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IMEDIA UK

## 4 surefire ways to make your business attractive to investors

By Damian Ryan
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**Investment is a risky business at the best of times, but in a recession it can become a game of roulette unless you know what you are looking for.**

How, at a time when uncertainty is the only thing we can be certain of, do the owners and managers of digital agencies and other digital media companies demonstrate they are worthy of investment? How do investors divine whether the business they have in their sights is a good long-term bet?

Does a CSR policy matter? Is winning awards important? Do proprietary technologies count? Does creativity contribute to the bottom line? Will great press coverage increase value? How crucial are client relations? What about that all important revenue model for businesses in the social media space?

Here at Results International, we have grouped together considerations such as these, identifying them as 'premium factors' or crucial strengths, and 'discount factors' or weaknesses, around four key areas: finance, offer/positioning, clients and talent management. They are the core watchwords governing the success of any business. In a world of change they continue to be the constant pillars upon which successful companies are built, whether they sit in the old or new media space.

Using this matrix, investors can better understand a company's viability -- its most important value in today's market -- while company owners can use it to check their health and identify strategies to make themselves more appealing to investors. Owners of digital businesses can take heart. In the recent words of a leading private equity firm: 'Digital businesses have been validated. The success of Google is proof of this and that enormous wealth can be created.'

**Talking finance and the importance of technology**
A company that we would regard as financially sound would possess a number of seemingly obvious 'premium factors' such as:

- Consistently high profitability and growth
- No net debt
- An acceptable ratio of cost of staff as a percentage of income

Financial discount factors would again include the obvious such as poor or patchy profitability or historical performance. In addition, we would also count factors such as a lack of high margin IP or lock-in products as real weaknesses in a company's portfolio. Similarly a lack of convincing and ambitious business goals should be considered a sign that a business is not engineered to last.

Of course, a company's technological infrastructure may be seen either as a premium or discount factor depending on levels of investment and the potential scalability of the technology involved -- a company with a strong technical bias is always going to be more attractive to investors and acquirers. This comes to the fore when a company is examining the scope for breaking out into new geographical markets -- multiple-market over single-market ambitions are naturally going to attract greater interest from the investment community. Moreover, digital product development can help attract clients and make it harder for them to leave the business.



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**Business offer and positioning**
The company's business offer and positioning is another key area of focus when defining its value.

Particularly in a recession, vibrancy and innovation are vital, as are characteristics such as being in a 'hot sector' or having a high profile brand, both of which would indicate a company with a good offer and a rosy future. Other premium factors include having a clear, differentiated positioning and a good reputation. This is why securing awards and favourable press is so important.

Businesses that are not clear about what it is they offer are unable to stand up to scrutiny and fail to stand out -- they could be easily swallowed up in the din of recession. Other positioning discount factors include having highly active competitors, being in an undesirable sector and having a lack of thought leadership within the sector.

In other words, it's all about the competition. While the world wide web as we know it might have been around for 16 years or so, the law of the jungle still reigns in this chaotic, unpredictable landscape. Like any industry in its infancy, there are as many opportunities as there are risks. We are currently witnessing a frenzy of activity, which is sure to be followed by a period of consolidation as consumers vote with their mice and select the winners and losers from among a myriad of sites, ideas, applications, widgets and all manner of things they might want to do on their mobile phone or computer -- just take a look at iPhone apps! Remember, there were 800 manufacturers of cars in Europe in the 1920s, there are now about five. Innovation is key. What is this year's hot property may well be commoditised next year.

**Client relationships**
The client factor is a difficult one to control, particularly in a recession when sudden losses and budget cuts are the order of the day. Businesses that have a wide spread of well established loyal customers (both trade and consumer) are more able to absorb a few nasty shocks. Among the premium factors that would indicate a company with resilience include not being overly dependent on one single trade client or consumer demographic, and perhaps less obviously, a focus on the types and strengths of trade client relationships -- for example, are the client relationships embedded at a board level?

Strong senior relationships should be nurtured and cemented so that clients feel personally connected with a business. This is particularly important during a recession when the price of service starts to become a serious consideration for clients. At Results International, we would consider low level client relationships a discount factor, along with a lack of retained clients and over reliance on any one sector.

**Managing talent**
A recession is a time for difficult decisions, one being which people to keep. Talent is a vital factor in differentiating businesses and should be retained and nurtured. Strategic HR is crucial and a strong business would have an established and experienced senior team with senior talent locked in. A creative culture aligned to business goals would also be a plus and we would want to see performance incentives linked to accountability and strategic business goals.

Private equity firms eyeing up potential investment targets will be looking hard at the quality of management, wanting to see disciplined decision making at board level and strong financial control.

It is often said people are a company's most important asset, yet too many companies fail to act on this basic truth and end up vulnerable and therefore make themselves unappealing to investors. Factors such as an unaligned leadership team, unequal levels of senior contribution or over reliance on one or two key people are definite discount factors.

We believe that valuing companies in terms of 'premium' and 'discount' factors of the kinds we have described offers clients clear insight into how well a company is likely to be able to perform over the next few years and will prove an invaluable analytical tool for investors and business owners alike.

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