

Championing the underdog

A new investment scheme could provide vital managerial expertise and capital to fledgling businesses. James Harris reports

Early-stage businesses need a fair amount of chutzpah to bag a high-quality management team. George Whitehead, business development director at the National Endowment for Science, Technology and the Arts (NESTA), says: 'You have a company with no sales, not a lot of money and an unproven technology. It's very risky. And then you're asking someone who is brilliant to come in and not get paid very well.'

To compound the difficulties, Whitehead concludes that 'getting the management team right is the single most important thing that can be done'.

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The Tagged Executive Programme, the brainchild of senior executive talent resourcing organisation Intramezzo, is an attempt to ease the pain for young businesses desperately seeking the counsel and skills of wiser heads. Entrepreneurial executives who are willing to contribute capital of at least £110,000 sign up to join the management teams of start-ups in return for equity. In addition to the capital and expertise of the management, the scheme is designed to make the businesses more attractive to VC investors.

'It's a service that puts talent at its centre,' says Dermot Hill, director of Intramezzo. 'With individuals having to put in a substantial amount of their own money, businesses attract executives who are interested and entrepreneurial.'

PEOPLE FIRST

This addresses a common problem. 'In the UK, businesses tend to rely on throwing money at developing technology but not getting the management right. That's why many management teams are a real mixed bag, because you get whoever happens to be around,' says Whitehead.

Furthermore, small businesses are fast-moving by nature, so gaps in management teams can spring up at short notice. Will Fraser-Allen, deputy managing partner of venture capital firm Albion Ventures, observes: 'Almost without exception, we introduce further

management to a team, and that can be anything from a non-executive chairman to a business development director. Through Intramezzo, we'll have access to management.'

For new companies seeking to raise between £250,000 and £2 million, the equity gap continues to be a barrier to growth – these amounts are too large for business angels but too small for VCs. Hill argues that the scheme will go some way to addressing the equity gap: 'It will save a company the pain of doing a funding round, which can be highly time consuming for executives. It also means businesses have more time to negotiate further funding.'

While Fraser-Allen is dismissive of the equity gap per se – 'it's an excuse used by



Dermot Hill, director of Intramezzo

bad companies, as decent businesses will always be able to raise money' – he agrees that the money invested through the scheme is welcome and will flush out dilettante investors: 'There aren't many people who are willing to invest £110,000 of their own money.'

BUYING IN

Effectively, the programme orchestrates management buy-ins. 'Managers looking for a business can join the scheme, identify the right business for them and have access to investors,' says Fraser-Allen.

'If a senior executive at a blue-chip company wants to do his own thing and comes to us with an idea for a business and capital, we may back him. But I see this Tagged Executive Programme primarily as a means of increasing deal flow.'

There are high hopes for the scheme, which Hill claims could deliver as much as £100 million into the SME sector in the next three to five years. ■

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