distributing the product to the customer
3. Promotion: Making the customer aware of the product and convincing him to buy
4. Price: Setting the price fairly so the company makes a profit and the customer wishes to purchase it.

B. H. Booms and M. J. Bitner considered the 4Ps to be insufficient for developing marketing strategies for services. They proposed to expand or modify the meaning of the 4P framework, and to add 3 more P's to the mix (Booms and Bitner, 1981):

5. Participants: The staff in the service delivering company and other service customers
6. Physical evidence: physical commodities facilitating the delivery of the service
7. Process of service assembly: the process by which the service is delivered

For obvious reasons, this extension is called the '7Ps' framework.

In the late 1980'ies and the early 1990'ies we saw the rise of the 'New Economy', which emphasises differentiation, rather than economies of scale, as the main source of competitive advantage. Consequently, the need arose to view the customer, not just as a consumer, but as a partner to the company. This lead to the development of customer-centric marketing frameworks, such as 'Relationship Marketing', which uses 30Rs to describe 30 distinct aspects of the relationship between a company and its customer This framework is defined and extensively described by E. Gummesson (Gummesson, 1995) & (Gummesson, 1999), one of the leading thinkers in relationship marketing, who started developing the concept already in 1982 (Gummesson, 1995, pp. 11).

The Gartner Group operates with 4Cs in their model for Customer Relations Management (Eisenfeld, 2000a) & (Eisenfeld, 2000b):

1. Customer: Lifetime value of customer and value to customer - mutual benefits through the lifetime of the business relationship.
2. Continuity: Dialogue and foundation for insight – mutual understanding between company and customer
3. Customisation: Customer needs and preferences throughout the customer lifecycle
4. Convenience: Ease of use and suitability of product to the customer

We see that this framework is simpler than the framework of Relationship Marketing, while it still emphasises the relationship and partnership between customer and company.

The 4Ps and the 4Cs, combined with the 4Ds of Drucker, identified in the previous section, shall form the framework used in this report. The framework will be used to develop a

questionnaire, as well as to analyse the results of the questionnaire survey and the interviews. Obviously there will be some overlap between the areas in the framework, as the 4Cs were developed to replace the 4Ps and the 4Ds will cut across most of the other aspects. However, as we shall see, the framework proves effective when examining the areas of concern in this report.

7 METHODOLOGY

7.1 Research approach

To study the evaluation of opportunities for investment in innovation by equity investors in Denmark, it is necessary to take three main topics into account, and use different approaches to clarify each of them.

First of all, the process of evaluation is very detailed and technical, and performed by people with a high level of experience and expertise. Therefore it is important to study and understand this process in details, as well as the context in which it takes place, i.e. both the evaluation process and the current situation of equity investments and innovation in Denmark. This shall be done by a study of the technical publications of various authorities and institutions here in Denmark, in particular those of VTU (The Ministry of Science, Technology and Innovation) and Vækstfonden (one of the leading Danish venture funds), both of whom have conducted significant research into the processes and status of the Danish venture market.

Secondly, it is important to recognise the diversity of entities in the Danish venture market that are investing in innovative enterprises. The main players are:

1. Individual investors, either investing their own personal money or investing for others.
2. Business Angels, which are private investors grouped together in networks, such as Novi Band, Switzr, RBAND and BA Copenhagen.
3. The Innovation Environments (Innovationsmiljøerne), which are mixed private and public enterprises, all with strong public funding, that support investments in innovation, as well as management of growth, networking, housing, etc.. Seven such environments exist in Denmark. They are by definition Public or Private Incubators.
4. Various investment funds, both private and semi-public, such as Vækstfonden, Symbion and Seed Capital. This category could also include regular capital funds that are investing in innovation. Some of these funds provide financial backing for the Innovation Environments. They operate in the form of Ventures or Private Incubators, or – when they are fully owned by another company – corporate venture companies (CVC).

It is not the intention of this report to map or benchmark the venture investments into innovation in Denmark, but we should uncover if and how the approaches to placing and developing their investments differ for the different types of entities listed above. This is best uncovered by direct interviews with representatives of each group. Unfortunately, as time is a limiting factor in this research project, only one or two from each group can realistically be interviewed.

Finally, in order to examine the market in its breadth, a questionnaire survey shall be conducted. The questions shall cover the areas of our model, i.e. the 4Ps, 4Cs and 4Ds identified in the Literature Review.

7.2 The Interviews

Due to the limited time available, it was not possible to conduct personal interviews with a representative of each entity listed above. However, two personal interviews were conducted, one with an investment manager from Seed Capital (see section A.1) and one with an investment manager from Vækstfonden (see section A.2). Both of these entities invest both public and private funds and specialise in providing seed and early stage venture capital to the Danish market. As such, they are extremely important for the topic of this report, as the focus is on the early stages of venture capital, and because both of these entities invest a large volume of money, thus having a tremendous direct and indirect influence on the Danish market for venture capital. The interviews were conducted at the interviewees' premises, and both were one-on-one interviews. Though questions had been prepared before the interviews, the discussion flowed freely, and there was in both cases a very free and relaxed atmosphere.

Telephone interviews were conducted with a private investor, a business angel and a representative of an incubator company. The telephone interviews focused mainly on the process by which investments were made, the main decisive factors and advice to entrepreneurs starting a new business and seeking investments. After the interviews, the

summaries (see section A.3, A.4 & A.5) were sent to the interviewees for their approval, before being included in the project.

7.3 The Questionnaire

The questionnaire was developed as described above. It was reviewed and critiqued by Søren Friis of Seed Capital, before it was sent out to the identified recipients. The questionnaire, and further information on how it was developed, can be found in Appendix B.

The Questionnaire was sent out to 22 companies and organisations, all identified through the a report from Vækstfonden on the Danish market for venture capital and buy-out (Vækstfonden 2005a, pp. 52-53), as well as 7 private investors, identified through the Danish Venture and Private Equity Association (DVCA 2006). Of the 29 questionnaires sent out, 13 were returned from respondents, corresponding to 45%. One of the respondents did not receive the questionnaire directly, but had it forwarded to him by one of those directly targeted. One recipient replied that they did not take part in surveys, and two other recipients replied that they were no longer involved in venture capital investments.

According to (Vækstfonden 2005a), a total of 51 companies and organisations were involved in the venture capital market in 2005. The questionnaire was thus sent out to 43% of all of these entities. It is difficult to know how many single person investors exists, so the coverage here can not be accessed.

7.4 Validity and bias

As previously mentioned, interviews covered representatives of the relevant entities. Seed Capital and Vækstfonden were specifically selected, due to their volume and proximity to Copenhagen. The other entities were selected randomly from the respondents to the questionnaire that had ticked the field 'I can be contacted for follow-up questions'.

The questionnaire covered about half of the companies and organisations, and an unknown fraction of individual private investors. Responses were received from 11 companies and organisations, corresponding to 22% of this population. Responses were received from two private investors, for a total of 13 responses.

7.4.1 Comparison to survey by Vækstfonden

According to (Vækstfonden 2005a), the distribution of companies and organisations involved in the Danish venture capital market is as follows:

Type	***Venture***	***Corporate Venture***	***Private Incubator***	***Public Incubator***
Population	34	5	5	7
Percentage	66.7%	9.8%	9.8%	13.7%

Table 2 : Distribution of Danish vanture capital investor companies and organisations

The respondents to the questionnaire survey were distributed as follows:

Type	***Venture***	***Corporate Venture***	***Private Incubator***	***Public Incubator***
Population	6	0	3	4
Percentage	46.2%	0	23.1%	30.8%

Table 3 : Distribution of respondent companies and organisations

We see that no corporate ventures responded to the questionnaire. Private and Public incubators are overrepresented in the table below, as two of the respondents replied that they were both public and private incubators. In the survey by Vækstfonden, an incubator is either public or private, depending on the main source of funds. If we assume that the two companies that responded that they were both public and private are in reality one public and one private, the distribution looks as below:

Type	***Venture***	***Corporate Venture***	***Private Incubator***	***Public Incubator***
Population	6	0	2	3
Percentage	54.5%	0	18.2%	27.3%

Table 4 : Reduced distribution of respondent companies and organisations

Based on the distribution measured by Vækstfonden, the expected distribution given a sample of 11 entities would be 7, 1, 1, 2. The above distribution is fairly close to the expected distribution, which gives confidence in the results. Unfortunately the information given as response to the survey does not warrant further comparison with the survey by Vækstfonden, so any additional bias cannot be ascertained.

7.4.2 Mode of contact

All the entities were contacted through e-mail, by looking the company name, taken from Vækstfonden's survey, up on Google. Some companies were not contacted, because they could not be found in an internet search, or because there was no E-mail contact information posted on their websites. This does create a bias in the sense that only companies present on the Internet, and using E-mail as a usual mode of contact were questioned. This might create a bias in favour of companies that prefer to be directly contacted by entrepreneurs; however the effect should be small, as it is quite natural for most companies to use the Internet for communication in this day and age.

7.5 Analysis of the results

Unfortunately the number of responses to the questionnaire is too small to allow for elaborate segmentation or examination of complex cross-relationships. Instead we shall examine mainly the elements common to the venture capital investors. The findings shall be analysed within the 4P-4C-4D framework previously outlined.

8 FINDINGS

8.1 The emergence of the Danish Venture Capital Market

During the 1980'ies, the importance of innovation - and hence venture capital - for the development of the economy came to the attention of politicians in Denmark. This increased awareness resulted in the foundation of Vækstfonden in 1992 with a capital base of 2 billion DKK (~ 300 million Euro) to invest in start-up high-risk companies. Today Vækstfonden receives 25 million DKK (~3.4 million Euro) each year from the national budget. In 1997 the Innovation Environments were established by the Ministry for Economics and Business Affairs, to support start-up companies, not just with capital, but also counselling and physical facilities, such as production and office space. Since then, many other private companies, as well as risk-willing individual investors have joined the Danish venture capital market. The total market is today estimated at 17.5 billion DKK (Vækstfonden 2005a). In terms of % of the BNP, this places the Danish venture capital market at fifth place in Europe, only surpassed by Sweden, the UK, Finland and Spain. As far as the vital Early Stage investments are concerned, Denmark is ranked at second place, only surpassed by Sweden (Vækstfonden 2005b). The vision of creating a leading market for venture capital, originally conceived in the late 80'ies, has thus become a reality.

8.2 Recent developments

During the 'IT-bubble', from 2000 to 2002, both the number of investors and the capital volume invested grew dramatically (Vækstfonden 2005a, p.7-11). Since 2002, the number of investors has actually decreased, though the capital volume has increased slightly.

According to Søren Lemonius of Vækstfonden, the venture capital market changed dramatically when the IT-bubble collapsed. Up until the collapse, it was more or less taken for granted that the value of a company would at least double, as it moved from one stage to another (Seed to Start-up to Expansion). This was not due to a real growth in the internal value of the companies, but because it was expected that they would eventually become very profitable, which made it easy to raise capital for growing the new companies. As the bubble burst, this optimism disappeared, and today companies are valued more realistically, which means that it has become more difficult to raise additional investments,

unless the company begins to show results from the very early stages. At the same time it has become more difficult for new companies to attract any kind of investments to begin with, as the number of seed investments have decreased from 584 in 2001 to 256 in 2004 (Vækstfonden 2005a). In conclusion, the venture capital market has become a lot more competitive in recent years, in the sense that it has become more difficult for start-up companies to attract capital. This only emphasises the need for such companies to market themselves effectively towards potential investors.

8.3 Analysis of the findings within the framework

Returning again to the process of marketing innovation, in the sense of an entrepreneur marketing investment opportunities towards venture capitalists, we shall examine the process in the framework outlined in section 6, using the knowledge obtained from the survey and the interviews. The review of these results, combined with what we have previously discussed, will allow us to make some very relevant recommendations to entrepreneurs seeking to attract venture capital to their business.

8.4 Product

8.4.1 ROI and timeframe

The product in this sense is the investment opportunity, and not the product or service that the new business will produce. So what in this sense characterise a 'good' product? Obviously one that has high value – meaning one that produces a good ROI within the timeframe of the investment – as all investors are seeking to make their capital grow. Form the survey we find the following distribution of expected ROI and investment timeframe:

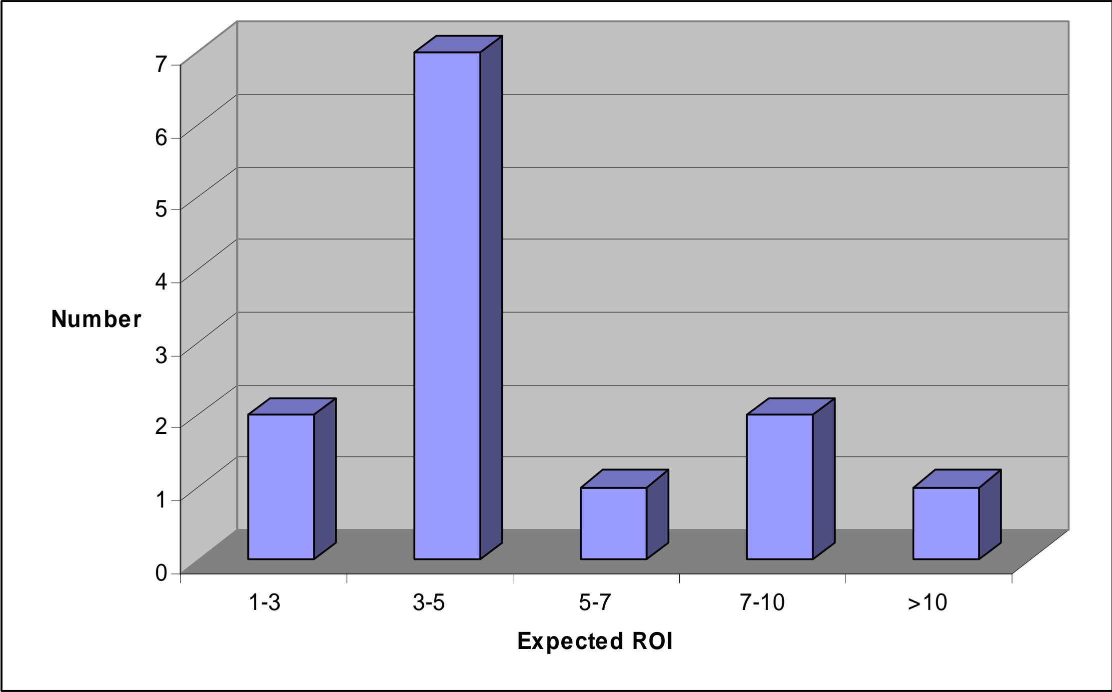

Figure 1: Expected ROI

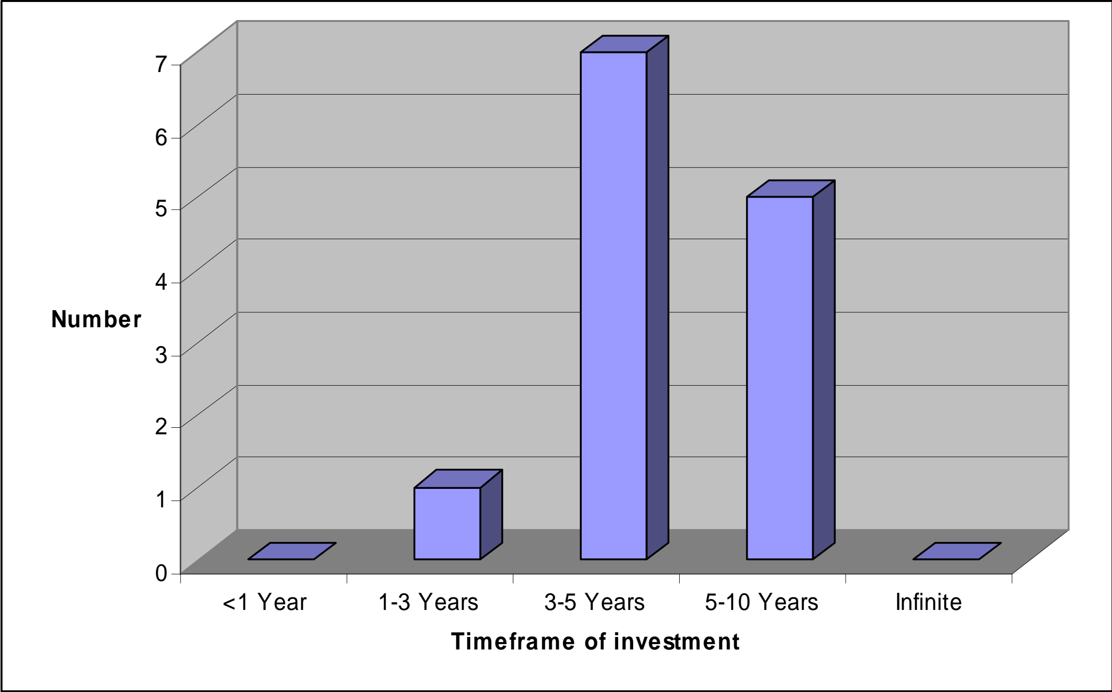

Figure 2: Timeframe of investment (time until exit)

We see that the vast majority of investors expect a ROI of 3-5 within a timeframe of 3-10 years, corresponding to an average growth rate of 12% to 71% p.a.. This appears to be

vastly different expectations – a growth rate of 12% p.a. is in-line with the economic growth in many areas of the world, while a growth rate of 71% p.a. is very high. This high growth rate can only be possible if the production is easily scalable, meaning that as soon as one unit can be produced at a reasonable price, it must in principle be possible to produce an infinite amount of those units at the same or lower price. This is only possible with manufactured goods, as well as some medical products. Obviously it is not possible with products or services that require the involvement of a very limited resource – such as a type of expert of which only a few exist. The target market must also be large enough to sustain such a growth.

8.4.2 Risk

Another factor that investors consider very carefully is risk. What is the possibility that the investment will not give the expected ROI within the expected timeframe? What is that risk that additional investments are needed to make the business grow? What is the risk that all money will be lost? According to Søren Lemonius, it is generally accepted within the venture capital market that out of five investments in new business, on average, only one delivers the expected ROI within the expected timeframe. Two other investments merely break even, while the last two results in losses. With such statistics, it is no wonder that venture capitalists are very risk sensitive.

A lot of factors affect the assessment of risk. Below are listed some of the most important ones:

- The technology has been proven to work via prototyping
- The technology is or can be protected by patents
- Market surveys show that there is a sizeable market for the product to be produced
- The team behind the company are professionals, with experience in business and product development, and possess all the relevant competencies to run a successful business
- The investor is allowed to be on the board, so he can monitor the progress of the company
- Milestones have been clearly defined, against which progress can be measured

Most of these issues must be addressed in the *business plan*, in order to convince investors to trust the company enough to invest their capital.

8.5 Place

How does entrepreneurs get into contact with potential investors? According to the survey, 92% of the participating venture capital investors like to be contacted directly by new companies by telephone, fax or mail. 54% of the respondents said that they used other channels as well, the preferred two – besides telephone, fax or mail – being at meetings or fairs, or by getting contacted by a bank or investment association. Thus 'place' in this context is not a critical factor – when the entrepreneurs know how they are to present their company (see section 8.6) and what kind of investors they are interested in (see section 8.8), they should simply go ahead and contact the potential investor directly.

8.6 Promotion

8.6.1 Communication

Before we proceed with the description of the promotion process, let us have a brief look at Berlo's SMCR model of communication:

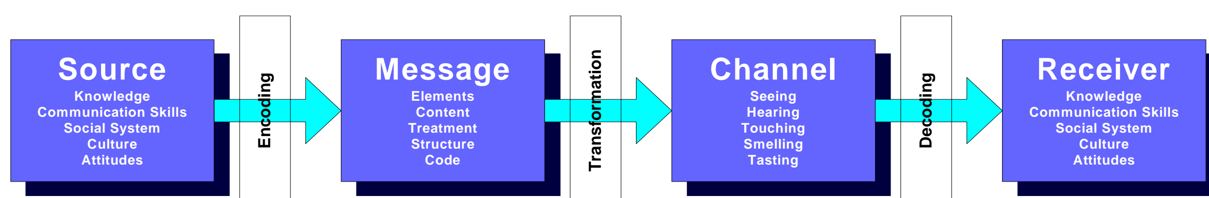

Figure 3: Berlo's SMCR model of communication (Berlo, 1960)

The first thing that Berlo noted, when he developed the model in the 1950'ies, is that the Source and the Receiver interprets the same massage differently, as they have different knowledge, communication skills, social systems, culture and attitudes. The source of communication encodes his message, using his own version of these parameters, while the receiver decodes the message using his version of the same parameters. Thus, the source and the receiver are bound to have two different interpretations of the message – the message is not understood exactly as it was intended, because source and receiver have

different backgrounds. Furthermore, the message must be communicated via a channel, for example hearing, in the case of a telephone conversation, or sight, in the case of a written business plan, which required some transformation of the message. A message cannot be conveyed directly from the mind of the source to the mind of the receiver. To be successful, the entrepreneur must therefore be aware of the different encoding and decoding parameters between him and the potential investors, he must be aware of the kinds of messages that the potential investors are interested in hearing, and he must use the channels available to him effectively.

8.6.2 Moments of Truth

Most investors are presented with many more investment opportunities than they have the resources to pursue. In that sense, then market for innovation really is a *buyers market*. Due to the large number of investment opportunities, compare to the available capital, potential investors are very critical of new offers, and if it is not immediately apparent to the potential investor that the investment is sound, it may quickly be rejected. It therefore makes sense to talk about 'moments of truth' - i.e. moments in the marketing process that absolutely must be successful, in order for the entrepreneur to convince an investor to invest. The main moments of truth are:

- The initial contact
- The business plan
- The personal meeting

8.6.3 The Initial Contact

The first moment of truth is the initial contact with the investor. As the survey shows, the vast majority of investors prefer to be informed of investment opportunities directly by the company in question (Question 13 – only one respondent did not tick 'directly by company'). Whether contact is established by telephone, fax or mail, the entrepreneurs must immediately make their message known to the receiver. Besides being socially courteous, the initial contact should in effect communicate an executive summary of the business plan (see the next section). The purpose is to make the investor interested in the idea behind the company, as well as to create a personal relationship with the investor. If this is successful, the entrepreneur has an opportunity to influence the potential investor

before he reviews the business plan. This may result in the investor being more positive towards the plan, and taking greater care in reviewing it thoroughly, which again – if the business plan is solid – should decrease the risk that the investor dismisses the business plan outright.

8.6.4 The Business Plan

The second moment of truth arises when the potential investor reviews the business plan. The business plan must describe all relevant aspects of the new company, in order for the investor to gain confidence that it is worth while investing in the business. A lot of literature exists on how to write business plans, see for example (Arkebauer, 1994) or (Arkebauer & Miller, 1999).

Looking at the results of the questionnaire survey, we find that there is a high level of interest in all the aspect identified on the questionnaire, see Figure 4.

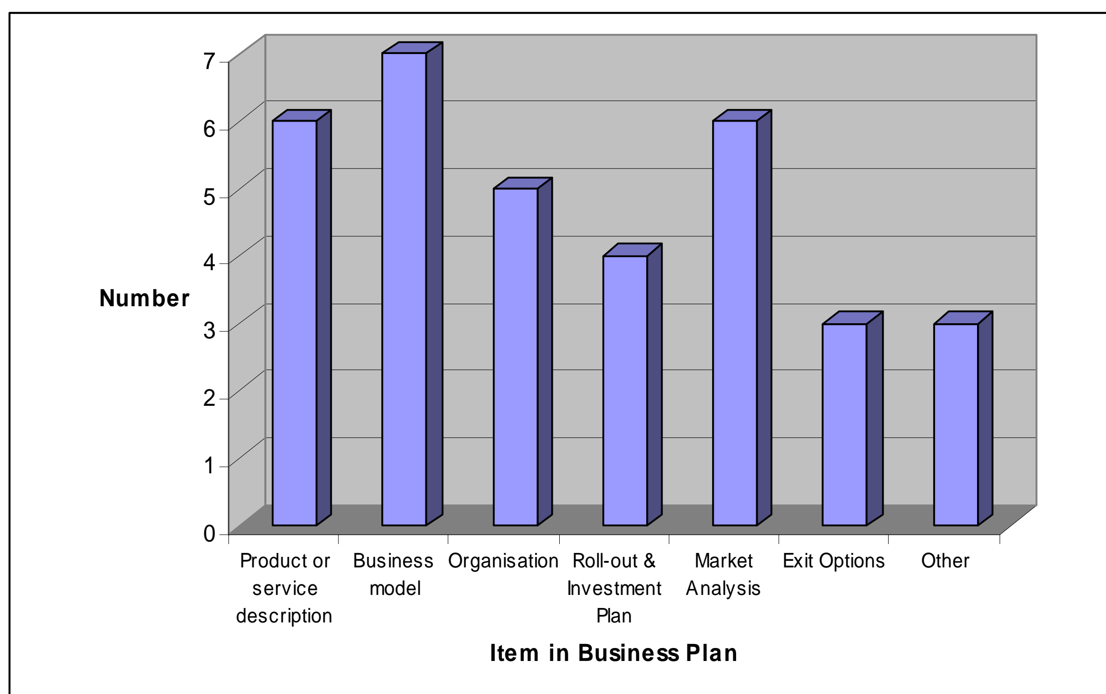

Figure 4: Items emphasised in the Business Plan

In the field where respondents could enter their own preference ('Other'), one wrote 'management', one write 'people' and one wrote 'risk factors'. This produces quite a comprehensive list of issues that must be addressed in the business plan:

<table>
<tr><td colspan="2" align="center">Executive summary</td></tr>
<tr><td align="center">Product or service description</td><td align="center">Business model</td></tr>
<tr><td align="center">Market analysis</td><td align="center">Organisation</td></tr>
<tr><td align="center">Rollout & investment plan</td><td align="center">Exit possibilities</td></tr>
<tr><td align="center">People & Management</td><td align="center">Risk factors</td></tr>
<tr><td colspan="2" align="center">Relevant appendices</td></tr>
</table>

Table 5 : Main Elements of the Business Plan

Rather than describing all these issues in detail, let us examine the general premises on which the business plan should be constructed. Returning to the communication model introduced at the beginning of this section, the content of the business plan is the 'message'. Let us examine the differences in encoding and decoding parameters between the entrepreneur and the potential investor, and how the entrepreneur raises above these issues to most effectively deliver the message.

It is natural for the entrepreneur to be very excited about and proud of his innovation. He probably has a compulsion to make everyone know just how clever it really is. That is good, because the novelty of the innovation must be communicated to the potential investors – however, there is a world of difference in what an engineer and what an investor may find interesting. The investor is most likely not interested in why the impedance of this circuit must result in exactly that phase shift of the sinusoidal signal, or why the diameter of this ball bearing has to be one quarter of the length of this arm there. What they do want to know is:

- What is the *novelty* of the innovation?
- What *problems does it solve* for the customer?

- Has/can it be patented, and has/can its use be patented?
- Why would the customer want to pay for this solution, rather than another existing solution, if such a solution exists?

In short, whereas it is natural for the entrepreneur to be very excited about the technical aspects of an innovation, the potential investors are most likely more interested in the business aspects of it. As several of the people interviewed noted; 'if you want to explain the details of exactly how it works, *please* do so in an *appendix'*.

The executive summary is the most important part of the business plan, for one simple reason; it is the first thing that investors read. If it does not convey why the current investment opportunity is the best one that the investor is likely to see in a long time, the business plan may well be rejected on the executive summary alone. Søren Lemonius compared the executive summary to the 'elevator pitch', see for example (Michaels, 2004), i.e. a short story that will tell the investor the essence of the business idea and why he cannot miss this opportunity. This sales pitch should be learned by heart by all members of the entrepreneurial team, as it is the common story that must be conveyed to all potential investors.

Several of the venture capital investors mention that people are important, as they contribute vital competencies to the company, which is needed to refine the basic technology, develop a product, market the product and grow the company. It is therefore important that a strong team of people can be presented in the business plan that covers both the technical aspects, but also the aspects of business development, marketing, finances etc.. If the entrepreneurs do not possess these skills themselves, they need to team up with someone who does. As we shell see in the next section, the competencies of the core team is part of the value of the company, and therefore an important aspect in determining how large a share of the company that the entrepreneurs must be willing to relinquish, in order to attract investments of the required size. The team should be described, and complete CVs and list of references included in an appendix.

Regarding the graphical layout of the business plan, 46% of the respondents say that is does affect their impression, while 54% say that it does not. It does not hurt to pay some attention to this aspect, even though it is obviously a minor one.

8.6.5 The Personal Meeting

Based on the business plan, the potential investor may see an interesting prospect of investing in the company, but the decision is far from made yet. Most large investors will insist on having at least one personal meeting, before they decide on whether to invest or not. This personal meeting serves a number of purposes, some of which may not be obvious to the entrepreneurs.

First of all, the meeting serves the purpose of clarifying any uncertainties in the business plan. Usually the entire business plan has to be presented by the entrepreneurs. If the potential investor has doubts about certain information or conclusions in the plan, he will either ask these questions in advance, so that an answer can be prepared and presented at the meeting, or he will ask the questions at the meeting. No matter how the questions are raised or what they are, it is very important to address thoroughly the questions raised by the potential investor, because they are important to him. Most likely the new company will not get all their money from one single investor and learning from the reactions and questions from one investor will help the entrepreneurs prepare for the encounters with subsequent investors. It is therefore important to listen to all questions raised by any and all potential investors, and to incorporate these issues into the business plan and future presentations.

Besides to review the business plan, the personal meeting also has several social angles. The investor wants to make sure that the team behind the company works well together, i.e. that they do actually work as a team, meaning that they complement each other professionally, that they communicate well and that they have the proper chemistry. Many otherwise promising ventures have failed because of personal disputes in the top management. The potential investor will want to make sure that the company he is currently considering investing in does not suffer the same fate. If the investor plans to be a board member – and a lot of the investors demand to have a seat on the board – he will also

want to make sure that there is the right chemistry between him and the entrepreneurs, that they have common goals and a common understanding that allow them to work together.

The survey showed that 92% of the investors felt that a good personal presentation of the business plan added credibility to the professional competencies of the entrepreneurs. A good presentation and a professional and open attitude at the personal meetings cannot be underestimated. Also, if the product has been prototyped, and it is possible to bring it to the presentation, that will obviously have a lot of convincing power – nothing builds confidence in a product as actually seeing it work.

8.7 Price

When investors place equity capital in a company, two things are obviously important to them, namely the amount of capital placed and the equities gained. In other words, if they make an investment of a certain amount, how large a fraction of the business do they own? Here there are two major points to consider:

- The amount of capital needed to establish and grow the business
- The value of the business before the investment is made

The first point is a matter of estimating the cost of product development, production and marketing needed to develop the business to the point where it is self-sustained. Such estimation is made by industry specialists, either the investor himself, in the case where the investor invests in an area where he has previous experience, or by external experts, which is the case for many of the larger investors who cannot be experts in all the areas where they invest. This is the total amount that must be raised from investors. However, it is probably not possible to raise all the money at once, because of the high risk involved in investing in a totally unproven technology. Instead investments are more likely attracted in smaller volumes through the phases mentioned, namely seed, start-up and expansion.

The second point is a much more delicate matter, as it involves a lot of factors, many of which are very subjective. For seed investments, i.e. investments in a company where no product has yet been developed, the company consists only of a few core components; the

fundamental technology (i.e. the innovation), the business idea and the team behind the company (i.e. the entrepreneurs). Consider for a moment that an estimate of the costs to develop a company is 50 million DKK, which must then be raised from investors. If the initial value of the company is accessed to be 2 million DKK, investors will own 96% of the company, meaning that the ownership share of the entrepreneurs is reduced to 4%. If the value is instead estimated to be 10 million DKK, investors will own 83%, leaving the entrepreneurs with a 17% ownership share. It is therefore vital that the entrepreneurs make sure that the value of their technology, the business idea and their own competencies are recognised, in order to get a fair price for their effort.

For later stage investments, the value of the innovation, the business idea and the team may have changed. It may have turned out that the technology or business idea was more potent than initially expected and new competencies may have been attracted to the company in the form of experts and active investors. In addition to the new value of these core components, the business has developed as a result of earlier investments. Maybe a product has been developed, and production facilities and offices have been acquired. This adds to the value of the company, and decreases the ownership share of new investors. The value is often assessed by calculating the 'cash burn', i.e. the amount of money already invested in the company. However, new investors could argue that the money have not been spend optimally, which would reduce the present value of the company, and increase the ownership share that they receive when investing, further diluting the ownership share of the entrepreneurs. Thus the entrepreneurs must be prepared to gradually relinquish control of the company, in order to attract the capital needed. In order to maintain a decent share of the company, they must make sure that the value of the core components is recognised by the investors.

8.8 Customer

Obviously not all investors are equally valuable to a new company. Finding the right investor is not just a matter of attracting capital, but also a matter of attracting competencies to the company, developing a network and building professional relationships. What kind of investor should a new company look for? The answer to that

question will depend critically on the maturity of the company and the core technology, as well as the experience and competencies of the entrepreneurs.

If the entrepreneurs have not previously started a company, if they are unfamiliar with how to make a business plan, and if they are uncertain about the meaning of the many financial terms used by investors, they should contact an incubator company, such as one of the Innovation Environments. Here they can get guidance in these areas, or get into contact with people who can help them. Before contacting an incubator, they must have an idea what product their innovation can be used to develop, as well as what the novelty is of that particular product. If they can convince one of the investment managers at the incubator, most of whom have a background in industry, they can get connected with people that have the qualifications to formulate the business plan, and can then start looking for capital. The incubator may invest in the seed stage, but incubators typically have limited capital, and rely on external investors for larger volume or later stage investments.

If the entrepreneurs have previously started a successful company, and are familiar with developing business plans and negotiating investment terms, they can directly contact either personal investors, or the larger investment companies, depending on their needs and preferences. If they are looking for a large capital volume, they should probably contact one of the Venture or Corporate Venture companies. If they are looking for a close partnership with an industrial expert, they might find a suitable personal investor, either directly or through a Business Angel network.

When looking at the volume of capital each investor typically invests in a single company, we see that the private investors invest 0-3 million, while the incubators typically invest 1-3 million, and the venture companies all invest more than 3 million.

8.9 Continuity

8.9.1 Trust and Common Goals

All business relationships are based on mutual trust, mutual understanding and mutual benefit. This is especially so with venture capital investments, as the investor makes his

investment in the faith that the promises of the entrepreneurs will be made good, and because success for one party is dependent on the success of the other. The entrepreneurs cannot build and grow a business without the capital and skills of the investors and the investors cannot make an interest on their investments without the skills and dedication of the entrepreneurs. Thus a close and open relationship should be beneficial to both parties.

As mentioned earlier, many venture capital investors play an active part in the companies in which they invest. This is obviously done to take the best possible care of their investment, and if the entrepreneurs are prepared to let the investors play a part, this will add valuable business development competencies to the company. Note that the survey showed that 85% of respondents said that it affected their interest in investing in a company 'to a vary large degree' whether entrepreneurs allow investors to appoint board members, while the remaining 15% responded 'to a large degree'.

8.9.2 Knowledge Asymmetry and Conflicts of Interest

Even though there is a commonly shared wish for business success, knowledge asymmetries may develop either due to negligence or conflicts of interest. In the case of negligence, an entrepreneur may simply withhold information because he does not think it is important to the investors, or vice versa. Such asymmetries will always arise in all relationships, as people place different emphasis on different issues, but a lot can be done to avoid them. Close and frequent dialogue, as well as an understanding of the other party's position will get rid of most such misunderstandings. Knowledge asymmetries arising due to conflicts of interest are a lot harder to deal with; they are damaging to the business relationship and may potentially destroy both the relationship and the new company.

Since there are few players in the Danish venture capital market, the word will quickly get around if an entrepreneur is not giving the investors the relevant information, and consequently it will become very hard for him to raise capital. Therefore, as entrepreneur, it is important to be aware of the conflicts of interest that may cause knowledge asymmetries. The entrepreneur should consider whether any of these causes could influence the information that he is giving potential investors, and if so, should either find

a way to rectify it before the damage is done, or simply be honest and try to work it out with the investors:

- The entrepreneur is ignoring a technological risk: Maybe there is a design flaw, a problem with patenting, or some other unknown factor in the product or core technology that the entrepreneur has purposely overlooked. Such risks need to be either resolved before investments are sought, or they have to be honestly presented to the potential investors.
- The entrepreneur is overconfident: Having made an invention does not make anyone an expert in business. The entrepreneur should be prepared to take the advice of experts, and should be realistic when making promises to the investors.
- The entrepreneur is being protectionistic: As innovator, there is a reason to be proud of ones own creation, and that often leads to protectionism, meaning that the entrepreneur will not allow other people to influence his work or share in his success. Attracting equity investments always means relinquishing control, and if the entrepreneur is not ready to do so, he has to finance the company some other way.

8.10 Customisation

As already described, venture capital investors place great emphasis on getting part of the control over the company in which they invest, by either being on the board themselves, or by appointing a representative to the board. As most of the investors have a lot of industrial experience, entrepreneurs should see this as an opportunity to get expert advice, rather than a threat to their authority.

One sore point may be that some investors will insist that an experienced businessman becomes director of the company, rather than one of the entrepreneurs. Of the respondents in the survey, 69% said that it affected their interest in investing in a company either 'to a large degree' or 'to a very large degree' that the founder of the company does not insist on being the director or the company. Only 15% replied that it had no influence. Both Søren Friis of Seed Capital, Søren Lemonius of Vækstfonded and Carsten Faltum of CAT Science, echoed the words of Drucker: '*The successful innovator is not necessarily a successful CEO*'.

In order to attract venture capital investments, the entrepreneurs are simply forced to allow the investors influence over the company. It is the nature of equity investments that ownership, and therefore control, grows with the amount of capital invested. The entrepreneur should not be discouraged, obviously, as risk also grows with the amount of capital invested. Therefore, while investors gain more control over the company, they also become more dedicated to the business becoming a success.

8.11 Convenience

The investor may have some additional preferences, which makes it more convenient for him to invest in a certain type of company, rather than another. According to the survey, 38% of the respondents said that it do affect their interest in investing in a company 'to some degree' or 'to a large degree' that they had a personal interest in the product that the company proposes to develop. None of the respondents replied that it affected their interest in investing 'to a very large degree', while 62% said that it did not at all affected their interest to invest.

So whereas personal interest does not play a large role, what about personal relations? Of the people responding to the questionnaire, 42% said that it did not affect their interest in investing in a company that they knew the people behind it. For 58%, it does have an influence. Many investors want to know what kind of people they are dealing with, both to judge their competencies and whether they are hard working and trustworthy, so entrepreneurs have to be prepared to make themselves known to the investors.

If the entrepreneurs have previously started a successful company, they should make sure to make that fact known to potential investors. 54% of the respondents to the survey said that their interest in investing in a company was influenced 'to a large degree' by knowing that the people behind a new company had previously started successful companies. Only 15% said that it had no influence at all.

A final item that we may attribute to convenience is whether other investors are also interested in investing in the new company. Of the investors surveyed, not a single one

responded that it had no influence at all. The vast majority – 85% - said that it affected their interest in investing 'to a large degree'. There are several reasons for this. First of all, having more than one investor reduces the risk for each individual investor. Secondly, knowing that other investors are interested should reassure the potential investor in that it is actually worthwhile investing in a company. Consequently, it is often more difficult to persuade the first investor than subsequent ones. As soon as some money has been raised, it should get easier to attract additional capital – assuming, of course, that the potential market is large enough to yield the same ROI on additional investments, and that the existing investors are interested in having additional investors on-board. Finally, having several investors also make it easier for any one investor to pull out, should he loose confidence in the company, as the other investors may be interested in purchasing his shares.

8.12 Market Focus

One common thing that all the investors interviewed for this report ask for is market focus. It is far too common for entrepreneurs to get overly excited about the technical details of their innovation, but as we have previously noted, smart innovations do not automatically become successful products. To turn an innovation into a successful business, the entrepreneur needs to focus not just on the product, but also on the market and the customers.

First of all, he has to realise how his innovation can be turned into a product, and why this product is better than what is currently on the market. No investor will be interested in talking to the entrepreneur, unless he has thought this through thoroughly – but that is not enough. The entrepreneur also has to justify that there is a market, for example by having an independent consultancy institute do a market analysis. 92% of the investors responding to the survey say that it does affect their interest in investing in a company, if an independent survey shows that there is a demand for the product. Another thing the entrepreneur should do, as Søren Friis of Seed Capital suggested, is to look for a customer who is willing to act as sparring partner in the product development phase. This will help the new company focus on developing a usable and marketable product, rather then indulging in work that is merely 'interesting' or 'technically challenging'.

If the original innovators are more interested and competent in the technical matters and less interested in the business and marketing aspects, they need to bring in someone with these competencies very early in the process. It has to be early, because he should help in developing the business plan and he needs to be an integrated part of the team, when they go out and talk to potential investors. All respondents to the questionnaire said that it affected their interest in investing in a company, if it has a person with business development experience as part of the management; 38% said 'to a large degree' and 54% said 'to a very large degree'. Søren Lemonius mentioned that it takes a lot of effort to attract capital to a newly started company, so unless the innovators want to spend a lot of time on this, instead of doing the product development that they are most likely best at, they should really benefit from teaming up with someone who is skilled at this kind of activity.

8.13 Financial Foresight

Obviously financial foresight is needed in order to successfully grow a business – still only a single respondent to the questionnaire replied that it affected his interest 'to a large degree' whether or not a professional financier was part of the management team. 46% responded that it had not effect at all, and another 46% responded that it affected their interest to invest only 'to some degree'. The reason for this is most likely that the venture capital investors are all skilled at financing, and as most of them insist on being on the board, they can keep an eye on the financial situation of the company.

8.14 Top management

As we have seen, it is important to have someone with business development experience as part of the top management from early on. This will not just improve the chances of the company being successful in product development and in bringing the product to market; it will also increase the initial value of the company, making it possible for the entrepreneurial team to retain a larger control over the company. The top management team needs to work well socially, to supplement each other will in abilities and knowledge, and cover all areas of competence needed to start a company. If the initial team does not do

that, they should realise the limitations in their abilities, and do what they can to bring in the competencies needed.

As the company grows, so will its management. Therefore the company needs a CEO with management experience when it reaches a certain size, as the management structure needs to expand dynamically and in an appropriate way. If the company is successful, attracting a professional manager will most likely not be a problem – it does, however, require that the initial team of entrepreneurs have to accept a further decrease in their control over the company.

8.15 Entrepreneur's Own Role

In several of the previous sections we have see how the innovator entrepreneurs need to be ready to share control of the company with others, in order to attract the necessary investments and competencies. This may lead to a conflict of interest, if the entrepreneurs insist on keeping all the control for themselves – and that will surely end in conflict and business failure. Here the entrepreneurs need to be realistic with respect to their own expectations and competencies, and keep in mind what is best for the company. *The successful innovator does not necessarily make a successful CEO*. Investors want each member of the team to use his or her abilities where they do the most good. The entrepreneurs should want the same thing.

9 CONCLUSIONS & RECOMMENDATIONS

In the previous chapter, see section 8.6, we identified some 'moments of truth' that are critical in attracting investments to a newly started company:

- The initial contact
- The business plan
- The personal meeting

Common for the three is that they require preparation on behalf of the entrepreneurs, as well as technical, business and social competencies, in order to be successful. The entrepreneurs need to have carefully worked through all the elements in the business plan, and make sure that they are able to present the most important aspects in a convincing manner. They also need to make sure that they can present their own competencies, that they are aware of any deficiencies and that they are able to work well together as a team.

9.1 Competencies Checklist

There is a range of competencies that needs to be covered by the entrepreneurial team behind a new company. They need not necessarily cover all of them from the time they go and look for investments, however it is a lot more convincing if they do. If they do not cover them all, they need to be open and honest about it, and allow the investors to contribute these competencies if they can, or take their advice if they recommend a person to the board or to the top management of the company.

The competencies that the entrepreneurial team must cover are:

1. Technical skills:
   a. Adapt the core technology
   b. Develop the product
2. Analytical skills:
   a. Understand the target market
   b. Understand the user requirements to the product
3. Business development skills:

    a. Keep the market focus and drive the development in the right direction
    b. Find and maintain investors, partners and customers
4. Organisational skills:
    a. Keep a tight and well working core team
    b. Develop the organisation as the company grows
5. Financial and administrative skills:
    a. Keep track of the company's finances; investments, expenses, salaries, taxes, etc.
    b. Make sure the paperwork gets done

The innovators usually cover the first group of skills. If they operate within an industry where they have extensive experience, they may also cover the second group. If not, they should either try to find a company that would be a likely customer to the finished product, and develop the product in close co-operation with them, or team up with an expert from the target industry.

The third group of competencies is as critical as the first two, though newly started companies often overlook them, because they are somewhat outside of the realm of engineering. Venture capital investors place great emphasis on this area, as the core technology is useless, unless it can be turned into a marketable product. Unless the entrepreneurs have business development training, or even better, have previously started successful companies, they really need to find an expert to cover this area.

The fourth and fifth group are important to any company, but they may be hired in as the company develops, or they may to some extend be covered by the existing team, in co-operation with the investors. However, if the initial team cover these areas as well, they will be in a stronger position when dealing with their investors.

9.2 Teambuilding

When the entrepreneurs are confident that they cover the above-mentioned areas reasonably well, they will have established the core team. This team will most likely consist of 2-4 people. It should be large enough to cover at least the competencies in group

1, 2 and 3, but otherwise be as small as possible, as there will not be a lot of money available for salaries in the first phase of the company's development.

In order to present a common case to potential investors, partners and customers, it is important that they members of the core team know each other well, that they supplement each other and that they share the same visions and ambitions for the company. They must all be aware of and agree with the business plan. In order to achieve this, it is recommended that the core team go away on a long weekend, or maybe for a whole week, to somewhere where they can have peace and quiet. They should first indulge in some social activities, to get to know each other on a more personal level, and then work through the entire business plan together. They must all understand what the different aspects of the business plan means, what it entails of activities, and why it is optimal to do things in exactly this way. This will ensure a common ownership of the business plan, and therefore also a common commitment – as well as aligning the understanding of each member of the team, so that they business plan can be properly presented to potential investors. Obviously the team must also establish a hierarchy of roles and agree on the ownership of the company between them – how well this goes is the first real test of the abilities of the team to work together.

9.3 A Team Effort

The different members of the team will have different roles, depending on their main areas of expertise. One member of the team must function as the official face of the company, and it is his responsibility to take and maintain contact to potential investors and to present the business plan. However, as we have seen, this has to be a team effort, and the other members of the team must support him all the way, and be prepared to supplement him within their own areas of expertise, when answering questions raised by potential investors. The official representative for the company is not necessarily the innovator(s), but must be the person in the team with the most charisma, as well as someone who is able to understand and communicate effectively with businessmen.

Each member of the team must also be prepared to access his own role, as it might be necessary to shift roles, or for a member of the team to renounce his role, if the investors

explore weaknesses in the competencies of the team. Throughout the process, the team must have a good common understanding and mutual respect, as a divided team will appear weak and untrustworthy to investors.

9.4 The Right Investors

What investors the company should look for depends critically on the maturity of the company and the competencies of the core team. If the core team covers only the technical aspects, they need investors that are willing to take high risk, who can help them to attract additional competencies to the company, and who can guide them in how to make a good business plan. The entrepreneurs should therefore contact an incubator specialising within their target industry.

If the core team has a competent business development profile, is aware of how to start and run a company, and the team has been able to make a good business plan, the company is able to contact the full range of venture capital investors. They should then be driven by the need to attract the desired capital volume, as well as to develop a network that can help the company grow.

No matter what, it is important that the ambitions of the investors are in-line with the business plan, so that they do not pressure the team beyond what they have agreed upon. This is bound to create tension, both within the team, and between the team and the investors. Obviously the team has to be prepared to take the advice of investors, but if one investor has an entirely different idea about how the company should be run, the team has to critically assess whether his expectations can be met, or whether it would be better to find another investor.

9.5 Keeping the Eyes on the Ball

Throughout the process of attracting capital and developing the business, the team must keep their eyes on the ball, meaning that they must always keep in mind what is best for the business. Focus on attracting the right investors, focus on developing a product that can be marketed and sold, focus on achieving the milestones laid out in the business plan and focus on making things run as smoothly as possible with the investors and the other team

members. Keep in mind that business success comes from the combined efforts of everyone involved in a business, and as such it must be shared. If a member of the team tries to run solo, tries to grab control of the company or to hog an unreasonably large fraction of the profits, he is likely to be seen as an obstacle by the other parties involved and can be a danger to the success of the business. Also, be prepared to change roles along the way, because as the business develops, new competencies are needed, and perhaps a member of the team can use his or her abilities better in another role.

9.6 Final Words

I hope that this report has helped potential entrepreneurs understand better what investors are looking for when making investment decisions, and has given them some useful hints on how to approach the process. Hopefully, going out and starting your own business will now appear less intimidating. Innovation and entrepreneurship is the foundation of growth in our modern economy. Taking the leap from idea to business means putting economic security on the line and taking a great risk – but just as in all other aspects of life, fortune favours the bold, and little can be gained if one is not prepared to take a chance. Thorough preparation, skill and hard work are the keys to success, and if you can prepare and present your business idea well enough to have other people invest their money in it, you have already taken a very important step.

Dare to dream - and dare to make your dreams a reality!

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APPENDIX A INTERVIEWS

A.1 SeeD Capital (Søren Friis)

Company profile and process

SeeD Capital is a relatively new Danish venture fund, formed in 2004, by the merger of Symbion Capital and DTU[2] Innovation. The venture fund has a portfolio of some 50 companies, in which it has invested 600 million DKK, and had a money tank of 300 million DKK for new investments. The capital comes from both public and private sources, such as the Vækstfonden (semi-public), ATP[3] (semi-public pension fund) and several private investors. Seed Capital employs a highly educated staff of 16 investment managers, company managers, lawyers and technical experts, and has a large network of researchers and investors.

As the name implies, Seed Capital specialises in early stage venture investments, which means investments in brand new start-up companies that has not yet developed marketable products. Such companies have little more than a good technical idea and a promise that this idea can be turned into products. Early stage investments are therefor target towards product development and are of considerable risk. Seed Capital can also provide late stage follow-up investments in the most promising companies, for further development and marketing of the newly developed product. The goal is to sell the matured company to major international corporations, when it has proven its concept and started turning a profit. Companies should remain at most 2-3 years in the portfolio, and give a return rate of at least 6 of the initial direct investments.

When a company approaches SeeD Capital, it must submit a Business Plan, describing:

- The potential product, market and competitive situation: Which problem does the product solve? Who (or how many) would like to have this problem solved? What is the advantage (money and time) in solving this problem? How is the problem solved today? Who solves the problem today?

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[2] DTU: Danish Technical University

[3] ATP: Arbejdsmarkedets Tillægs Pension

- The technology on which the (potential) product is based: At which stage is the technology behind the product today? Which resources are required to make the product ready for market?
- Business model and value chain: On which activities will the company have its earning? With whom will the company co-operate in order to get in contact with the market?
- Organisation of the company: Who are the persons representing the company (names and CVs)? Are additional persons/competencies needed?
- Timeline and funding: What are the development milestones? And what is the budget needed for each milestone?
- Patents: Can the product be efficiently protected by patents?
- Legal issues: Who owns the rights related to the product? If the company is already established, who are the owners today and which activities have been initiated so far?
- Exit possibilities: How and when can we as investors expect return on our investment?

All of these questions must be answered, in order for Seed Capital to consider the company for investments. If they are answered sufficiently, and the company fits into the strategy of SeeD Capital, the managers of the company will be invited to a meeting, where the issues of the Business Plan will be discussed. SeeD Capital will then use their own experience and expertise, as well as that of experts in their network, to test the claims of the market plan, in particular related to potential market, feasibility of the technology, and the interest in investing in such a company. If this investigation concludes that there is an earning potential in the company, and an interest to invest, SeeD Capital will negotiate the terms with the company, and if agreement is reached, the agreed capital will be invested. This process is illustrated in *Figure 5* below.

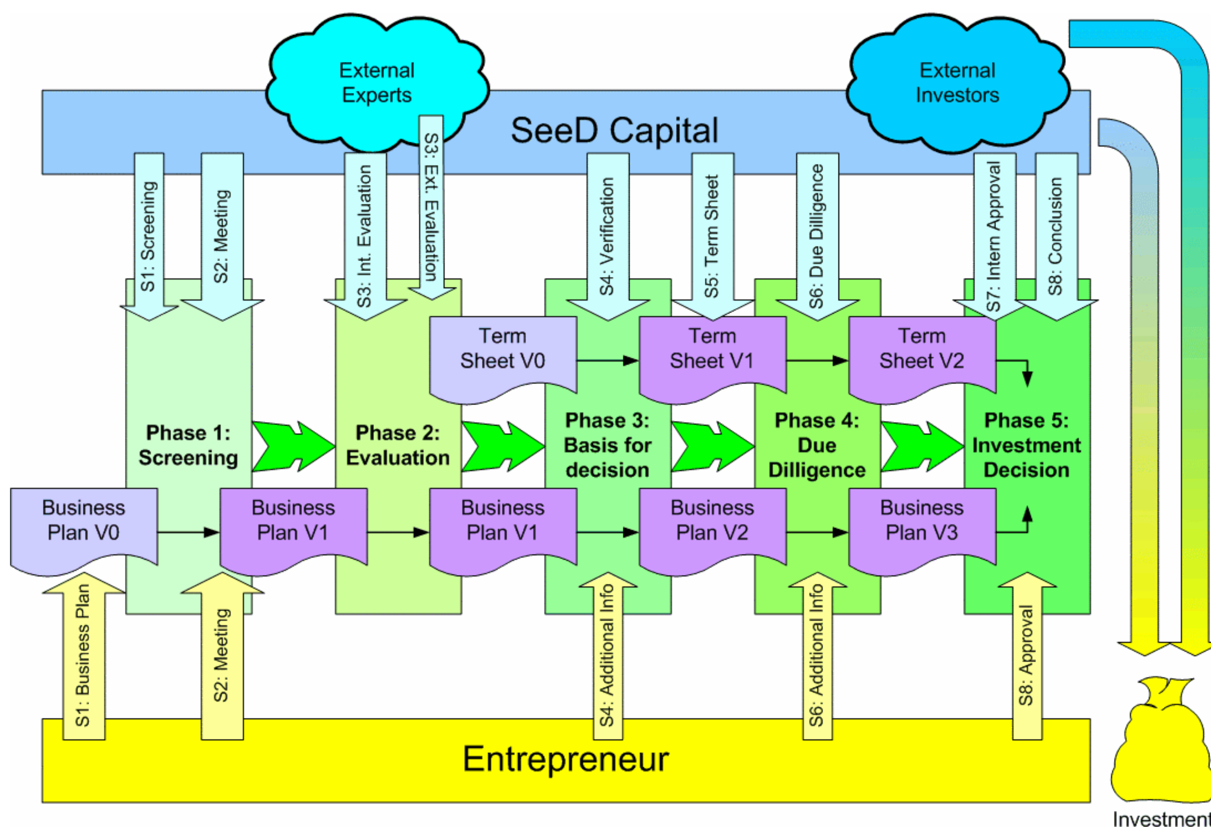

Figure 5: SeeD Capital venture capital application process

Throughout the process, SeeD Capital works closely with the current management of the company, in order to develop the Business Plan, and transfer knowledge, both to the company, in terms of management professionalism, and to Seed Capital, in terms of in-depth understanding of the technical concepts. In this way, Seed Capital seeks to overcome the Information Asymmetry, and add value to the company by educating their managers in marketing and management.

It is a requirement to obtain investments that Seed Capital get at least two people on the board of the new company, and are allowed to appoint or approve the executive manager, to insure the professionalism of the company management. Furthermore, the company must be product-based, it must be able to protect their technology (either by patents or otherwise), and it must have a global marketing potential.

Decisive factors

As can be seen from the description above, Seed Capital is an extremely conscious and critical investor, in the sense that they require thorough preparation and documentation from the company, and conduct their own investigations into the viability and profitability

of the company. On the 26th of October 2005, I had the pleasure of interviewing Søren Friis, one of the Investment Managers of Seed Capital. He identified a number of factors that he considered particularly important, and where the entrepreneurs have an opportunity to distinguish themselves in a positive way:

- The entrepreneur must believe in the product and be excited about the project, but he must not be so overwhelmed by enthusiasm that he forgets to **relate critically** to the potential of the product. He must be able to examine critically the economic premises for the product, and he must be able to 'look behind the numbers', i.e. analyse critically the process of product development, costs and potential market.
- The entrepreneur must be **specific and credible** with respect to his Business Plan. All assumptions should be tested, by use of credible statistics and/or focus groups, and all conclusions must rest on a solid foundation of data and theory.
- The entrepreneur must be prepared to **relinquish control** over the company and the process of product development, as Seed Capital require a strong influence on the management of the company.
- If the company has agreement with **pilot or prototype customers**, this will substantially increase the chance of business success, and consequently the interest of SeeD Capital to invest in the company. This is because customers, especially when they are involved already in the stage of product development, ensure that the developed product addresses the needs of the customers, which is obviously a requirement for commercial success.
- The presence of a **commercial profile** in the group behind the company is important, because it ensures that the business angle has been through into the process of company formation.
- Finally, it may be a lot easier to attract investors, if the company has received positive **press coverage** in connection with the launch of the company, or the discovery of the technology on which it is build. This is a simple function of the increased awareness that investors have of such companies, which makes it easier for SeeD Capital to interest potential investors in the company.

Conclusions

The main conclusions derived from the meeting with SeeD Capital, with respect to marketing a venture company towards potential investors, can be summed up in a few main points:

- Develop carefully the Business Plan, be specific and realistic, and do sufficient background research to justify that the development schedule and business potential is realistic.
- Integrate the commercial aspect into the business process from the very beginning, and be prepared to relinquish control to professional management and marketing people.
- If possible, make sure to get press coverage when you launch the company, to ensure the attention of potential investors.

A.2 Vækstfonden (Søren Lemonius)

Company profile

Vækstfonden is one of the largest venture capital investor in Denmark, with a capital base of almost 300 million Euro. It was originally started by the Danish government to support entrepreneurs by granting 'no-cure no-pay' loans, but has today evolved into a mainly equity based venture investment fund. It is still partly funded by the government, but the main source of capital for investment is their own base capital, or capital made available by external investors. It has an independent executive management, and a board of prominent industrial leaders and experts. The board members are appointed by the Minister for Economics and Business Affairs, and Vækstfonden is bound by law to follow certain principles to contribute to the promotion of Danish business and trade. Vækstfonden invests in High Tech and Life Science companies.

Process

The formal process of investment application and evaluation is similar to the one described under Seed Capital, which appears to be a general approach for large investors.

Decisive factors

On the 16th of March 2006 I had the great pleasure of interviewing Søren Lemonius, investment manager in Vækstfonden's Life Science department, and he described a number of circumstances that are of great importance to entrepreneurs seeking investments.

Like other venture capital funds, depending (at least partly) on external investments, Vækstfonden is primarily assessed on the number of companies that apply for investments, called *deal flow*, and how much money they make on their investments.

It is important for venture funds to have a high deal flow to show that they have access to the industry, that they have volume, and that they have a wide range of investment opportunities to choose from. This may lead to an asymmetry between the expectations that are communicated clearly to entrepreneurs and the expectations on which investment decisions are based, as venture funds do not want to discourage entrepreneurs from applying for investments (and thereby adding to the deal flow). In order to be successful in attracting investments, it is therefore not enough to meet the criteria expressed in public by venture funds; the entrepreneur must meet the actual expectations on which investment decisions are based.

Since Vækstfonden receives a lot of applications, it is extremely important for the entrepreneurs to send the right message on the few opportunities that they have. The first opportunity is the submission of the business plan.

The Business Plan

The business plan must be very precise, clearly formulated and easy to read. It should start with an executive summary, where all the main 'selling points' are summarised. The remaining business plan must be concise and convincing. Of main points in relation to the business plan, Søren emphasised:

- A description of the market, which should be large, growing and of a global scale.

- A description of the product, and the technology on which the product is based, justifying clearly how the use of the technology adds value to the product, and how the product suits the needs of the market. This must also include the status of relevant patents, both on the underlying technology, which must be patented or patentable by the company, and any patents governing the application of such technology.
- A description of the management team behind the company. It is important that they are experienced and competent, and that they have an understanding of the venture capital market, so they can deal with the expectations and demands of venture capital investors. Ideally, the CEO should be an entrepreneur who has previously started successful companies on venture capital (*repeat entrepreneur*), as he will have the best understanding of these issues. Alternatively, a heavy-weight manager from the industry could be a good CEO – he may not have the same experience with venture capital as the repeat entrepreneur, but he will have a large network in the industry, which allows him to attract expertise to the company.
- A development and roll-out plan with clearly defined and measurable milestones. It is very important that the milestones are measurable, as they will be used to gauge progress, and may serve as conditions for further investments.

Personal Meeting

If Vækstfonden finds a business plan interesting, the management of the company's management team will be invited in for a personal meeting, both to elaborate on the business plan and to answer specific questions raised by Vækstfonden. This is the second opportunity the entrepreneur has to get his message across – and as with the business plan, it is a one-shop opportunity that must be well prepared and well executed. Søren emphasised:

- The presentation must be precise, unambiguous, to the point and well prepared
- The person(s) giving the presentation must be confident
- The team must be able to answer the questions raised by Vækstfonden
- The team must demonstrate, through the presentation and subsequent discussion that they are able to work together, that they supplement each other well, and that they all contribute important competences to the company.

Additional considerations

Throughout the process, the entrepreneurs must remember that high-risk capital is not freely available, so they have to be prepared to invest a considerable effort in preparing the business plan, preparing the personal meeting and in answering any and all questions raised by Vækstfonden and other investors.

Sometimes entrepreneurs get very excited by their own ideas and inventions, and expect that investors will automatically be excited as well. However, it is important that the entrepreneurs approach the process of attracting capital with a great deal of humility, and understand that it is not merely enough to have a great idea – a lot of effort is required to formalise the planning of the business development process, and to communicate both the great ideas and the formal planning to potential investors.

It is also important that the entrepreneur is realistic with respect to the amount invested, and not least the share of the company that investors require in return for their capital. Typically the original entrepreneur(s) will retain only a 5-15% share of the company at the time of exit.

The value of the company is usually estimated by taking into consideration the 'accumulated burn', i.e. how much money that has already gone into the development of the company, as well as the development of the company, but also novelty of the innovations and the competencies of the entrepreneurs have value. The more convincingly the entrepreneurs make the case for the uniqueness of their technology and business model, and the more convincingly they demonstrate the value of their own competencies, the higher the company will be valued, and the higher the share that they will be able to retain.

Another area where realism is required is concerning control of the company. First of all, Vækstfonden or other investors may require being able to place people on the board of the company, both if they see that the company needs particular competencies, and also to keep track of their investment. Søren emphasised that this is also in the interest of the

entrepreneurs, both because of the competencies added, but also because it limits the distance between the entrepreneurs and the investors, meaning that any deviation from the business plan can be more easily justified, as can the need for additional investments.

A.3 Private Investor Hans Houlind

Profile

Hans Houlind invests his own money through his holding company, Houlind Holding ApS, which was funded some 14 years ago. Today the Houlind Holding is part owner of 6 companies.

Process

Houlind gets news of investment opportunities through his network, consisting of contacts to other investors, banks, lawyers and the innovation environments. Entrepreneurs also directly approach him with their ideas. If he decides to invest in a company, he will insist on being on the board, so that he can make sure that the company is run properly. He has a background in industry, which means that he has a lot of competencies and experience to offer a newly started company.

Decisive Factors

Houlind is interested mainly in three things; that the business plan is solid, that the product can be demonstrated to work through a prototype, and that he has faith in the team behind the new company. As he takes an active part in the companies in which he invest, it is also a requirement that he has a personal interest in the product, or that the technology on which is its build is within his area of expertise. Furthermore, the chemistry must work between him and the rest of the team behind the company, so they can work well together and are sure they have common goals and objectives.

Advice to newly started companies

Houlind gave three pieces of good advice to entrepreneurs starting their own business. First of all, they must be willing to invest their own money in the business. If they have so little faith in a business that they are not prepared to take a risk of their own, they should rather

find something else to do. They should not expect other people to take a risk on their behalf, if they don't even believe in the project themselves.

Secondly, they need to be open and honest about their own competencies. Don't pretend to 'know it all' – the team behind the company should know their own limitations, and attract knowledgeable people from industry to cover the areas where they are weak.

Finally, a newly started company must be realistic in the planning. A lot of entrepreneurs focus only on the opportunities, and forget all about the threats. Don't make the planning based on the assumption that everything will work out optimally. In real life it does not work that way, and it often takes longer to develop products that an entrepreneur expects.

A.4 Business Angel Kaj Erik Ravn

Profile

Kaj Erik Ravn invests through his holding company Bramsen ApS and also an active Business Angel in SWITZR, the regional business angel network for North- and Central Jutland. He was previously an investment manager for Incuba, and has a background in business management.

Process

A Business Angel network is approached through a member of the network. If the Business Angel sees the new business as a good investment opportunity, he will present the business to the network's executive committee. Two members of the executive committee will then visit the company, review the balance sheet, the budget and the business plan, as well as conduct an interview with the owner(s). If deemed worthwhile, the company will then be presented at the next network meeting, where potential investors can then review the possibilities, and decide whether or not to invest in a company.

Decisive Factors

Kaj Erik Ravn emphasises that it is absolutely vital that the people behind a company are intelligent, serious, experienced and trustworthy, that they believe in their own idea and that they have a professional approach to business management. Besides a sustainable

business plan, they must present their CV and references, to prove their own abilities. As Ravn says 'The only thing in the world that makes a difference is *people*'.

A.5 CAT Science (Carsten Faltum)

Profile

CAT Science is a mixed public and private Incubator Company, which invests in IT, life-science, industrial innovation and the energy and environment sector. They were founded in 1988 by the CAT Foundation, which includes: The Technical University of Denmark; Danish National Laboratory, Risoe; University of Roskilde and County of Roskilde. Besides from the CAT foundation DiBa Bank; Lolland S&L and Roskilde Bank are private shareholders in CAT Science. CAT has invested in more than 50 companies, and in total there have been invested more than 500 million DKK in the 50 companies.

Process

As an incubator, CAT Science is prepared to enter already in the early seed stage. They invest through their investment company CAT Seed. They can start working with an entrepreneur already when he has made his patent, and has an idea of the product he wants to produce. It is not necessary that he has a fully developed business plan, but he must know what his product is and why it is better than other products – i.e. why do the customer want to pay for this product, instead of what is already out there?

As all the people at CAT Science had entrepreneurial backgrounds, they are skilled at seeing the potential in new innovations. If they believe in a product, they will help the entrepreneur establish his company, they will help him develop his business plan and they will help him find investors. Finally, they can help him find people with relevant backgrounds to serve as members of the board, to ensure that sufficient business development competencies are available in the company.

Attracting the right competencies

Carsten Faltum pointed out that it is often very difficult to attract people with the proper knowledge and experience about business development to newly started companies, as such people usually have good and high-paying jobs in existing companies. It is difficult to

convince them that they should give up a secure job, to take a risk in a brand new company with an uncertain future. Faltum pointed out that it is almost a 'chicken and egg' situation – people from existing companies can only be convinced to start in a new company, if they can see that sufficient capital is available in that company to secure a certain lifetime. However, it is difficult to attract large capital volumes to companies that do not already have professional business development people on the board.

Advice to newly started companies

Faltum advised entrepreneurs to critically consider the product that they propose to develop. What is so brilliant about it? What problems does it solve, and why would customers want to pay for it? It is not enough to have a bright invention – it must also be turned into a product that people actually want to spend money on.

Secondly, he urged entrepreneurs not to underestimate the commercial angle. A product, no matter how ingenious, does not sell itself. It has to be commercialised and it has to be marketed in the proper way to become a success.

Finally, to ensure the above, he advised entrepreneurs to team up with a heavyweight industrial businessman, who should become the director of the new company. As he said, innovators are not always the best directors It is better to leave that to a person with experience in this area, and then let the innovators focus on innovation.

APPENDIX B QUESTIONNAIRE

B.1 Questionnaire Header

Before the main section with the survey questions, the questionnaire contained the following header:

Name: ______________________________ **Tlf.No.:** _____________

Company/Organisation: ______________________________ **Fax:** _____________

Position: ______________________________ **E-mail:** _____________

I can be contacted for follow-up questions: ___ Yes ___ No

I respond of behalf of: ___ Myself personally ___ Company/Organisation

Date of response: _____________

B.2 Questionnaire Questions

The questionnaire was developed to reflect the 4P-4C-4D framework outlined in the Literature Review. To summarise, this included the following perspectives:

1. Product
2. Place
3. Promotion
4. Price
5. Customer
6. Continuity
7. Customisation
8. Convenience
9. Market Focus
10. Financial Foresight
11. Top Management
12. Entrepreneurs own role

Questions in the questionnaire:

1. What type of entity do you represent?
    a. Private investor
    b. Business Angel
    c. Venture company
    d. CVC company
    e. Private incubator company
    f. Public incubator company

2. What volume of capital do you typically invest per year?
    a. Less than 1 million DKK
    b. 1-5 million DKK
    c. 5-10 million DKK
    d. 10-50 million DKK
    e. More than 50 million DKK

3. What volume of capital do you typically invest in single companies?
    a. Less than ½ million DKK
    b. ½ - 1 million DKK
    c. 1 – 3 million DKK
    d. 5 – 10 million DKK
    e. More than 10 million DKK

4. In what phase do you typically invest?
    a. Seed (before product development)
    b. Start-up (after product has been developed, but before it has been brought to market)
    c. Expansion (after product has been brought to market)

5. What is the typical timeframe for your investments (when do you exit)?
    a. Before 1 year
    b. After 1-3 years
    c. After 3-5 years

   d. After 5-10 years
   e. Do not exit

6. What is your expected Return on Investment?
   a. 1-3 times original investment
   b. 3-5 times original investment
   c. 5-7 times original investment
   d. 7-10 times original investment
   e. More than 10 times original investment

7. What kinds of companies do you primarily invest in?
   a. Any interesting company
   b. Manufacturing companies
   c. Service companies
   d. Computer or IT companies
   e. Life-Science or Pharmaceutical companies

8. Does it affect your interest in investing if you have a personal interest in the product or service being offered?
   a. No, not at all
   b. Yes, to some degree
   c. Yes, to a large degree
   d. Yes, to a very large degree

9. Does it affect your interest in investing if you know the people who have founded the new venture?
   a. No, not at all
   b. Yes, to some degree
   c. Yes, to a large degree
   d. Yes, to a very large degree

10. Does it affect your interest in investing if the people who have founded the new venture have previously founded successful ventures?
    a. No, not at all
    b. Yes, to some degree
    c. Yes, to a large degree
    d. Yes, to a very large degree

11. Does it affect your interest in investing that an independent market survey has been produced, which justifies a demand for the product or service that the company will develop?
    a. No, not at all
    b. Yes, to some degree
    c. Yes, to a large degree
    d. Yes, to a very large degree

12. Does it affect your interest in investing in a company that you know that other professional investors are also interested in the company?
    a. No, not at all
    b. Yes, to some degree
    c. Yes, to a large degree
    d. Yes, to a very large degree

13. How do you prefer to be contacted about potential venture investment opportunities?
    a. Directly by the company by phone/fax/mail
    d At meeting, exhibition or fair
    e By agent or independent expert
    f By bank, investment association or investment company
    g By a good friend who also invests in ventures

14. What elements to you put the most emphasis on in a business plan?

a. Product/service description
b. Business model
c. Organisation
d. Roll-out and investment plan
e. Market analysis
f. Exit possibilities
g. Other areas (please specify)

15. Does the graphical layout of the business plan affect your interest in investing?
    a. Yes, a good layout shows that the company has quality conscious people in the organisation, which will increase my interest to invest
    b. No, I don't care about the layout, only the content

16. Does a good personal presentation of the business plan, given by the people behind the company, affect your interest in investing?
    a. Yes, a good personal presentation shows that the company has skilled people in the organisation, which will increase my interest to invest
    b. No, I don't care about the quality of the presentation, only the content

17. Does it affect your interest in investing if the company has a person with business development experience in the management team?
    a. No, not at all
    b. Yes, to some degree
    c. Yes, to a large degree
    d. Yes, to a very large degree

18. Does it affect your interest in investing if the company has a person with financial experience in the management team?
    a. No, not at all
    b. Yes, to some degree
    c. Yes, to a large degree
    d. Yes, to a very large degree

19. Does it affect your interest in investing that the founders of the company allows investors to appoint board members?
    a. No, not at all
    b. Yes, to some degree
    c. Yes, to a large degree
    d. Yes, to a very large degree

20. Does it affect your interest in investing that the founder(s) of the company does not insist on being the directors of the company?
    a. No, not at all
    b. Yes, to some degree
    c. Yes, to a large degree
    d. Yes, to a very large degree

B.3 The questionnaire in Danish

The questionnaire was distributed by e-mail in word format, with the following contents:

Navn: ______________________________ **Telefon:** _____________

Evt. firma/organisation: ______________________________ **Fax:** _____________

Evt. stilling: ______________________________ **E-mail:** _____________

Kan ovenstående person kontakts med evt. opfølgende spørgsmål: ___ Ja ___ Nej

Jeg svarer på vegne af: ___ Personligt ___ Firma/organisation

Dato for besvarelse: _____________

Spørgsmål 1: Hvilken type investor repræsenterer du?

a) ____ Privatperson
b) ____ Privatperson (Business Angel)
c) ____ Ventureselskab
d) ____ CVC selskab
e) ____ Privat inkubator selskab
f) ____ Offentligt inkubator selskab

Spørgsmål 2: Hvilket kapitalvolumen investerer du typisk per år?

a) ____ Mindre end 1 million DKK
b) ____ 1-5 millioner DKK
c) ____ 5-10 millioner
d) ____ 10-50 millioner
e) ____ Mere end 50 millioner

Spørgsmål 3: Hvor stort et beløb investerer du typisk i et enkelt selskab?

a) ____ Under ½ million DKK
b) ____ ½-1 million DKK
c) ____ 1-3 millioner DKK
d) ____ 3-5 millioner DKK
e) ____ Over 5 millioner DKK

Spørgsmål 4: Hvilken fase investerer du typisk i?

a) ____ Seed (før der er udviklet et produkt)
b) ____ Start-up (der er et produkt, men det er ikke bragt til marked)
c) ____ Ekspansion (der er både produkt og marked)

Spørgsmål 5: Hvad er den typiske tidsramme for dine investeringer (hvornår laver du exit)?

a) ____ Inden 1 år
b) ____ Efter 1-3 år
c) ____ Efter 3-5 år
d) ____ Efter 5-10 år
e) ____ Aldrig

Spørgsmål 6: Hvilket afkast forventer du?

a) ____ 1-3 gange det investerede beløb
b) ____ 3-5 gange det investerede beløb
c) ____ 5-7 gange det investerede beløb
d) ____ 7-10 gange det investerede beløb
e) ____ Mere end 10 gange det investerede beløb

Spørgsmål 7: Hvilken type virksomheder investerer du primært i?

a) ____ Ethvert interessant firma, uafhængigt af branche
b) ____ Produktionsfirmaer
c) ____ Servicevirksomheder
d) ____ Computer og IT virksomheder
e) ____ Life-Science / farmaceutiske virksomheder

Spørgsmål 8: Har det betydning for din lyst til at investere i et firma, om du selv har en personlig interesse i det produkt, eller den service, som firmaet vil udvikle/udbyde?

a) ____ Nej, overhovedet ingen
b) ____ Ja, i lav grad
c) ____ Ja, i høj grad
d) ____ Ja, i meget høj grad

Spørgsmål 9: Har det betydning for din lyst til at investere i et firma, om du kender de folk som har startet det nye firma?

a) ____ Nej, overhovedet ingen
b) ____ Ja, i lav grad
c) ____ Ja, i høj grad
d) ____ Ja, i meget høj grad

Spørgsmål 10: Har det betydning for din lyst til at investere i et firma, at du ved, at folkene bag det nye firma, tidligere har startede succesfulde firmaer?

a) ____ Nej, overhovedet ingen
b) ____ Ja, i lav grad
c) ____ Ja, i høj grad
d) ____ Ja, i meget høj grad

Spørgsmål 11: Har det betydning for din lyst til at investere i et firma, at der er lavet en uafhængig markedsanalyse, der viser et behov for det produkt, eller den service, som firmaet vil udvikle/udbyde?

a) ____ Nej, overhovedet ingen
b) ____ Ja, i lav grad
c) ____ Ja, i høj grad
d) ____ Ja, i meget høj grad

Spørgsmål 12: Har det betydning for din lyst til at investere i et firma, at du ved, at andre professionelle investorer også er interesseret i firmaet?

a) ____ Nej, overhovedet ingen
b) ____ Ja, i lav grad
c) ____ Ja, i høj grad
d) ____ Ja, i meget høj grad

Spørgsmål 13: Hvordan foretrækker du at blive informeret om en investeringsmulighed?

a) ____ Direkte af det aktuelle firma per telefon/fax/mail
d) ____ Ved et møde, udstilling eller messe
e) ____ Af en agent eller uafhængig ekspert
f) ____ Af en bank, investeringsforening eller investeringsfirma
g) ____ Af en god ven, som også investerer i opstartsfirmaer

Spørgsmål 14: Hvilke elementer lægger du *mest* vægt på i en forretningsplan?

a) ____ Produkt/service beskrivelse
b) ____ Forretningsmodel
c) ____ Organisation
d) ____ Roll-out & investeringsplan
e) ____ Markedsanalyse
f) ____ Exitmuligheder
g) ____ noget helt andet - angiv hvad: ____________________

Spørgsmål 15: Har forretningsplanens grafiske layout nogen betydning for din lyst til at investere?

a) ____ Ja, et flot layout viser at folkene bag planen er grundige og
kvalitetsbevidste
b) ____ Nej, jeg er kun interesseret i indholdet

Spørgsmål 16: Kan en god personlig præsentation af forretningsplanen, givet af en af personerne fra firmaet, påvirke din lyst til at investere?

a) ____ Ja, en god personlig præsentation viser at folkene i firmaet er
professionelle og kompetente
b) ____ Nej, det har ingen indflydelse

Spørgsmål 17: Har det betydning for din lyst til at investere i et firma, at firmaet har en person med forretningsudviklingserfaring med i ledelsen?

a) ____ Nej, overhovedet ingen
b) ____ Ja, i lav grad
c) ____ Ja, i høj grad
d) ____ Ja, i meget høj grad

Spørgsmål 18: Har det betydning for din lyst til at investere i et firma, at firmaet har en professionel finansmand med i ledelsen?

a) ____ Nej, overhovedet ingen
b) ____ Ja, i lav grad
c) ____ Ja, i høj grad
d) ____ Ja, i meget høj grad

Spørgsmål 19: Har det betydning for din lyst til at investere i et firma, at firmaets grundlægger(e) tillader investorer at udpege bestyrelsesmedlemmer?

a) ____ Nej, overhovedet ingen
b) ____ Ja, i lav grad
c) ____ Ja, i høj grad
d) ____ Ja, i meget høj grad

Spørgsmål 20: Har det betydning for din lyst til at investere i et firma, at firmaets grundlægger(e) ikke insistere på at være direktør(er) i firmaet?

a) ____ Nej, overhovedet ingen
b) ____ Ja, i lav grad
c) ____ Ja, i høj grad
d) ____ Ja, i meget høj grad

B.4 Responses to the questionnaire

In total, 13 recipients responded to the questionnaire. The responses are summarised in the table below.

Question	a	b	c	d	e	f	g	Check	Selection
1	1	1	6	0	3	4		15	all
2	1	2	3	4	3			13	highest
3	1	0	6	1	5			13	highest
4	7	5	4					16	all
5	0	1	7	5	0			13	all
6	2	7	1	2	1			13	all
7	4	3	0	6	5			18	all
8	8	2	3	0				13	unique
9	5	4	2	1				12	unique
10	2	2	7	1				12	unique
11	1	4	4	3				12	unique
12	0	1	11	1				13	unique
13	12			4	3	4	2	25	all
14	6	7	5	4	6	3	3	34	all
15	6	7						13	unique
16	12	1						13	unique
17	0	1	5	7				13	unique
18	6	6	1	0				13	unique
19	0	0	2	11				13	unique
20	2	2	5	4				13	unique

Table 6: Responses to questionnaire