

Backing founders, not business plans: investing in smaller companies tapped for innovation

A word most closely associated with leaves on the line or another long commute to work, disruption is often a force for good and is frequently a key differentiator amongst the businesses that VCTs invest in – or what we like to call ‘innovative disruptors.’

These businesses are increasingly attracting the attention of large enterprises and governments that are dominated by legacy products and processes and need innovation to adapt and stay relevant.

By way of example, in January 2020, Pasta Evangelists, an online meal kit company that delivers restaurant-quality fresh pasta direct to customers by post, raised a £2M round from investors including Pembroke VCT.

At this point, Covid had yet to make its mark but in the 51 weeks that followed, the UK food delivery sector thrived as consumers sought new and interesting ways to cook at home during the various lockdowns. The result was that in January 2021, Barilla Group, the world’s largest pasta business, acquired a majority stake in Pasta Evangelists and by doing so was able to finally begin to unlock the direct-to-consumer market.

Not only does this show it is possible to sell pasta to Italians, it also demonstrates the trend we are witnessing in which large enterprises – such as Barilla – are increasingly turning to smaller companies when looking for innovative products and solutions, as well as ways to reach the end consumer directly.

London-based start-up Thriva is another example of an innovative disruptor. Many of you reading this may have fitness watches that can track how far you have run or cycled and can even monitor your heart rate. But what about having a means of tracking and effectively gamifying your own health to help keep you out of the doctor's office?

One of our overarching theses is that the world is moving towards preventative wellness. Thriva has created a digital health tracking platform based on blood testing that allows users to take control of their own health. It is a prime example of a company's founders spotting a problem and creating a credible solution.

In the case of Thriva, cofounder Eliot Brooks has a hereditary blood condition and previously had to take frequent time off work for blood tests. Not only did it take days to get the results, but when they arrived it was difficult to know if he was in good health or not – and impossible to spot trends as prior results were not included.

The solution that Brooks created, along with his two cofounders, is a software-enabled business that presents users' blood test results visually and intuitively. Also included is an overview of the results written by a GP, with specific recommendations where needed.

Like most innovative disruptors, Thriva didn't set out to reinvent the wheel. They are using the same third-party labs to process tests as the NHS but are simply using software to wrap the results in a way everyone can understand.

Thriva recently won a significant government contract to track the decay of Covid-19 antibodies in people who tested positive for the virus. Whilst the UK government put the contract out for public tender, Thriva won out over much larger competition because they had the ability to scale up supply and to do so in an efficient way. Its digital-first approach also meant that it could easily integrate into the government's technology systems.

When investing in smaller businesses, in our experience, the best results are achieved by

backing founders and not business plans.

Take Paul Foster, an international crowd management expert who founded the events planning business, OnePlan. Consulting for large organisations such as Interpol, Paul saw the event planning space was broken. It was dominated by clumsy spreadsheets and Computer-aided design (CAD) software that was expensive to run. His solution? He created an intuitive, real-time platform to simplify and enhance every step of the event planning process for event planners worldwide.

OnePlan has a list of clients including some of the world's best-known brands such as Arsenal, Chelsea and the Brooklyn Nets NBA team, working with over 1,500 events across 50 countries. It is another example of a small business that large organisations – in this case giants of the sporting world – are turning to for solutions, rather than creating them in-house or purchasing them from the more established companies in their field.

So, three examples of three very different innovative businesses that are causing genuine disruption within the fields they operate. Using software to solve problems, their size and nimbleness allows them to do things much quicker than their larger peers, which is putting them increasingly on the radar as targets for collaboration or acquisition opportunities.

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