

Financial Investor, Strategic Investor

Presented by:

SHASHIKUL – www.shashikul.com

AGASS – www.agass.online

SHASHWANI – www.shashwani.com



R u p a n s h
A s h w a n i

In the not so distant past, there was little difference between financial and strategic investors. Investors of all colors sought to safeguard their investment by taking over as many management functions as they could. Additionally, investments were small and shareholders few. A firm resembled a household and the number of people involved - in ownership and in management - was correspondingly limited. People invested in industries they were acquainted with first hand.

As markets grew, the scales of industrial production (and of service provision) expanded. A single investor (or a small group of investors) could no longer accommodate the needs even of a single firm. As knowledge increased and specialization ensued - it was no longer feasible or possible to micro-manage a firm one invested in. Actually, separate businesses of money making and business management emerged. An investor was expected to excel in obtaining high yields on his capital - not in industrial management or in marketing. A manager was expected to manage, not to be capable of personally tackling the various and varying tasks of the business that he managed.

Thus, two classes of investors emerged. One type supplied firms with capital. The other type supplied them with know-how, technology, management skills, marketing techniques, intellectual property, clientele and a vision, a sense of direction.

In many cases, the strategic investor also provided the necessary funding. But, more and more, a separation was maintained. Venture capital and risk capital funds, for instance, are purely financial investors. So are, to a growing extent, investment banks and other financial institutions.

The financial investor represents the past. Its money is the result of past - right and wrong - decisions. Its orientation is short term: an "exit strategy" is sought as soon as feasible. For "exit strategy" read quick profits. The financial investor is always on the lookout, searching for willing buyers for his stake. The stock exchange is a popular exit strategy. The financial investor has little interest in the company's management. Optimally, his money buys for him not only a good product and a good market, but also a good management. But his interpretation of the rolls and functions of "good management" are very different to that offered by the strategic investor. The financial investor is satisfied with a management team which maximizes value. The price of his shares is the most important indication of success. This is "bottom line" short termism which also characterizes operators in the capital markets. Invested in so many ventures and companies, the financial investor has no interest, nor the resources to get seriously involved in any one of them. Micro-management is left to others - but, in many cases, so is macro-management. The financial investor participates in quarterly or annual general shareholders meetings. This is the extent of its involvement.

The strategic investor, on the other hand, represents the real long term accumulator of value. Paradoxically, it is the strategic investor that has the greater influence on the value of the company's shares. The quality of management, the rate of the introduction of new products, the success or failure of marketing strategies, the level of customer satisfaction, the education of the workforce - all depend on the strategic investor. That there is a strong relationship between the quality and decisions of the strategic investor and the share price is small wonder. The strategic investor represents a discounted future in the same manner that shares do. Indeed, gradually, the balance between financial investors and strategic investors is shifting in favour of the latter. People understand that money is abundant and what is in short supply is good management. Given the ability to create a brand, to generate profits, to issue new products and to acquire new clients - money is abundant.

These are the functions normally reserved to financial investors:

Financial Management

The financial investor is expected to take over the financial management of the firm and to directly appoint the senior management and, especially, the management echelons, which directly deal with the finances of the firm.

1.. To regulate, supervise and implement a timely, full and accurate set of accounting books of the firm reflecting all its activities in a manner commensurate with the relevant legislation and regulation in the territories of operations of the firm and with internal guidelines set from time to time by the Board of Directors of the firm. This is usually achieved both during a Due Diligence process and later, as financial management is implemented.

- 2.. To implement continuous financial audit and control systems to monitor the performance of the firm, its flow of funds, the adherence to the budget, the expenditures, the income, the cost of sales and other budgetary items.
- 3.. To timely, regularly and duly prepare and present to the Board of Directors financial statements and reports as required by all pertinent laws and regulations in the territories of the operations of the firm and as deemed necessary and demanded from time to time by the Board of Directors of the Firm.
- 4.. To comply with all reporting, accounting and audit requirements imposed by the capital markets or regulatory bodies of capital markets in which the securities of the firm are traded or are about to be traded or otherwise listed.
- 5.. To prepare and present for the approval of the Board of Directors an annual budget, other budgets, financial plans, business plans, feasibility studies, investment memoranda and all other financial and business documents as may be required from time to time by the Board of Directors of the Firm.
- 6.. To alert the Board of Directors and to warn it regarding any irregularity, lack of compliance, lack of adherence, lacunas and problems whether actual or potential concerning the financial systems, the financial operations, the financing plans, the accounting, the audits, the budgets and any other matter of a financial nature or which could or does have a financial implication.

- 7.. To collaborate and coordinate the activities of outside suppliers of financial services hired or contracted by the firm, including accountants, auditors, financial consultants, underwriters and brokers, the banking system and other financial venues.
- 8.. To maintain a working relationship and to develop additional relationships with banks, financial institutions and capital markets with the aim of securing the funds necessary for the operations of the firm, the attainment of its development plans and its investments.
- 9.. To fully computerize all the above activities in a combined hardware-software and communications system which will integrate into the systems of other members of the group of companies.
- 10.. Otherwise, to initiate and engage in all manner of activities, whether financial or of other nature, conducive to the financial health, the growth prospects and the fulfillment of investment plans of the firm to the best of his ability and with the appropriate dedication of the time and efforts required.

Collection and Credit Assessment

- 1.. To construct and implement credit risk assessment tools, questionnaires, quantitative methods, data gathering methods and venues in order to properly evaluate and predict the credit risk rating of a client, distributor, or supplier.
- 2.. To constantly monitor and analyse the payment morale, regularity, non-payment and non-performance events, etc. - in order to determine the changes in the credit risk rating of said factors.

- 3.. To analyse receivables and collectibles on a regular and timely basis.
- 4.. To improve the collection methods in order to reduce the amounts of arrears and overdue payments, or the average period of such arrears and overdue payments.
- 5.. To collaborate with legal institutions, law enforcement agencies and private collection firms in assuring the timely flow and payment of all due payments, arrears and overdue payments and other collectibles.
- 6.. To coordinate an educational campaign to ensure the voluntary collaboration of the clients, distributors and other debtors in the timely and orderly payment of their dues.

The strategic investor is, usually, put in charge of the following:

Project Planning and Project Management

The strategic investor is uniquely positioned to plan the technical side of the project and to implement it. He is, therefore, put in charge of:

- 1.. The selection of infrastructure, equipment, raw materials, industrial processes, etc.;
- 2.. Negotiations and agreements with providers and suppliers;
- 3.. Minimizing the costs of infrastructure by deploying proprietary components and planning;
- 4.. The provision of corporate guarantees and letters of comfort to suppliers;

- 5.. The planning and erecting of the various sites, structures, buildings, premises, factories, etc.;
- 6.. The planning and implementation of line connections, computer network connections, protocols, solving issues of compatibility (hardware and software, etc.);
- 7.. Project planning, implementation and supervision.

Marketing and Sales

- 1.. The presentation to the Board an annual plan of sales and marketing including: market penetration targets, profiles of potential social and economic categories of clients, sales promotion methods, advertising campaigns, image, public relations and other media campaigns. The strategic investor also implements these plans or supervises their implementation.
- 2.. The strategic investor is usually possessed of a brandname recognized in many countries. It is the market leaders in certain territories. It has been providing goods and services to users for a long period of time, reliably. This is an important asset, which, if properly used, can attract users. The enhancement of the brandname, its recognition and market awareness, market penetration, co-branding, collaboration with other suppliers - are all the responsibilities of the strategic investor.
- 3.. The dissemination of the product as a preferred choice among vendors, distributors, individual users and businesses in the territory.
- 4.. Special events, sponsorships, collaboration with businesses.

- 5.. The planning and implementation of incentive systems (e.g., points, vouchers).
- f.. The strategic investor usually organizes a distribution and dealership network, a franchising network, or a sales network (retail chains) including: training, pricing, pecuniary and quality supervision, network control, inventory and accounting controls, advertising, local marketing and sales promotion and other network management functions.
- g.. The strategic investor is also in charge of "vision thinking": new methods of operation, new marketing ploys, new market niches, predicting the future trends and market needs, market analyses and research, etc.

The strategic investor typically brings to the firm valuable experience in marketing and sales. It has numerous off the shelf marketing plans and drawer sales promotion campaigns. It developed software and personnel capable of analysing any market into effective niches and of creating the right media (image and PR), advertising and sales promotion drives best suited for it. It has built large databases with multi-year profiles of the purchasing patterns and demographic data related to thousands of clients in many countries. It owns libraries of material, images, sounds, paper clippings, articles, PR and image materials, and proprietary trademarks and brand names. Above all, it accumulated years of marketing and sales promotion ideas which crystallized into a new conception of the business.

Technology

- 1.. The planning and implementation of new technological systems up to their fully operational phase. The strategic partner's engineers are available to plan, implement and supervise all the stages of the technological side of the business.
- 2.. The planning and implementation of a fully operative computer system (hardware, software, communication, intranet) to deal with all the aspects of the structure and the operation of the firm. The strategic investor puts at the disposal of the firm proprietary software developed by it and specifically tailored to the needs of companies operating in the firm's market.
- 3.. The encouragement of the development of in-house, proprietary, technological solutions to the needs of the firm, its clients and suppliers.
- 4.. The planning and the execution of an integration program with new technologies in the field, in collaboration with other suppliers or market technological leaders.

Education and Training

The strategic investor is responsible to train all the personnel in the firm: operators, customer services, distributors, vendors, sales personnel. The training is conducted at its sole expense and includes tours of its facilities abroad.

The entrepreneurs - who sought to introduce the two types of investors, in the first place - are usually left with the following functions:

Administration and Control

- 1.. To structure the firm in an optimal manner, most conducive to the conduct of its business and to present the new structure for the Board's approval within 30 days from the date of the GM's appointment.
- 2.. To run the day to day business of the firm.
- 3.. To oversee the personnel of the firm and to resolve all the personnel issues.
- 4.. To secure the unobstructed flow of relevant information and the protection of confidential organization.
- 5.. To represent the firm in its contacts, representations and negotiations with other firms, authorities, or persons.

This is why entrepreneurs find it very hard to cohabitate with investors of any kind. Entrepreneurs are excellent at identifying the needs of the market and at introducing technological or service solutions to satisfy such needs. But the very personality traits which qualify them to become entrepreneurs - also hinder the future development of their firms. Only the introduction of outside investors can resolve the dilemma. Outside investors are not emotionally involved. They may be less visionary - but also more experienced.

They are more interested in business results than in dreams. And - being well acquainted with entrepreneurs - they insist on having unmitigated control of the business, for fear of losing all their money. These things antagonize the entrepreneurs. They feel that they are losing their creation to cold-hearted, mean spirited, corporate predators. They rebel and prefer to remain small or even to close shop than to give up their cherished freedoms. This is where nine out of ten entrepreneurs fail - in knowing when to let go.

About Rupansh Ashwani



Rupansh Ashwani is the author of 'The Sojourn' and 'Pulchritude - An Eternal Love Story'. He is also the singer/composer/lyricist of 'Proud to be a CA', 'Love can go so Far', 'Show me the way' and 'You are in my dreams.'

Rupansh Ashwani is CA,MBA,CFA,MFA,DISA,B.Com Hons. He also topped CA exams in India in 2011. He is also a certified career counsellor and study abroad counsellor.