2. Investment Readiness: am I ready to start?

When you have started your social business and have managed to overcome the first months or years, you will eventually reach the point where it is obvious that current forms of financing will not work forever and that the next professional step towards investors needs to be taken. The blogpost on this website titled “Are you ready for the quantum jump?” is a good pre-read to get a better understanding of when the right timing is to start with getting prepared for investors and what lies behind the term “investment readiness”. This article takes up the topic in more detail and will give you a thorough understanding of the concept of investment readiness. To make it more practical, it will guide you through an assessment model in order to prepare your own investment readiness evaluation.

The main question behind the concept of investment readiness is: am I (yet) attractive enough for investors to spend their money on my project while having an adequate chance of receiving it back? While the spontaneous answer to that will often be “yes, of course!” this might rather be driven by enthusiasm than plain facts. What the investment readiness structure thus aims at, is to make an honest assessment of where one is standing with the project achievements and analyze potential challenges. A clear picture will not only help you determining potential weaknesses or areas of improvement, but will also pave the way for successful investor discussions. A necessary precondition to conduct the investment readiness check is a business model (that means selling any kind of product/service and generating some revenues) and ideally being on the market for typically at least 6 months. Although we are all individuals and will naturally put emphasis on different focus points, there are some topics which will most likely always be relevant when judging your business. The four main categories we are focusing on in this assessment are the following:

| 1 | What is the social problem? |
| 2 | What is your solution? |
| 3 | How is it implemented (business model)? |
| 4 | How is the business model financed? |
Each of the categories will be further broken down into assessment questions. As you will quickly comprehend, some questions can be answered with rather general and qualitative answers. However, as you will see, other questions will also focus on quantitative information, data and financial KPIs. This is grounded on the fact that the further you proceed with your company, the more relevant it will be to have concrete figures at hand, which will help you to prove your case and make your argumentation less contestable.

Below is a figure of the assessment scheme, which you can use. As you can see, it is based on a quantitative scoring model, which requires you to rank all of your answers on a scale from 1-5. The resulting overview will provide you a good indication of where your strengths and weaknesses are and encourages certain action items.

Diving into the key questions, the first category is the **social problem**. While it may be perfectly clear to you what problem you are working on, it is of utmost important to have a clear position and enough data on three main questions. You can take the time and rank your position on the scale 1-5.

**First: how accurate is your problem definition?** A good problem definition goes beyond a description of what problem is being solved with your business. It offers various relevant statistics that undermine the social issue and emphasize its relevance. These can include historic roots, societal developments and many more. Furthermore, the definition should set clear boundaries in terms of what problem is being solved and what is beyond scope. The problem definition “hunger in the world” for example is too general and should be narrowed down to a more specific region and/or resulting social issues.

**Second: how well is your target group defined?** In a first step you may have experienced that your product or service concerns many people and have thus started with your offering. However, to be well positioned for the future, it needs to be clear, how many people are actually affected by the problem you are fighting against. Is it a local or a global problem? Is
there just one group of beneficiaries or several? The more concrete you can put numbers on your target group, the better. Sometimes you will only be able to give rough estimations, but try to be as specific as possible and make sure you have good reasons for your assumptions (e.g. reliable, official data).

**Third: how sophisticated is your competitive analysis?** Since you are acting in a business environment, it might be that even for your social issue there are alternative remedies. Thus, a clear definition of your fellow combatants (or competitors) is important. Part of a competitive analysis is to understand what other services or products are being offered and under what circumstances. A simple table can be helpful to give a good overview of the competitive situation. It should encompass the name of the relevant actors (Company ABC, National Program XYZ, etc.) as well as a series of relevant comparable data (e.g. range of product offering, special services, price vs. free of charge, how long on the market etc.).

The next category focuses on **your solution.** As you have received feedback from customers, suppliers or partners, your offering may have changed since the beginning of your operations. While this is perfectly normal and an indication that you are flexible to adjust to external development, investment readiness implies a certain consistency in your product or service. Thus, the following questions should be clear and consistent in their answer. Again, feel welcomed to rate them and assess your business according to the scale.

**First: how clear is your vision and strategy?** Before going into the details of your offering, this question is about your entrepreneurial spirit and approach. Many investors talk about the “big picture”, which means they want you to put your individual project in a bigger context. What overarching goal do you have? What factors drive you? Do you have a clear vision of where you want to be with this project in five years? Although most of these issues lie in the distant future, their answers serve as good indicators how easy it is for you to plan strategically and visualize your goals. Assessments regarding the future usually encompass both personal motivation and vision as well as technical questions such as how detailed have you considered expansion scenarios, what adjacent topics may be solved or who could be future partners to cooperate with.

**Second: how well-defined is the description of your offering?** From the beginning on, you probably have been busy explaining your product or service to others: customers, friends, lenders. Before approaching investors, take the time to assess whether you have the best description at hand: the one that answers the most urgent questions without being too lengthy. Relevant parts of your description will probably include what makes your offering different from others, why will it be successful on the market and what leads you to this assumption. Because you have said these things a thousand times- take a friend who does not know your business well and explain him or her what you do. Often, they give valuable feedback or ask relevant questions. At the end, you should have various descriptions available: from the so-called “Elevator Pitch” (2-minute explanation) to a more comprehensive 30-minute explanation.

**Third: how verifiable is your social impact/ value add?** When looking for investors, your biggest asset may be that you are not aiming for profit maximization but for reducing a social problem. This, however, brings the requirement that your social impact needs to be a) relevant b) comprehensible and c) trackable. Thus, a good score on this question requires you to have defined Key Performance Indicators (KPIs) with which you can measure the social impact of your company (for example the number of people reached). A good tracking of the effectivity of your offering will improve your chances to be perceived as a reliable, change-making company.
The third category is about the way you want to realize your idea, that means how your business plan is supposed to be translated into a real business. As the operational structure and actual “doing” is fairly complex, we will focus on the three most relevant questions to be asked. For your thorough assessment, please rank all seven categories.

First: how strong is your organizational structure? You may have heard that a thousand times and that is because it is so true: for many investors, the founding team is the number one reason to invest in a business or not. The focus here lies on the word “team” because a strong team with complementary skills if often better than a “one-man-show” who can only rely on him- or herself. The team needs to have a common understanding of where they are heading and a clear structure of who is doing what.

Second: have you successfully conducted pilot programs? Before taking the big, risky step of offering your product to the mass, it is common to start a test balloon. This so called pilot study helps you to find out how your product is accepted, what flaws it might still have, what reactions you did not expect and what you need to change to make it even better. As simple as this may sound, a strong pilot study may take up to several months and requires a good prototype. Ideally, the pilot product is not distributed for free but sold for a (small) price in order to take price sensibility into account. For an excellent score in this category, you have conducted pilot studies in various groups, sizes and locations.

Third: do you have a scalable idea? For many social entrepreneurs, the idea of starting a business begins with a personal experience of an insufficient service or product and the ambition to offer something different and better. Sometimes, the problem is very specific to a certain region or societal group, sometimes it concerns many. While both approaches are equally legitimate, investors will usually ask the question how the idea can be scaled. This means, the better you can use your idea to serve many people in many regions, the higher your score. This is based on the fact that investors use the scalability of your offering to evaluate the potential of your idea.

Besides these factors, there are many more questions to ask when assessing your business model. They concern among others the distribution of your product, meaning what ways you use to sell your offering and how expensive they are. A sales person driving around the country to talk to individuals for example will be more expensive than an online marketplace (however, sometimes more effective). Are you using the best distribution ways for your business or could they be improved? The use of resources takes into account how well you get along with the resources you have, meaning how much effort you need to put in to get something out. This can refer to the number of employees you need as well as the amount of raw material. The less resources you need to deliver an equally good product, the better. One way to achieve this may be through good co-operations. Many social enterprises and businesses have become successful because they built strategic alliances and thus improved the way they operated. Co-operations can make sense in fields such as sales or product development. But even in marketing or advertising, a partner can help you to grow while benefitting from something you can offer in return. Evaluate your co-operations in terms of how diverse they are and how much they can help you. And last but not least: quality controls. This might seem a little exaggerated considering that your business is probably just doing its first steps. Nevertheless, to be successful on the market and to convince investors that you are ready to take the next steps, you need to be able to offer a constantly good product or service. Quality controls can range from taking random samples to having an external party evaluate your product (although this might really be too much for now).
The fourth category questions **how your business model is financed**. As you will have noticed by now, growing your business also means professionalizing it and parts of this is the way you work with financial planning and investment requirements. Therefore, the two decisive questions to ask are:

**First: how accurate are your financial projections?** In a first step, this contains a good overview of your current revenues, donations, cost etc. Basically anything that can be quantified should be incorporated in a financial model. The next step (and necessary requirement to have a good score in this category) is a profound financial plan. A common time frame for the planning horizon is five years. Although it is clear that it is impossible to predict the future, the financial planning is about making assumptions and explaining potential investors how you derive your goals. An excellent financial plan is detailed—without being too nitty gritty. Examples of good details may be: have you incorporated also seemingly small factors such as a bigger office (the rent will increase) or new computers (with a growing number of employees)? These details, although they only make up a little, can sum up to relevant amounts in the coming years.

**Second: do you have a good understanding of your capital requirements?** This last category brings you very close to the investor side, as this will be a question you will most likely be asked by everyone who considers investing in your idea. Therefore, it is crucial to be confident and realistic in your capital needs. For a good score in this category, your financial plan entails a detailed list of where you spend your money, how much income you plan to generate and thus, how much money you need for your business to operate (i.e. the cumulated cash deficits). Of course you can affect this number (for example by employing less or more people or investing a higher or lower amount in material). No matter what your capital requirement is, you should feel 100% comfortable with it and have good answers available, how you plan to spend the money you raise (e.g. building a web platform ~60,000€, product design ~40,000€ etc.)

The chart below provides a summary of the categories and sub-questions we have considered and gives you the chance to critically evaluate your position.
On the one hand it guides you through the process to critically assess your strengths and weaknesses. By discussing the above questions with your colleagues, employees and business partners, you conduct a strategic review and become even clearer.

By now it will be clear to you that the process of using an investment readiness assessment has many benefits. On the one hand it guides you through the process to critically assess your strengths and weaknesses. By discussing the above questions with your colleagues, employees and business partners, you conduct a strategic review and become even clearer.
in what you aim for and how to achieve it. The more precise your answers for each of the questions are, the better you are prepared. On the other hand, by making these answers transparent in form of a rating, you immediately get a good overview of where you stand and what categories you need to focus on. Be ready to address your most critical points before you start your investor search.

_Vocabulary for glossary_

KPI (key performance indicator)
Prototype
Scalability
Pitch