

## Four investment lessons from the Dragons' Den

Hooray! A new series of Dragons' Den is under way. I love this programme. I love the courage of the aspiring entrepreneurs and the cool appraisal of the Dragons.

Of course, this is entertainment and is not an accurate representation of the business world. But it comes closer than many business reality shows. And both entrepreneurs and investors can learn some valuable lessons.

In today's Penny Sleuth, I'd like to show you some of the lessons we can learn from the Dragons' Den. And I'll reveal an interesting penny share minnow that has one of the Dragons on its board.

### The way of the Dragons

According to government figures, the entrepreneurial spirit is flourishing. In garages, spare bedrooms and garden sheds all over the land about a thousand new businesses are being set up each day.

Last year, 395,327 new businesses were registered, a figure topped only once in the last 25 years. In a few years time, some of these entrepreneurs will, no doubt, be coming to the stock market, seeking the backing of new investors.

We need to be prepared. We need to know how we should assess these new investment opportunities. What questions must we ask?

Let us learn from the Dragons. These are the four rules that they follow.

#### 1. Dismiss the loonies

OK, so it is a bit unfair to characterise them as loonies. But some of the people who walk up those stairs into the Den seem to have very little common sense.

I am not suggesting that you need a university education to be a success in business - far from it. But you do need to be able to present a coherent story and have a grasp of the basic numbers.

Every new business must have an idea of its target revenue, a simple multiplication of price versus quantity sold. And every business has costs of raw materials, labour, premises, and so on. At the very least, entrepreneurs should have a grasp of these numbers.

#### 2. Back the enthusiasts

However promising is the initial idea, the business still has to be properly managed and the product has to be sold. People respond to enthusiasm. Employees like working for bosses who are upbeat. Customers and suppliers need to trust the new business and respond positively.

Personality is critical. You don't need to be a hard-nosed, self-centred megalomaniac - as is the impression sometimes conveyed by The Apprentice. But you need to have the ability to get things done. And that requires energy and powers of persuasion.

#### 3. Sell a product that is needed, not wanted

Many are the entrepreneurs who have entered the Dragons' Den and unveiled something that few people, if any, would ever want to own.

At the start of this series, a rather nervous looking inventor tried to persuade the Dragons that a 'No Entry' sign could be improved by a little flashing light indicating in which direction it was safe to travel.

In response to a question from one of the Dragons the inventor admitted that he had met the Head of the Highways Agency. This person had told him that she saw no need whatsoever for his innovation. Exit the entrepreneur and his hopes of financial backing.

A similar fate befell a young man who had invented a battery-powered rotating shaving brush. Has anybody ever yearned for such a thing?

By contrast, you may recall one entrepreneur who had the Dragons fighting to back her after she exhibited a clever magnetic device that enabled wires to be threaded through cavity walls. This ingenious little invention solved a common headache of any electrician.

The message is this. It is much easier to sell a product that people actually need than one that they have to be persuaded to want.

#### **4. Don't overpay**

The Dragons always drive a hard bargain. I doubt whether they ever pay more than three times the projected profits of a business. This means that if the business delivers, they will make a handsome return. But they also know that they need some big successes to cover those that will inevitably fail.

If, like me, you enjoy the Dragons' Den, you may sometimes wish that you could invest alongside the Dragons. Well now you have an opportunity.

Are you in or out?

*Tom Bulford, MoneWeek, 29-Jul-2010*

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