Mastering Due Diligence

By Dick Brown

There are a number of "beginner errors" here. Let's start with the biggest: the concept that "an idea," all by itself, can be the basis for funding.

In the real world, an idea by itself is worth nothing -- zero, cero, nada, null, and zilch. What investors want to hear is how this great idea will be successfully implemented. Using a famous metaphor, let's assume you (a naïve entrepreneur) just become inspired with the fabled idea "to slice bread". Think any angel will fund this idea?

How about some problems such as:
a. Will people really buy sliced bread?
b. How about cakes and the loaves of whole-wheat, rye, pumpernickel?
c. What kind of knifes or machines will be needed?
d. What about the crumbs left after the slicing?
e. The end-pieces?
f. Will people think they're getting less bread to eat?
g. How will people pick up the loaf to take home after it's sliced?

Your idea may also raise questions such as:
a. What team members are available to you to develop this concept?
b. How long will this take?
c. How much will it cost?
d. What's the marketing plan? Manufacturing plan? Sales plan?
e. Are you going to design/sell the machines that will be used?
f. And more and more details.

So, before any entrepreneur approaches any potential investor, they need a full, complete plan for how they'll: turn their idea into reality; the reality into a highly profitable business: and, the highly profitable business into liquidly for all the participants and investors.

In a more pragmatic sense, there's the issue as how to protect your fabulous idea before you've completed your plan. Classic potential solutions can be legal (non-disclosure agreements, patent coverage, copyright, trade secrets etc.) or, just practical. Having once been trained as an intelligence agent, in "spook school" they taught us a simple rule: "If you want to keep something a secret, don't tell anyone". This is very effective until you (and your most trusted associates) are well into developing your plan.

Further, most of the professional investors of the world are interested in making money, not starting new companies. They have already done that and earned their many battle scars. They know that being an investor is a lot easier than going back and becoming an entrepreneur again. To steal your idea, means they have to implement it and go through all the aggravation all over again.

However, this is the real world, and maybe there are a few "vultures" and "sharks" as well as the many angels. Realistically, like Marley's chains, each has forged their reputation and it is well known amongst their peers. Budding entrepreneurs can protect themselves against "the bad people" by simply getting references, making a few phone calls and asking a lot of questions.

There can also be some legal problems for potential investors. Most new entrepreneurs quickly learn that many venture capital companies don't accept Business Plans that are labelled "confidential". Most VC's are partnerships where the individual partners can be held personally liable for anything they do. They don't need some whacked-out entrepreneur suing them for "stealing my confidential ideas".

When your fabulous Business Plan is finished, here's another way (more creative, and with chutzpah) to keep your incredible ideas and implementation plans protected. As usual, divide your BP into two main sections and then add one more:
Executive Summary This is a one-pager that sets the stage and whets an investor's curiosity but has no real details. Give this to as many people as possible.
Business Plan The real deal with all the implementation details excluding the very important, proprietary ones.

BP, Missing Sections Only given to qualified, serious investors and only after they execute documents that protect you and that say they're ready to invest serious money (specific amounts) within x days after receiving these portions of the BP and/or having you demonstrate a working model. (If you use this technique, your secrets better be very good ones.)

Since I have the pulpit for the moment, let me add one more tidbit for the new and/or naïve entrepreneur: ***If you have a great idea and no money, forget it!***

It costs money to raise money. Don't even think about starting any venture until you've enough funds to last several months and can pay your usual expenses. Plus, cover the new business and travel expenses as well as the initial fees to lawyers, accountants, and the other experts you'll need to finish your Business Plan and get your idea off the ground.

Maybe, if you have a really great idea and no chances of accumulating enough money, your best strategy is to make a deal with selected, deep pocket angels, form a team and let them take you along for the ride.

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