Due Diligence Factsheet

People and Management

The following factsheet was drawn up by the Technical Committee of the trade body, comprised of experts in financial, technical and legal aspects of angel investing. This factsheet on People and Management has been produced by Michael Weaver at Beer & Partners.

Investing in early-stage businesses is as much about investing in people as investing in businesses

Think about the entrepreneur before the actual business - if you believe in the individuals, success will come. No matter how good the product or service its chances of being successful will be a direct result of the quality of the management team. So investing in the people not their product can be a wise strategy.

Few early-stage businesses have complete management teams and very few can claim to hold all the skills required to maximise the potential of a business. These skills include general management, finance, marketing, sales, production and licensing, to name a few.

Entrepreneurs who can recognise their weaknesses as well as their strengths and plan accordingly are well placed to raise investment. Many of the complementary skills required are available on a freelance or part-time basis, sometimes on a sweat equity basis and can on occasion be provided by an investor. Sweat equity is where someone invests time and skills in exchange for a shareholding stake in a company instead of cash.

There are different general management skills required to run a small business compared to those required for larger firms. It may even be that the founder is not best placed to lead the company through all the stages of its growth and will at some point need to step aside.

Top 10 tips

1. Make sure you are comfortable and can work alongside the entrepreneur – investment can be long term and a good relationship with trust on both sides, is key. This is the “gut” feel.

2. Do some due diligence on the entrepreneur - take personal references, credit checks, Company House records. Google, Facebook and LinkedIn may reveal common connections and a real reference rather than a recommended one. A previous failure is not necessarily a bad thing – if they have learned from the experience and know what not to do.

3. Do they understand their business? By nature entrepreneurs are optimists but if they cannot identify the weaknesses and threats in their business plan they are ill prepared to address them when things go wrong.

4. Do they understand (and accept) their limitations? Can the management sell and market in the early stages without assistance? Will they keep track of their financials? Do they accept that support may

be required in certain areas and that they may not have the right skills to manage a global business?

5. Do they really have an exit plan or do they hope to remain in control and have a lifestyle job?

6. Are they committed and prepared to work long hours for low reward until the business is established? How much do they stand to lose if the business fails - too little and they can walk away with investors losing their money - too much and may be desperate. Can they survive on a limited income? Education fees and mortgages may tempt them to abandon the business in favour of secure employment.

7. Was the business plan and market research done by them or professionals? Was it outsourced for quality input or laziness or lack of knowledge about how to go about it? Is the market research based upon making sure the numbers stand up or are the numbers based upon the market research?

8. How important is shareholder control to them? Is this a priority to ensure that they can exercise control or a simple realistic valuation of the work and effort put in?

9. If the founders are a team - how long have they known each other and have they worked together or just friends? Can the partnership survive the pressures and what happens if one falls by the wayside?

10. And finally focus upon the 3 Ps: the People, their Passion and their Perseverance.