Principles for an Investable Business

by Anders Torvill Bjorvand, 2024-10-11

Do You Even Need Money?

Investments are all about timing. Is money currently holding you back from significant growth, or are you at a healthy plateau or in a preparatory stage where you ´re not yet ready to spend capital efficiently?

What Does It Mean for a Business to be Investable?

There are two key factors to consider. One concerns the business itself, and the other concerns potential investors. Both are absolute requirements:

- The business needs to promise a return on capital that corresponds reasonably with the associated risk.
- There needs to be a "market" of investors for your type of risk to reward ratio.

There are many profitable, good businesses where there ´s no room for a traditional investor. Typically, these businesses can be bootstrapped organically or can get off the ground with capital from financial institutions like banks or governmental incentive programs.

How Do We Go From Investable to Invested?

If your business fits the risk/reward profile of investors, here are the typical areas where they will require answers when assessing your business:

Business Idea

Your business idea can be broken down into three questions:

- What problem are you trying to solve?
- Is there a credible solution to this problem?
- Do you own this solution (patents, trademarks, key people, resources, etc.)?

Business Model

The business model can be simplified as: how will you get paid? Are you a refiner of raw materials? Are you selling hours? Are you flipping something with added value? Are you selling licenses?

What is the likelihood of repeat customers? Is there an after market? If you ´re opting for a subscription/recurring/SaaS model, what are realistic retention rates?

Market

How do you know there ´s a market demand? Are people willing to pay for your products or services? The closer you are to actually selling your products at a profit margin, the lower the perceived risk, and your company valuation will increase. This is the single most significant driver of your share price.

Team

Why are you and your team the right people to execute this plan? If you ´re aiming for the moon, do you have a team of space engineers and astronauts to pull it off, or are you reliant on people who are not yet on board?

Just as important as competency is a track record of delivering results. Visions are great, but in the end, excellence in execution beats everything. This can be a challenge for many first-time entrepreneurs. A typical solution is to bring seasoned entrepreneurs onto your advisory board or into similar roles.

Scaling

Is the market large enough for you to break even and become profitable?

If the market is global, how can you carve out reasonable and believable segments to realistically target? Investors will quickly turn away from entrepreneurs who start their pitch with "There are 5.5 billion people with access to the internet ..."

Capturing Value

If your product or service becomes popular, how will you maintain your leadership position and prevent competitors from copying your ideas and reducing the margins of your potential value creation?

Also, if you become dependent on partners, how can you ensure they don ´t infringe on your margins? To protect your margins, you need to maintain options in all important negotiations so that no one can squeeze you into a tight spot.

With best wishes from

M.Sc./MBA, Entrepreneur and investor
www.kingdomholding.no
anders@kommunion.no