Attracting Foreign Investment

The opportunity to raising capital, particularly equity capital, is often missed when the company seeking the funding fails to grasp, long before they ever enter into the offices of a potential investor, the process through which they should have gone when they first determined their need for capital. In foreign countries, where the risks are considered to be greater and investor comfort levels lower, the ability to demonstrate certain capabilities – all results of the process – goes a long way in assisting in the securing of capital.

Tudog has a capital recruitment model that, if implemented at the moment the decision to pursue an investment is made, can significant enhance the capabilities of the company to secure the capital it seeks. The Tudog model has 4 primary components. They are:

- Audit
- Repair
- Prepare
- Approach

Let's review each element in depth:

Audit

The primary purpose of the audit phase is to discover any and all aspects of the company that needs improvement or major overhauling because they would serve as impediments to an investment. There may be issues with product, management, manufacturing, logistics, operations, financial management, company management, strategy, vision, market, tactics, sales, culture, and any other aspect of the business that, when put under the due diligence microscope of an investor reveals concerns that dissuade the investor and lose the company the investment.

The audit is conducted against a series of set standards of operations and proficiency levels and designed to detect any aspects of the company's broad operations and overall environment that could be deemed unacceptable to an investor.

It is best to have an audit performed by an outside agency that does not have to concern itself with internal politics, the goodwill of management/owners, or the consequences of the findings. The audit should only be undertaken in the spirit of improvement and openness, with an eagerness to discover ways the company can reach excellence. If this spirit is lacking, or the process of the audit is somehow influenced, the results of the audit will be tarnished and the intended result – making the company more attractive to potential investors – will be significantly undermined.

The audit is conducted by providing full access to personnel, records and operational areas and allowing the auditors to ask the questions they have and seek the answers they need. Some questions may also be posed about the market, competitors, trends, and other external factors. These too should be answered in the spirit of reaching excellence.

The core result of the audit is that it produces a set of internal and external constraints that, if not addressed, will serve to hinder the company's capital recruitment efforts. These constraints need to be addressed in the next phase of the Tudog process.

Repair

Knowing what ails a company is only constructive if there is a plan to remedy the problems. The whole point of the Capital Recruitment Model is to make certain that when a company goes before capital sources they past the test and get awarded the funding because the due diligence performed does not turn up any challenges so formidable as to prohibit an investment. The correction of any existing problems prior to approaching the capital sources reduces the risk they will decline the company's funding request.

Once the challenges are identified and the plans to repair them are in place, the actual process of repairing them needs to be undertaken. This is achieved through a process that moves the repairs forward in an orderly and constant pace. The process Tudog uses is called the Tudog Accountability Model. It is comprised of 4 steps. They are:

1. Definition of Objectives and Assignment of Tasks – goals cannot be met unless they are (a) clearly defined, (b) well constructed, (c) enabled through an obtainment process, (d) assigned to an implementing supervisor.
2. Development of Implementation Timeline – tasks should be broken up into rapidly achievable pieces so that (a) people can feel and see the progress, (b) motivation, commitment and compliance remain high, and (c) the little victories can be celebrated.
3. Assignment of Accountability – as each timeline comes to its conclusion the implementing supervisor (responsible party) must demonstrate its conclusion or account for its delay. This imposes discipline and makes certain that the overall progress of the program is not unreasonably delayed by excessive failure to comply. While initially rates of poor compliance are anticipated (and progress expectations are designed to absorb it), the level of compliance should increase dramatically within a relatively short period of time.
4. Efficacy Evaluation – once the task has been completed its efficacy is measured and its continuance determined. It is essential to maintain only those paths that ensure the greatest levels of success.

While the repair phase does not necessarily require an outside agency to implement the required changes, it may make sense to engage an outside firm to assist in the development of the remedies and the monitoring of execution. Both the determination of which solutions to adopt and the execution of changes can be a delicate process subject to internal politics and pressures. By engaging an outside firm you are insulating the company from any dilutions in the process that might occur should it be attempted by internal forces.

Once a solution for each of the problem identified by the audit has been devised and implemented through the accountability model, the company can have a high measure of confidence that it has the operational integrity to meet the requirements of some funding sources. The next step is to prepare the company to meet potential investors.

Prepare

Now that the company has been repaired and it has the operational, management, and other standards necessary to attract funding, the next stage is to package the company for funding. This preparation stage includes determining how to tell the company's story - what aspects of the story are most likely to engage potential investors, what vision to present, which elements of confidence-building to include, which successes to highlight, what potential (return on investment) to present, and other critical issues that, when taken together, serve to present the company in its most flattering light.

A very significant part of preparation phase is the development of effective and persuasive documents. The documents needed typically include a business plan or investment offering (complete with financial data – current & forecasted), an executive summary and a presentation. These documents serve to communicate the company's story in a very precise and effective way, answering all investor questions while communicating all the company's advantageous points and positioning the company appropriately in its marketplace. The documents need to demonstrate that the company has a vision that will bring it significant value (thereby increasing the worth of the investment) while also possessing the skills and resources to achieve the vision.

The materials needed to prepare a company to go before investors should be prepared by an outside agency in close cooperation with the company. Often investment banks and consulting firms escorting companies through the funding process include the preparation of these documents in their initial fee arrangements. This is because these professionals know what investors are looking for and how to construct the documents in format and content in ways that will be well received. Also, the preparation of these documents is a professional skill set many companies do not have in-house. Efforts to cut corners and save money by preparing them in-house are quickly undermined by the evident lower quality – thereby also undermining the entire capital recruitment process.

Approach

Selecting which potential investors to approach requires some due diligence on the part of the company. While having a personal relationship (or knowing someone with a personal relationship) will help get you through the door, it will not influence the investment firm to make an investment that does not match its investment policies. If anything, approaching an inappropriate investor through a contact does little more than get you a negative answer more rapidly. Insofar as the objective of the exercise is to get positive answers, limiting the approach strategy to only firms the company has a personal relationship with or contact to is insufficient.

Therefore, the most comprehensive way to approach investment channels is to study the market and determine which firms are most likely to invest in the company. This can be a function of past investments, synergetic portfolio companies, firm pronouncements of intent to invest in specific sectors, or other indications that the company in its current configuration and/or post-investment vision matches its investment objectives.

The approach to the investment firm should include the submission of the executive summary to the appropriate person, as determined by a previous telephone conversation during which the investment firm agrees to receive the summary. The blind or mass distribution of the documents will lead to the company being ignored, or worse, blacklisted. Once the executive summary has been submitted, the investment firm may invite the company for a presentation to further explore the possibility of an investment. In general investment firms do not waste time reviewing companies in which they do not have a genuine interest. Therefore, if the company is invited in, it is fair to assume that a real interest exists.

The final phase of the approach is the negotiation of the term sheet. The investment firm will present its offer to invest, after which certain negotiations are possible to adjust the terms.

A Word on the International Market

Attracting investment in international markets merits some additional comment. Often countries seeking to attract capital to bolster their economies select a number of sectors to which they seek to channel investor interest. This is done both because of the assessment that these sectors hold the most promise for job creation and increases in the tax roll, and because the selected sections are deemed to have some level of distinctive competence, offering better chances investors will be interested.

With governments and NGOs joining in the positioning process, it is essential that whole industries, as opposed to individual companies, undergo the Tudog ARPA Capital Recruitment Process. By evaluating the industry, identifying and repairing weaknesses, preparing appropriate documents and communication materials, and selectively approaching funding sources, the entire sectors will be better equipped to interact with capital markets, making the process, in the end, more effective, with more funds invested.