

PLAYING IN THE DRAGON'S DEN

By Stuart Townshend,
Director, Edge Growth

The BBC's *Dragon's Den* is a popular TV programme aimed at budding entrepreneurs hungry for a cash injection that will turn their business dreams into a reality. Their three-minute pitch to five multi-millionaires – the Dragons – looking for their next big investment, either results in securing financial backing or the entrepreneur leaving the Den empty-handed.

It's a novel concept, and one that has many advantages when it comes to a country such as South Africa, where 86% of new businesses fail, and access to funding and business development support (BDS) is severely lacking for the entrepreneur.

A *Dragon's Den* inspired activity is on the agenda for this year's Anglo Enterprise Development Conference, to be held at Gallagher Estate on 31 October and 1 November. On a macro level, an exercise such as this is good for the country, as it addresses the lack of access South African start-ups and very early stage businesses have to capital and financial support. To be quite frank, banks, financial institutions and even angel funders are not set up to take on the risk of a new business that more than likely will fail in the long term. These businesses then need to source alternative means of funding, and the *Dragon's Den* is one such way of doing this. Added to this, the *Dragon's Den* is not a timely, bureaucratic exercise. Yes, more goes on behind the scenes than what the viewer sees, but for new businesses that receive investment the process requires some planning, a pitch and then an almost immediate response. It would take months to get this same response from governmental and financial institutions, which can sink the business before it even starts to swim.

One of the most important factors contributing to the success of a start-up business is the presence of a strong mentor who

provides ongoing and critical business development support. The Dragons bring a vast amount of experience and knowledge to the table, and are able to provide guidance and access to new markets for the entrepreneur. They have an intimate knowledge of the business landscape that they are investing in, and how to grow and scale it. Entrepreneurs who can tap into this wealth of knowledge have an undeniable advantage over those who don't.

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While growth is the obvious aim of a new business, this can also bring about a number of challenges for the new business owner. With no previous experience, they now suddenly have to deal with hiring new people, covering the cost of extra overheads,

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HR issues and the like. At some point the entrepreneur needs to become the leader of the business, and train and allow others to run and manage the business. This transition and mindset change is imperative for success, and one that an expert in the field, such as a Dragon, can help with.

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On a micro-level, even if an entrepreneur doesn't receive funding from a Dragon, they will still have gotten something out by merely taking part in the exercise. The panel of experts has come through the 'school of hard knocks', and besides hands-on practical knowledge, they have specialised in a number of different industries. Discussing one's business with experts who have intimate knowledge of the success factors of a certain industry is very powerful indeed. Entrepreneurs receive valuable feedback on where they can improve, what areas they need to focus on and how to go about doing this. The crux of their business challenges is very quickly revealed by the Dragons' unbiased, professional opinions and probing questions.

For all business owners, a necessary skill is how to sell one's business to a senior audience. Quite simply, if one can't sell to an investor, one will never be able to sell to a customer. The *Dragon's Den* pitch is therefore a valuable lesson for every entrepreneur, whether successful or not. And if he or she is successful, the entrepreneur receives valuable support in terms of financial backing and mentorship, credibility of the Dragon's brand, access to networks, markets and decision-makers, and the ability to unlock rapid growth in one's business.

Finally, the *Dragon's Den* also has a subtle broader benefit for the general population in that potential entrepreneurs watching the programme are given new ideas and are inspired to take action.

On the negative side, potential entrepreneurs do need to realise that getting the financial backing they require is not as easy as the programme makes it out to be. Behind the scenes, an intensive due diligence process takes place, as with any potential funder looking to invest in a business. While there are many ways of carrying out a due diligence process, the primary factors to consider are as follows:

- Is the market that the business is playing in attractive and growing?
- Does the company have a sustainable competitive advantage? Over time new entrants will come into the market, therefore investors need to test to what degree the business is able to differentiate itself from its competition in both the short and long term.
- The entrepreneur needs to be closely analysed, as he or she is the key person who will bring the business to life. They have to make the idea happen, be able to cope with the many challenges that will come their way and yet still be able to get the desired results needed. Here, the entrepreneur's past successes are an important factor to consider.
- A good business doesn't necessarily make a good investment, so a complete financial analysis of the business is needed beforehand. Ultimately, any investor of a business is interested in their short and long-term returns, and what they can get out of their investment.

Many viewers negatively comment on the negotiation process of the *Dragon's Den*, and that the entrepreneurs more often than not have to give away larger equity stakes in their business than originally planned. This, however, is no different to early-stage venture capitalist and angel funders in the real world, who take a huge risk investing in a business that will more than likely fail. Investors usually put in more money than the entrepreneur, and so if the business doesn't fail, the Dragon needs an upside in taking this risk on. Besides the monetary risk, a high equity stake is fair and justified because of the massive support role the Dragon plays in the success of the business. After all, it is better to own less of a stake in a successful and thriving business, than more of a stake in a survivalist business that will more than likely go bust. ■