THE BELL-MASON DIAGNOSTIC FOR RAISING CAPITAL EXPLAINED

Silicon Valley has developed a "genius" business model. You find a genius. You build a business around him.

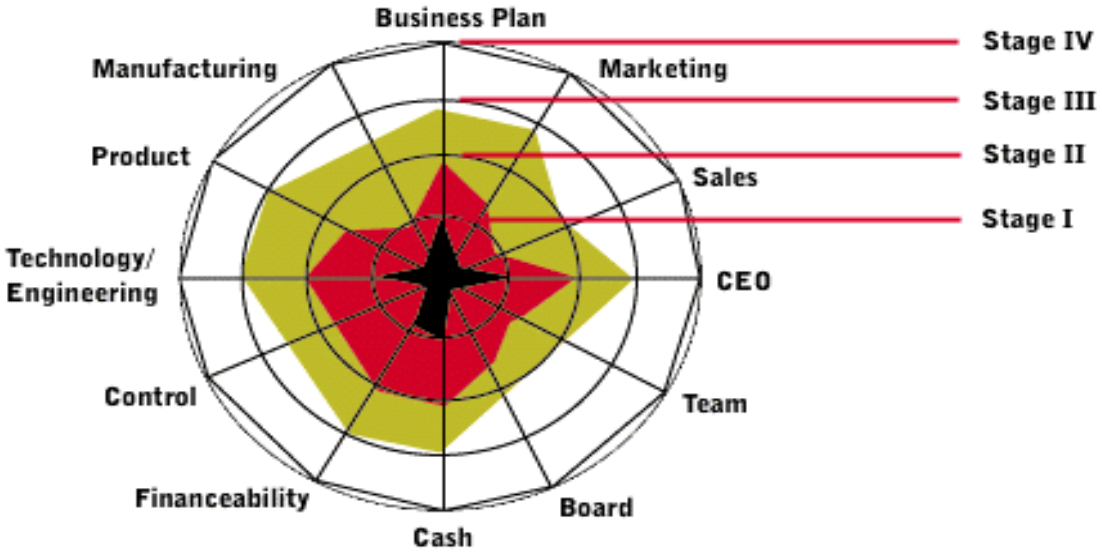
The problem is that geniuses are hard to come by. Perhaps more importantly, this emphasis on inspired, highly caffeinated, insomniac heroes contributes to the biggest reason for the failure of new ideas that we've seen in our decades of working in everything from teeny start-ups to mega-projects financed by mammoth corporations.

There is this idea that speed to market is more important than anything else. In fact, it's more important to be right than to be fast. If you take the time to get it right, you actually will find that you often accelerate the venture.

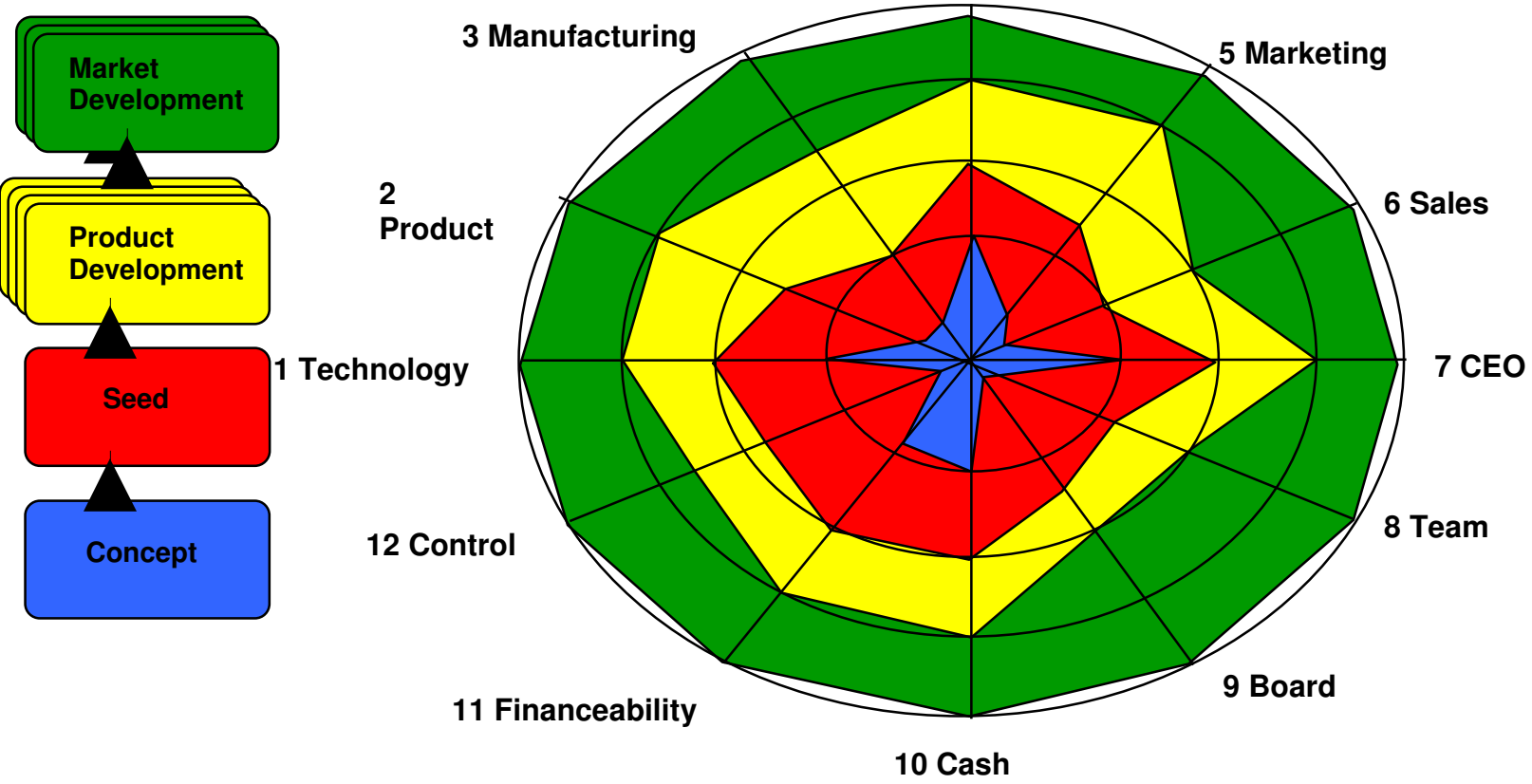
This whole issue of how to deal with start-up ventures is going to be increasingly important. Whether the ventures are done by entrepreneurs as stand-alone companies or are set up by "intrapreneurs" trying out new ideas inside a large corporation, there are going to be a lot more of them.

As the forces of digitisation, globalisation, and deregulation make the business world more competitive, companies are going to have to become much better at trying out innovative ideas and bringing them to market.

So we developed a way to determine how a start-up stacks up on 12 dimensions and have refined the diagnostic by using it to evaluate more than 450 ventures over the past seven years.



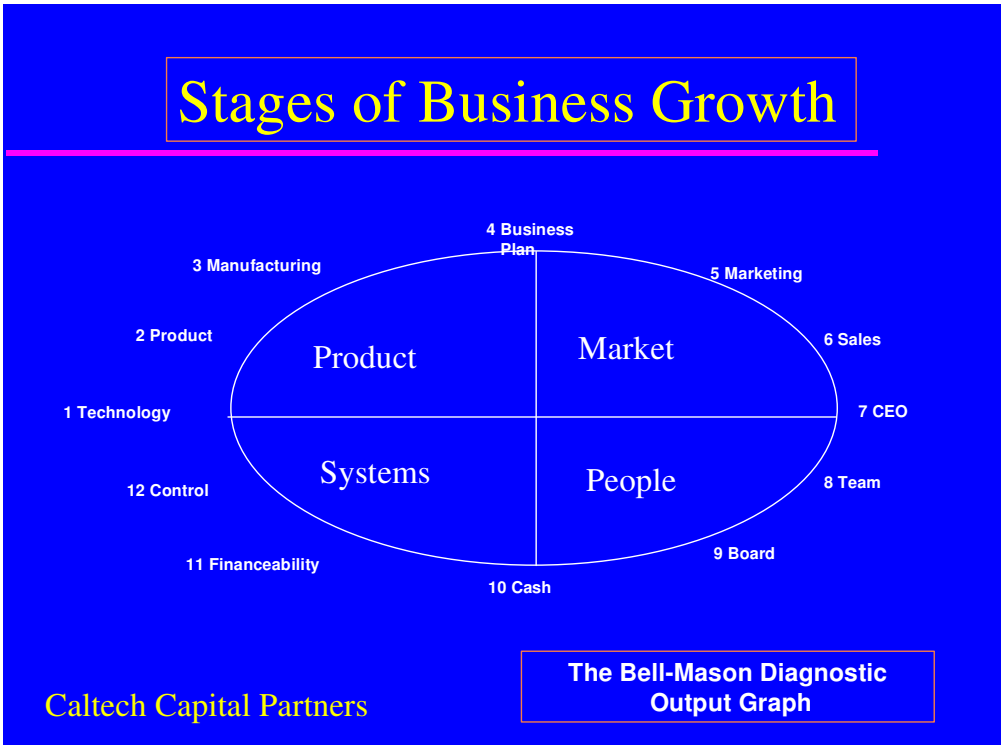
There are 4 Stages to the Capital Raising Process:-



We measure on these 12 dimensions at each of a venture's four stages-concept, seed, product development, and market development.

The 12 dimensions can be grouped into four categories.

1. Operational:- This category includes technology and engineering,



manufacturing capability, and the state of the product.

2. Financial:- This category includes cash on hand and the ability to raise more.

3. Managerial:- This category includes organisational control and the chief executive's leadership.

4. Market:- This category includes the marketing and sales activities.

The diagnosis, a half-day analysis based on our 1,000 standard questions, yields a graph generated by expert system software that evaluates the answers based on more than 700 rules and relationships.

The graph shows how a venture compares against the ideal for a start-up at that stage, pinpointing where the venture is weak and where it is unnecessarily strong.

The balanced approach that is reinforced by the Bell-Mason Diagnostic is crucial because, for all the genius in the world, one missed item can kill a great idea when it's in a vulnerable, fledgling state. In one instance we tracked, management reasoned that an innovative product being offered at $500,000 had ducked under an important price barrier.

There would only be one evaluator to win over. A purchase decision would require at most three months. Instead, customers took the new product more seriously than the venture itself did, suspecting that it might change their corporate direction. Naturally, everyone wanted to touch the check. Decisions often took nine months. Gasping for cash, the venture suffocated eyes wide open.

"It's so easy for new companies to get bogged down in a lot of things," says Geir Ramleth, an entrepreneur. "The Bell-Mason questioning-which becomes more of a conversation between senior individuals-helps you get your head screwed on right."
Although we're arguing for a nuanced approach and against generalisations, our work has yielded some rules of thumb that can give you a flavour of the kind of surprise it can produce when used to evaluate a venture:

Falling short on financial goals can be okay in the early stages of a venture, but missing product-development milestones is not. While financial disappointments are never fun, product-development problems can be catastrophic because they mean the venture's basic schedule is no longer predictable.

In the later stages, financial goals become more important. At that point, the venture has to show that it not only has a product but also has a business.
If more than three basic concepts still need proving, the company is engaged in research, not product development.

Consider the case of a company innovating a laser technology using "brave new world" semiconductor materials. The creators had only produced the most rudimentary version of the product, using just two or three tiny electronic devices known as gates. A commercial version required thousands of gates, a solution that was beyond the powers of the design team.

If you haven't done it before, you can't schedule it with any degree of accuracy. A lot of big companies seem to think they can get around this problem, but they can't. Project planning for an intrapreneurial or entrepreneurial venture is a fundamentally different beast than for a going concern. It has to be. It's not based on experience, just on reasonable guesses. Life isn't reasonable. The way to deal with the uncertainty is to continually check your progress and recalibrate as you go, to link the schedule ever closer to reality.

If you've begun a venture that has something to do with electronic commerce or that has some other significant software aspect to it, there is a whole slew of other rules of thumb. For instance, skipping tests with customers is the wrong thing to do. When technology is involved, product lifecycles are brutally short. So the impulse to break surface immediately into the market after months of technological deep diving is almost irresistible. Resist it. Take the time to observe a few customers trying out the product in a real-use environment. Once the product goes public, the costs of changing something rise exponentially.

Look what happened to the Social Security Administration. When it tried to roll out a program to let people check their accounts over the Internet, it had to quickly yank the plan because people worried that information wasn't adequately shielded from snoopers. In fact, the Social Security Administration had done a reasonable job on privacy. It just hadn't tested the market's reaction well enough.

If you're driving up a narrow mountain road, you can either keep some general pointers in mind or you can keep track of how far your outside tire is from the edge of the road. If you translate that image into investing, a general pointer might be Arthur Rock's idea that he only cares about "people, people, people." That pointer certainly got him safely to the summit. But he was a genius at venture capital. We think most people have a far better chance of making their way safely if they always know how many inches they are away from the abyss.

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