

Product + talent = not enough

Entrepreneurs with fantastic talent and great products can spend years toiling away in their markets and never attract investors to enable them to grow their venture - for the simple reason that they never understand what investors are really looking for.

Before investing money in a venture, I want to know why the owners want that money. I know everyone does, but I suspect I'm that extra bit obsessive. I don't mean the nuts and bolts stuff of how the money is going to be spent - that should be in the business plan. What I really need is to get inside the heads of those running the show to locate the crucial information that isn't written down anywhere. For media businesses - my area of expertise - this information is disproportionately important, but no matter what the sector, this intangible data is key.

So, how do I get it? Well, I start by asking one core question:

What am I really investing in?

For me there are, crudely speaking, five types of businesses, and therefore five answers to the above question.

Life-style business: People are entitled to run life-style businesses but there is no way any outsider should invest in them. It can only end in tears as the business will have only been run to suit their needs and they will not understand or be interested in the needs of outside shareholders. Fortunately, such businesses are not that difficult to spot, particularly if you've been stung once - and I certainly have!

Work-style businesses: These are much more dangerous and difficult to identify. Typically, the founders will be obsessed with 'the work'; that is, the company (usually a 'creative' business in the broadest sense) will be built around their craft skills and they will not be very interested in commercial issues. They will probably also be very picky about the clients they accept. For example, if that client doesn't appreciate great work they won't handle the project. The danger is, if you have worked in or around their business sector, you will recognise and be fascinated by the brilliance of their work. Unfortunately, it's unlikely investors will make any money, although they might not lose it all either.

Build to sell: Typically, this is two or three MBAs looking to build a business quickly then sell it after three years. This seems to come with the business school training. There's a much better chance that they'll speak the language

of the investors, but I never expect them to build a world-class business: they'll have gone long before then.

They may handle investors well but your concerns will be more about how well they really understand the market (of which more later).

Conversely, the short-term entrepreneur looking to get out fairly quickly usually understands his/her market well and an investor is therefore more likely to be concerned with the quality and sustainability of the business.

Build to buy (then sell): Businesses with this objective will be ploughing back profits and borrowing in order to buy out their competitors and build scale before selling. They will know that a strong market position, plus absolute size, will encourage a sizeable premium. And they're right.

Build to build: These guys just love growing businesses and their skills will be heavily marketing and sales oriented. World domination is what they seek (I know the feeling!) in their market. They will want to go on and on and, quite possibly, are capable of building a world-class, properly scaled business. Exciting stuff, but the downside is that they may be weak in an economic downturn when the skills of managing growth are irrelevant. Another potential risk is that they will miss the right time to sell (and there nearly always is one), even when it is staring them in the face.

What your business must possess

Once I know what type of business I am looking at, my search then switches to other basic attributes a business must have. In no particular order, I reckon ventures should have:

1. A deep market understanding leading to a crucial insight

I never assume any business has this. For instance, look at the London Stock Exchange, which missed a fundamental change in its market despite the huge experience available to it. Now it is the hunted, not the hunter.

2. A real understanding of customer needs

Too many businesses assume they know what their customers want. This is largely driven by what they're selling to them rather than listening to life from the customers' perspective.

3. Even better, a prediction of their needs

It takes a bit of bravery but a business based on a prediction of how a market is going to change, and the effect on one's clients, can propel itself into the super league. A big risk but there should be the corresponding opportunity for super profits.

4. Dedication to customers whoever they are

Happy customers come back for more; they spread the word and client recommendations are the best commercial you can get. However, it is crucial that this commitment is allied to a strong commercial drive. "We're bloody good, so we deserve to make good money," should be the underlying attitude.

If you can tick all these boxes, there is a real chance you've got a business with great potential that's ready for the next level.

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