

## **Capital Formation for Women in Trade** **By Ms Diana Abruzzi (Australia)**

When we talk about Trade, most people automatically think big. But, the global reality is, the SME's are now the new economic Leaders. And, SME's contribute 1 trillion US dollars a year which is 30% of trade in APEC

In Australia, 85% of international traders have an annual turn over of no more than one Million dollars

But like SME's the world over, they still struggle to get bank finance. This is particularly so in the case of businesses run by women.

### **1. Venture Capital**

The GEM report states that there is more investment capital available than ever before. However, what we are seeing is:

- A lack of early stage capital, even providers of Capital have acknowledged this.
- A lack of patient capital, most investors seem to have a short return horizon.

**Banks** are still seen as highly conservative. We are told, the Venture Capital industry is considered mature enough to survive prolonged unfavourable market conditions. Enough buffers have been put in place to ensure it will not be wiped out as we witnessed in the late 1980's.

### **2. Discrimination**

So why are women still discriminated against, when they have proven to be a much sounder and more productive investment risk in areas of finance, management and entrepreneurial innovation than men.

Because there is still a pervading myth that women don't have the financial savvy or resources to start a high growth venture.

### **3. How women have been finding their money?**

#### **Micro Finance**

Research has shown that 64% women business owners reported using credit to finance their businesses.

- 50% have used business credit cards
- 5% had loans from previous employers.
- 21% used personal bank loans.
- 16% obtained business or commercial bank loans while they were still in the workforce.

#### **Start ups -**

Research has found that one third of women have raised an equity investment, usually in the range of \$325,000, and slightly more than one quarter of this capital came from informal investors, such as family and friends.

#### **Mezzanine Funds – Business Angels**

Almost one third reported an angel investor, Business angels are becoming the major source of capital raising for SME's.

So let's have a closer look at these business angels and where do they fit into our entrepreneurial culture?

- Angel Investors are high net worth individuals who make equity investment in start-up and early stage companies

- Most angel investor's who were once "solo" angels, have joined a growing trend for individuals to organize with others and invest in groups. This offers multiple benefits:
- Angels can pool their resources to make more and bigger investment while managing risk through diversification:
- Each group member typically owns parts of several companies
- Angels can pool their brainstorm to evaluate investment and mentor their portfolio companies more effectively
- Angel groups - which often have a visible public profiles in their home regions – are easier for entrepreneurs to find and approach. The angels get to see a larger quantity of high quality opportunities.
- At present women are seriously under-presented in angel investing and make up no more than 8% of angel investors

I would like to see more business Angel groups formed by women and operated to assist women with early stage capital.

There is so much more on this subject but time does not permit.

### **Mezzo Finance - Traditional – Banks**

The remaining, investment money is coming from:

- Small business investment corporations
- Investment funds affiliated with banks.

And it's also good to remember, when negotiating the terms and conditions of a contract sale, importers and exporters may need to deal in a currency other than their own because of the foreign Exchange risk.

You have to canvass the experience of others and fully explore the options before deciding what is right for your own enterprise.

### **3. If your company is Investment ready - What do investors look for:-**

***All capital formation is an essential process of risk minimisation.***

- Franchisers open new stores through minimising risk – this gets the community on board

***Investors depend on balancing the opportunity for return against the cost access of projects in order to increase their money***

- Any investor will have many opportunities for their funds.
- They will balance the risk of the investment for their return
- Low Risk such as Bank deposits, but not high return.
- Your business has to offer an investor a better return than they would get elsewhere

***Venture Capitalists seek Investments directly proportional to the quality of Management***

- Investors look for a strong Managerial team because
- they are really investing in the people plus an idea,
- a business is only as strong as its people

65% of all capital formation where management is weak the company will not stay the distance and will fail.

***Venture Capital criteria – checklist that companies must meet, to begin the process of raising capital.***

The quality of the investment portfolio offered for venture capital determines their risk assessment by presenting:

- A well structured Business Plan,
- A creative Marketing plan and
- A well thought out business strategy.
- How does your company stand out? Most of us never recognize an opportunity until we see it working in our competitor's business
- What is its uniqueness?
- Does our branding stand out from others?
- Can we show strong, realistic financial forecasts?

***Bidding into portfolio to get capital***

- Find an investor deals in your business area and understands your type of enterprise
- Your business plans are essential. They position your business in the competitive market of attracting the investor's attention.

***Better to have a phased financial requirement***

To gain investor confidence it is better to have a phased- In approach to the amount of money first required for growth rather than a "big ask" at the beginning.

***Capital formation is the easiest when it has a strong Predecessor elsewhere (Show me what it looks like)***

Investors want certainty and they want to know whether what you are dealing in has been successful.

Key areas where this applies are:

- New Technology
- Bio-Technology

***The amount of capital raised usually has a mix of debt & equity shares and finance (a Loan and equity & share of growth) and Return on capital loans***

**Ownership –**

\$300.00 raised can be broken up into a \$100.000 loan at commercial rates to be paid back and \$200.000 for 20% equity shares in the business.

**Growth path**

Steer away from this method at all costs. This is when the investor achieves a certain threshold in your business and may look for ever increasing returns.

## **IPO Initial public offering listing on stock exchange**

Investors will want a slice of the IPO action when you float your company.

And, remember It always takes three times as long to get an approval than anyone expects. Multiply whatever time you think it is going to take.

### **4. Investor's Opportunities**

If women are unable to reach potential investors due to the uniformity of the investment network, venture fund investors may be missing the opportunity to achieve top returns on their money

#### **Our recommendations are:**

To encourage and facilitate equity investment in ALL ventures, the following steps should be taken:

- A.** Encourage and educate women to participate in the investment process (angels, corporate venture funds and venture capital firms).

It's through this understanding that informed choices about business ownership and growth can best be made.

- B. Encourage investors** to seek out and consider investment In women-led ventures by expanding their networks beyond their traditional contacts.

- C. Fund** programs to educate and prepare women to lead fast growth business – whether high technology or not.

- E. Track** investments and performance of investments by, gender in all venture funded Companies - myths are best overturned by solid data.

- F. Business Angels and Government**, along the line of the two new bills currently before United States Government.

- Where they are lobbying their government to encourage more angel investors by creating a 25% tax credit to individual angel investors or partnerships that invest up to \$250,000
- And create a new office of angel Investment within the Ministry of Small Business. In addition to promoting angel investing as an innovative practice, the office would make investments (of up to \$2 million) to qualified business angels

**In conclusion**, remember money never starts an idea, it is the idea that starts the money. And beware of little expenses, because a small leak can sink a great ship