
A Guide to Early Stage Investment in the U.K. and Ireland

Alan Gleeson



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by Alan Gleeson



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Contents

INTRODUCTION	6	THE PITCH	25	SUMMARY AND CONCLUSION	45
FINANCING YOUR BUSINESS	7	Additional resources on pitching	27		
BOOTSTRAPPING	7	HOW DO ANGEL INVESTORS AND		APPENDIX 1	
INVESTMENT FROM FRIENDS AND FAMILY	8	ENTREPRENEURS MEET?	28	(NON EXHAUSTIVE) LIST OF	
GRANTS AND LOAN SCHEMES	8	Angel Groups	28	ANGEL GROUPS IN THE UK.	46
THE CASE FOR EXTERNAL INVESTMENT	9	PAYING TO PITCH	30		
THE CASE AGAINST EXTERNAL INVESTMENT	10	Should I pay to pitch? Some perspectives -		APPENDIX 2	
SUMMARY	11	The ‘Calacanis Perspective’	30	RESOURCES RELATED TO	
		Should I pay to pitch? Some other perspectives	30	EARLY STAGE INVESTMENT.	48
		Should I pay to pitch? The verdict	31		
EXTERNAL INVESTMENT	12	WHAT ARE ANGEL INVESTORS LOOKING FOR?	33	APPENDIX 3	
WHAT IS ANGEL INVESTMENT?	12	SOME QUESTIONS FOR ANGELS	35	(NON-EXHAUSTIVE) LIST OF	
WHAT ARE THE MAIN ADVANTAGES		1. What can they bring to the table		PRIVATE EQUITY/VC FIRMS	52
OF SECURING ANGEL INVESTMENT?	13	other than just cash?	35		
WHAT ARE THE MAIN DRAWBACKS ASSOCIATED		2. Do they have experience or contacts		APPENDIX 4	
WITH SECURING ANGEL INVESTMENT?	14	in your particular industry sector?	35	COMMENTATORS YOU SHOULD FOLLOW	56
HOW IS ANGEL INVESTMENT DIFFERENT		3. What is their preferred exit strategy?	35		
FROM VENTURE CAPITAL?	15	4. What is their required level of involvement?	35	APPENDIX 5	
		TYPE OF ANGEL INVESTOR	35	RECOMMENDED READING LIST	58
		What other investments have they done?	37		
THE PROCESS	17			APPENDIX 6	
HOW DOES ANGEL INVESTMENT WORK?	17	THE INVESTMENT PROCESS	38	UK-RELATED RESOURCES FOR ENTREPRENEURS	60
THE BUSINESS PLAN	18	DUE DILIGENCE	38		
What should my business plan contain?	18	TERM SHEET	39	APPENDIX 7	
Business plan format	18	SPINNING PLATES	42	UK NETWORKS	61
Writing the business plan	20	How much should I raise?	42		
Should I get someone to write my business plan?	22	Additional resources on Term Sheets	43		
Business plan bashing	23				
Additional resources on business planning	24				

About the Author

Alan Gleeson is the Managing Director of Palo Alto Software, makers of Business Plan Pro, the best-selling business planning software product available worldwide.

Prior to joining Palo Alto Software, Alan worked at Barclays Plc, having joined their graduate programme in 1998 from University College Cork, Ireland. Alan spent a number of years at Barclays in both the business and retail banking sectors, including time at Clearlybusiness.com, a specialist innovation unit.

He has also worked in a range of different industries around the world, including stints in Ireland, USA, Australia and Canada.

Alan has an MBA from Oxford University, an MSc degree in Strategic Management, a Bachelor of Commerce degree from University College Cork, and a Post Graduate Diploma in eCommerce from University of London.

External Investment

Introduction

As I described in an interview in [The Times](#), a recession is a great time to start a business. Here at Palo Alto Software, we have seen growing demand for our [business planning software](#) as more UK entrepreneurs take the plunge in starting their own businesses. However, a cursory glance through mainstream newspapers indicates that raising startup finance remains difficult, and that the UK banks are simply not lending money to businesses (especially startups). As [Luke Johnson of Beer & Partners](#) argues;

“Angel investors are the only realistic option for these early-stage companies. Currently banks are barely open for business, or tend to offer loans on unattractive terms, so the need for equity capital is greater than ever.

What’s more, since current low interest rates give savers such poor returns, more and more angel investors are emerging that have a strong appetite for direct investment in small companies.”

As Luke Johnson indicates, we have witnessed a growth in the number of angel investors seeking to fill this gap and support entrepreneurs through the provision of early stage capital. The growing number of angel investors is due in part to their struggles with poor returns from other asset classes as a result of low interest rates, a volatile stock market, and property losses. Hence, some high net worth individuals have turned their attention to alternative investment opportunities, as a means to drive capital growth. In addition, the ongoing success of the BBC programme, [Dragons’ Den](#) (where entrepreneurs seeking investment pitch their business plans to a panel of prospective investors), has added to the growing popularity of angel investment as a means by which entrepreneurs secure early stage investment in their fledgling businesses.

This short guide gives some background on early stage funding (in particular Angel Funding), describes who the main players in the UK are, and signposts a number of key resources for UK entrepreneurs looking for early stage investment.

Introduction

FINANCING YOUR BUSINESS

Decisions regarding how you finance your business should be taken very seriously. This is one of the most critical decisions you will make at the startup phase and in addition to exploring different kinds of financing, you need to spend some time learning about the conditions that come attached to early stage capital investment. By far the best way to finance your business is from current revenues, but unfortunately this is not realistic for most startup businesses.

BOOTSTRAPPING

When you bootstrap your business you look to (a) start your business without any external finance and to (b) manage the business with a very tight control on costs. As this author has previously argued, in the article [‘Bootstrap your way to success’](#), there are numerous benefits to startups in avoiding outside investment (particularly at the pre-revenue stage). These benefits include creating a strong cost discipline, galvanising staff against profligacy, helping to maintain a focus on driving revenues (while controlling costs), and finally helping to ensure an ongoing focus on innovation. As Greg Gianforte, author of [‘Bootstrapping: The Secret to Entrepreneurial Success’](#), declares:

‘When you’re Bootstrapping, you’re forced to deal with customers and to fulfill their needs from Day One. If you have a lot of external funding, on the other hand, you can be fooled into thinking you’ve already created an actual business just because you’re paying salaries and rent. But you haven’t. You only have a business when you have

paying customers. Bootstrappers know this instinctively, and never lose that customer focus.’

Entrepreneur-turned-academic Vivek Wadhwa agrees, arguing in his TechCrunch article [‘Ditch the Biz Plan, Buy a Lottery Ticket’](#):

‘My advice for entrepreneurs in industries with relatively low capital costs (like internet/software) is to bootstrap. Of course, you can start by trying raising venture or angel capital when you have just an idea (you never know, you might get lucky); but don’t waste too much time on it. And don’t get discouraged if they [VC’s] turn you down; you are in the majority. Instead, focus on validating your idea, building it, and selling for survival.’

In short, bootstrapping is an excellent way to grow your business (particularly an Internet business) as you really focus on the need to generate profits that can be reinvested to drive further growth.

At this point, it is worth signposting the emergence of a school of thought called [Lean Startup](#) which prescribes a methodology of product development that seeks to keep costs and risks down while focusing on constant iteration with a strong customer input. It is synonymous with the thoughts of Steve Blank in his book [The Four Steps to the Epiphany](#) as well as the likes of [Eric Ries](#) and [Dave McClure](#). The development process they promote is most definitely a bootstrapped one!

Finally, to get a feel for bootstrapping in practise, read Spencer Fry’s article [‘How to bootstrap your company to profitability!’](#)

INVESTMENT FROM FRIENDS AND FAMILY

A step up from bootstrapping is securing investment from friends and family. This is a very popular source of funding for entrepreneurs and has a lot of obvious benefits given the financing is not typically subject to onerous terms and conditions. However, this source of capital is in all likelihood coming from an inexperienced investor who may not be fully cognisant of all the associated risks. This source is commonly referred to as the Three F’s - ‘family, friends and fools’. Hence it is incumbent on you, the entrepreneur, to make sure these investors are fully aware of the risks, as there is a good chance that they will not get their money back and hence should only invest what they can afford to lose. Given the very personal nature of the relationship, you should only explore this avenue as a last resort, or if you need it to fulfil an existing order.

GRANTS AND LOAN SCHEMES

It is also worth noting that there is a number of grant and loan schemes such as the Government-backed [Enterprise Finance Guarantee](#) that should be explored in tandem with other private investment sources. You can find a comprehensive list of grants available to businesses in the UK and Ireland at the [J4B website](#). While these typically will not result in sufficient investment for most, they should not be discounted as a source of additional financing.

Introduction

THE CASE FOR EXTERNAL INVESTMENT

Not all entrepreneurs have the luxury of being able to bring their idea to market without some external financial help. In some instances, the idea is capital intensive and hence may need a portfolio of investors. Others have the desired traction and want to pursue explosive growth (or believe the market opportunity may be fleeting); for these categories of entrepreneurs, external investment is ideal. Joel Spolsky, co-founder of Fog Creek Software, agrees with this assessment, as he outlines six occasions when a firm should take a VC investment in his blog post: [‘Raising money for Stack Overflow’](#).

1. There’s a land grab going on. The business is in a new field with no competition, but the field has proven itself, and is obviously going to get very crowded very soon, so the faster you can grab territory, the better.
2. There is a provable concept that’s repeatable. I always point to the example of the Starbucks IPO, which was brilliant because it was so simple. Every new Starbucks store that opened in Seattle became profitable in a matter of months. They tried a couple of stores in Chicago and Washington just to make sure it wasn’t a Seattle thing, and those worked even better. Thus, the formula of opening as many stores as possible was as close to a sure-thing as possible, so raising money was a no-brainer.
3. The business itself could benefit from the publicity of getting an investment from someone who is thought of as being a savvy investor.

4. The investor will add substantial value to the business in advice, connections, and introductions.
5. The business can potentially have a big exit or become a large, publically traded company.
6. The founders are not in it for their own personal aggrandizement and are happy to give up some control to make the business more successful.

A recent paper, [The Consequences of Entrepreneurial Finance: A Regression Discontinuity Analysis](#) by William R. Kerr, Josh Lerner, and Antoinette Schoar (2010), also found that angel investment was beneficial for entrepreneurs. The authors indicated that angel finance was positively correlated with higher survival rates, additional fundraising outside the angel group, and faster Web traffic growth. Overall, the results from their study suggest that the inputs that angel investors provide (alongside the cash investment) have a large and significant impact on the success and survival of startup ventures. While the study was conducted in the U.S., it is fair to assume the findings hold true for UK angels also.

There is no doubt that a number of companies have benefited enormously from private equity investment (regardless of the type) over the years. These companies have typically shared a number of similarities: they faced explosive growth opportunities; had an ambitious management team; and had a clear market opportunity ‘with scalability’. In short, if you have a great team, a great product with a significant (but fleeting) market opportunity, raising venture capital makes perfect sense.

Introduction

THE CASE AGAINST EXTERNAL INVESTMENT

There is no doubt that despite the hype, angel investment is not for everyone – especially given that it typically comes at a heavy cost, both in equity terms, time demands, resultant obligations, and in an entrepreneur’s ability to make decisions independently. As [Doug Richard](#) (a UK-based Californian entrepreneur) argues in his post ‘[Does your start-up really need investment?](#)’ it is best for entrepreneurs to try to develop their businesses initially without external investment. U.S. entrepreneur-turned-academic [Vivek Wadhwa](#) agrees, arguing that the Venture Capital (VC) industry has been completely overhyping the correlation between VC funding and corporate success. As general partner of GRP Partners, [Mark Suster](#) contends:

‘...the vast majority of companies should never raise venture capital. Raising venture capital is like adding rocket fuel to your business and for most businesses this a) isn’t warranted b) creates the wrong incentives and c) even if it is successful means that the founders don’t make enough personal money when the ultimate business is sold.’

The U.S. Entrepreneur [Rand Fishkin](#) (SEOMoz) has written an excellent blog post where he describes in detail the investment process his company went through. He summarises by saying;

‘Fundraising is a demanding, lengthy, emotionally charged process and something that challenged me personally more so than any other single part of my life in the last five years... I do regret the decision to seek funding - it cost our team countless days and weeks of productivity, took our eyes off our

primary goal of delighting our members and customers and, in the end, was a learning experience with a shockingly high cost.’

When you borrow money from a third party it completely changes the dynamic of your business and many entrepreneurs go into the process blindly. For me, building a profitable business should be the primary aim from day one and in too many cases the easy availability of cheap(ish) finance has resulted in too many companies taking their eye off the ball, pursuing investment rather than meeting customers’ needs profitably.

Introduction

SUMMARY

My hope is that entrepreneurs think long and hard about whether early stage investment is appropriate for their business. As I have argued above, external investment is a necessary evil in some instances, and angel or VC money is not appropriate in most cases. In my view, if external capital is required, it should be considered only when the idea has proven traction; i.e., the venture has already been validated by real sales, and the capital injection is needed to drive more aggressive growth.

However, if you decide external investment is required, this paper should enlighten you, the entrepreneur, as to some of the issues you will face as you journey down the road to securing investment. This paper is designed to partially redress the information imbalance between entrepreneurs and angels/venture capitalists, to help you make an informed decision regarding external investment.

It is worth noting that any investment firm mentioned in this paper is for reference only; the author is not personally endorsing or recommending any firm mentioned here. By way of a disclaimer, the author is not personally an early stage investor, so there are some obvious limitations in terms of writing from a personal experience. However on the flip side, the author can offer a more balanced view of the early stage investment/entrepreneur dynamic given the lack of an agenda. The author works for Palo Alto Software, makers of Business Plan Pro (and owners of Bplans.co.uk) and any references to these as resources is due to the author's personal opinion that they are worth signposting for UK entrepreneurs.

Finally, this guide is based on the perspective of this author, and is not intended to constitute legal advice. It also comes with a very strong recommendation that you do ensure you obtain legal advice in advance of engaging with any prospective investors.

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London, July 2010
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External Investment

External Investment

WHAT IS ANGEL INVESTMENT?

Angel investment is early stage investment capital provided by an angel investor or business angel, typically in exchange for equity. The angel investor is usually a rich individual who brings more to the table than just cash. They may also bring specific industry expertise, credibility to a youthful team or access to influential contacts. The cash or 'smart money' (i.e., money from well known/ well connected angels with a reputation for nurturing entrepreneurs in your specific industry) is generally their own, rather than other people's money (as would be the case with other venture capitalists), and the investment level is typically under £1 million.

Angel investment is associated with seed or early stage investment, when the capital requirements are relatively modest, compared with the average investment level for VCs. Given this early stage investment, the associated risks for the investor tend to be very high: risk of the company failing, risk of dilution if the company is successful and needs additional investment, etc. As a result, angel investors typically require a very attractive return for their investments and are likely to drive a hard bargain with entrepreneurs. It is also worth noting that the investment is illiquid, in that the only way an investor will typically obtain an exit is through the business getting acquired or going public (extremely unlikely these days). Given the high-risk nature of the investment, many investors do not get their money back. However, they are investing in the hope the company 'makes it big'. This early stage investment is also known as seed capital and typically sits between funding from 'The Three F's' referred to above and venture capitalists. U.S. venture capitalist Eric Roach

lists a number of additional characteristics of angel investors in his blog post: [Ready to Raise Capital: Here is what you need to know.](#)

It is worth noting that the traditional delineations defining the type of investment are breaking down as investment levels grow and more angels align with fellow angels so they invest as angel groups rather than solo angels (helping them to diversify their risk in the process).

WHAT ARE THE MAIN ADVANTAGES OF SECURING ANGEL INVESTMENT?

For an entrepreneur, there are a number of advantages in funding your business with angel investment. These include:

Access to capital – the most obvious advantage of angel investment is that it is an investment in your business at a time when most others will eschew the opportunity, deeming it 'too risky'.

Access to networks – if you can secure investment from someone with a network in your particular industry, you will be able to leverage their contacts to support development.

Relatively straightforward process – the process of securing angel investment is considerably less onerous than trying to secure venture capital. For example, due diligence undertaken by the angel investor is typically less rigorous than that of other private equity classes.

No cash-flow implications – Unlike funding your enterprise with debt, which needs to be serviced on a regular basis

and depletes cash at precisely the point where you need to protect it, equity has no such monthly repayment obligations.

Access to experience – assuming the angel is an 'active investor' with a proven track record; it is likely that you will be able to draw on their experience when making decisions.

Entrepreneurs need to guard against the romantic version of angel investment as portrayed by the BBC's *Dragons' Den*, where the interactions seem to take a matter of minutes and the deal is completed with a quick firm handshake. The reality is very different, as discussions and due diligence take a lot longer and typically follow much more rigorous debate. Angel investment is typically of most benefit when an entrepreneur believes there is a very strong commercial opportunity that they cannot exploit without some external investment. By targeting an angel investor who can bring access to resources and contacts outside of the entrepreneur's network, the opportunity may be exploited, generating an attractive return for the various interest groups.

WHAT ARE THE MAIN DRAWBACKS ASSOCIATED WITH SECURING ANGEL INVESTMENT?

Given that most interactions between angels and entrepreneurs are akin to the meeting between David and Goliath, where sophisticated investors are interacting with unsophisticated entrepreneurs (in terms of their understanding of investment finance), it is important that entrepreneurs are cognisant of the risks they are signing

External Investment

up to. As I mentioned in my introduction, angel investment comes with a number of costs, the main one being that it is an extremely expensive form of capital for a startup. This (non-exhaustive) list represents some of the main drawbacks:

High cost – given the high risk associated with private equity, the returns demanded tend to be very aggressive from the entrepreneur’s perspective.

Time-consuming process – the process can be extremely time-consuming, costly, and very distracting for entrepreneurs at the very time they need to be focused on building their businesses. Many entrepreneurs are not aware that the odds of successfully gaining investment are extremely long, as the vast majority of business plans that are reviewed do not result in funding.

Dilution – once you take an external investment, you are no longer in full control of your own (or your company’s) destiny, and obviously your ownership percentage declines.

External interference – investors are keen to ensure that business decisions will help them achieve their desired outcome, so you can end up with interference where goals are not aligned or when decisions you make are challenged by the investor.

The marriage – term sheets (documents that contain the material terms relating to the agreement) typically contain a number of clauses that are primarily designed to protect the investors. The relationship tends to work well when the companies experience rapid growth and surpass plans and

the investor has a liquidity event. However, in most cases, the journey is not so smooth and as a result it can lead to conflict between the entrepreneurs and the investors.

Gamesmanship – given that the primary objective of the angel interaction is to secure funds, investors can drag investment decisions out, ratcheting up the pressure on the entrepreneur (who may need the funds in a hurry) so they can secure better terms (as the cash runs out).

Disclosure – Given the investor will be scrutinizing your business, you will be disclosing a lot of commercially sensitive information. Hence you’ll need to manage the information flow so you do not disclose information that is not material to the investment decision but could compromise your bargaining position.

Misalignment of goals – The risk propensity of professional investors is typically quite different from that of entrepreneurs. Angel Investors and VCs are typically looking for big wins, so are likely to push a much riskier strategy than many entrepreneurs may be comfortable with. As [Joel Spolsky of Fog Creek Software](#) declared, ‘...as an entrepreneur, you’re going to be forced at gunpoint to bet on three cherries again and again and again.’

Your position may become untenable – in some instances, the investor may believe that you, the entrepreneur, cannot take the business (which was your business) to the next level.

As the above list illustrates, there are a number of significant drawbacks from securing angel investment. Whether they trump the benefits is largely a personal call,

with one prominent metaphor used by VCs trying to tempt entrepreneurs being that, ‘it is better to have a smaller share of a bigger pie than a large share of a smaller (or diminishing) pie!’ Of course this argument is premised on the view that the investment will grow as a result of the business prospering.

It should be noted that the odds of a successful investment, regardless of terms agreed, are much more remote than many entrepreneurs believe. In terms of a rough estimate, over 90% of business plans are turned down by recipient angels, and out of the remaining 10% asked to pitch, approximately 1% get funded. Investors in London to whom this author has recently spoken suggest the odds are even slimmer! Of course, this is only the funding, and the odds on attaining a successful liquidity event are even longer, hence the need for a big exit.

HOW IS ANGEL INVESTMENT DIFFERENT FROM VENTURE CAPITAL?

Angel investment is a form of private equity that is typically associated with early stage or seed investment. Venture capital, like some other kinds of private equity, is typically later stage and is understood as medium-term funding for businesses with a very high growth potential in return for an equity stake. Another major difference is that venture capital is usually invested on behalf of a pool of investors, rather than directly by an individual investor. VC investment is typically for larger amounts, is subject to greater levels of due diligence and is often associated with more aggressive terms than angel investment. Unlike angel investment, where investors focus on a small number

External Investment

of firms (increasing their own risk), venture capital firms seek to diversify their funding into a number of portfolio companies, spreading the risk and hoping for one 'home run'. It is worth noting that many of these distinctions are blurring as angels collaborate to diversify their risk and to invest larger amounts.

Firms associated with venture capital also tend to specialise depending on:

- Their geographic focus
- Their industry sector preference
(i.e. IT, Cleantech and the Life Sciences)
- The size of the fund
- The investment stage: seed, early stage, later stage, etc.

Finally, it is worth bearing in mind the current state of the VC industry that has just gone through a number of very painful years. As leading U.S. venture capitalist [Fred Wilson](#) describes in his blog post, '[The Venture Capital Math Problem](#)', the huge amount of money that has been attracted into the industry has played a part in the poor returns for investors in recent years. The economic downturn has also affected returns as exits achieved through Initial Public Offerings (IPOs) have all but disappeared.

The Process

The Process

HOW DOES ANGEL INVESTMENT WORK?

It all starts with a business plan. A business plan is essentially a future orientated route map where entrepreneurs formalise how they intend to allocate resources so as to generate profits. While business plans have typically been associated with formal physical printed business plans, increasingly they exist as online documents. They are vital for any new business seeking investment, as they are used to convey to prospective investors what the opportunity is. As angel investment is often required at a pre-revenue stage, there is significant uncertainty, not least in terms of revenue generation, but also in terms of whether the offering is even commercially viable, or whether the right team is in place to take the opportunity through to profitability. The business plan is thus used as the means by which the investor can assess the credibility of the business model.

In years past, the angel investment process typically consisted of loose informal networks whereby entrepreneurs were introduced to prospective investors through personal contacts. However, this process had a number of drawbacks, not least in that it was both time-consuming and highly inefficient. Nowadays, a prospective investor will typically want a business plan to be submitted to them. These investors will then review the plan and if they feel that the executive summary is sufficiently compelling they will then usually look to have the entrepreneur pitch to them. Modern variations have consisted of everything from 'speed pitching' to 'pitch events' where numerous parties from both sides of the table interact, rather than the strict 1:1 interactions of pre-Internet days.

The emergence of the Internet has meant that this matching process can now be undertaken in a much more efficient manner than before, and the network effect resulting from the growing number of groups serves to streamline the process even further and help increase the likelihood of a match between investors and entrepreneurs. In many ways, the process mirrors the growth of online dating sites such as [Match.com](#) in bringing different people together in pursuit of a common goal. However, given the nature of the interaction is more than mere funding, the personal 1:1 relationship nature of angel investment will remain important, even if the initial 'flirting' takes place online. It is also worth noting that investors are typically time-pressed investors who do not have time to wade through hundreds of pages of a detailed plan. A short plan with a strong executive summary is highly preferable to something as inaccessible and as lengthy as James Joyce's *Ulysses* (no matter how good the underlying premise may be).

It is worth noting that while the angel investment acquisition process detailed below gives you a sense of the typical process, many angel investments for more modest amounts do not do anything like the level of due diligence described here. However, this outline will give you a feel for the various elements at play, if your funding process is more rigorous than normal. Finally, Rand Fishkin of [SEOMoz](#) gives an excellent 'no holds barred' account of his experiences of the funding process in his article [SEOMoz's Venture Capital Process](#).

The Process

THE BUSINESS PLAN

A business plan plays a vital role in any interaction between entrepreneurs and investors, as it is typically the means by which prospective investors assess whether an investment opportunity exists or not. In many respects the business plan is a barrier; those without a business plan are generally not taken seriously.

Writing a business plan forces the entrepreneur to take a holistic view of their business so they can clearly describe the opportunity, while also demonstrating how they can take advantage of it. Being able to read a business plan is also a more effective way for the prospective angel investor to digest the idea in contrast to having to listen to someone ramble on about an idea in an unstructured manner.

WHAT SHOULD MY BUSINESS PLAN CONTAIN?

The business plan needs to clearly describe the amount of investment required and the percentage share in the business that you are offering in return. It should also describe what the investment will be used for and when repayment is likely. A business plan contains an executive summary at the start, and this is typically the area subject to most scrutiny. If the executive summary appeals, the investor is then likely to read the business plan in its entirety before inviting the entrepreneurs in to pitch to them.

The main body of the business plan needs to cover a number of different sections, ranging from a company summary, to a marketing plan, to a sales forecast. To get a feel for a real business plan, take a look at the [Standard](#)

[Business Plan Outline](#) posted by Tim Berry of Palo Alto Software on Bplans.com.

BUSINESS PLAN FORMAT

Business plans typically take the form of a printed or digital document with text describing the offering and tables and charts showing the financial projections. Some VC investors prefer a PowerPoint deck instead, as U.S. venture capitalist David Cowan describes in his blog post, '[How to NOT write a business plan](#)':

'...we assess about 100 times as many investment opportunities as we fund, so as everyone knows, it's hard to get a VC's attention. It's not exactly true that all VC's are stupid (not exactly), but we do not have the luxury of an attention span. Drop a thick document on a VC, and it will, wrapped in good intentions, go straight to The Pile.'

He goes on to argue:

'PowerPoint presentations, in contrast, can be quickly emailed and skimmed; eliciting much faster indications of whether there is a fit. And if there is a fit, the VC will have an easier time educating the firm about the opportunity. So PowerPoint plans greatly increase your chance of getting a term sheet, or at least the dignity of a quick No.'

Given the preferred format is a matter of personal preference, entrepreneurs seeking investment should prepare both a full business plan and accompanying presentations so the tastes of all prospective investors should be catered for.

WRITING THE BUSINESS PLAN

There are a number of areas to watch out for when you are writing a business plan.

1. Describe the commercial opportunity clearly

Too many plans contain inaccessible language, technical terms and lazy language. By that, I mean using terms that are not well defined but are bandied around as if they were, such as "social media network", "SAAS", "cloud computing application", etc. In terms of the financials, it is also important to temper enthusiasm by ensuring figures are grounded in reality and there are no hidden traps, such as profitability levels way in excess of the norm.

2. Write a succinct business plan

Ideally, the shorter the better - aim for 10-20 pages with Appendices as backup if needed (as well as a separate PowerPoint slide deck for presenting the plan).

3. Excite the reader

Remember that the primary goal of the business plan is similar to that of a covering letter that accompanies a CV or résumé. It is designed to excite the reader such that they invite you in for a conversation. Many plans focus myopically on 'the product' without clearly defining the market, the route to market, finance requirements, the team, etc.

4. Take the business plan process seriously

Raising finance may be one of the most important things you do. While all entrepreneurs are in a hurry to make sales, writing a business plan is a difficult task and should

The Process

not be produced without a clear understanding of what a business plan should look like, what sections you need to include, etc. Spending £100 on business plan software products such as Business Plan Pro or a training workshop will be money well spent in the long run. Avoid a last minute business plan creation session at all cost!

5. Get external input

Another common trait I see with entrepreneurs is they keep their idea secret and only do a business plan at the last minute after they have spent a lot of money on websites, product design, hardware, software and the like. Those that obtain frequent impartial advice are going to stand a much better chance of succeeding than those who avoid people who may ask hard questions. Often the reason entrepreneurs keep their cards close to their chests is on the spurious grounds that they fear that others ‘may run off with their idea’. My counter argument is that ideas are essentially worthless and the best form of defense for an idea is execution of your business plan.

While on the topic, it is worth noting that it is generally not worth asking recipients of the plan to sign a Non-Disclosure Agreement (NDA), as most will simply refuse. For a start, NDAs are not easy to enforce and it is very rare for someone to have a completely unique idea, so the business plan recipient may have heard a similar idea before. Similarly, NDAs are time-consuming (as the terms need to be reviewed), add cost (particularly legal costs) and are viewed as unnecessary (after all, investors have their reputations to protect and it is not in their interest to disclose confidential information to third parties).

If you want more information as to why most VCs refuse to sign them, this blog post by well known U.S. serial entrepreneur Brad Feld explains some additional reasons ‘[Why Most VC’s Don’t Sign NDAs](#)’.

SHOULD I GET SOMEONE TO WRITE MY BUSINESS PLAN?

Absolutely not! Admittedly, as an employee of the company that produces the business planning software product, Business Plan Pro, I have a conflict of interest here as business plan writing services are essentially substitutes to our offering. However, as I argue in my article, ‘[How to write a business plan](#)’, there are a number of drawbacks associated with having someone write the plan for you. While having someone write a plan for you is more expensive than doing it yourself, it is also riskier, as you are in effect outsourcing a key activity to a third party, reducing your credibility and making it more difficult to engage in meaningful discussion with investors during a pitch or in an interview context (as the plan writer, and not you, is the principal author).

UK-based angel investor Doug Richards supports this view, arguing convincingly (and colourfully) in his [School for Startups Blog](#) that,

‘The entire point of a business plan is to document your thinking, analysis and efforts to discover in the real world your business proposition and model and cogently describe that to potential investors and partners. What possible purpose is served having someone write it for you? It’s like outsourcing childbirth or an orgasm or your birthday.

It’s yours. It cannot be done by someone else. Even if you want to. I am particularly galled by organizations that have managed to win contracts from RDA’s to help companies write their business plans. I know this happens because the unfortunate wretches end up on my doorstep, formulaic business plan in hand, clutched totemically in front of them as though, like a voodoo doll, it will ward off my evil questions.’

Doug goes on to say,

‘But what about the business plan writing service that charges £1,000 and does the whole thing? Who is doing what for whom? Is this service going to run the business as well? Would any investor take any entrepreneur seriously who showed up with an outsourced business plan?’

I agree wholeheartedly with Doug on this. Writing a business plan is an essential step in the life of all businesses and this step should never be missed or outsourced. However this is not to say that you should not get help with the plan particularly when it comes to the numbers. It is also advisable to get independent impartial feedback from someone before engaging with the investment community for the first time.

BUSINESS PLAN BASHING

Finally, it is also worth mentioning that a small number of commentators believe that business plans are simply not needed. The U.S. software entrepreneur [Jason Cohen](#) argues that business plans are ‘worthless’, as they are ‘always wrong’ and he cites a number of commentators

The Process

who agree. On the flip side, I could draw up a much longer list of people advocating that business planning is 'vital for entrepreneurs' looking to raise finance. Of course, I acknowledge business plans are in constant flux, of course some businesses survive without them, and of course many business plans are way too long. With all due respect to many of these commentators, they are missing the point. Planning is not about being 100% accurate, as we all acknowledge that we cannot predict the future. That is not the point of the exercise. In part, business plans help you understand your business better so you are clear on how you will pursue your idea. You also stand a better chance of identifying problem areas and fixing them, as well as having a better opportunity of securing investment on your terms. As business planning guru Tim Berry declares in his article, [Business Plan Bashing](#),

'If you're running a business, or starting a business, you owe yourself business planning, which starts with a business plan. You deserve business planning to help you focus, prioritize, manage, and proactively drive your business towards the future in the right direction.'

In summary, raising finance is a vital process for many businesses, and trying to do so without a strong business plan is one sure way to guarantee that the process will be longer and more expensive (by some margin) than needs to be, compared to confidently engaging with investors while backed by a complete business plan from the off. While business planning can also be a time consuming process the rewards from the enhanced view you will have of the key business drivers and the goals you will need to reach to attain profitability will mean that it will be time well spent.

ADDITIONAL RESOURCES ON BUSINESS PLANNING

The following consists of a short list of resources related to business planning. To get a good understanding of business planning, there is no need to look further than the website [Bplans](#) (owned by Palo Alto Software), which contains hundreds of articles, sample business plans and other free resources related to business planning.

Tim Berry, President of Palo Alto Software, also has a very popular [blog](#) and is a well respected author in the field of entrepreneurship with a particular specialty in business planning. You can download a free PDF copy of the Start Your Business chapter in Tim's business planning book, [Hurdle: The Book on Business Planning](#), at the [Bplans](#) website, and this will give you a good overview of the business planning process.

John Mullins and Randy Komisar have recently published a book, [Getting to Plan B: Breaking Through to a Better Business Model](#) (2010). One of the central theses is the view that business plans need to be very flexible for startups as things change, and new data emerges which means that entrepreneurs ditch 'Plan A' to pursue other emergent opportunities. You can get a great feel for the book for free via this interview with Randy conducted by [Sramana Mitra](#). He is very keen for entrepreneurs to use proxies of existing providers with similar propositions and does not believe 'revolutionary ideas' exist:

'From the beginning, I try to take my problem and solution and cascade out a set of questions that are critical to understanding if this idea is a real opportunity. The first

places I look for answers to those questions are proxies in the marketplace. The ones that have succeeded are the analogs. The ones that have failed are the antilog... Everything is derivative, and if you don't think so, examine your idea very, very carefully. Everything is derivative, and that's not a bad thing.'

If you want help while writing your business plan the [Business Balls](#) website is an excellent resource to help you understand business concepts, and London based [Business Plan Services](#) have a business plan review service if you want to have an impartial review of your plan from some experts.

Finally, former Dragons' Den star Doug Richards has a very informative [blog](#), and his 'Price of Money' posts are well worth a read. He also runs a 'School for Startups' with regular courses and events around the U.K. Further details are available at his website - www.schoolforstartups.co.uk

The Process

THE PITCH

A [business pitch](#) is simply a business plan delivered verbally, and it typically follows the successful submission of a business plan. In the UK, the Dragon's Den TV show has ensured that these days most people are familiar with the concept of pitching. However as that show illustrates, pitching to a room full of investors can be a very difficult process, and securing investment a rare occurrence. As I describe in my article [Delivering a winning business plan pitch](#), there are a number of tips for entrepreneurs who need to pitch:

- 1. Know your audience.** You need to tailor your pitch according to who you are presenting to.
- 2. Tell a story.** Make sure you engage with your audience rather than bore them with lists of features.
- 3. Prepare to win.** Don't prepare for the pitch at the last minute.
- 4. Pay strict attention to the detail.** There needs to be complete consistency between the plan and the pitch.
- 5. Avoid death by PowerPoint.** Make sure the slide deck does not cloud the key message.
- 6. Get the numbers right.** Make sure the numbers are accurate, credible (when forecasting), and capable of being defended.
- 7. Practise the presentation.** Make sure that your first pitch is not to your ideal investor.

8. Excite them! As former Dragons' Den investor Simon Woodroffe declared, "You gotta make me feel like I'm going to miss out".

The other thing to remember about pitching is that the messenger is often as important as the message. Investors are backing people as well as the opportunity (often described as 'betting on the jockey'). This tension is at the heart of many VC investment debates and is described in further detail in the paper: '[Should Investors Bet on the Jockey or the Horse?](#)' by Kaplan et al (2009):

'Some VCs believe that the company's business and market are the most important determinants of success while others believe the key determinant is the company's management. Our sample of successful VC-financed companies is particularly appropriate to shed light on this debate. This debate is often characterized as whether one should bet on the jockey (management) or the horse (the business/market). The results for both of our samples indicate that firms that go public rarely change or make a huge leap from their initial business idea or line of business. This suggests that it is extremely important that a VC picks a good business. At the same time, firms commonly replace their initial managers with new ones and see their founders depart, yet still are able to go public, suggesting that VCs are regularly able to find management replacements or improvements for good businesses.'

Pitching a business plan is an important opportunity for the presenter to showcase their ability to distil the key elements of the investment offering and to sell these to the investors. While many VCs focus on the jockey, as Kaplan

et al conclude: *'The results [of their study] suggest that poor or inappropriate management is much more likely to be remedied by new management than a poor or inappropriate business idea is to be remedied by a new idea.'*

The Process

ADDITIONAL RESOURCES ON PITCHING

There are a number of additional resources you can consider to help you deliver a compelling pitch, including the following articles:

[The Numbers You Need to Know](#) by Alan Gleeson

[Securing Funding – The Dragons’ Perspective](#) by Alan Gleeson

[Why Pitches Fail](#) by Eric Ries

[The 10/20/30 Rule of PowerPoint](#) by Guy Kawasaki

[Perfecting your Pitch](#) by Guy Kawasaki

[Delivering a winning business plan pitch](#) by Alan Gleeson.

[Pitching your Business](#) by Octopus Ventures

[How to Pitch a VC](#) by Dave McClure

[Mastering the Story that Sells](#) by Doug Richards

Other resources which will help you improve your presenting skills include:

The movie [An Inconvenient Truth](#) by Al Gore.

The article [‘Deliver a Presentation like Steve Jobs’](#), as featured in Business Week.

The book [‘Influence: Science and Practice’](#) by Robert B. Cialdini

[Pitching Hacks – How to Pitch Investors](#) (Venture Hack)

[‘Investor Relations Presentations’](#), a full day training session at the London Stock Exchange (from just £550+ VAT).

An event at the [British Library](#) in London (one of these regular business plan events at the British Library, the [Business Plan Workshop](#), is run by this author).

At this stage we have outlined what angel investment is, detailed some pros and cons and outlined the typical process, from preparing a business plan to getting invited to pitch. The next section describes how entrepreneurs and angel investors get to meet, discusses whether you should ‘pay to pitch’, and concludes with a description of some of the things angel investors are looking for.

The Process

HOW DO ANGEL INVESTORS AND ENTREPRENEURS MEET?

It is a lot easier to identify angel investors than was previously the case. As a result it is also easier to approach them directly. If I had a strong business plan I needed investment for I would have no hesitation in approaching an angel investor directly via a 'cold call'. However there is no doubting that investors put a high premium on 'warm introductions' i.e. personal referrals. Hence if you are an entrepreneur it is highly recommended that you seek to network as much as you can. As Mike Arrington of TechCrunch argues in his blog post '[Greetings](#)';

"Never underestimate the power of an introduction. A mutual friend who introduces you by email or in person is far more effective than a cold self-introduction at a crowded event. Approaching someone randomly should be your last option."

While networking is easier to achieve in big cities, like London, there are numerous entrepreneurship networks scattered around the UK (See Appendix 7 for more details). Professional networking websites such as LinkedIn.com also help facilitate this process as many investors have profiles on this popular social networking site.

[Chris Fralic](#) of First Round Capital (@chrisfr) has produced a top ten list on '[The Art of the Introduction](#)', which outlines some basic rules of engagement when contacting prospective investors by email. However, the real goal is to secure a 'warm introduction' from a trusted party; this is one of the many reasons entrepreneurs should

be active in the various local entrepreneurship groups around the UK. The sooner you plug into one of these groups, the sooner you will get to know the key influencers (and key investors) for your particular market sector.

ANGEL GROUPS

Recent years have also seen the emergence of angel groups i.e. groups of angels who partner up rather than go it alone. They may also be worth approaching if you are not well connected and cannot secure warm introductions as described above. The benefits to the angels from such arrangements are pretty clear:

They benefit from pooling their capital so they have larger investment amounts.

They personally benefit from diversification.

They can spread costs amongst them, including due diligence costs, marketing costs, etc.

These groups of angels also tend to be more visible, which helps ensure they receive a greater deal flow.

However, as I detail in the next section, these groups should not be mixed up with those groups which are synonymous with the growth in 'Pay to Pitch' events, which I feel do not offer value to most entrepreneurs.

Finally, it is important to distinguish between 'smart money' and an ordinary investment. The benefits in securing 'smart money' from an investor with strong links to your

industry, as well as a solid track record, far outstrip those benefits from securing finance from a less well-established angel even if they are offering more favourable terms. Hence, before you make contact with an angel, you need to be pretty sure that you have done your research on them.

Given that angel investors and VCs receive a hugely disproportionate number of plans relative to their investment ability, they tend to have a very robust filtering process they use to screen the plans they receive. As a result, the primary goal for the entrepreneur at this stage is to make the executive summary of their business plan sufficiently compelling to get past this initial hurdle, and of course this is wholly reliant on the strength of the business opportunity you are presenting to them.

The Process

PAYING TO PITCH

One trend in recent years has been the emergence of ‘pay to pitch’ intermediaries, often calling themselves ‘angel groups’. While I am not personally in favour of their core offering, they do assist some entrepreneurs and angels in their role as matchmakers, and their growing popularity suggests that some people do indeed find them beneficial. The premise of many of their websites is very similar to dating sites that exist to bring singletons together (however the cost of this matching function is significantly greater than costs on dating sites). Some of these intermediaries charge upfront fees (as well as seeking a downstream equity share), a process that some people (myself included) find particularly distasteful (as described further below).

SHOULD I PAY TO PITCH? SOME PERSPECTIVES - THE ‘CALACANIS PERSPECTIVE’

A recent article by [Jason Calacanis](#), a prominent U.S. blogger (amongst other things), was extremely critical of the role of some angel groups/networks. He argued that it was simply wrong to charge entrepreneurs to pitch to investors because (a) the investors are generally rich and the startups are generally poor and (b) because there is no associated cost to justify the high fees, i.e. ‘the rich folks should pick up the nonexistent to minimal costs’.

He makes a very strong case, arguing that the best ideas get ‘socialized instantly’, and that entrepreneurs who do pay are typically those with weak business propositions and those who are not well connected.

[Seth Levine](#) of the Foundry Group (an early stage U.S. Venture capitalist) agrees, declaring:

‘There is no circumstance in which entrepreneurs should pay to pitch their business to prospective investors. Period. End of Story.’

SHOULD I PAY TO PITCH? SOME OTHER PERSPECTIVES

Bill Morrow of Angels Den has been one of the most vocal defenders of the practice in the UK, claiming in the [Guardian](#) that ‘there was a “world of distinction” between the services his organisation provides and those of so-called “pay-to-pitch” companies’. Instead Morrow highlighted the value of the services his company provides,

“For £800 we help you write your business review, we spend half an hour on the phone with you, meet you, give you pitch training.”

[Tim Berry](#) of Palo Alto Software (our parent company) and an angel investor himself also defended angel groups, claiming Calacanis’ post displayed:

‘a total lack of distinction between thousands of dollars as a pay-to-pitch fee, charged by for-profit middle-men companies, and the normal fees of tens or hundreds of dollars charged by angel investment groups as part of the pitching process. That’s like apples and oranges. And the oranges are getting smeared with the bad apples.’

SHOULD I PAY TO PITCH? THE VERDICT

First, the upfront fee is often justified by these networks as a ‘barrier’ to prevent the organiser from being overrun with time-wasters. My response – the best barrier to weed out time-wasters is the requirement that a full business plan be submitted, so the executive summary can be scrutinised in advance. This should not take much time, and hence, would not warrant a fee. As an entrepreneur, I would never pay an upfront fee in these cases.

In terms of the additional services provided, I feel that it is, of course, reasonable to charge for professional services, including training, etc. However again, I do not believe that an equity stake is a fair reward for these services, especially when loaded on top of an upfront fee. While many of these ‘angel intermediaries’ do not offer genuine value, others actually do run very useful workshops and training events that can be of immense benefit to entrepreneurs.

Most of these groups are very transparent with their fees, and hence the onus is really on the entrepreneur to drive more favourable terms by refusing to patronize those that are not providing genuine business value. I would also suggest that the onus is on you, the entrepreneur, to produce a credible business plan detailing a commercially viable opportunity and to network like crazy. This allows you to engage with prospective investors on your terms, rather than theirs.

Ask yourself why you need to pay to pitch? If it is because you have already been knocked back by a number of prospective investors, perhaps you are throwing good

The Process

money after bad. If it is because you do not know who to approach or how to approach them, I'm hopeful that this article (and the numerous contacts I've signposted) will help you gain access to angel investors on your terms and remove the need for you to pay. If the reason you are happy to 'pay to pitch' is because you are pressed for time and see some benefits in pitching to a pool of angels, then the concept gains some merit. However, you still have to answer the question of whether the cost and equity stake is money well spent (particularly given the context is one where you are looking to raise cash). And this is a very personal and subjective question that only you can answer.

Finally, in response to the growing discontent with 'Pay to Pitch' events, there are a growing number of free alternatives which are highly recommended:

The [Open Angel Forum](#) is a U.S.-led initiative designed 'to help entrepreneurs and angel investors change the world together'. It was launched in January 2010 by Jason Calacanis 'to stop the practice of people paying to pitch angel investors' and they plan to run an event in the UK later in 2010.

[Seedcamp](#) – is a seed fund to invest in startup companies, mainly through its flagship event [Seedcamp Week](#). It also runs [Mini Seedcamps](#) in several locations around Europe from January-June. Seedcamp's standard investment is €0-50k in exchange for a small minority stake (5%-10%) in the company.

[TechCrunch Europe](#) regularly runs free pitch events. To enter you need to be a tech startup, less than 3.5 years

old, with or without 'seed' funding already. The emphasis is placed on Web and mobile tech startups which can 'scale' and perhaps eventually launch internationally into other markets. All entrants are selected by TechCrunch editorial on merit only.

In summary, my advice to entrepreneurs is to ensure they are very clear about what they are getting in return for the initial outlay. Some of the more popular intermediaries offer additional valuable services, such as business plan writing and reviewing services, as well as training and coaching, so they offer greater value than the straight matchmaking ones. However, I believe an entrepreneur with a compelling business plan who is able to work a list of contacts (and approach prospective investors directly) is not likely to gain much from such intermediaries and should give them a wide berth.

The Process

WHAT ARE ANGEL INVESTORS LOOKING FOR?

Let's assume you have found an angel investor who liked your preliminary concept. You now need to ensure that you have a good understanding of what the typical angel investor is looking for, so you can address these areas in your subsequent pitch.

First and foremost, angels are looking to make money. They will be looking to invest in a commercially viable opportunity which will appeal to a large target market, and which they perceive will have a high likelihood of success. While recognising that investment is high-risk, they are also aware that if they back a successful company, the returns can be very attractive. Given there is no such thing as a 'typical investor', the following list describing what angel investors usually look for is not exhaustive (nor do all of these points apply to all angels).

A great management team — They will be keen to assess the entrepreneur who had the original idea. Are they equipped to take the idea through planning and on to revenue generation? They will also have a preference for a strong team of smart individuals with a track record of 'getting things done', rather than a single entrepreneur, and in terms of personal characteristics, trust and integrity will also be very important.

An attractive investment opportunity — They will be likely to focus on investment opportunities in industries that they know. There are different perspectives on what level of return they will look for. A rough guide is 10 times the investment amount, returned within five years.

Scalability/exponential growth potential — The most attractive investments are ones in firms with the potential to enjoy explosive growth, without a commensurate cost increase.

A product — Most Investors want to fund growth, not product development. If the investment proposal relates to a concept (rather than an existing product), the risk magnifies significantly and hence the terms agreed will reflect the risk.

Market size — The size of the target market is one of the most important elements for investors, as those opportunities where the market potential is large are naturally more appealing than ones with a limited market. This is one of the reasons that Internet-based offerings are particularly appealing, where you can make an argument that the addressable market size is large.

Traction/ evidence of demand/ real sales — Real sales are worth their weight in gold and historic sales data is far more valuable than sales forecasts. If you are bringing in revenue you are reducing the greatest risk. Those businesses with evidence of traction (be it user numbers, sales, or profits) and a large accessible market tend to command the most attention and best terms.

A defensible opportunity — Investors will want you to have some 'unfair advantage', be it a registered Trade Mark, the benefits of first mover advantage or some internal intellectual property that will help protect the market opportunity they'll want to aggressively exploit. In economic terms, they generally prefer monopolistic opportunities as

distinct from opportunities in very competitive markets. That said competition can also be a good thing as it tends to send a strong signal re the fact that a market exists.

Realistic valuations – Even if they like the business plan, the negotiations around the equity stake and its valuation can frustrate both parties and result in a commercial breakdown.

Some 'skin in the game' -- This phrase is akin to 'putting your money where your mouth is'. Investors are likely to be more comfortable backing you if you have some investment in the entity also (as distinct from just 'sweat equity'). This helps to ensure that your motives are credible and that both parties' incentives are aligned.

Exit potential- Finally, angel investors will be very keen to understand the plans for exit from Day 1 (typically via a trade sale or sale to other shareholders).

It is worth noting that in the UK, the [Enterprise Investment Scheme \(EIS\)](#) tax incentive is a strong factor in encouraging business angel investment.

Once you have got a good feel for what angels are looking for, make sure you address the various requirements in your pitch. It is advisable that you have some legal input at this point, as you will need to be fully au fait with the technical issues that will be discussed if the prospective investor wishes to proceed with an investment. I would also suggest that you familiarise yourself with [Michael Porter's Five Forces](#), as this will help you get a good understanding of the industry dynamics for your business and the resultant

The Process

market attractiveness. Too many entrepreneurs spend too much time focusing on their particular product or service without analysing the wider industry or strategic context.

Finally, if you want another perspective on what a VC wants, the following articles are also particularly informative:

[10 Skills I look for before writing a cheque](#) by Mark Suster (GRP Partners)

[What Makes an Entrepreneur Series](#) by Mark Suster (GRP Partners)

[How to Pitch to VC's](#) by VC Raj Kapoor (Guest Post on TechCrunch)

[Raising Venture Capital](#) by Mark Suster (GRP Partners)

[The Venture Capitalist Wish list](#) by Guy Kawasaki (Garage Technology Ventures)

SOME QUESTIONS FOR ANGELS

Assuming you have submitted your business plan and have been asked to pitch, you need to remember that the process should be a balanced discussion rather than a monologue. You need to frame the meeting so that it resembles an interview where the discussion is two-way, rather than a one way interaction where the prospective investors scrutinise your business plan as you defend the content. As I have detailed previously, it is not just

about the cash, so you need to be clear about what other requirements you have to help you secure 'smart money'.

The following questions will give you an idea of some of the areas you should explore with them.

1. What can they bring to the table other than just cash?

While the funding tends to be the main reason to engage with a business angel, it is also worth identifying other criteria that is important to your business, such as access to markets.

2. Do they have experience or contacts in your particular industry sector?

Angel investment tends to be an active form of investment, so ideally you'll look to partner with an angel who has knowledge of your specific sector, as well as a network of contacts that can be called upon when needed.

3. What is their preferred exit strategy?

It is worth gaining an understanding, up front, of the timeframe in which they are looking to exit, as well as an understanding of their future plans. For example, you might want to know whether they are likely to be interested in any subsequent investment rounds (if required).

4. What is their required level of involvement?

It is also worth understanding at an early stage how active a role the angel investor wishes to play in your business. There is no point taking investment from an angel who does not bring the required contacts to the deal or who insists in involving themselves with the day-to-day running of your business.

WHAT OTHER INVESTMENTS HAVE THEY DONE?

I would also recommend that you ask the prospective investors if they could provide you with some references from current investments, as it is highly advisable that you speak to people from companies they have stakes in, so you can fully gauge their style. Mark Suster suggests in his blog post '[How do you reference check a VC](#)' that:

'First, I would say that most entrepreneurs do almost no reference checks or at least do them very informally. Don't let that be you. Most VC's will happily supply you with a list of CEO contacts of the people who will speak to you about working with them. Don't be afraid to (politely and respectfully) ask for this. In fact, they will think better of you because you're demonstrating that you're the kind of thorough person that they wanted to invest money into in the first place.'

In short, you need to enter discussions with angels from a position of strength rather than a position of desperation! By having a strong business plan, an impressive team, a viable market opportunity, and a keen understanding of the investment process, you can ensure that you engage on strong terms. As in any negotiation, you are seeking to strengthen your hand. If you can ultimately have multiple investment sources, you will increase the chances of a satisfactory outcome for all involved.

TYPE OF ANGEL INVESTOR

Finally, Michael Horvath and Fred Wainwright of the Tuck School of Business at Dartmouth College describe some

The Process

types of angels you may encounter in their [Note on Angel Investing](#). It is well worth the time and effort to ensure the business angel you partner with is one of the more appealing types!

1. Guardian Angel- has relevant industry expertise, will be well connected and is likely to be an active investor.
2. Operational Angel- has significant operating experience and can provide significant value-add in building the business.
3. Entrepreneurial Angel- has “been there, done that” and may be very valuable to the first-time entrepreneur given their level of experience.
4. Hands-off Angel- These are wealthy individuals who are cash rich and time poor and lack the expertise to help the entrepreneur.
5. Control Freak- These investors believe they have all the answers because they have achieved certain wealth and are best avoided.
6. Lemming- There is definitely a tendency amongst certain investors to invest due to the portfolio of other investors participating, rather than because they have researched the opportunity in detail.

WHAT NEXT?

Once you have done your pitch, answered the questions posed and fired back a few of your own, you essentially move into limbo as external investors can be very slow to show their hands. With angel investors, the process is a little different from VCs. If the investment amount is modest, you will probably get a response pretty quickly. However, if you are at the VC end of the spectrum with a large investment requirement, the response may not be as you expect, as [Rand Fishkin of SEOmoz](#) describes:

‘Following both first and second meetings would be the impossible-to-parse “thanks, we’ll be in touch.” We’d take guesses about which VCs were actually interested and would follow up vs. those who’d email to say “no thanks” or simply never communicate again (the latter bothered me at first, but once you realize it’s just part of the accepted cultural practice, it’s fine). Surprisingly, we were never good at this. We’d often mistakenly think one VC was interested when they weren’t and vice versa. They’re a notoriously hard-to-read bunch, perhaps intentionally.’

If you do get a favourable response it is in everyone’s interests to get the deal tied up as quickly as possible. You’ll need to engage some advisors to assist and clearly the decision re the level of involvement and associated costs must be taken in the context of the scale of the investment.

The Investment Process

The Investment Process

While the investment process can vary greatly depending on the investment amount, the investor, etc., I am going to highlight some of the main areas that can crop up. Naturally the main focus on this paper is on early stage investment, where in theory the investment process is pretty straightforward, as distinct from larger more intensive VC investments. Hence most entrepreneurs gaining early stage investment will generally not need to be familiar with all of these terms.

DUE DILIGENCE

You have survived the business plan hurdle and the subsequent pitch and have heard back from the prospective investor. At this stage, they may have made you an offer which you have accepted. They will now undertake some due diligence, which is essentially an audit and verification process to confirm that the facts you have provided stand up to scrutiny. Some deals break down at this stage, perhaps because the investor becomes aware of some material facts that you have not disclosed. Similarly their analysis of your accounts may raise some issues that they believe affect their predicted risk /return. They may try and renegotiate or decide to walk away. However, if the due diligence does not throw up any surprises they will send you a term sheet which will summarise the details of a potential venture capital investment.

At this stage you will need your professional advisors to ensure that you secure an attractive offer that minimises the down side for you. Finally, remember my earlier point that due diligence works both ways. Be sure to interrogate them about the value they propose to bring (aside from

the cash) and talk to a couple of CEOs from their portfolio companies so you can understand what they are like to work with.

TERM SHEET

The term sheet is basically a written proposal which outlines the terms of the proposed investment, and it will serve as the basis for a final business agreement. Hence it is vital that this document is reviewed in detail with your legal advisor prior to sign off to ensure the terms are what you believe were agreed, are acceptable to you, and are not too onerous. In many ways it is similar to a Letter of Intent or Memorandum of Understanding and while not legally binding it typically forms the basis for any future agreements. The importance of the first round of investment should not be underestimated, as Dharmesh Shah points out in a blog post in [OnStartups](#);

“The terms of your Series A deal are very important. Not just because of the impact on that first round, but because many of those same terms are likely to carry through to future rounds. It’s tempting to concede on some important terms because you’re thinking “well, that’s just life...and it doesn’t seem like that big of a deal.” Try to resist that temptation. One of the things I’ve learned is that when negotiating the term-sheet for your Series B or Series C round, the “base” terms (the starting point of negotiations) is whatever terms were in your Series A. So, if you agree to some non-favorable terms on the “A” round, you’re not just paying the price for that concession in this round, you’re likely going to continue to pay in future rounds as well. Factor that in.”

Luckily there are a number of resources available which will help you understand some of the clauses that typically occur in term sheets (see below). It is worth making sure you are fully au fait with the implications the various clauses can have on your agreement. Given the risk associated with angel investment, the contract will typically contain a number of clauses and requirements to mitigate the investor’s risk as much as possible.

As an aside, there has been a recent spate of commentators seeking to standardize term sheets (save for a few clauses such as valuation), given they are both a costly exercise and a time consuming one, especially when entrepreneurs may need to digest a number of different ones. As Michael Arrington of TechCrunch argues in his [blog post](#);

‘VCs really need to move to a deal structure that doesn’t burn up so much lawyer time negotiating provisions that are almost never used.’

Term sheets typically cover three distinct areas relating to the proposed deal:

1. The investment – how much they are putting in, in return for what share, protection of their investment, etc.
2. Corporate governance – what the composition of the board will be, voting rights, reporting, etc.
3. The exit – when and how investors will get their money back out (including in the event of a liquidation). Typical things to look out for in a term sheet include:

The Investment Process

Valuations (Pre & Post Investment)

The value of your business will be an important element of the agreement. With pre-revenue opportunities in particular, it is very difficult to agree on an appropriate valuation given the lack of real data to apply a multiplier to. Revenue is typically a lead basis with which people agree on a valuation (typically by agreeing a multiple of EBITDA i.e. earnings before interest, taxes, depreciation and amortization). It is worth discussing a valuation range with your advisors before engaging with an investor, as well as ensuring that the basis for your valuation is both realistic and credible. Perhaps there are some proxies you can use, such as companies in similar industries that have recently secured a round of funding and the details are in the public domain. You also need to be aware of the difference between pre-money and post-money values; as the company valuation changes after an investment.

Space prevents me from elaborating further on the murky world of valuations; however there is a very good article on Venture Hacks, where Babak Nivi addresses [‘how to set a valuation for a seed round?’](#).

Liquidation preference

A liquidation preference is simply a mechanism whereby the investor is seeking to prioritise who gets what assets out (and when) in the event of a liquidation. Not surprisingly, it is designed to ensure they get their money out first (plus any unpaid dividends), before other shareholders. It is one of those clauses in a term sheet that needs to be understood completely, as it can be particularly onerous in the event of liquidation. Rather than go into it in more detail at this juncture, see the following posts, which explain the concept well:

— [Stock: Understanding a Liquidation Preference](#)

by Eric Roach

— [Term Sheet: Liquidation Preference](#) by Brad Feld

Board of directors

Most terms sheets contain clauses relating to the composition of the Board of Directors. Given that the Board holds the CEO accountable for the investment, it is important you are au fait with the exact terms they are seeking when it comes to the board, to ensure you are not signing your own death warrant (by making it too easy for them to fire you). The post by Brad Feld, [Term Sheet: Board of Directors](#), serves as a useful guide.

No shop clause

A no shop clause is sometimes referred to as an ‘exploding term sheet’. The clause means that the company must either accept or reject the deal on the spot, as a ‘take it or leave it’ offer. This clause is designed to prevent you, the entrepreneur, from seeking multiple offers while the VC goes through the expense of doing due diligence, etc. However, on the flip side, it could be a signal that the offer you have received is uncompetitive. Creating a market is the best way to secure a good price, so you need to source competitive deals, as otherwise the investor is likely to behave opportunistically and insist on more aggressive terms. Mark Suster of GRP Partners has an informative post, ‘Time is the enemy of all deals’, which argues that if you get terms you are broadly happy with, you should not sit on the deal too long in case circumstances change and the deal does not go through:

[‘Time is the enemy of ALL deals. Unless, of course, you’re the buyer and playing for a lower price. Things change.](#)

Your deal sponsor could lose their job or change jobs... People who were excited about your deal can suddenly become enamoured with the next shiny object to come along. New competitors can introduce stuff into deal dynamics. Whatever. I’ve seen it all.’

Dilution

Dilution occurs when others invest in your company. For example, if you start by owning 100%, any subsequent equity investments essentially dilute your percentage down as the new investor gets a piece of the pie. [Sean Seton-Rogers](#) of PROFounders Capital recently claimed that most founders ended up owning less than 10% of their business by exit (after multiple investment rounds).

With every subsequent investment round, further dilution takes place, affecting all earlier investors who can suffer depending on the value of subsequent investment and the terms associated with it. Hence VCs may want to see share options pools in place up front so as to ensure subsequent employees are incentivised with stock, but will not want that to affect their share of ownership.

Some contracts can contain anti-dilution clauses which can be quite onerous for the entrepreneur, but by and large VCs will want to ensure that the entrepreneur retains strong enough interest so they remain incentivised.

It is also worth noting that dilution typically affects early investors the most. Some will decide they want to continue investing to protect their stake, but many others will not, deciding instead to reallocate investment funds elsewhere. Finally there is an excellent resource called [The Equity](#)

The Investment Process

Footprint which helps you visualise the evolution of your company as you gain equity investment.

Capitalisation table

A capitalisation table is a visual representation of the company shares. It breaks down the equity stakes and debt obligations of the company so it is clear who owns what, as well as detailing what type of stock has been/will be issued. While ownership stakes may be clear at the start, they can soon get extremely complicated with follow-on funding rounds such as Series A, B and C, particularly if the share values have changed. You can get a feel for How to Construct a Simple Cap Table from the informative blog post by Danvers Baillieu of Winston & Strawn. The Premier Edition of Business Plan Pro includes an optional Investment Offering table that helps you figure out multiple investment rounds and exit valuation.

Protective provisions

These are provisions that give the holder the right to block certain actions taken by the company. They are typically used by the investor to control the scope of the entrepreneur to make decisions that may risk their investment, such as spending over and above a certain amount without their consent. Yet again these clauses can negatively impact on the entrepreneur's ability to run (what was 'their') company without undue influence from outside. You'll find more details about these provisions in the following blog post: Term Sheet: Protective Provisions by Brad Feld.

Option pool

An option pool is simply setting aside some shares (as incentives) for any future hires that may be of strategic

importance to the company. The existence of an options pool is largely to save time, money and effort creating new shares downstream, as well as enabling investors to evaluate the dilutive effect on their investment from new shareholders.

The term sheet may also contain clauses related to your personal remuneration, further funding, budgeting, etc. Spinning plates.

As I mention above, it is important to strive for a competitive bid scenario where possible rather than approaching prospective investors in a linear fashion. By approaching a number of investors simultaneously and aiming to secure a number of term sheets you can force better terms than if the investor is the 'only show in town'. Deals that attract a number of competing term sheets are known as 'hot deals' and these are typically ones that secure better terms for the entrepreneurs.

How much should I raise?

There is more to this question than meets the eye! It is better to raise more than you need when you seek your first investment, as most entrepreneurs significantly underestimate the amount they need. As Ronald Cohen declares:

'Almost invariably entrepreneurs err on the side of raising too little [capital]. This only increases the likelihood of failure and ends up costing more.'

Another reason you should raise more than you need is that you want to avoid needing to go back for additional rounds if possible. The next time you go back, you'll have historic data available which could mean lower valuations

if you have not performed to the level anticipated. If your existing investors decide not to reinvest, it sends a strong signal that the opportunity is not as attractive as it appears. Regardless, fundraising is time consuming and also involves data disclosure so you do not want to be doing it too often.

Additional resources on term sheets

If you need further information, the BVCA has published a handy Guide to Venture Capital Term Sheets.

To read more about Term Sheets, I recommend you browse Brad Feld's excellent repository of Term Sheet posts at his blog.

The following article – 'The Funded Publishes Ideal First Round Term Sheet' by Michael Arrington (TechCrunch) links to a full sample first round term sheet which will give you a feel for the structure and clauses contained in an example term sheet.

You can also read the Term Sheet Hacks series on Venture Hacks.

This is a great overview - Understanding Venture Capital Term Sheets by Shikhir Singh.

You can negotiate with Venture Capitalists by HM Hoffman and J. Blakey (Harvard Business Review, March-April 1987) is an excellent paper that describes some of the key things you need to be aware of before you negotiate with VCs, such as agreeing on a valuation and understanding the implications of the types of securities that will be issued in return for the investment.

The Investment Process

Similarly, the following two posts from Fred Destin (Atlas) are extremely instructive:

[Just Say No: VC Terms that can really hurt \(1\)](#)

[Just Say No: VC Terms that can really hurt \(2\)](#)

As Destin concludes,

'...it is completely your responsibility to understand what you are signing, and it is up to you to push back. Read the documents, ask questions about everything you do not understand. Ask your lawyer: where does this document create risk for me, both on my income stream and my ownership. How does this go wrong and how do I protect against it? This is advice you are seeking, not an outsourcing service. And remember, there is no such thing as standard terms.'

Y Combinator and Wilson Sonsini Goodrich & Rosati have posted some [Series AA Equity Financing Documents](#) on their site with the goal of making angel funding rounds for startups easier for both sides. They go on to say:

'While they may not be suitable for all situations, the goal was to make the terms fairly neutral. So while we would of course advise both parties using these documents to have their lawyers look at them, they provide a starting point that we hope can be used in many situations without too many modifications.'

The [Series Seed documents](#) are a similar set of legal contracts for raising a small seed round of funding. A group of venture capital firms led by Andreessen Horowitz, formed with the help of startup lawyer Ted Wang, set the website up. It contains a number of free legal documents entrepreneurs can fill out to apply for \$300,000 to \$1.5 million of initial funding.

Summary and Conclusion

Summary and Conclusion

SUMMARY AND CONCLUSION

This guide is designed to help UK-based entrepreneurs understand the early stage investment process a little better (while aiming to avoid getting too technical). As I stated at the offset, the longer external investment can be avoided, the better for all concerned. If it is eventually sought, it is better to do so after the entrepreneur has a track record of sales. This may seem a little counterintuitive, as seed capital is typically required at the prototype or pre-revenue stage. However, it is my view that if you can bootstrap your business as far as the revenue stage, you can secure investments on much better terms than is otherwise the case. The closer you are to a concept (as distinct from a business) the greater the risk and the less likely someone will believe the opportunity is commercially attractive.

By focusing on profitability, rather than securing investment, as the primary objective from Day 1, the entrepreneur ensures that the idea is indeed commercially viable and that all employees recognise that cash generation is of utmost importance. If you do manage to build a profitable business you will be in a much stronger position to secure funding if and when you need it. Then if you still need external funding (despite my attempts to advise against for most circumstances), my advice is to get out there and network! Using tools like LinkedIn.com and contacts as listed in this paper, you'll be well equipped to target the right people, and building relationships with these will help you secure the highly coveted 'warm introduction' that is so important for entrepreneurs. The benefit of having a strong team should also be obvious from an assessment of the implications of the requirements

mentioned in this paper. Raising early stage finance can be a very demanding process, which takes place at precisely the same time as you need to be 100% focused on building your business. A strong team can help ensure that these processes can continue in tandem.

And if you do make it all the way through to investment—you have really defied the odds. As Vivek Wadhwa argued in his TechCrunch article '[Ditch the Biz Plan, Buy a Lottery Ticket](#)':

'My advice is always the same: ditch the business plan, and buy a lottery ticket. Your odds are better, and you'll suffer less stress.'

He goes on to say;

'The reality is that the vast majority of startups don't receive any VC or angel funding. Ask any VC about how many business plans they receive every month; it is in the thousands. And how many of those companies do they fund? Maybe one or two. Not great odds, are they?'

Finally, it is worth remembering that securing finance is not a cause for celebration. The main goal has to be to build a profitable company, and finance can be viewed solely as a means to buy yourself time.

CONCLUSION

This guide was not intended as a substitute for legal advice but it was designed to help you keep your legal costs down by enabling you to understand the early stage investment process in a little more detail. However it is still vital that you engage with legal and financial professionals once you decide you want to proceed with an external investment in your business. You will need to use the investment amount required as a guide to the level of professional advice you will need given the associated cost of same.

Finally, I hope that this will be the first of a number of iterations of this guide, so please feel free to contact me with any comments, suggestions, or glaring omissions in need of urgent rectification!

Appendices

Appendix 1 – (Non-exhaustive) list of angel groups in the UK

While there are estimated to be between 4,000 and 6,000 angel investors throughout the UK, there are a number of angel groups in the UK (many of whom are members of the [British Business Angels Association](#) (BBAA)). You can browse the full list at [this link](#). Some notable UK angel groups include:

Angels Den (UK) – a well known UK angel group run by Bill Morrow. They run a number of events around the UK, helping entrepreneurs get their business plans to investor-ready status. They do however charge fees for their services - £799 + VAT, as well as a 5% success fee.

Beer & Partners (UK) – a leading source of venture capital and business angel investment for growing SME businesses in the UK.

Bridges Ventures (UK) – an investment company whose commercial expertise is used to deliver both financial returns and social and environmental benefits. They currently have four funds under management: Venture Funds I & II, the Bridges Social Entrepreneurs Fund and the newly-launched Bridges Sustainable Property Fund.

Cambridge Angels (UK) – a group of high-net worth investors who have experience as successful entrepreneurs in technology and bio-technology. Members invest in and mentor high quality startup and early-stage companies in these sectors, mostly in the Cambridge (UK) area. Typical funding requirements that the Cambridge Angels meet are in the range of £50,000 to £500,000.

Company Partners (UK) – a leading UK partner site run by Lawrence Gilbert. The site acts like a dating site for

people looking for business partners, business angels and mentors. You can post your business proposal online and, unlike most business angel networks, you can also proactively contact partners and business angels yourself.

Dawn Capital (UK) – a London-based firm that invests in businesses within the technology, media and telecomm sector, and technology enabled services companies, with an emphasis on finance and healthcare. They consider investing in companies at all stages of their development, beginning with the startup phase and extending to late stage rounds. Dawn invests across the UK and their investments have typically been in the range of £100,000 to £5M.

Investors (UK) – a London-based firm that has a network of 400+ business angels looking to invest between £20k to £2m in high growth companies.

E-Synergy (UK) – founded in 1999 by four technology entrepreneurs as an independent venture capital firm focusing on early stage investments.

Enterprise 100 (UK) – founded in 1999 and is the London Business School's angel investor network.

FindInvestGrow (UK) – a London-based firm that works with young entrepreneurs, specifically undergraduates and graduates of the past five years, to support them through the development of their business plans and to introduce them to suitable investors.

Hot House Ventures Ltd (UK) – invests only in Internet-based businesses. Unlike angel capital, they claim to

control greater resources that entrepreneurs can leverage to benefit their businesses.

London Business Angels (UK) – comprises a membership of 130 business leaders from the south of England, offering a total of £50m available for investment. Typically the network raises in excess of £4m of new equity annually for early growth, small and medium sized enterprises seeking growth capital between £100,000 and £750,000.

London Seed Capital (UK) – a seed and early-stage venture capital fund. London Seed Capital was established as a co-investment fund, which means that LSC only invests where its investment is at least matched by business angels. It can invest a maximum of £100,000 in the first round, alongside a minimum of £100,000 of business angel investment.

Nesta (UK) – the National Endowment for Science, Technology and the Arts, the largest single endowment in the UK exclusively devoted to innovation and one of the UK's largest seed-stage investors. They combine capital investment with non-financial support to help the UK's innovative early-stage companies turn their ideas into commercial success. They also have strict investment criteria, and only work with companies that have high potential for growth, are at seed or startup stage, and have the potential to attract syndicated support.

The Openfund (UK) – aims to help entrepreneurs with fresh ideas to jumpstart their business. The fund targets startups aimed at the Web and other emerging technologies.

Appendix 1 – (Non-exhaustive) list of angel groups in the UK

Pi Capital (UK) – a London-based angel network run by David Giampaolo. They are also well known for the events they run for their members.

Seedcamp (EU) – a programme created to jumpstart the entrepreneurial community in Europe by connecting next generation developers and entrepreneurs with mentors from a top-tier network of company builders; including seed investors, serial entrepreneurs, product experts, HR and PR specialists, marketers, lawyers, recruiters, journalists and venture capitalists. Seedcamp aims to marry advice and access to capital with networking as well as seeking to raise the profile of your proposition.

Sussex Place Ventures (UK) – a specialist private investor fund providing venture capital and private equity to early stage companies. They are owned by the London Business School.

Venture Giant (UK) – a UK business angel investment network and small business funding portal that matches serious and active business angel investors with entrepreneurs seeking investment capital and business funding to start up their new venture or expand their existing business.

Appendix 2 – Resources related to early stage investment.

The Accelerator Group (TAG) (UK) – a London-based group which has been an advisor and investor in early stage and startup companies since 1995. They focus on Internet services, ecommerce and multi-channel retail sectors, investing primarily in the U.S. and Europe.

Alt Assets (UK) – a London-based firm that provides the latest news, opinion and research that serve the needs of professionals working in all parts of the industry, from the institutional investor to the venture-backed entrepreneur. Claims to be the world's most widely used source of information on private equity.

Angel Investment Network (UK) – an online platform connecting entrepreneurs and angel investors in the UK and internationally.

The Angel Investor (UK) – a magazine for Angel Investors.

Angel News* (UK) – another UK-based firm that is a commercial news service for the investment market, especially for business angels and venture capitalists. Run by Modwenna Rees-Mogg, it is an excellent resource as they publish an informative online magazine, [Making Life Richer](#), and sponsor regular events in London which are very reasonably priced (under £50). Two recent examples include 'Exit Strategies for Entrepreneurs' and 'Pitching for Management, not Money'. The magazine also contains a section where they showcase companies looking for early stage funding. Modwenna has recently released a new book called, '[Dragons or Angels? An Unofficial Guide to Dragons' Den and Business Investment](#)'.

Angelsoft (U.S.) – a backend infrastructure for entire global angel investor community. Angelsoft's industry-leading software provides a secure system to manage an organization's deal flow. It allows firms to capture deals, process them through a customizable work-flow process and collaborate with other investors.

Ask the VC* (U.S.) – a blog written by Brad Feld and Jason Mendelson, the co-authors of 'Ask the VC', created to discuss relevant issues in the venture capital and entrepreneurial ecosystem.

AVC.com (U.S.) – a popular blog run by well known U.S. venture capitalist, Fred Wilson (principal of Union Square Ventures).

BootLaw* (UK) – a free 'boot camp' for emerging technology, Internet and digital businesses and the professionals working in them who want to learn more about the legal issues they face. It is brought to you by Barry Vitou and Danvers Baillie, lawyers at Winston & Strawn in London. These two definitely have their fingers on the pulse in terms of technology startups in the UK.

Bothsidesofthetable* (U.S.) – an excellent blog from Mark Suster – his 'What makes an entrepreneur?' series is well worth a read.

British Business Angels Association (BBAA) (UK) – the trade association dedicated to promoting angel investing and supporting early stage investment in the UK.

BVCA (UK) – the industry body and public policy advocate

for the private equity and venture capital industry in the UK. Their members come from venture capital, through mid-market, to private equity/large buy-out houses from all over Britain. They also run a number of training events in London covering a diverse range of relevant areas.

The Difference Engine (UK) – an acceleration programme for early stage digital businesses.

Entrepreneur Country*(UK) – a website affiliated to Ariadne Capital and consists of a community of entrepreneurs, investors, corporate partners and media who are committed to entrepreneurship in the UK.

The Enterprise Investment Scheme (UK) – designed to help smaller higher-risk trading companies to raise finance by offering a range of tax reliefs to investors who purchase new shares in those companies. Venture Capital Trusts (VCT) are funds that offer tax breaks to investors investing up to £200,000 in smaller companies in the UK by protecting returns from Income Tax (relief at 30% up to £200,000) and Capital Gains Tax (CGT). Enterprise Investment Schemes (EIS), on the other hand, offers lower tax relief (20%) but the investment amount is higher (up to £500,000). There are terms and conditions associated with these investments, including the need to keep the investment for three years in the case of EIS and five years with VCTs.

The Equity Kicker* (UK) – an excellent, highly informative blog from London-based Nic Brisbourne that is for entrepreneurs and venture capitalists. Nic is a partner at European VC fund DFJ Esprit.

Appendix 2 – Resources related to early stage investment.

Feld.com (US) – Brad Feld is an early stage investor and has been an entrepreneur for over 20 years. Prior to co-founding Foundry Group, he co-founded Mobius Venture Capital and, prior to that, founded Intensity Ventures, a company that helped launch and operate software companies and later became a venture affiliate of the predecessor to Mobius Venture Capital.

For Entrepreneurs (US) – a blog for startups and entrepreneurs, written by David Skok, a five-time serial entrepreneur turned VC (now at Matrix Partners). It aims to address the key issues they will face in getting started, getting funded, and building a successful company.

The Funded (US) – an online community of entrepreneurs to research, rate, and review funding sources worldwide. In addition, TheFunded.com allows entrepreneurs to view and share term sheets, to assist one another in finding good investors, and to discuss the many facets of operating a business.

GrowVC.com (Hong Kong) – aims to help mobile and Web 2.0 startups secure initial funding for their businesses (ranging from \$10,000 to \$1m USD). In February 2010, they launched a community fund model. Under this model Grow VC pools 75 per cent of membership fees into a community fund that gets invested back into promising member startups. Community fund investments are then managed by Grow VC, but all investment decisions are made by Grow VC members who determine how to invest their portion of the fund to other startup companies that they feel have the most potential.

Guy Kawasaki* (US) – a Silicon Valley based VC, renowned blogger and author of [The Art of the Start](#).

Some recommended posts include:

[The Zen of Business Plans](#)

[The 10/20/30 rule of PowerPoint](#)

Halo Business Angel Network (Ireland) – an all-island umbrella group for business angel networks dedicated to promoting angel investment and supporting the early stage entrepreneurial community in Ireland. It has an ‘administration fee’ of €20 for entrepreneurs (which are best negotiated away as I suggest elsewhere).

Inbizvest.com (UK) – a matching facility seeking to match entrepreneurs with business angel investors. Fees are payable.

IVCA (Ireland) – is the representative organization for venture capital firms in Ireland

Mark Peter Davis* (US) – a New York-based venture capitalist, a member of the DFJ Gotham Ventures team; has a very informative blog. His “[Entrepreneur’s Guide to Raising Venture Capital](#)” is ‘[How to Finance your Startup](#)’.

NVCA.org (US) – comprises more than 400 member firms and is the premier trade association that represents the U.S. venture capital industry. NVCA’s mission is to foster greater understanding of the importance of venture capital to the U.S. economy, and support entrepreneurial activity and innovation.

OpenAngelForum (US) – is dedicated to providing entrepreneurs with free and open access to the angel investors that they need. They are ‘firmly committed’ to

fighting against ‘pay-to-pitch’ schemes and are planning an event in London later in 2010.

Profounders Capital (UK & EU) – is focused on capital efficient, early-stage companies operating in the digital media and technology space. Their typical initial investment is between £0.5m - £2.5m with a geographical focus on European-based companies.

Rand Fishkin (U.S.) – has written an excellent blog post with a detailed account of his experiences raising capital for SEOmoz. Seattle-based SEOmoz provides companies and individuals around the world with online tools and tutorials to help with their Internet marketing and search engine optimization needs.

Ron Conway (U.S.) – is an angel investor based in Silicon Valley. As founder and Managing Partner of the Angel Investors LP funds, he was an early stage investor in Google, Ask Jeeves and PayPal.

Ronald Cohen – is author of [The Second Bounce of the Ball](#), the distillation of Cohen’s 33-year career building Apax Partners into one of the largest global private-equity firms in Europe.

Stanford University Entrepreneurship Corner (U.S.) – provides a free collection of over 1,600 videos and podcasts, including a ‘Finance & Venture Capital’ stream. TechCrunch* (U.S. and EU) – is a technology blog founded by Michael Arrington. TechCrunch Europe covers Web 2.0 and Mobile startups in Europe, and is run by Editor-in-Chief Mike Butcher. TechCrunch Europe also periodically holds

Appendix 2 – Resources related to early stage investment.

TechCrunchTalk, industry roundtables covering the Web industry as well as pitches where entrepreneurs get to pitch their latest ideas. They also run CrunchBase, the free database of technology companies, people, and investors.

Techstars (U.S.) – is a mentorship-driven seed stage investment fund. Successful applicants get up to \$18,000 in seed funding, three months of intensive mentorship, and the chance to pitch to angel investors and venture capitalists at the end of the program.

Tim Jenkinson (UK) – is Professor of Finance at the Saïd Business School, and is Director of Oxford Finance and the Oxford Private Equity Institute. He is also a well known expert on Private Equity.

Venture Blog – has a main contributor, David Hornik, a General Partner at [August Capital](#), where he invests in early stage software, infrastructure and Internet related companies.

Venturehacks* (U.S.) – is an excellent U.S. blog focusing on startup advice. It also has a handy list of mostly [U.S. angel investors](#) as well as a [Startup List](#), a weekly email they send to their AngelList, with three high-quality startups who want introductions. Their posting by Venture Hacks founder Babak “Nivi” Nivi ‘[How to Close an Angel Round](#)’ is also recommended.

Venture Hype (US) – is an informative website for angel investors.

Venture Navigator (UK) – provides assistance for startups via a community of entrepreneurs sharing startup advice.

YCombinator (US) – is a California-based group that provides seed funding for startups. They make small investments (rarely more than \$20,000) in return for small stakes in the companies they fund (usually 2-10%).

* I have marked my favourite resources with an asterisk.

Appendix 3 – (Non-exhaustive) list of private equity/venture capital firms

Accel Partners – With offices in London, Silicon Valley, India and China, Accel is a global venture capital firm. Accel-backed companies have sparked many of the most significant revolutions in technology businesses, such as: Facebook, Veritas Software, RealNetworks, Riverbed, UUNet, MetroPCS, Macromedia, PictureTel, Interwoven, Portal Software, Foundry Networks, Walmart.com, and many others.

Amadeus Capital Partners Limited (UK) – Headed by Anne Glover, they invest across the technology spectrum in industries that include communications and networking hardware and software, media, e-commerce, computer hardware and software, plus the medtech and cleantech sectors.

Apax – An independent global private equity advisory firm. Funds advised by Apax Partners ('Apax Funds') typically invest in companies with a value of between €1bn and €5bn. The funds invest in five growth sectors: Tech & Telecom, Retail & Consumer, Media, Healthcare and Financial & Business Services.

Ariadne Capital (UK) – A specialist technology investment and advisory firm backing entrepreneurs in the media (music, broadcast, publishing, advertising, and gaming), mobile internet and communications, and internet sectors. It is headed by well known entrepreneurship champion Julie Meyer. One of their funds, The ACE Fund is an early-stage investor in entrepreneur-led businesses, providing capital for seed and startup (Series A) rounds.

Atlas Venture – Invests primarily in early stage technology and life sciences businesses in the U.S. and Europe.

Atomico Ventures (UK) – A London-based firm founded by Niklas Zennström and Janus Friis, covering Europe, the U.S., South America and Asia.

Balderton Capital (EU) – One of the largest venture capital funds in Europe and their typical initial investment in a business is between U.S. \$0.5m and U.S. \$15m. On average they invest U.S. \$15m over the lifecycle of a company. They primarily invest in European companies in many different sectors, including enterprise software and services, communications and security, semiconductors, mobile computing, consumer services, plus media and financial services.

Benchmark Capital – A venture capital firm specializing in early stage investments (particularly in the technology arena). Their General Partners (GPs) include Matt Kohler (formerly of Facebook and LinkedIn), who has described the firm as being 'opportunistic investors' rather than being stage specific.

Bessemer Venture Partners – Since 1911, BVP continues the longest-running record of success in the venture capital industry. Over the course of its history, investors at the firm formed or funded over 100 startups that grew into independent public companies.

DFJ Esprit (UK) – The partners at DFJ Esprit have worked together investing in venture capital for more than a decade, accumulating over 100 years of experience in the technology, new media, telecoms and medtech sectors. They have offices in London and Cambridge, and access to the DFJ Global Network of venture capital partnerships,

including 135 investment professionals in 32 cities around the world.

Draper Fisher Jurvetson ("DFJ") – DFJ is headed by well known VC Timothy Draper. The DFJ Global Network is an international network of early-stage venture capital funds with offices in over 30 cities around the globe.

Doughty Hanson (EU) – One of Europe's most successful independent private equity firms. They focus primarily on: Private Equity, Real Estate and Technology Ventures.

Eden Ventures (UK) – Invests in technology companies in the telecommunications software, enterprise software, digital media, e-commerce, internet and mobile sectors in the UK and Ireland. With offices in Bath and London, their background is that of serial entrepreneurs with a strong seed investment track record.

The Founders Fund – A venture capital firm in San Francisco that focuses on early-stage technology investments in the \$500K-\$5M range. It also operates FF Angel LLC, a seed fund that invests in the \$50K-250K range; and jointly with Accel and Facebook it operates fbFund, a micro-seed fund that invests in Facebook-related startups.

Frog Capital (UK) – They predominantly invest in the cleantech, IT and digital media sectors. They have also increased the size of their funds from €60 million to 100 million.

Garage Technology Ventures (U.S.) – An early-stage venture capital firm headed by entrepreneurship columnist Guy Kawasaki.

Appendix 3 – (Non-exhaustive) list of private equity/venture capital firms

Grow VC (Hong Kong) – A ‘Venture Capital 2.0’, Grow VC aims to bring the first truly transparent, international, community-based approach to early stage funding. Grow VC aims to help mobile and Web 2.0 startup stars secure initial funding for their businesses ranging from \$10,000 to \$1m USD. Grow VC international headquarters is located in Hong Kong, with offices in London, Helsinki and the BVI.

Hamilton Bradshaw (UK) – A leading mid-market private equity firm, based in Mayfair, London. They invest in companies across sectors and at all stages, from startups to long-established businesses. Their portfolio of companies has a combined turnover of £400 million and is headed by well known entrepreneur James Caan.

Index Ventures – Dedicated to working with entrepreneurs who have the drive and ability to build world-class technology companies that can become global players in their market. They primarily invest in companies in the fields of information technology and the life sciences. They recently announced Index Seed, which will make twenty early stage investments over the next 24 months ranging from \$50,000 – \$1 million. They will look to fund ambitious entrepreneurial teams from Europe, Israel and the U.S. with global ambitions for their companies.

Kleiner Perkins Caufield & Byers – One of the best known U.S. VC’s and partner [John Doerr](#) has backed everyone from Google to Skype.

Lightspeed Venture Partners – A leading global venture capital firm that manages over \$2 billion of capital commitments. Their team invests in the U.S. and

internationally, with investment professionals and advisors located in Silicon Valley, China, India, and Israel.

London Technology Fund (UK) – A specialist investor in new technology companies, focused on the funding gap for new, high-growth technology companies based in Greater London. It invests from £50,000 to over £1m in individual investment rounds, resulting in investment rounds from LTF and co-investors ranging from £100,000 to over £10m.

Mangrove Capital Partners (Luxembourg) – They seek to make investments in companies operating on the Internet or Software businesses and active in such areas as: Communications, Wireless, Infrastructure, Media, and Network Services.

NorthStar Equity Investors (UK) – A Newcastle-based venture capital firm that specializes in early stage high-growth opportunities. NSEI’s fund managers have a strong background in the private sector and first-hand experience of helping technology companies expand and excel.

Octopus Ventures (UK) – They are a London-based specialist investor in early-stage and expanding companies.

Pentech Ventures (UK) – Pentech can only invest in companies with a substantial presence in the UK or Ireland and are very much focused on the software industry.

Sequoia Capital – Sequoia Capital is a venture capital firm founded by Don Valentine in 1972 and has offices in the US, China, India and Israel. Sequoia has funded an unprecedented number of enormously successful

companies including Google, Yahoo, Paypal, Electronic Arts, YouTube, NVIDIA, Cisco Systems, Oracle and Apple.

True Ventures – A U.S.-based venture firm for early stage entrepreneurs. Their team has directly founded over half a dozen startups.

Venture Capital Partners Ltd (UK) – A specialist provider of venture capital raising and corporate finance advisory services to entrepreneurs and small and medium enterprises. They typically focus on deals under £2 million but also consider proposals of up to £5 million.

Wellington Partners (EU) – Claim to be one of the most successful pan-European venture capital firms for more than 10 years. With funds totaling some €800 million and offices in London, Munich, Palo Alto and Zurich, they invest in companies throughout Europe that have the potential for becoming global leaders. Investment areas include Digital Media, Information Technology, Cleantech and Life Science.

Appendix 4 – Commentators you should follow

The following contains a list of some of the most interesting commentators that I find are commentating on entrepreneurship in general, including early stage financing. The list contains a mix of entrepreneurs, venture capitalists and other commentators who I believe can help you learn more about starting a new business as well as financing it as you look to grow. The following list details the commentator's name, company, primary market as well as their Twitter name where you can follow their posts. Clicking on their name will take you to their respective blogs. While there is an undoubted U.S. bias in the list, I think that most of the posts they write have universal appeal.

Michael Arrington, (U.S.) @arrington. Mike Arrington is the founder of TechCrunch a leading U.S. based blog that profiles startup companies (particularly technology based ones).

Tim Berry, (U.S.) @timberly. Tim Berry is the president and founder of Palo Alto Software, founder of Bplans.com, co-founder of Borland International, and author of numerous books and software on business planning. Tim also blogs at Entrepreneur.com and his '10 Top Startup Mistakes List' is well worth a read.

Steve Blank (U.S.) @sgblank. Steve is author of the book about building early stage companies called, [The Four Steps to the Epiphany](#). He is also synonymous with the Lean Startup movement.

Nic Brisbane, (UK) @brisbourne. Nic is a partner at European VC fund [DFJ Esprit](#) as well as being a blogger at the Equity Kicker. He is a 'must read' for any UK based entrepreneurs who want to learn more about the U.K. VC scene.

Mike Butcher, (UK) @mikebutcher. Mike is a popular tech blogger (and keen supporter of tech startups) who is based in London and is the lead editor of Techcrunch UK (he was formerly editor of New Media Age).

Jeff Bussgang, (U.S.) @bussgang. Jeff is a General Partner at Flybridge Capital Partners, an early-stage venture capital firm in Boston, and is also a blogger. His new book [Mastering the VC Game](#) was published in April, 2010.

James Caan, (UK) @jamescaanonline. James is a well known serial entrepreneur and CEO of private equity firm Hamilton Bradshaw, as well as being a popular member of the Dragons' Den series on BBC. He has recently launched the [Entrepreneurs' Business Academy](#) in the UK.

Jason Calacanis, (U.S.) @jason. Jason Calacanis is an Internet entrepreneur and former blogger who now communicates with his readers primarily through an email newsletter. He is the founder of [Mahalo](#) and has been its CEO since 2007. Jason also runs the popular online video series called '[This Week in Venture Capital](#)'.

Mark Peter Davis, (U.S.) @markpeterdavis. Mark is a New York City VC and member of the DFJ Gotham Ventures team. He has an excellent blog called [Venture Made Transparent](#).

Fred Destin, (U.S.) @fdestin. Joined Atlas in 2004 and is a partner on the technology team. He focuses on emerging businesses in the software and services markets as well as digital media and technology enabled businesses.

Chris Dixon, (U.S.) @cdixon. Currently, CEO and co-founder of Hunch. Previously, CEO and co-founder of

SiteAdvisor (acquired by McAfee). Chris is also a personal investor in early-stage technology companies, including Skype and writes a regular blog for entrepreneurs.

Brad Feld, (U.S.) @bfeld. Brad is an early stage investor and entrepreneur who co-founded the Foundry Group. He also co-founded Mobius Venture Capital and previously founded Intensity Ventures. His blog at [Feld.com](#) is also a 'must read' for entrepreneurs seeking to raise finance.

Paul Graham (U.S.) is one of the partners at Y Combinator and a well known commentator on startups.

Bill Gurley, (U.S.) @bgurley. Joined Benchmark Capital in 1999 after spending two years as a partner with Hummer Winblad Venture Partners. For the past twelve years, Bill has authored the 'Above the Crowd' newsletter which focuses on the evolution and economics of high technology businesses.

Guy Kawasaki, (U.S.) @guykawasaki. Guy is managing director of [Garage Technology Ventures](#), an early-stage venture capital firm and a columnist for Entrepreneur Magazine. He previously worked at Apple where he was an 'evangelist' and he currently writes a very popular '[practical blog for impractical people](#)'.

Saul Klein, (UK) @cape. Saul was the co-founder and original CEO at what is now Lovefilm International and part of the original executive team at Skype. Since 1999 he has been a Founding Partner of The Accelerator Group (TAG) and in 2007 he also started Seedcamp and OpenCoffee Club, which is now active in over 90 cities around the world.

Appendix 4 – Commentators you should follow

Dave McClure, (U.S.) @davemcclure. Dave McClure is a software developer, entrepreneur, startup advisor, angel investor, blogger, and internet marketer. Dave currently runs [FF Angel](#), a seed-stage investment program for [Founders Fund](#), and ran the 2009 [fbFund REV](#) incubator program on behalf of Facebook, Accel Partners, & Founders Fund.

Julie Meyer, (UK) Julie Meyer is the well known CEO of Ariadne Capital, co-founder of First Tuesday, a dragon on BBC's Online Dragons Den and weekly columnist in London's City A.M.

Eric Roach, (U.S.) @roachpost. Eric is managing director of Roach Capital Partners and he also runs the 'Roach Post' a blog that contains news on Venture Capital as well as some informative articles regarding business planning and raising finance.

Doug Richards, (UK) @dougrichards. Doug is a well known entrepreneur with 20 years' experience in the development and leadership of technology and software ventures. He is the founder and vice-chairman of the Cambridge Angels and also previously featured in the BBC series Dragon's Den. His blog postings on his 'School for Startups' website are well worth reading.

David Skok (U.S.) @bostonvc. David is a five time serial entrepreneur turned VC, at Matrix Partners and writes an excellent blog called for Entrepreneurs.

Mark Suster, (U.S.) @msuster. Mark is a General Partner at [GRP Partners](#) who focus on early-stage technology companies – usually looking at Series A investments. He also writes an excellent blog called '[Both Sides of the Table](#)'.

Vivek Wadhwa, (U.S.) @vwadhwa. Vivek is senior research associate at Harvard Law School and executive in residence at Duke University. He also writes for Business Week.

Fred Wilson, (U.S.) @fredwilson. Fred is a VC and principal of Union Square Ventures. His blog 'Musings of a VC in New York' is well worth a read.

Appendix 5 – Recommended reading list

Here are some additional recommended resources you can download and read:

1. The Essential Guide to Equity for Entrepreneurs

(Source: Equity Fingerprint)

This guide is available at our [BPlans](#) website.

2. Guide to Securing Business Funding (UK)

by Beer & Partners

3. BVCA Guide to Private Equity 2010 (UK)

4. BVCA International Guide to Private Equity and VC Valuation Guidelines (UK)

5. Your ‘Freshly Squeezed’ Guide to Raising Finance (UK)
from Envestors

6. The Second Bounce of the Ball by Ronald Cohen
(Available from Amazon)

7. Raising Venture Capital by Rupert Pearce and Simon Barnes
(Available from Amazon)

8. You can negotiate with VC’s by Hoffman and Blakey
(Harvard Business Review, Mar-Apr 1987)

9. Invest to Exit by **Tom McKaskill** (2009)

10. An Engineer’s View of Venture Capitalists by Nick Tredennick (2001)

I have also written a number of additional articles which will help you specifically with your business plan and pitch:

Securing Funding – The Dragons’ Perspective

by Alan Gleeson

The Business Pitch by Alan Gleeson

Delivering a Winning Business Plan Pitch by Alan Gleeson

Dragons’ Master Class – the numbers you need to know

by Alan Gleeson

An Inconvenient Truth – Lessons for Entrepreneurs

by Alan Gleeson

Where to Start? An A to Z Guide for Entrepreneurs

by Alan Gleeson

Additional articles on business planning and entrepreneurship are available at the Bplans website www.bplans.co.uk

Appendix 6 – UK-Related Resources for Entrepreneurs

The following list represents some well know websites for UK-based entrepreneurs.

Bootlaw Legal Documents – Excellent range of documents from Barry Vitou & Danvers Baillieu.

Bplans – Definitive resource for business planning information in the U.K. Run by Palo Alto Software.

British Library – An excellent resource for London-based entrepreneurs. Alongside the extensive library, it is well known for the regular entrepreneurship events it holds.

Business Link – A free business advice and support service, available online and through local advisers.

Business Balls – An excellent free resource that explains business concepts in accessible terms.

Bytestart – One of the most popular small-business sites in the UK. Independently run and operated by online specialists, it provides no-nonsense guides and news for startups and SMEs.

Cobweb – A leading publisher of ‘know-how’ guides in the UK as well as Better Business magazine. Their popular ‘Business Opportunity Profiles’ and ‘Business Information Factsheets’ represent excellent value for startups looking for some industry specific resources.

Company Partners – Primarily designed to help people to find other business partners (and investors) in the UK in order to start up a business.

Entrepreneur Country – The place to find interviews with leading entrepreneurs, news and views, regular columns by well respected entrepreneur Julie Meyer, and a host of services and offers that every high-growth business needs.

Palo Alto Software – Home of Business Plan Pro – a leading business planning software tool.

School for Startups – Doug Richard’s inspiration, which claims to be the leading provider of business training for UK entrepreneurs.

Smarta – A business support and advice network for startups, small-business owners and entrepreneurs in the UK.

Start up Donut – Gives you advice, support and access to some of the essential resources you need to start, run and grow a business in the UK.

Startups – An extensive online resource for entrepreneurs looking to start a business in the UK.

TechCrunch – A popular blog covering Web 2.0 and Mobile startups.

Appendix 7 – UK Networks

There are a number of clubs/networks/meetups around the UK that aim to bring entrepreneurs and investors together in a less formal setting than some of the angel networks mentioned earlier. As before, this list is (a) not exhaustive and (b) admittedly London-centric. However, these limitations aside, it is designed to give a flavour of some of the groups that are out there.

Bootlaw – A free boot camp for emerging technology, internet and digital professionals who want to learn more about the legal issues they face, brought to you by Barry Vitou and Danvers Baillieu from Winston & Strawn in London. (Recommended)

DrinkTank London – A free, high quality meet-up for members of the tech community in London: proven tech/web entrepreneurs and investors. It claims to offer attendees a chance to ‘meet, drink, chat, do deals and help solve each others’ problems’.

First Tuesday – Was founded in London in 1998 by Julie Meyer to provide a forum for technology entrepreneurs and companies seeking venture capital, investors and related service providers. It became synonymous with the dot com boom and was regularly featured in local and international press.

Mashup – A membership-based community of executives, entrepreneurs and investors affected by and working within the commercial application of digital technology, products and services.

Open Coffee London – ‘Entrepreneurs want a place to meet. So come enjoy meeting other startup fans, every

Thursday between 1000-1200. You are likely to meet other entrepreneurs and some investors – if not; at least you can work in peace.’

OpenSoho – An informal meet-up in London for people working in the tech and media industries in London.

Seedcamp – A popular programme created to help the entrepreneurial community in Europe by connecting next generation developers and entrepreneurs with mentors from a network of company builders; including seed investors, serial entrepreneurs, product experts, HR and PR specialists, marketers, lawyers, recruiters, journalists and venture capitalists. (Recommended)

Startup Digest – An email digest of the best startup events around the world (includes Berlin, Paris and London in Europe).

Startups Meetups -Are self-organized meetups in over 150 cities worldwide.

TechCrunch – Runs an annual event (was called GeeknRolla in 2010) which brings together Europe’s technology startups and investors.

Venture Club London – The group is for entrepreneurs launching new ventures, seeking capital and advice on acquiring it. Startups in all phases of growth - seed, angel, series A - come here to learn from each other, experienced venture capitalists and venture lawyers.