FARMINFIN

Farming concepts and innovative funding/financing

MODULE D: Communication and marketing

Accessing investors, main elements of a “exposé” or a “pitch”

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INTRODUCTION

Reaching out to institutions or persons willing to invest in your agricultural business is a challenging task.

Many entrepreneurs get in touch with equity investors for financing - but often transactions fail due to poor preparation. Yet, most mistakes can be easily avoided.

Young farmers, farmers with new and innovative business ideas or new entrants in farming sometimes lack of a track record or an existing proof of concept.

The better prepared, the higher the chances to convince investors to finance your business/project.

This Module will show the basics of reaching out to investors, starting with the main elements of an “exposé” or a “pitch”.

LEARNING OBJECTIVES

Main objectives of this module are:

- To know the essentials regarding reaching out appropriately to an investor.
- To motivate the farmer to strongly reflect on him-/herself as an entrepreneur in the professional world of financing.
- To give an overview of existing investor profiles and on how to reach out to investors.
- To give tips for pitching your project and a method to classify investors according to their specific profiles and expectations.

INDEX

Duration of the module: 45-90 min | Duration of each unit: 20-30 min

1. IDENTIFYING YOUR PROJECT

No matter how good your business idea is, you can't get your own company off the ground without capital.

Knowing that financing agriculture is still niche, it is important to recognise that there is a wide range of financing options available. However, not every option is suitable for every concept, and the opportunities and risks of each financing option must be taken into account.

A lack of financial planning is still one of the most common reasons for a failed start-up and also for the failure of long-standing businesses.

1.1. Financing opportunities for all

1. **Self-financing & bootstrapping**
2. **Money saving**
3. **Funding with subsidies or grants**
4. **Financing through loans and credits**
5. **Financing with Venture Capital, Business Angel, Crowdlending or Crowdinvesting**

1. Self-financing & bootstrapping

Regardless of whether this is possible for you or not - self-financing has advantages and disadvantages. Use equity capital, start smoothly, grow progressively.

If you invest a lot yourself, you naturally want to get the best out of it, and afterwards you are naturally proud of having made it alone with your own resources.

In addition, the largest share of the company remains with the founder. Young entrepreneurs have themselves then the greatest possible freedom to make decisions.

The high degree of entrepreneurial freedom goes together with a higher risk of making wrong decisions because the farmer - may work without the know-how of others - is then the sole person responsible for potential errors.

2. Money saving

Liquidity planning is one of the absolute basics when setting up and running a business and must already be taken into account when drawing up the business plan. In addition to sources of finance, young farmers should pay particular attention to efficiency in how they use their money. Savings can be made in many areas without productivity having to suffer.

3. Funding with subsidies or grants

Farmers can often make use of state support, not only for start-ups but also for development steps for growth, specialisation or diversification.

In addition, subsidies flow into agriculture, e.g. from the European Common Agricultural Policy (CAP).

However, there are often conditions and deadlines to be observed, so farmers should always inform themselves before applying for such funds.

There are two sides to every coin.

4. Financing through loans and credits

For larger purchases, a loan from the house bank is one method of raising the necessary capital to start a business.

A professional business plan and good preparation for the bank interview are absolutely necessary.

If the project is well developed, presented appropriately in the business plan and promises success, there is a good chance that a loan will be approved.

In principle, however, the bank will not waive private collateral and a corresponding credit rating.

However, it is also possible to look for an investor who can provide financial support for your project. Classically, these are business angels or venture capital.

5. Financing with Venture Capital, Business Angel, Crowdlending, Crowdinvesting

Venture Capital

With venture capital, investors provide companies with appropriate capital. In return, the investors often act as advisors and acquire shares in the company.

The financial scope thus increases, but founders bear the responsibility not only for themselves but also for the investors, who now want to be kept up to date on the development status and usually also expect constant reporting.

As a rule, investors only get involved in later phases of a venture when the risk has decreased. The riskier the current status of the start-up, the higher the interest on the funds provided.

Business Angel

Business angels can usually be won over much earlier for their own company. As a rule, however, they do not invest as much capital as venture capitalists. Instead, they act in an advisory capacity: young entrepreneurs can share in the wealth of experience of business angels, use their networks and contacts, which can often prove more valuable than pure capital. Additionally, business angels risk much more than venture capitalists, since they invest during or shortly after the start-up - at a time when success is by no means assured.

Finding such a popular angel is not so easy.

Crowd

Crowdfunding is an increasingly popular form of financing. Since the financial burden is shared among many shoulders, this is also referred to as crowdfunding. Crowdfunding is divided into several types.

There is reward-based crowdfunding, lending-based crowdfunding and equity-based crowdfunding.

In equity-based crowdfunding, backers become investors and receive a share in the company with which they also participate in the turnover. The investors' goal is usually a later exit.

In reward-based crowdfunding, backers receive a thank-you for their financial support, which is more extensive depending on the amount of money given.

In lending-based crowdfunding, backers offer a loan with a fixed interest rate and a fixed term.

1.2. Opportunities for financing your specific business idea

Which type of financing is suitable for you depends not only on the type and volume of the investment, but also on the phase in which you and your farm are.

In the pre-foundation phase, there is usually no more than an idea.

The start-up phase covers the steps from founding the company to launching it on the market: you have a “proof of concept” with which you can convince investors that your project will be successful.

In the start-up phase, also known as the first stage, you are already generating sales, but are usually not yet breaking even.

In the growth phase, you try to consolidate your company’s position in the market. From now on, most investors no longer consider you and your project to be a start-up, but a company.

Demands, needs, wishes or fears of the people involved depend on the position they possibly get in:

- **Farmer/ Entrepreneur:** Wants to get his/her business financed on the base of adequate conditions (interest, duration, decision-making-power)
- **Funder/ Donor/ Investor:** Wants to see rewards of his/her money invested in a secure, profitable and probably meaningful way.

1.3. Decision for financing the rest of your business idea

There are many ways to finance your business. It is possible to turn a business idea to start or develop your farm into a profitable business.

Depending on the type of business, the type and volume of investment and also the life phase of your agricultural business, the range of relevant options will be narrowed down.

Each approach has its own advantages and disadvantages, which you should take into account when making your choice.

Contract law is strong!

As soon as a contract is concluded it comes into force with all its consequences:

- financial conditions (interest, distribution, duration, etc.)
- decision-making power
- reporting obligations

etc.

TAKE YOUR TIME TO DECIDE ABOUT YOUR WAY OF FINANCING YOUR BUSINESS

2. DECISIVE STEPS AND PREVENTABLE MISTAKES

Investors usually make intensive use of their voting rights and opportunities to exert influence. Even though dialogue between companies and their investors is important. Terms such as sustainability, stewardship or shareholder engagement are playing an increasingly important role.

There are challenges posed by the separation of ownership and management of a company. From an economic perspective, the separation leads to various information asymmetries.

These can be exploited by the farmer. If this is possible without sanctions, it increases the risk of opportunistic behaviour on the part of the farmer.

According to the theory, performance decreases when good performance is not appropriately rewarded and poor performance is not appropriately punished.

But yes, this assessment has to do with the classification of all humans as homo economicus.

TAKE YOUR TIME TO GET TO KNOW YOUR TARGET AND THE PROCESS TO REACH IT

2.1. Perception of the target

Investors' expectations are multi-layered

The financial interest is clear and the business basis is that the investor wants to get "something" in return for his invested money: a return in money, to receive a thing or even influence or to create meaning. The expectation of the investor depends on his investment horizon, investment style, etc.

In addition, fair information is a central requirement for the farmer when he accepts money from the investor. The focus should be on active (personal) communication. The information must be comprehensible and up-to-date. Only then a relationship can be built up between the farmer and the investors that can satisfy both.

Relationship between company and investor

Investor relations - i.e. the communication relationship between the farmer and the investor(s) - plays the decisive role here. To build a successful relationship with investors, a company should consider the following:

- Individualisation of information
- Comprehensible, up-to-date communication - simple but complete
- Active personal communication; in good and bad times

Individualisation of information

There is no such thing as “the” investor. The art from a farmer‘s point of view is to adapt to each individual. Investors have very different motivations and characteristics. A farmer should maintain an open and cooperative relationship and try to optimally and individually meet the information needs of specific investors.

Comprehensible, up-to-date and continuous communication

Investors must be able to comprehend information in order to assess it. In this way facts are more convincing than prose. Information should always be up-to-date and as complete as possible. Investors should be informed continuously and promptly and not only when the company has “good news” to report.

2.2. Perception of the process

The way you search for and approach an investor depends on what kind of investor you are looking for. In any case, you should be able to explain in a few minutes why the idea, the business will work and why you are the right person to put your ideas into practice.

To have access to a relevant networks helps of course.

The basic process is as follows:

1. Concretise your business idea!
2. Check and decide the financing options with their positive and negative effects!
3. Put yourself in a position to describe your business idea/project personally and with suitable documents in a very short time!
4. Create your exposé and prepare for a pitch!

GET PREPARED; THEN GET IN TOUCH WITH THE FINANCIER YOU WANT TO REACH

2.3. Perception of the investment team

Aim: Find an investor who will actually invest

All the content and recommendation above seems simple.

But you know, it is a big challenge to set yourself up in this way, to create your own exposé, to reach out to the relevant network and their contacts and then actually convince them to invest in your business at conditions that are interesting for you.

It is advisable to form an investment team on your side, in which you involve the relevant people in your business or in your network - especially experts in the field of financing - for the objective.

3. ACCESSING THE INVESTOR

Investors can be natural persons or legal entities. The latter are institutional investors, which include banks, insurance companies, fund companies and pension funds. A distinction is made between three types of investors: institutional investors, semi-professional investors and private investors.

Institutional investors not only manage their own assets, they also invest third-party capital.

From the perspective of the farmer seeking investors, there are three basic financial orientations of investing to consider: return, security and liquidity, the so-called "magic triangle of investing".

Since all three factors influence each other, the investor must prioritise one of the objectives when looking for the right investment. Basically, the higher the expected return, the greater the associated risk.

3.1. Existing investor profiles

There is no conclusive list of investors with a detailed description of the respective interests.

- In which volume does the investor invest?
- In which sectors does he invest?
- How risk-affine or risk-averse is he?
- What are his ideas about returns?
- When does he want to see returns?

THERE IS A DIVERSE FIELD OF PROFILES ACCORDING TO IDEA, SCOPE AND SCALE!

IS THERE ANOTHER DRIVER OF THE INVESTOR SUCH AS REACHING IMPACT OR DOING A MEANINGFUL INVESTMENT?

IMAGINE YOURSELF INVESTING MONEY IN SOMEONE ELSE'S BUSINESS: WHAT WOULD BE YOUR ALTERNATIVES AT THE MOMENT? IS THERE ANOTHER OPTION FOR YOU TO INVEST IN A SECURE, PROFITABLE AND MEANINGFUL WAY YOUR MONEY?

- **LOOKING TO YOUR PROJECT: IS IT SECURE? IS IT PROFITABLE? IS IT MEANINGFUL?**
- **COULD YOU SHOW THAT PLEASE TO ME? I AM AN INVESTOR! THEN I SHOW MY PROFILE TO YOU!**

3.2. Reaching out to the investor

What you should avoid

- **Misconceptions:** Do not meet an investor just to test or check your market value. Such requests are dangerous for the reputation of your company. This also applies to offers with very high price expectations from the outset. A serious investor will quickly weed out such applications.
- **Wrong addressees:** Here you as an entrepreneur must make a thorough pre-selection with your advisors as to which investors with their profile are the right ones.
- **Focus on only one investor:** Investors want to participate in highly interesting companies at reasonable conditions. They are most comfortable when they can take an exclusive look at a company and put it through its paces. For you, however, this is risky. If, after months of examination, the deal is not closed, you lose valuable time.
- **Act without consultants:** Even smaller companies should not do without the expertise of proven consultants. The consultant can structure and professionally manage the process. If necessary, they can also initiate contacts.

3.3. Presentation of your concept

In most cases, you will only have one chance with each investor to convince them of your business idea. So you have to make the most of this chance. There is no one perfect model for presenting your company.

In many cases, the forms of presentation can also build on each other, because in the best case investors want to learn more little by little.

- **One pager:** With the one pager, you list the most important key data of your company on just one sheet. This should give the investor a first impression of your company and he can then decide whether he wants to learn more about it.
- **Pitch deck or exposé:** The pitch deck is a presentation of about 10 to 15 pages. The purpose is to go into more detail about the idea of the company and to give the investor more in-depth information.
- **Business plan:** Finally, there is the business plan, which is about the complete implementation of the business idea, including the financial figures. Investors place particular emphasis on the financial plan and often decide for or against a company on the basis of this plan.

No matter what kind of investor you or your investment team identify:

GET PREPARED FOR DELIVERING A ONE-PAGER, AN EXPOSE, A PITCH DECK AND A BUSINESS PLAN

Your time is at least as short as the time of an investor.

REACHING OUT TO AN INVESTOR MEANS MEETING AT THE ENTREPRENEURIAL LEVEL

PITCH DECK IN 12 SLIDES

1. The title slide/introduction
2. The team
3. The problem
4. The solution
5. The product or service
6. The market
7. The unique selling proposition
8. The competition
9. The business model
10. The proof of concept
11. The financing requirement
12. The contact details

BUSINESS PLAN IN 10 STEPS

1. Idea, offer and target group
2. Market and competition
3. Visions and goals
4. Your strategy
5. Marketing
6. Legal aspects and taxes
7. Founding team and organisation
8. Finances
9. SWOT analysis
10. Executive summary

FINANCIAL PLAN IN 7 STEPS

1. Plan turnover
2. Record the costs
3. Do not forget start-up costs
4. Investment planning
5. Liquidity planning
6. Financing plan
7. Profitability calculation

- **One-pager:** In a word, tell me what you plan to do and how you plan this business financially. What's in it for me?

REACHING OUT TO AN INVESTOR MEANS MEETING AT ENTREPRENEURIAL LEVEL

CONCLUSIONS

The key insights we want you to draw from this modules are:

1. **Match interests -** which investor/investor profile suits me?

2. **Exchange information -** what do investors actually want to know?

3. **Ask for more than just money -** networks, wealth of knowledge and experience.

4. **Use feedback -** be open-minded!

5. **Remain realistic -** don't loose touch to earth even if you are possibly very successful at some point!

6. **Get to-the-point -** time is always short!

7. **Be credible -** stick to the truth about you and your business. You are aiming for a long-lasting support.

8. **Be a team -** Work as a team not only in the operative work but also in your financing approach.

REFERENCES/LINKS

- Sources and work experiences of Hof und Leben (HuL)

ADDITIONAL RESOURCES

How to pitch:
- https://www.youtube.com/watch?v=AQ2PIP45NQQ&t=150s
- https://www.youtube.com/watch?v=1oJkeT3QVOQ

Germany:
- https://www.fuer-gruender.de/wissen/geschaeftsidee-finden/how-to-startup/
- https://www.junge-gruender.de/finanzierungsarten/

PARTNERS

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On Projects Advising (OnP), Spain
www.onprojects.es

Folkuniversitetet (FU), Sweden
www.folkuniversitetet.se

Agricoltura E' Vita (AéV), Italy
www.agricolturavita.it

The Association of Private Farming of Czech Republic (APF CR), Czech Republic
www.asz.cz

Union de agricultores y ganaderos - jovenes agricultores de Jaén (COAG-Jaén), Spain
www.coagjaen.es

Social media

Facebook: **@farminfin**
Twitter: **@farminfin**

Project webpage

www.farminfin.eu

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