

Part 8: How to write an Information Memorandum or Business Plan to Raise Capital – ‘Management’

By Len McDowall, Integral Capital Group Pty Ltd

This is a continuing series of articles on how to write a Business Plan or Information Memorandum to raise capital, Part 8 discusses the business plan content specifically ‘Management’.

Management

The product or service offered by a company may be excellent but it is people that make businesses successful. Venture capitalists back committed, experienced and well-balanced management teams with, hopefully, a good product or service. Not vice versa!

The emphasis is very much on management teams, not particular individuals. Investors shy away from ‘one man bands’ owing to limitations on the amount any one person can accomplish. They seek a well-balanced management team for two reasons:-

- (i) The business will probably survive the loss of a key person and...
- (ii) A complement of skills ensures that the important managerial functions -production, sales, and finance, among others - will be attended to.

Accordingly, this section of the business plan provides the key to the potential investor and will figure large in his investment decision.

From the investor perspective management teams can be categorized from the most to least preferable as follows:-

1. All members of the team identified and fully committed to the venture. This is the ideal situation as the team is on board and working together, especially when team members have experience and a successful track record. This is one of the prime reasons that investors are keen to back management buy-outs from parent groups.
2. All the team members are identified but not everyone is on board. This is a typical situation where the existing management recognizes the need for additional and complementary management skills but cannot bring that person on board until funding is in place. The possibility that they may not join is a source of concern for investors.
3. One or more of the team have yet to identified, i.e. gaps in the management team. In these circumstances it is important to recognize the need and indicate how the gap will be plugged. This may include part time staff or outside advisers until a suitable full time person is recruited. The recruitment aspect makes the team less desirable and investment more risky.
4. The ‘one man band’. This is usually an unacceptable situation for investors unless the person has an outstanding track record in developing successful businesses. It may then be possible to build a team around this person.

The best position is to assemble your team before seeking venture capital or at least identify its members. This will significantly reduce the perceived risks and increase the likelihood of successfully finding finance.

The other aspect regarding management which will be of paramount importance to investors is their commitment to the venture - not just in terms of "blood, sweat and tears" but also financial. Investors will expect management to invest personally in the opportunity as an explicit show of faith and commitment. If there is no such personal investment, venture capitalists, who are usually asked to put up most of the cash will be reluctant to do so. If the management is not willing to back the venture themselves why should an investor? The amount of that personal investment differs from case to case, but the sum should be significant in terms of personal wealth.

The main points for inclusion in this section of the business plan are to:-

- Provide a brief synopsis of each manager reviewing career highlights, duties and responsibilities and past accomplishments which demonstrate ability for the tasks required.
- Explain how the management team is to be organized and describe each member's primary role. If the company is established and has an effective management structure an organization chart shown as an appendix should be included.
- Discuss the board of directors, outlining any non-executive members and their function.
- Provide details of salary packages and any personal investment in the company. Include a list of shareholders in the appendices.
- Identify any weaknesses in the team and how they will be overcome i.e. training, recruitment, outside advisers.
- Explain the strategy to retrain and motivate staff, ie. key executive share options, bonuses, profit sharing etc.
- Describe support provided by professional advisers both current and ongoing.

The content of Business Plans will be further covered in subsequent articles by Len McDowall.

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About Len McDowall - Managing Director, Integral Capital Group Pty Ltd

Len McDowall was previously inaugural Chairman and Managing Partner of Bird Cameron Chartered Accountants (now known as RMS Bird Cameron), which employed 1000 people in 50 offices in Australia and Hong Kong. Len McDowall has extensive experience in all facets of financial management with a particular emphasis on structuring and negotiating joint ventures and capital raisings. Following his retirement from the accounting profession Len and his partners established the Integral Capital Group which specialises in mergers and acquisitions, public floatation's and capital raisings.