International Case Study

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Raising capital for business growth

Phil Barry – Blòkur

Oxfordshire, UK & Nashville, US

Blòkur is a blockchain-based platform that helps musicians and music companies get paid what they should, when they should, by ensuring their rights are accurately represented. Clients include the biggest and most influential music companies and artists across the world.

Phil Barry spent a decade on the creative side of the music business as a recording artist and record label founder, before switching gears to focus on technology-driven solutions to the challenges faced by creators in the digital world. He completed an MBA at Said Business School, Oxford University. He consulted on the world-first release of Radiohead singer Thom Yorke's album Tomorrow's Modern Boxes via BitTorrent before leading Ujo, the first blockchain music platform, a collaboration with the two-time Grammy-winning singer-songwriter Imogen Heap. Phil subsequently founded Blòkur in the middle of 2016. Born in the UK, living and working in Oxfordshire, UK.

What type of creative entrepreneur are you?

I am a former musician and owner of an indie record company who is now running a tech company to tackle the problems I experienced as a creative in the music industry. I am a solo-founder, with no co-founder.

Where does your work sit within the tech, creative industries?

Blòkur is a tech company, so a big chunk of our resources and team are in engineering. The platform helps musicians get paid when their music gets played, by making sure their rights are accurately represented.

What made you start up initially?

I have been a musician and recording arts. I founded a small indie record company representing 20 artists. I have never been employed, so I have been doing something entrepreneurial all the time. When I was releasing music, the digital industry was at the beginning of making contracts between YouTube, the PRS and the UK collecting society deals. I did not see these deals going in the way I thought they should for the musician and writers. I had a vague ambition to try to improve things for creatives. I knew I wanted to work on rights data and rights attribution. I went to business school which gave me the theoretical models of business and I gained some experience of using tech to problems through a series of consultancy projects.

When did you know, you would need to go for external funding?

I always knew, as the question generally comes down to two key questions i.e.

1. Is the business I am setting up going take a lot of capital investment to get started and then to keep running

2. Or is it a more revenue-based model business I can start up with bootstrapping and grow from there?

It is important to be able to ask yourself these questions early on.

When it comes to seeking VC (Venture Capital) investment ask yourself is my business a big enough opportunity for it to be worth any VC's time? Most start-ups fail so the idea and scope need to be a big enough for it not to fail. I knew I needed tech to build Blòkur over a period of years before it got going so investment was going to be needed.

What was your thinking about this? researching, networking etc?

I did have some friends who had started or got involved either via founder or senior leaders in tech companies. I had done an MBA so had some theoretical thinking, but I did not have much knowledge of the VC network at that point. You can learn a lot by reading online articles, and via blogs, and vlogs. Crunchbase is a good online resource that lets users search for companies, who is behind them and what investment track record they have. Plus, it allows searches for who is investing in what businesses. Some of the first money we raised was a government grant via Innovate UK.

What did you need to be investment ready?

At the very beginning we had an extremely basic prototype to demo something of what the product would do. We showed the prototype to large music companies and they agreed to join a pilot of the platform. Once we had our business case showing how we could solve an industry-wide problem we needed to show what the investment would be worth longer term. We had a small team, and I understood the domain via my indie record company i.e., licensing, registering, and publishing music. Having the MBA backed up this experience alongside projects I had run related to tech in the music business which were quite high-profile consultancy work. I led a team of consultants working on business model, strategy, and customer experience for the world- first release of Radiohead singer Thom Yorke's album Tomorrow's Modern Boxes via BitTorrent, resulting in 5m downloads. I worked with artist Imogen Heap on the first working implementation of blockchain and smart contracts for creative rights and royalties and one of the very first apps to be released on the public Ethereum blockchain.

At the beginning, I did not have the skills to run the company, so I recruited a CTO (Chief Technical Officer) from Universal music who is very technically skilled and has extensive experience within the product team. They could easily understand the problem and sell the product. I wanted my CTO to be with us whatever the scale of the business whether from 1 - 100 people on the team. They had to be the right person for the job. This hire helped to create a balanced team. I was also aware of the pitfalls some early co-founder teams experience of falling out after a couple of rounds so remain the founder.

What skills and expertise did you develop by going through funding rounds?

To date we have had Innovate UK grant funding and been through three rounds of funding. With Innovate UK we needed to write a substantial business case, plus supply diagrams. This is public money so we needed to write a compelling set of reasons our pitch would support UK job creation and UK business and international strategic interests.

With the investors we needed to pitch to their upside. With VCs there is generally a standard set of questions all will ask theses. We needed to learn to cover these in the proposal and make sure we included.

- Problem
- Solution
- Size of market
- Business model
- Concise pitch, with a deck and background info

With Angel investors we learnt many are investing mainly as they like to learn about the new tech, invest in the person or people. They are not investing to become rich from these investments. They understand losses are highly likely.

You will need to learn about term sheets, legal contracts and how to approach each investment. With each pitch it allows you to gain an external perspective on your business, and to find out if the potential investor agrees with your pitch on the size of the market. In both cases it needs to be a big opportunity for the investor where they are, so the pitch needs to be communicated to them in the language that they will respond best to.

How have securing investments helped you grow your idea/s & business model?

A lot. We have gone from two people in our team to twenty-five people off the back of the latest funding round. Securing investment is essential for this kind of tech company. It has enabled us to go global in revenue terms, in a sector dominated by the US market.

What do investors bring beyond their money to your business?

- It depends on the investor, some investors have a big portfolio and do not pay attention to their investments, and activities in detail. In the middle are the Angels and smaller investors who are interested in different ways of being involved.
- Having a VC on our board brings understanding to what other investors can help us raise more in the future and how to increase our valuation.

- This is super helpful. VCs will often offer more than the money and the money is what you want. You cannot pay the bills with their network alone.

- We had a VC who had been in the entertainment world, he had been a CEO and he had already dealt with investors. Not all investors have been a CEO, built and sold for major figures so learn about a VC's background before getting more involved.

- It is also important to understand the pre/during/reporting requirements, be ready to supply quality investor updates, and more formal Government funding monitoring will be a requirement, in their specific format.

How have you leveraged off this?

From being part of an investor network, it is easier to get networked into new investors, as we a now respected. We have used investors to sound out about our strategy a couple of times and gain connections to customers.

What have you had to change to manage investors?

- Reporting.
- More standardisation in what we track and report, across the business i.e., a hiring plan, business targets, more detailed information on user activity, use of the platform for reporting. We would have probably done this as we were growing but these were triggered earlier because of our investor.

What advice would you give to creative entrepreneurs considering seeking investments?

- The need to identify the type of investor who is going to be the best for your business.
- If it is only ever going to make a few million a year it will not interest a VC, this needs to be more like a billion
- An angel might be interested in doubling or tripling their money, and a link to a personal interest or social cause or values, problem solve. How to align on this, but it needs to be right for both people
- Approach and tailor each of your pitches to what each investor is looking for - a VC will want a solid argument on how your business will grow bigger over time and an Angel will want to hear what ways you solve a specific problem linked to causes or issues they care about
- Always ask for a good recommendation, but a good email will get their attention
- You don't need to send a massive amount of information - follow the Sequoia Capital "business plan" - a slide deck with 10 slides this a really great tool, make it compelling. Tell a story of some kind

The process of raising depends on who you are raising from i.e.

If you are seeking to raise £100,000 from a group of people each paying £5,000 each the key here is managing participants. You need to take control.

1. Offer terms upfront

2. Once a person confirms agreement to invest follow up by sending the email with commitment and send the term sheet

If you are seeking a lead investor who will offer up ⅓ or ½ of the round, they set the terms. Only speak to possible leads of the round, so only target on the lead. They will write the term sheet, after this, you will find the others i.e., once you secure the investor for a £½ million upfront investor they will set the terms. All other investors for the remaining £½ million will take on the terms set by the lead investor.

Be careful of the terms.

In the UK certain standards are applied. You can investigate SEED summit and British venture capital downloads for free. In each territory, region, or country there will standards you will need to know about and follow.

Watch offers that feel off. You need to understand standard terms and/or hire a lawyer who can advise you. They need to be a specifically trained lawyer for that field.

Top tips

- One mistake people make they think they need to raise from a VC, I spent too much time in the beginning. Your first round is made by individuals before VCs. So, save yourself time.

- A lot of the advice says be focused, know who the top 5 investors are. I would say talk to lots of people before you succeed it may even need to be 100 people. Think internet dating - think how rare it is that you want to spend the rest of your life with people you meet online, it is important to invest your time and accept it is a long process.

- The range of rudeness and receptiveness is not linear to who responds and gets back to you. It's not about how important someone is your job is to connect to them with what's in it for them.

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