

ATTRACTING INVESTORS

Issue Two

Competitive Advantage—Why YOUR Market?

As I said in Issue One, you have to focus on convincing an investor of two things: (1) the war you're fighting is worth winning and (2) you're the one who is going to win. This issue focuses on the first item: making the spoils of your war seem worth the battles you'll need fight in order to win.

To get a little more practical about this, let's substitute the word "market" for war. The fundamental premise is that your market has to be big enough to justify the effort and investment. In addition, your sales (battles) have to be distinct or manageable enough that you can address them in a systematic, predictable, and profitable way. Even a gigantic market (small business, for example) has to be "addressable"—popular terminology that simply means: "Can you get to them?"

Market Potential

What is a big enough market? Unfortunately the answer depends entirely on what your goals are and what the goals of your potential investor might be. You can save yourself a lot of time and embarrassment by fully understanding this fit. Many investors are quite willing to enter a small market that aims for domination, while others will only enter markets that could amount to hundreds of million in sales. Too many entrepreneurs make the mistake of calling their small market a "beachhead" (something that will pave the way for future growth) without first showing a clear or considered grasp of where that beachhead is leading.

The smartest and most creative investors are good at making the leap to seeing a bigger potential—sometimes bigger than even you as an entrepreneur see. But for most investors, it's not a bad idea to paint the picture pretty explicitly. Try to be as detailed as possible—for example, coming up with actual market size numbers for any segments you plan to enter. If there are 35,000 potential buyers of your product or service, say this. If

you could add another product or service and find an additional market of 50,000 buyers, be sure to note this as well. Specific market size numbers are essential not only for your credibility but to show that you've done your homework.

Market Addressability

The addressability of the market is a different story. Here the key issue is: What is the business model? Or, to put it bluntly, how do you make money? What is the sales model (how do you find and address your customers)? Do you have any proof that people will pay money for your product or service—and, if so, how much will they pay?

A potential investor will view this as a business analyst and may already have some fixed notions about what it costs to sell certain types of products. So be sure you pass the “smell” test before you try out your story (e.g., you can't make money using a direct sales model for a software product that sells for \$30,000; if you're selling something for \$1.99, you better have a very solid plan for how you'll find enough buyers). In other words, your sales model must fit your product or service, and there should be analogies from other markets that prove this can be done.

Here are issues you should consider as you describe your market and how you'll approach it:

- 1) What is the total size of your market? If everyone in the market you're approaching were to buy your product (or a product like it), what would the annual sales number be? Investors like to know how big the pie is that competitive entrants will be dividing. Obviously, bigger is better in most instances.
- 2) What is the total number of potential customers? Are you selling something small to millions or something large to hundreds? How do you estimate the total potential number of buyers? Can you show a plan to penetrate and build that number?
- 3) Can you have a vertical market strategy? Investors like vertical market approaches because they seem manageable and repeatable—in theory, referral business is more likely, and positive feedback and testimonials from past

customers are more effective. Also, if your product can be clearly targeted at a vertical market, it may be less expensive to build and maintain.

Yet, be careful about what you define as a vertical market. By definition, companies in vertical markets are in the same business or highly complementary businesses—or, in the case of consumer markets, they have the same demographic characteristics. Size of business and geography are not factors in determining a “vertical” classification.

Note: It helps to know if the person you’re pitching to has ever invested in your vertical market before, even if the previous investment was for products quite different from yours.

- 4) Who is the buyer and can he buy? Introducing new products into the marketplace is hard enough without trying to sell to someone whose office is in the basement next to the boiler room. It can be done, but you’ll have to prove to me that you understand the barriers and have a plan to overcome them. On the other hand, too many entrepreneurs spout the new wisdom that they’ll sell only to the “C-level” (“chiefs” or highest-level executives)—this is easier said than done. You must help me understand why the C-level person is really your buyer.

To communicate competitive advantage, your goal here is educate the “buyer” and bring him along so that he understands the market in which you are so deeply immersed.

Next Issue:

Financial Projections – How to Find the G-spot

Jonathan York & Associates helps entrepreneurs and high growth companies eliminate barriers to growth through executive mentoring, expertise in strategy and planning, and assistance in applying proven funding strategies. We can be reached at jjork@jyorkassociates.com or 614.271.3500.

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Jonathan L. York, Ph.D.

Jonathan York is a recognized leader in helping technology and services companies. He has guided them in identifying and overcoming barriers to raising growth capital and in eliminating key impediments to growth through transition stages. He is also well known for helping his client companies focus and energize their sales and marketing programs.



A seasoned corporate executive, consultant, and trusted advisor to corporate leaders, Dr. York has raised over \$100 million in funding and participated in the financing of over a dozen technology and services companies. He estimates that, in his career in technology and business development, he has evaluated over 300 business plans. His experience in these realms makes him an ideal partner for ventures who are looking to move to their next stage of growth.

A graduate of Yale with a Ph.D. in psychology from Michigan State University, Dr. York brings over 30 years of entrepreneurial and leadership experience in the private, public, and nonprofit sectors. He has been on both sides of the venture capital and angel financing equation—as a CEO and recipient of significant investment and as an active venture investor in an early-stage VC firm. As an operating CEO, Dr. York grew a software company, in just 30 months, from a standing start to over 120 employees and a run rate of over \$12 million. He has served as an interim CEO and/or board chairman for multiple other fast-growth technology businesses and has sat on the boards of almost a dozen such companies.

In addition, he served as a CEO in the health care sector for over 10 years, was the president and CEO of one of the country's largest and most dynamic chambers of commerce and economic development organizations, and worked as a general partner in an early-stage technology venture capital firm. He has also served on numerous civic boards in areas as diverse as low-income housing and the arts.

He also studied at the London School of Economics and has attended the Aspen Institute program on technology leadership. Dr. York currently sits on the boards of several private technology companies.