

The MATCH Tool

The need for a MATCH

Entrepreneurial finance is a 'contact sport', a form of financing where investors and entrepreneurs need to work closely together. Hence the importance of finding a good initial match. The MATCH tool characterizes the quality of a potential match between an entrepreneur and investor, both conceptually and practically.

- Conceptually, MATCH explains what the main criteria are for judging the quality of an investor-entrepreneur pair, identifying the core questions that need to be addressed.
- Practically, the accompanying MATCH spreadsheet can be used to input data on any investor-entrepreneur pair, to generate a matching score and a graphical representation of the match quality.

This spreadsheet tool can be used in several ways: to assess whether a particular entrepreneur and investor are a good match, whether two investors complement for each other, or whether one investor is a better or worse match for an entrepreneur than another.

For those who like acronyms, let MATCH stand for "Matrix for Analyzing The Chemistry". More importantly, in the English language the word 'match' is used to describe a small wooden stick that lights a fire. The analogy fits nicely here, as we think of the MATCH tool as the starting point of the FIRE framework, also linking it to the FUEL framework (both frameworks are discussed in Chapter 1 of the book). Put differently, it is the MATCH that lights the FUEL to make FIRE. In the English language the word 'match' is also used to describe two parties that fit with each other. Again this suits our context, where the initial step of the FIRE framework is precisely concerned with the issue of fit. Furthermore, the last step of the FUEL framework, Logic & Style, looks at compatibility issues: how investors select companies (the logic), and how they interact with them (the style). While the first meaning of 'match' tallies nicely in the context, it is the second meaning of the word match that directly applies to the MATCH tool.

The MATCH questionnaire

The following table, which replicates Table 7.1 in the book, shows the questionnaire of the MATCH framework. We provide a comprehensive discussion of the entire framework in section 7.3.21 of the book. The accompanying MS Excel spreadsheet allows to practically implement the MATCH questionnaire.

Question	Issue	Question for the entrepreneur	Question for the investor
<i>Part 1</i>	Should we consider working together?		
1	Geography	What is your location? [use INSERT]	How much do you like to invest in [INSERT]?
2	Industry	What is your industry? [use INSERT]	How much do you like to invest in [INSERT]?
3	Stage	What is your investment stage? [use INSERT]	How much do you like to invest in [INSERT]?
<i>Part 2</i>	Could we strike a deal?		
4	Check size	How much investment do you want per investor?	How much do you expect to invest in a company?
5	Security type	What securities do you plan to issue?	What securities do you expect to receive?
6	Board of directors	What role should investors have on the board?	What board role do you want?
<i>Part 3</i>	What do we have to offer to each other?		
7	Customers and markets	How much expertise and networks do you require with respect customers and markets?	How much expertise and networks do you have with respect customers and markets?
8	Technology and operations	How much expertise and networks do you require with respect technology and operations?	How much expertise and networks do you have with respect technology and operations?
9	Leadership and organization	How much expertise and networks do you require to build the leadership team and organization?	How much expertise and networks do you have to build the leadership team and organization?
<i>Part 4</i>	How would we get on with each other?		

10	Active involvement	How much time, support, and control do you want from your investors?	How much time, support, and control do you intend to provide?
11	Reinvestment	Do you expect your investors to invest in future rounds?	Do you intent to reinvest in future rounds?
12	Exit horizon	How long will investors have to wait to get liquidity?	How long are you willing to wait to get liquidity?
Part 5	Can we trust each other?		
13	Trust	Can you trust the investor?	Can you trust the entrepreneur?

The MATCH questionnaire is divided into five parts that address the following overarching questions: (i) whether the pair should even consider working together, (ii) whether they could strike a deal, (iii) whether beyond money, the investor has something to offer that the entrepreneur actually needs, (iv) whether the entrepreneur and investor are likely to get on with each other, and (v) whether they can trust each other. In each part (except the last) there are three questions, respectively posed from the perspectives of the entrepreneur and investor. The logical order of the questions closely follows the FIRE framework, but as we explain below, also draws heavily on insights from the FUEL framework.

In part 1, Questions 1 to 3 concern the first FIT stage (see section 1.5.2 of the book), and look at whether the entrepreneurial venture aligns with the investor's base investment criteria of location, industry, or stage. These three criteria are precisely those we encountered at the last step of the FUEL framework (see section 1.6.2 of the book) concerning Logic. The underlying reasoning of where the criteria are coming from, however, are derived from the first two levels of FUEL, the fundamental structure and underlying motivation. The first part of the MATCH questionnaire can be thought of as an initial check on whether to go or stop. A negative finding suggests that there is no point of even looking any further, a positive finding suggests to proceed to the remaining questions.

Questions 4 to 6 in part 2 are directly linked to the INVEST stage of the FIRE framework. They gauge how similar expectations are about three core pillars of any deal structure. First, the size of the investment size, which concerns not just the size of the overall round, but more specifically the amount of money required from the investor. Second, the use of securities that determines the allocation of cash flow rights. The main choices are debt, convertible notes, common equity, or preferred equity, each of which involve a distinct financial contract. Third, the importance of investor control, and in particular their role on the board of directors. Note that the MATCH framework deliberately omits expectations about valuation, let alone details about the term sheet. While these details clearly matter, it is typically impossible to ascertain them at the time of evaluating the initial match between an entrepreneur and investor. That is why the MATCH questionnaire focuses on these higher level preferences that are easier to ascertain at the initial stages of the matching process.

For part 3, Questions 7 to 9 go beyond the deal itself and look at the RIDE stage, where investors can add value to the company. These questions also draw explicitly on the third core concept of the FUEL framework, namely the investors' expertise and networks. The way to understand this set of three

questions is to ascertain both the entrepreneurs' demand and the investor's ability to supply expertise and access to networks. How much does the entrepreneur need help from the investor? And how much is the investor able to provide such help? The three individual questions cover the three core areas of business identified in the Venture Evaluation Matrix of Chapter 3 of the book. Question 7 deals with the customer-facing side of the business, Question 8 with issues of technology and operations, and Question 9 with the internal managerial and organizational challenges.

Questions 10 to 12 in part 4 look at how the entrepreneur and investor are likely to work well together over the entire financing process. This part draws on both the RIDE and EXIT stage of the FIRE framework. To answer the questions from the investor's perspective requires not only an understanding of the fourth concept (especially the Style component), but also the first two concepts, the fundamental structure and the underlying motivation of the investor. Question 10 focuses on how much investors are willing to engage with the venture, both in terms of support and governance. This is based on the discussion about active investors in Chapter 9 of the book. Question 11 focuses on how much investors are willing to continue funding the venture in later stage rounds, something we discuss extensively in Chapter 11 of the book. Question 12 finally looks at exit expectation, and especially the issue of investor patience, which we examine in Section 12.1 of the book.

Part 5 finally consists of one single question about trust. Question 13 uses the phrasing 'can they trust each other' to indicate the fact that oftentimes the two parties have not yet had a chance to work together for long, and build mutual trust. The question is thus mainly whether the initial impression are favorable or not. This has to be based on the overall reputation of the other party, whatever information the parties manage to get through their respective due diligence, and possibly any direct experiences from initial meetings.

How to use the MATCH Tool

We think of MATCH as a tool for laying out the relevant questions that need to be addressed to identify the quality of a potential match. As such the analysis is mainly qualitative. Insights are mostly generated by raising the relevant questions. Beyond this qualitative use, however, the MATCH tool also has a simple scoring system that allows for quantitative comparisons. Any such scoring system is obviously highly subjective and limited. Subject to this caveat, the scoring system can be used when an entrepreneur is comparing two alternative investors, to see which one is the better match.

The MATCH tool is embedded in a spreadsheet that can be used for practical applications. The spreadsheet comes in two versions, one blank; the other filled with an example. This example draws on the WorkHorse case study that we develop in the book.

For the scoring system of MATCH we note that fundamental to finding a match is the notion of looking for a multi-dimensional fit in what we would call a 'non-judgmental' way. What we mean by this is that individual answers cannot be ranked as better or worse. This is easiest to see with Questions 1 to 3: there is clearly nothing better or worse about an investor being active in location A or B, or in industry X or Y. It is purely a question of finding an investor active in the venture's space. The same also applies to all other questions: there is nothing inherently better or worse about an investor preferring convertible notes or common equity. What is better or worse is the fit with one specific entrepreneur and her venture. Different investors fit better with different entrepreneurs. Even with Question 10 about active involvement, it may be that some entrepreneurs prefer, and actually need, investors with a very active hands-on approach, but others prefer investors with a more passive 'hands-off' approach. The only question that is 'judgmental' is Question 13, to which we return below.

Therefore, instead of scoring the responses of the entrepreneur and investor by themselves, what gets scored is the similarity of the two responses. Questions 4, 5, 6, 11 and 12 allow for multiple answers, all other questions require a single answer from each of the two respondents. If each side choose the same box for a question, we consider it a match, and the score is zero. If the two parties chose different matches, then the score is measured by the distance between the two closest cells, expressed as a negative number. To get total scores, each group of three questions starts with 10 points, and the subtotal is calculated by subtracting the distance scores of the three questions. This means that a 10 is a perfect match score. The lowest possible score is a 1, namely when all three questions yield the maximum score of minus 3. The one exception to this scoring system is Question 13. There it does not matter whether the two parties answered the same cell: if both express no trust for each other, we should clearly not think of them as a good match. For Question 13 the scoring is done by simply measuring the distance to the higher trust answer.

The overall match score can be calculated in several ways. The easiest is to take a simple average of the five subtotals. We also consider alternatives ways of averaging the subtotals. For one, it is possible to give a different weight to each part. Another reasonable approach is to think of the score to the first part as a go-no-go decision. For this we first look if the subtotal in part 1 reaches a sufficiently high number (say 8), and only if this turns out to be true, we proceed to calculate the average of four remaining subtotals. Something similar can be done with the trust score in part 5: unless this reaches a sufficient high number, there is simply no point in considering a deal.

An example of use of the MATCH tool

To provide an example of how to use the MATCH tool we return to the WorkHorse case that we develop in the book. The action is set in early 2022, at the time of the veture's B-round. We ask how good the match between WorkHorse and GestütenTechnik is.

The Table below represents the answers in the following manner. Any cell with blue background represents the response of the entrepreneur (i.e., WorkHorse), any cell with grey background the response of the investor (i.e., GestütenTechnik), and any cell with green background represents a match where both the entrepreneur and investor agree on the response. The last column calculates the match scores for the individual questions, the subtotals, and the overall total.

In terms of results we find that WorkHorse and WorkHorse are is good basic match on geography, industry, and stage – a perfect 10 for the first part. Their deal preferences in the second part are also well aligned, as reflected in another score of 10. As shown in the graphical representation, these questions allows for multiple answers. This means that investors that have some flexibility (e.g., GestütenTechnik is happy to take common equity or preferred equity) are more likely to make a good match. In the third part about the resources that GestütenTechnik can provide, we find a lower match, with GestütenTechnik lacking in terms of expertise on how to solve leadership and organizational issues. Still, there is a good match on the technology and operations side. In the fourth part it appears that the two can work well together, especially in terms of refinancing and exit. The only issue here is that GestütenTechnik is a much more passive investor than WorkHorse is ideally looking for. In the final part on trust we note that both parties have an intermediate level of trust, reflecting mostly that they hardly know each other. Even though the two parties answered the same cell, the match score gets calculated differently on this question. What matters is not the distance to each other, but the distance to the 'A lot' answer. Hence as score of -2 on Question 13, or 8 on Part 5. The overall match score of 8.20 should be considered high, justifying the GestütenTechnik's investment in WorkHorse.

It is also interesting to note that all of the weak points in the match between WorkHorse and GestütenTechnik are compensated by some of WorkHorse's other investors. In particular, Eagle-I Capital and Vulture Venture are both actively involved in the company, and are better able to address its leadership and organizational challenges.

Match between WorkHorse and GestütenTechnik					
Questions					Match score
Geography	Not at all	A little	Medium	A lot	0
Industry	Not at all	A little	Medium	A lot	0
Stage	Not at all	A little	Medium	A lot	0
<i>Match Score for Part 1: Should we consider working together?</i>					<i>10</i>
Check size	Below \$100K	\$100K-\$1M	\$1M-£5M	Above \$5M	0
Security type	Convertible note	Common equity	Preferred equity	Debt	0
Board of directors	No investors on board	Founder-controlled	Balanced by outsider(s)	Investor-controlled	0
<i>Match Score for Part 2: Could we strike a deal?</i>					<i>10</i>
Customers and markets	None	A little	Medium	A lot	-1
Technology and operations	None	A little	Medium	A lot	0
Leadership and organization	None	A little	Medium	A lot	-3
<i>Match Score for Part 3: What do we have to offer to each other?</i>					<i>6</i>
Active involvement	None	A little	Medium	A lot	-3
Reinvestment	None	Below pro-rata	At pro-rata	Above pro-rata	0
Exit horizon	Below 1 year	1-2 years	3-4 years	Above 4 years	0
<i>Match Score for Part 4: How would we get on with each other?</i>					<i>7</i>
Trust	None	A little	Medium	A lot	-2
<i>Match Score for Part 5: Can we trust each other?</i>					<i>8</i>
Overall Match Score					8.20