Guest columnist

Separating fact from fiction

Keith Arundale, a leading expert on private equity and venture capital, ponders whether shows like Dragons' Den give a fair reflection of how the industry works

Of the nations featured in the 2012 GEDI (Global Entrepreneurship and Development Institute) listing, the UK came 14 for entrepreneurial performance. Unsurprisingly, the US was top.

It seems that everybody in the US wants to be an entrepreneur. In contrast, the UK is in the GEDI Index's bottom quarter for countries whose populations consider entrepreneurship a good career choice. So anything that encourages entrepreneurship in the UK such as *Dragons' Den* must be a good thing, mustn't it? You would think so, but do shows where entrepreneurs pitch ideas to businesspeople and have just minutes to convince them to invest offer a realistic portrayal of how to secure finance?

"Many business proposals wouldn't see the light of day"

Let's look at how the programme works. Meeting five high-profile investors simultaneously after a cold submission of a 300-word executive summary of your venture is not realistic, especially when the idea does not relate to the Dragons' business interests. Of course, all business proposals will go through a selection process before the budding entrepreneurs meet the Dragons, though some are presumably chosen for their entertainment value. In reality, many wouldn't see the light of day when scrutinised by venture capitalists.

Entrepreneurs have just three minutes to make their pitch, before answering questions from the panel. The Dragons then decide whether or not to make an offer to invest. Outside the den, venture capitalists who are interested after making initial inquiries will meet with the business's management for a detailed presentation. The potential investors then ask probing questions, carry out further inquiries and reference checks, organise more meetings with the management team and take the venture to an investment committee before an offer is made. All this takes far longer than the 10 minute process we see on the show.

Next comes the negotiation. Someone selling a 10% equity stake for £100,000 – which equates to a pre-money valuation of £900,000 – will be quizzed on why they think their company is worth that much. If dissatisfied with the answer, the Dragon usually tells the entrepreneur, "I'm out". When pitching to a venture capital firm, entrepreneurs have to ensure there are no obvious flaws in their plan.

When offering to share their expertise and contacts with the companies in which they invest, the Dragons show the value that venture capital firms bring to investee companies. Given that they are really business angels, the Dragons may also get more involved in the operational workings of an investee company. As for investing, any offer made on the show is subject to the outcome of due diligence, which also happens in real life.

Looking at the pros and cons, it's clear that the show has its shortcomings. But on balance it is a useful tool for encouraging UK people to consider becoming entrepreneurs. ■

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