

## Seeking investment? Here is one framework to consider

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The multitude of investment frameworks can often leave entrepreneurs uncertain of the importance of the different aspects of the business they are building. Often asked how Global Ventures assess different opportunities, we are pleased to share our investment framework, inspired by El-Erian, former Chief Executive of the Harvard Management Company and the Pacific Investment Management Company.

In his bestselling book *The Only Game in Town*, the concepts of resilience, agility and optionality are established and discussed as a structure for asset managers' to decide how to allocate capital (El-Erian, 2016). At Global Ventures, we have adapted these concepts to early stage founders and companies, arriving at our **AURA** framework:

- **A**ddressable market for the business idea,
- **U**niqueness of the idea and team,
- **R**esilience of the company in the marketplace; and
- **A**daptability of the team and business model in the face of common challenges.

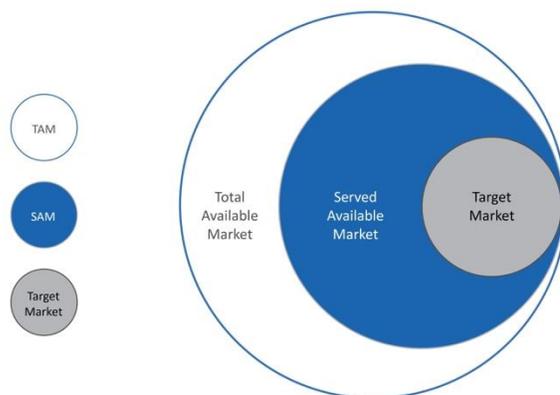
Let's explore each of these in more detail:

### Addressable Market

A key ingredient to success is a large addressable market that enables outsized returns for both investors and entrepreneurs over time. This can be broken into three distinct elements - TAM, SAM, and SOM.

- TAM or Total Available Market is the total market demand for a product or service.
- SAM or Serviceable Available Market is the segment of the TAM targeted by the products and services which is within geographical reach.
- SOM or Serviceable Obtainable Market is the portion of the SAM that can be captured.

### Total Available Market, Served Available Market, Target Market



Layered on top of these are growth rates and market dynamics. While low market growth rates are not necessarily an issue, they create additional challenges, including switching costs and a higher cost of acquisition that must be factored into the business plans. On the other hand, high

growth rates usually attract new players or existing businesses seeking growth. In short, an addressable market is not simply a matter of size, but also a question of attractiveness.

Finally, when considering addressable market dynamics, it is important to understand both the global and regional players. While there might not be obvious competition in the current market, knowing which international player may enter a market is key to understanding your business threats. This type of analysis provides comfort to investors, and it is useful to include an appreciation of the global impact of technology.

### **Uniqueness of the Product / Company**

Understanding the unique elements of the business and your product offering is critical. As strange as this may sound to innovators, there are ideas aplenty and most Venture Capitals see hundreds, if not thousands of ideas each year. The uniqueness of your offering is what differentiates one idea from another. Unique components can be timing, insight based on past-experience or novelty. That said, novelty is not simply being different. It must be based on tangible data or insight about the reason clients will be attracted to your offering. Most business plans that Global Ventures' review simply describe a technology solution to a problem without addressing the components that make your solution clearly unique.

We always encourage entrepreneurs to undertake a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis for both product and company, as well as exploring competitive advantages and disadvantages. Finally, an essential perspective is the market feedback on your product - real examples of clients who would use or not use it and the reasons why.

When undertaking due diligence, an important point of discussion is the valuation and deal terms. The terms must be win-win for both investors and entrepreneurs. They must be compelling enough for investors, while entrepreneurs must feel they are being appreciated for the value they are creating. In our opinion, this can only be achieved if the addressable market is large and the product/service is unique, with enough potential for shareholders to achieve above-average returns.

### **Resilience of the Business**

Another important element that Global Ventures assess is the resilience of the business. Is it able to scale, beat the competition, create barriers to entry and grow, based on healthy Key Performance Indicators?

Understanding how to scale a business is not just about an appreciation of client numbers, but also which client segments, personas and geographies are most likely to use your product. CEOs must consider the internal resources needed to support a growing business, including where talent and technical resources will be sourced from. We seek to understand the company's attractiveness to all its stakeholders, including clients, employees, and partners.

Every idea and business faces competition, if not at first, then usually soon after. Successful entrepreneurs usually plan early for competitors and are prepared for multiple scenarios. While we like to understand the competitive landscape, Global Ventures places more emphasis on how the product and company adapt to competition. Generally speaking, spending more money, especially on marketing, is rarely the best solution. Great companies succeed not only because of their unique ideas and market solutions but also their speed of execution and ability to out-manuever their competitors by thinking creatively and strategically.

Since we are in the business of supporting entrepreneurs in building great companies, we consider the financial health at the beginning *and* at end of the journey. Understanding the costs at the beginning is relatively easy - talent, marketing, operations and so on are typical investments to establish a business and build a product. Of greater interest are growth plans after achieving product/market fit, including cost of customer acquisition, promotional marketing costs, incremental operational costs, cost of servicing clients, and most importantly gross and net profits. A company must demonstrate sustainable growth - a healthy ROI, margin expansion, and above average key ratios to become an attractive value proposition for investment.

### **Adaptability of the Team/Business Model**

Even the best companies face unforeseen circumstances that can only be addressed by an agile and flexible team - starting with the founder and his/her direct reports. Investors are usually looking for a broad number of characteristics in the leadership team, which at Global Ventures we have coined CHART - Collaboration, Humility, Ambition, Resilience and Transparency. We believe that the characteristics of a true leader are apparent by example. Since most investors evaluate businesses over a relatively short period of time, behavior and actions are evaluated and discussed during the due diligence process.

The flexibility to pivot and adapt to market/client insights and needs enables some founders to succeed and others to stall. The most successful businesses perform some sort of pivot on their business/operating model and/or product/service to be better positioned to scale. Processes to continuously collect feedback from clients or the overall market must be in place and the product/service provided by a business must be adaptable enough to capture and address that feedback. This is a result of an adaptable team and business model, and is one of the keys to effective scaling.

Finally, Global Ventures always evaluates down-side scenarios for a business. If the market or competitive dynamics change, it is important to have an understanding of how the change will impact the business and entrepreneur. We conduct simulations to understand and anticipate situations before they occur, enabling a quick and appropriate response.

### **Conclusion**

The AURA framework allows us to evaluate investment opportunities in a way that ensures the founder's ability to address a large problem in a structured yet agile manner. Working as partners with driven entrepreneurs, we have found that when there is a very significant

ownership stake, there is also likely to be a strong commitment to listen to the market, address a need and the desire to pivot their product and scale their business – all of which are a reflection of AURA.

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### **About Global Ventures**

Global Ventures is a UAE-based, growth-focused venture capital firm investing in revenue-generating enterprise technology companies and working with globally-minded, growth stage companies in the MENA region to enable emerging market founders to scale their companies into global success stories.

#### Reference:

- El-Erian, M. A. (2016). *The Only Game in Town: Central Banks, Instability, and Avoiding the Next Collapse*. Retrieved from, <https://www.amazon.com/Only-Game-Town-Instability-Avoiding/dp/0812987306>