



Pitching for Finance for a Business Start-Up: A Case Study of IviewCameras

David Molian

Cranfield School of Management

Abstract. In September 2002 Pete Rankin is leaving his MBA programme to launch a new internet-based venture, IViewCameras. The price of wireless CCTV (closed-circuit TV) has fallen dramatically, creating a new market opportunity. To launch his venture, Pete has reached agreement with an established internet-based retailer, Internet Cameras Direct, to incubate IviewCameras in return for shares. Internet Cameras Direct can provide IViewCameras with an existing infrastructure for sales, procurement and fulfilment. However, Pete's presentation of his venture to external reviewers has gone badly. A venture capitalist doubts whether a business model that proposes both to sell manufacturers' brands and build an IviewCameras' brand is viable, and questions whether the business is truly sustainable without an intellectual property base. Pete is left to ponder whether the concept is fatally flawed, or whether he should fall back on his self-belief and instinct that this is the right product at the right time. The case examines the issues of: low-cost market entry via business incubation; what sort of market research is required to satisfy external investors at start-up; and whether an internet-based start-up needs intellectual property to sustain its business model. The central area for class discussion is how to evaluate a business proposition, and the credibility of the entrepreneur, in an emerging market space.

Keywords: entrepreneurship, market entry, new ventures, dotcoms, start-up, internet retailing.

1. Introduction

In early September 2002 Pete Rankin walked out of his *Planning Your New Business* presentation at Cranfield School of Management, feeling a mixture of anger and disappointment. His business plan to sell wireless CCTV (closed-circuit television) cameras over the internet had just been torn apart by the adjudicating panel. Among his fellow students Pete had been hot favourite to walk off with the prize for the best plan. He had put huge amounts of effort into preparing his presentation. Yet the feedback from the panel had been by and large negative. Where had he gone wrong? Was he kidding himself that there was a successful business here to be built? Or should he remain confident in his own judgment and ignore the views of professional investors?

2. Peter (Pete) Rankin

Pete Rankin would probably agree that he was destined to be an entrepreneur. Born in England in 1969, at the age of only six he set up his first entrepreneurial venture with his brother, selling painted fir cones by the side of the road when on holiday in the USA. Pete continued to demonstrate entrepreneurial tendencies. As a student of humanities at university in Manchester in the late 1980s, he spotted an opportunity to sell to collectors the traditional British telephone kiosks which British Telecommunications (BT) had decided to discontinue.

Upon graduating in 1992, Pete entered the world of advertising in London. For the next eight years he worked his way up through the ranks as an account executive, moving from one agency to the next in search of promotion. Between 1997 and 1999 he spent two years in Cape Town as account director at an agency specialising in direct marketing for business to business products. This gave him a lasting taste for Africa. He then returned to the UK to take up a position as Group Account Director.

Still not thirty years old, Pete was doing well by the standards of the industry. His career path up till now had followed a fairly typical pattern for an ambitious young man in advertising: hopping from one agency to another as opportunities arose, gaining exposure to some large blue chip clients and some international experience. The new job as Group Account Director was his breakthrough into the ranks of senior management. If he made a success of this role, his next logical career move, in two or three years, would have been to join the board of a significant advertising agency.

Much as he enjoyed the variety and challenges of advertising, Pete was torn. He was by nature a restless individual and was continually thinking of opportunities to start a business of his own. In 2000, together with many others, he was swept along by the dot com tide and quit his job to start an online art gallery. Unfortunately, like a lot of virtual ventures at the time, the idea didn't work. The UK consumer was not yet ready to buy online the kind of art Pete had to sell. With limited funds to back the idea, he found himself running out of cash and, forced to liquidate the company, Pete decided to take a career break and spend a few months touring Africa.

In early 2001 Pete found himself reading a guide to business schools on the banks of the Zambezi River. It was at this moment that he made the decision to come back to the UK and take an MBA at Cranfield School of Management, in the south-east of England.

3. Birth of an Idea

Pete remained convinced that the way forward was still to run his own business and that business school would broaden his commercial experience and equip him

with new skills and contacts. A year later, he was deep into his MBA and considering concepts for new ventures. One of his early ideas was to set up a luxury game farm in East Africa. As part of this, he was considering installing a CCTV system, so that guests could see exactly what was happening across the farm in real time. In investigating this, Pete found some very impressive wireless CCTV products listed on Yahoo. This discovery led to the concept of selling CCTV cameras over the internet and Pete spent the next few months with several fellow MBA students developing a business plan and undertaking research.

4. Market Research

Without doing any detailed research in the field, Pete established that the market for wireless CCTV cameras in the UK was just in its infancy compared with the USA and the Netherlands, where the market was much more mature, with many products and retailers.

The closer he looked, the more attractive he thought the opportunity appeared. UK retailers actively marketing CCTV cameras sold them either as a technology product (e.g. buy this Trust 100M Camera System) or as spying products (e.g. watch your neighbour). Only recently had high street retailers such as PC World, Homebase, Innovations and The Gadget Shop started to list wireless CCTV products, where they were positioned as marginal, rather than mainstream, consumer products.

His research also identified that the current products had functional, aesthetic and technological weaknesses. User-friendly and functional software for remote viewing over the internet was not available yet, although technically feasible. Some information about the size of the market for CCTV and other electronic security related products was available, but Pete couldn't find anything specific about the UK market for wireless cameras. Instead, Pete had to work with fairly generic data about markets for substitute products such as baby monitors, conventional (wired) cameras, access control systems, camcorders and 3G mobile phones video transmission.

5. The Opportunity

The opportunity Pete envisaged was to create a brand – IViewCameras – to market CCTV cameras based on customer benefits, not the technology. The business would sell peace of mind, *not* a security camera and would package the remote internet viewing product so that it was exceptionally easy to use and install. This would give Pete an edge over his competitors.

Based on advice from a Cranfield faculty member, Pete began to sell wireless CCTV sets to other people on his programme (as well as one to his mother). This

was extremely helpful in obtaining feedback from their usage of the product. The fact that he was able to sell some products to fellow MBAs proved that his product was attractive even to people with no money!

Pete saw opportunities for IViewCameras in several markets:

BabyView Camera: parents monitoring babies and children



DoorView Camera: security-conscious

consumers monitoring front doors



SecurityView Camera: home and car



RemoteView Camera: option



PartyView Camera: consumers wanting

to view and record parties, adult

entertainment and so on...



When asked some time later about what additional market research he wished he had done, Pete confidently said: “None! Small enterprises cannot afford to waste money doing market research. It is cheaper and simpler talking directly to the customers instead, and to start selling to them on a small-scale”.

6. A Possible Partner?

The Cranfield MBA programme had several courses dedicated to entrepreneurship, which create the opportunity for MBA students to meet business founders and hear their stories. One of these entrepreneurs was a Cranfield MBA alumnus called Nigel Apperley and Pete made his acquaintance in April 2001, when Nigel came to Cranfield as a guest speaker.

Two years before, after being made redundant, Nigel Apperley had set up InternetCamerasDirect (ICD). ICD was an Internet retailer dedicated to selling digital cameras and related accessories. In the time between setting up ICD and presenting to the 2001/2002 MBA programme, Nigel had turned ICD into the UK's biggest online digital cameras retailer, taking over half the online market for digital cameras. A summary of the digital cameras market is given in Table 1 below:

Table 1: Digital Cameras Market

	000 units	Index	RSP £m	Index	Average price per unit £
1997	60	100	18.8	100	313.3
1998	170	283	72.8	387	428.2
1999	320	533	126.2	671	394.4
2000	610	1,017	165.0	878	270.5
2001	1,000	1,667	215.0	1,144	215.0
2002 (est)	1,250	2,083	250.0	1,330	200

RSP = retail sales price¹

Source: *Mintel Cameras and Digital Cameras* report, April 2002. Reproduced by permission.

Pete was impressed with Nigel's presentation and it got him thinking about how he and Nigel might work together to get the wireless CCTV idea started. A couple of weeks later, Pete was in a bar one evening on campus, discussing the idea with his fellow students. In walked Nigel with a friend and sat down at another table. Pete decided to take the bull by the horns. He went over to Nigel to show him the products he was selling and to discuss his idea.

At first, Nigel wasn't interested. He had seen CCTV cameras and felt that at £400 they were too expensive for what they were. When Pete told Nigel that he could obtain the same camera for £40, Nigel suddenly became very interested! The two of them spent the rest of the evening discussing what a partnership would

1. During this period the sterling/euro exchange rate was approximately £0.70 = euro 1.00.

look like and came to the conclusion that sharing infrastructure would be a good way forward. The conversation ended with Nigel suggesting that Pete come to his office in a couple of weeks' time to present his idea more formally.

7. A Possible Deal?

Two weeks later, Pete presented Nigel with a hard copy of a PowerPoint presentation and an outline business plan (the Executive Summary from a revised version of this plan is given at the end of the case, as Exhibit A).

Nigel was very impressed with Pete's energy and enthusiasm. Pete liked Nigel's operation and wanted to close a deal there and then. Although Nigel was impressed with Pete, he wanted time to think about the deal and to run some numbers. He also had a couple of concerns:

First, the plan envisaged that Pete would be starting up the business with others from Cranfield, both as shareholders and managers. Nigel wondered why Pete needed so many friends involved in the business. Nigel had discussed this issue with a Cranfield lecturer who was supporting Pete and the lecturer agreed. From a business perspective, he too could not see why Pete needed so many people.²

Second, Pete wanted to develop his own products and to contract out production as well as be a retailer. Nigel, however, felt that he should stick to being a retailer.

8. Internet Cameras Direct

At this time (quarter two 2002), ICD was on target to turn over more than £13 million for the year, double the sales for 2001. Nigel was confident that the business would continue to expand rapidly as the market developed and digital cameras became a mainstream consumer product.

Nigel had based the business in an old manufacturing town called Marsden, near Manchester, 250 kilometres north of Cranfield. An internet-based business could operate more or less anywhere and Marsden had a number of advantages:

- it was where Nigel and his wife were living before Nigel lost his job.
- it was an area of low labour cost and (relatively) high unemployment.
- as an old woollen mill town, Marsden had a supply of redundant industrial buildings available to rent at a good price.

2. In fact, Pete later changed his management structure so that the only Cranfield colleague to join the new business would be James Marchant, as Operations Director and shareholder.

Still the majority shareholder, Nigel had built ICD through an excellent website, with high-quality customer service and strong branding. He had also been very astute in gaining trading agreements with both leading manufacturers and wholesalers of digital cameras. Now the market was taking off these were much more difficult to obtain, and so constituted a barrier to new entrants. At the moment ICD operated on tight margins and was still consuming cash, although Nigel felt that this situation would change as the business reached better and bigger economies of scale. Draft ICD financial statements for 2002 are shown in Exhibit B.

From Pete's point of view, ICD had substantial benefits to offer:

- A picking, packing and posting operation.
- A credit card fraud detection process.
- A website infrastructure.
- An accounting infrastructure.
- A large balance sheet for negotiating with suppliers terms for credit and discounts.
- A marketing team.
- A database of 33,000 existing customers with thousands more to come.
- Cheap deals for credit card transactions.

Perhaps most importantly, Nigel's knowledge of how to run a successful internet business would be invaluable, not least knowing how to get your company's name high on the search engine lists without paying an extortionate price. In exchange, Nigel felt that here was a good opportunity for him as well. ICD could benefit from:

- An equity stake in Pete's business.
- A contribution to his overheads.
- The chance to establish a related operation at very low cost.
- Access to Pete's ideas for building an internet business – applied to ICD!

9. The Deal

By midsummer 2002 Pete and Nigel came to an agreement which would form the basis of the relationship:

Shareholding

ICD would receive an allocation of 200 out of 1,000 issued shares, for £2,000. The majority of the balance would be held by Pete, and a small percentage split between Cranfield colleagues who had worked on the project so far.

Products

ICD would be used to purchase all IviewCameras' products'.

Marketing

ICD would provide prospect and customer email addresses.

ICD would provide prominent banner/hyperlink opportunities, and ICD sales staff would mention IVC at the end of order and contact e-mails.

ICD would provide support for other online marketing, such as search engine positioning, reporting and so on.

ICD would provide the opportunity to include promotional material in their product fulfilment packs.

IVC would market- test an Affiliate Programme.

Website

ICD would provide the creation, hosting, updating and maintenance of the website.

Administration and Fulfilment

ICD would ensure Accounts Support, to include VAT (sales tax) returns.

ICD would handle all inbound enquiries and orders.

ICD would provide fulfilment at an agreed cost per product of £7.50 for fulfilment and order processing, made up as follows:

- Picking: £0.54
- Packing: £1.62
- Materials £0.10
- Courier: £4.50
- Admin: £0.74

ICD would provide order processing.

ICD would allow the use of their merchant agreement (for credit card payments).

10. Early Days

Pete and Nigel attended the first supplier meeting together. Pete observed Nigel's skill in handling suppliers to obtain favourable terms, including the use of ICD's balance sheet as a negotiating tool.

By now it was August 2002 and Pete needed to have the website set up and running. However, this did not go smoothly. Pete was still completing his MBA, and was struggling to find time for other things. In addition, Pete had doubts about whether he was really ready to commit to IViewCameras, since he was presented with several opportunities to earn large sums of money by working for other people. Nigel sensed this hesitancy and decided to put pressure on Pete to commit one way or another. Accordingly Nigel gave him an ultimatum, and told him that he needed to start making sales. Pete responded well to this pressure and had the website up and running before he finished his MBA. Examples of the promotional literature also created at this time are given as Appendix 1.

11. The PNB Presentation

Pete had developed his thinking and his business plan for IviewCameras on a Cranfield Elective called *Planning Your New Business* (PNB), designed for MBA graduates planning to launch a new venture. This course culminated in a presentation to an outside panel at the end of August and Pete felt that he had made excellent progress. Most of his fellow course members were still at the planning stage. Pete, on the other hand, had now done a deal with Nigel. He had also done some deals with suppliers and he had his website up and running. He had even made a few sales to impoverished MBA students!

Pete was confident in the business and was looking forward to post-MBA life when the programme ended in September. He even found himself thinking that

he was a contender to win the award for the year's best business plan (and Pete had never won an academic prize before). He put a huge amount of effort into his business plan and presentation. IViewCameras was by now well-known across the School of Management and many people turned up specifically to see Pete's presentation of his plan.

In the plan (for the Executive Summary, refer to Exhibit A), Pete was looking for £250,000 of external capital to develop the business, for which he was prepared to offer a significant equity stake.

Things started well but within the first five minutes of the presentation, Pete knew he had lost the venture capitalist (VC) on the panel. However, he was not sure why. Once Pete had finished his presentation, it all became clear. The VC had already studied the plan and was not convinced. Specifically he queried Pete's proposal for a business model that comprised being both being a retailer and developing his own products. The VC interpreted this to mean that Pete's ideas were unfocussed. He had additional doubts about whether this business was sustainable in the long term, since there was no protection afforded by intellectual property or – in his opinion – know-how that was difficult to copy.

Pete did not win the PNB prize. To make matters worse, after the presentation, one of the fellow panel members came up to him and told him that during the presentation he had taken his chequebook out and was going to invest in Pete's idea but once the VC started spotting holes in the business plan, he put his chequebook away again.....

Having spent most of his career in advertising, Pete was a seasoned presenter. He was accustomed both to winning and to losing business pitches, but as he walked out of the lecture room this time he felt seriously deflated. Not only had he been confident in his ideas, but everyone else had been as well. A number of different thoughts went through his head. Had he simply failed to sell his concept effectively, or not explained it properly? Was he over-valuing the business, and simply asking for too much money? Or was the strategy fundamentally flawed, and he needed to re-think the business concept from the ground upwards?

Attachments:

Exhibit A: Executive Summary of IViewcameras business plan.

Exhibit B: InternetCamerasDirect, Draft Financial Statements, 2002.

Appendix 1: Iviewcameras publicity materials.

Exhibit A
Executive Summary: Extracted from IViewCameras Business Plan,
Presented at Cranfield, August 2002

Executive Summary

Currently IViewCameras Ltd sells direct easy-to-use, wireless colour video cameras, receivers and associated products used for monitoring your family, car, home or business.



IViewCameras Ltd then plans to manufacture and sell/retail direct, technologically advanced, functionally better, and aesthetically superior wireless colour video cameras, receivers and associated products for monitoring your family, car, home or business.

The wireless video cameras send colour, or infrared black and white, video pictures and audio wirelessly to your TV, video or PC (enables remote viewing via a web site). Associated products sold include motion detectors, dedicated monitors (all sizes), remote video-recording products (which turns on VCR to record for set period of time or when motion is detected) and remote software for viewing pictures over the Internet.

The Target Markets are:

Parents monitoring babies/children (BabyViewCamera); security-conscious consumers monitoring front door (DoorViewCamera) or home & car (SecurityViewCamera); with the option of viewing via the Internet (RemoteViewCamera); and consumers wanting to view and record parties, adult entertainment etc. (PartyViewCamera).

IViewCameras' Added Value and Competitive Difference:

In the UK, wireless video cameras are just becoming available. In the USA and Holland there are many products and retailers. In the UK competitors are selling cameras as technology products (e.g. buy this Trust 100M Camera System) or as spying products (e.g. watch your neighbour). Current products have functional, aesthetic and technological weaknesses. Easy to use and functional software to use the cameras remotely over the Internet is not available but technologically feasible.

IViewCameras will market the customer benefit proposition more effectively than competitors (e.g. selling peace of mind not a security camera), develop better

cameras, and package the remote internet viewing product so that it is exceptionally easy-to-use and functional.

IviewCamera's 2 Stage Implementation Strategy:

Development So Far – July to August 2002

- Joint venture with InternetCamerasDirect (20%) set up, operational website live, sales started, call centre and fulfilment systems in place and £10,000 seed finance obtained.

Stage1: Direct Distribution of Existing Products – Objectives to March 2003

- Sell over 750 products generating approx. £70,000 sales turnover and approx. £14,000 gross profit by March 2003.
- Justify development and contract manufacture of “own brand” range and Internet software.
- *Obtain business angel funding (£250,000) for product development.*

Stage2: Retail distribution and Own Brand – Objectives from March 2003

- Manufacture and launch “own brand/product” range and Internet remote access software.
- Sell approx 50,000 own brand products generating over £3,600,000 sales turnover and over £1,750,000 gross profit by 2006.
- Gain retail channel distribution and partnership agreement with security organisation and telecommunications company.

IViewCameras People:

Peter Rankin, Director, aged 32, has proven entrepreneurial experience having started two companies and 9 years experience in direct marketing and advertising.

James Marchant, Director, aged 27, has 6 years consultancy and marketing experience.

Nigel Apperley, Investor, CEO InternetCamerasDirect: £13mn sales digital cameras website.

IViewCameras Projected Financials Summary:

<i>Period</i>	<i>Volume</i>	<i>Sales</i>	<i>G.P.</i>	<i>Costs</i>	<i>O.P.</i>
July02-March 03	755	£69,996	£14,308	£183,312	£(169,004)
Q2 03 – Q4 03	3,500	£264,457	£127,957	£147,500	£(19,543)
2004	11,250	£842,872	£404,122	£161,500	£42,622
2005	15,000	£1,123,830	£538,830	£122,000	£416,830
<u>2006</u>	<u>18,750</u>	<u>£1,404,787</u>	<u>£673,537</u>	<u>£134,500</u>	<u>£539,037</u>
Total	49,255	£3,705,942	£1,758,754	£748,812	£1,009,942

EXHIBIT B
INTERNET CAMERAS DIRECT
PROJECTED PROFIT & LOSS AND BALANCE SHEETS FOR
CALENDAR YEAR 2002

PROFIT & LOSS

Turnover		£13 mn
Cost of sales	£10.9 mn	
Gross profit		£2.07 mn
Distribution costs	£0.27 mn	
Administrative costs	£1.67 mn	
Operating profit		£0.13 mn
Net interest receivable/payable	-	
Profit before taxation		£0.13 mn
Dividends	£30,000	
Retained profit brought forward		£0.1 mn
Retained profit carried forward		£0.2 mn
<i>Note: figures may not add to total, owing to rounding</i>		

INTERNET CAMERAS DIRECT

BALANCE SHEET

Fixed Assets		£0.2 mn
Current Assets		
Stocks		£1.5 mn
Debtors		£0.6 mn
Cash		£0.9 mn
Creditors	£2.8 mn	
Net current assets		£0.3 mn
Total Assets less current liabilities		£0.5 mn
Long-term creditors	-	
Called-up share capital		£0.001 mn
Share premium		£0.3 mn
Profit and loss account		£0.2 mn
Shareholders funds		£0.5 mn
<i>Note: figures may not add to total, owing to rounding</i>		

Appendix 1: I-ViewCameras promotional leaflets

Affordable CCTV
from under **£100**

For more information or to purchase, call
0870 744 2298
or visit www.IViewCameras.co.uk

www.iViewcameras.co.uk

IViewCameras Ltd, Unit 14, New Mill,
Brougham Road, Marsden, Huddersfield, HD7 6BJ
www.IViewCameras.co.uk
Tel: 0870 744 2298
Fax: 01484 3415 947
email: info@IViewcameras.co.uk

Registered in England and Wales,
registered number: 4450220
GENOS/03 Prices correct at March 2003.
All prices include VAT.

front

Affordable CCTV
from under **£100**

www.iViewcameras.co.uk

Low Cost Wireless Home Security

New 2.4 GHz radio frequency transmission technology now allows you to have the peace of mind of CCTV from under £100. All our CCTV systems are very easy and quick to set up and use. Literally plug and view!

Independent and expert advice for all your wireless monitoring needs

back

The Ultimate in DIY CCTV

The wireless CCTV cameras transmit fantastic video and crisp audio to a small receiver which can be connected to your TV, video recorder or PC. The transmission range is up to 100 metres line of sight or up to 25 metres through walls and ceilings etc. As there are no wires between the camera and where they are monitored or recorded, there are no expensive installation costs or unsightly wires. The CCTV cameras can be battery powered and/or mains powered. Up to 4 cameras can operate in one location.

IViewCameras offer a comprehensive range of cameras to suit your requirements; indoor or outdoor, colour or black and white (with night vision) and motion detected recording.

All our prices include next working day delivery and VAT

0870 744 2298

www.IViewCameras.co.uk

babyviewcameras

- Your second set of eyes!
- Observe, hear and/or record your baby or children any time, even in the dark
- The ultimate baby monitor




Only £99.95 (inc VAT)

carviewcameras

- Ever suffered damage to your car whilst it was parked outside your home?
- Deter and record vandalism or theft from your car




From £134.95 (inc VAT)

inside

homeviewcameras

- See who is at the door before you answer it by simply changing the channel of your TV
- Record who came to visit while you were out
- Problems with neighbours? Vandalism? Strange noises? Or simply want to protect your home?



From £104.95 (inc VAT)



securityviewcameras

From £104.95 (inc VAT)




- Ideal in offices or shops
- Prevent theft and record incidents

computerviewcameras

From £69.95 (inc VAT)

- View up to 4 cameras on your screen
- Record motion detected activity to your hard drive
- Remote viewing via the internet
- Date and Time stamped footage



spyviewcameras

- Sometimes it is best to monitor and record covertly. Our range of miniature colour cameras will amaze you


