Tips when looking to secure funding for your lawtech start-up or expansion

July 2021

Top ten tips when looking to secure investment

As an innovator looking to secure investment either for start-up or further expansion, you need to bear in mind what the investor will be interested in and what will encourage them to respond positively. Based on our recent research with Oxford University we have come up with a series of tips to improve your chances of success in securing external investment.

1. What are you offering and what do you want an investor to fund?

Funding comes from different public and sources as summarised in the Oxford report [https://jobs.sra.org.uk/sra/how-we-work/archive/reports/technology-innovation-in-legal-services/] carry out some research so you can understand what the interest of each is and what the opportunities and implications of each funding source. Our research showed that many innovators initially relied on angel investors to support their business, although one confirmed that they had also secured grant funding. Angel investors were typically drawn from founders' personal networks, including friends, families, and former work colleagues. For those slightly along the investment journey, proactive networking with new contacts also helped secure funding. Sometimes funding was secured by targeting specific individuals, who are known to be early stage lawtech investors.

2. Where is your product targeted? BigLaw or PeopleLaw?

Our research found that the was a striking contrast between PeopleLaw and BigLaw and where investment was aimed. The first refers to technology intended for the individual and small business client sector ("PeopleLaw") and the second is corporate client-facing sector ("BigLaw").

Over 96 per cent of the funding in the UK went to BigLaw start-ups, with PeopleLaw ventures being a small niche investment category.

But don't forget the PeopleLaw sector is largely underserved and may offer considerable potential. The existence of unmet legal need means that PeopleLaw segment represents a huge untapped market, with significant potential for growth. The Investors we surveyed raised doubts regarding the ability of PeopleLaw start-ups to scale their businesses in a cost-effective manner. So, if you are seeking funding for PeopleLaw innovation, be clear on how you plan to scale up, how you are going to build your client base and how you will encourage repeat business.

3. Government offers innovator funding too

In recent years, direct financial support from various sources has been made available to lawtech start-ups via government grants. The Department for Business, Enterprise and Industrial Strategy (BEIS) is the main source with its funding administered by UKRI / Innovate UK. and other agencies. You may find it easier to seek government funding for the PeopleLaw sector too. There are opportunities like Smart Grants InnovationAreald=&keywords=smart and other opportunities that can be found Empowering your innovation-driven business to grow at pace Innovation competitions [https://apply-for-innovation-funding.service.gov.uk/competition/search]. This guide produced by an external organisation is another source of useful information for start-ups and scaling up.

4. Be proactive: network and make those contacts

Although there are many different types of funders interested in investing in lawtech, you will need to distinguish yourself and your product in order to stand out from what is a crowded market. Networking is also important to start-up funders to identify investment targets. It may be through LinkedIn or other business or social media platforms. It may also be in the form of other forms of non-financial advice and support.

5. Think wider: are you just lawtech or could you operate in other sectors too?

Although you may consider your product to have applications for the legal sector, it may be helpful to think how it could also be used in other sectors. Our research showed that this appeals to investors, particularly if focused on end users rather than large organisations. One preferred approach as an example was to present the company as also a fintech, rather than just a lawtech, start-up. It widens the potential market and increases your appeal to investors.

6. Don't worry about where you are located: seek out the funding

Previously, there had been concern that innovators located outside London and the south east were at a disadvantage in terms of available funding. Things seem to be changing for the better. In terms of the relationship between geography and investments made, there were still some mixed views from our research. Historically, it used to be the case that you would need to travel to London to secure funding, which was not available locally. By contrast, among other investors and innovators we interviewed, access to funding by reference to geography barely registered as a consideration - especially considering the pandemic. COVID-19 related travel restrictions appear to have helped level the funding playing field, in terms of securing face time with would be investors.

One of the lawtech investors we interviewed stated they were happy to invest in companies based anywhere in the world, so long as the business case was sound. By contrast, another of our interviewees said they preferred to invest in their local market. This was not because of any overt preference for supporting local companies, more because competition for deals among investors was so much more intense elsewhere in the country.

So, you will still need to seek out sources of funding, but don't worry about where you are based. Focus on what you have to offer.

7. Own your own story: make the numbers and detail clear and easily available

Investors need to understand the product/service being pitched to them before making an investment decision. They also want realistic assumptions around revenue and profitability. Some other criteria you need to be clear on are:

- What are you trying to do? If you cannot explain what the product does clearly, it is unlikely you will be able to sell it to an investor.
- Do you have the right range of skills in the team? For some investors a lack of legal sector domain knowledge may mean they do not proceed. So, if you have a lawyer in your team or someone who understands how law firms work, highlight this.
- Why the product an important enough issue for a law firm IT director to prioritise?

Evaluation approaches by investors vary. So do your homework. Investor evaluation approaches varied by investor preference, not just by investment value. Some investors focus on less tangible qualities of the

leadership teams, including their 'integrity' and 'resilience', while others take a more 'scorecard' based approach to their evaluation. This approach was taken both by public sector investors making low-value seed investments and also private sector investors providing much higher-value investments., A key issue investors look for will be whether you can show you have the fortitude and resilience that goes into building your business.

8. Interoperability: Can your technology work with others?

Design your product with interoperability in mind. The ability for a lawtech software solution to integrate with others is seen as an important factor by investors because they enable scaling via expanding the client base. Investors told us that when they are considering investing in a new point solution, they look at whether it integrates with existing platforms and solutions. This is because customers will always choose a lower cost one-stop-shop over a disorganised set of point solutions.

9. Another approach to consider: incubators and sandboxes

Mechanisms for gaining support can take many forms and, depending on what you need, it may be worth exploring other sources of help, other than just direct funding. Lawtech focused incubators and accelerators (there are many in the UK), incubators and accelerators in related sectors, regulatory sandboxes, and government-backed support programmes. Overall, law-firm backed incubators and accelerators tended to focus on products and services that add value to their practice, may bring the firm a competitive advantage - or at least allow the firm to position itself as being 'innovative'. By contrast, government and publicly funded initiatives were more open to supporting PeopleLaw ventures, targeting consumers. Not all these schemes provide funding, but they do offer opportunities for product development with specialists, profile raising and making useful contacts.

10. Acquisitions and exits

Being acquired by a large tech organisation or being bought by an investor may suit some innovators at a certain point. This can have an overall market benefit too as there is consolidation of what were essentially multiple point solutions into more coherent single products. Again, you need to think about what your product offers and where it fits in the wider lawtech ecosystem.