



Christopher John Clegg

# How to Write a Business Plan That Really Works

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# **HOW TO WRITE A BUSINESS PLAN THAT REALLY WORKS**

How To Write A Business Plan That Really Works

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Running a business is rarely easy and can be both very difficult and a great deal of effort, so why bother? Because the Rewards of running a really good business can be exceptional, both financially and in lifestyle. And as the old adage goes, failing to plan is planning to fail. Putting the effort into making a decent Plan before starting out helps ensure it is worth the effort. Unfortunately there is no short cut to writing a really good business plan. But if you do put in the time and effort needed to do so, the good news is that you will end up running a really good business.

And do not be put off by the thought of 'writing'. You are writing a business plan, not going for the Nobel Prize in Literature. The people who will be reading your work will be busy, focussed and results oriented, including you when you refer back to it later on; your plan has to match that in style. So using brief, clear, focussed, logical and substantial bullet points, even if they are ungrammatical, is far, far better than reams of wonderful prose that could be mistaken as a cover for lack of substance.

So: what to do? How do you set about writing a Business Plan that really works?

1. Read this book
2. Think about it
3. Read again the bits that are most relevant to your business objectives
4. Decide where your business is now: size, sales, balance sheet, value and so on
5. Decide in the same way where you want your business to be in a specified timeframe: this will possibly be a few years down the road, perhaps when you could be aiming to sell up
6. Think about it some more
7. Research in depth and in detail all you need to know
8. Think about it again
9. Do your numbers on a spreadsheet
10. Work out how you are going to do what, when, with whom and with what resources in order to get and stay on the right track to get your business to end up where you want it to be
11. Work out who your plan is going to be written for, who is your target
12. Work out all the potential downsides that could get in your way, and how to deal with them
13. Revisit all the above in light of your new thoughts
14. Write the plan, revising it as many times as needed and in as many versions as needed
15. Write each version again cutting down the number of words and emphasising the relevant benefits

# 1 SUMMARY OF THE APPROACH

One way of looking at a business is to ask ‘What is in It for Me?’. And the first question that needs answering is: Who is the ‘Me’ in ‘What is in It for Me?’? Who needs to know What is in It for Him, who is the plan for?

The next question is ‘How big, and of what, is the ‘What’ in ‘What is in It for Me?’ What are the Rewards going to be?

And finally how likely is this ‘What’ to happen? What are the Risk factors that might stop it happening? And what can you do about them?

This is where we come in. There are four main sections of this book, and we take them slightly out of order because it is easier to explain and understand that way. Oddly, ‘How likely is the whole thing to happen?’ comes first because it explains a lot about the ‘Whats’ and ‘Whys’ that come later. Next comes ‘Who is the Plan for?’, because you have to know ‘What’ is being looked for before deciding ‘What Rewards’ you can best offer. Risk, Target and Reward.

Then finally, of course, the fourth section: you actually have to Write it.

## WHAT A BUSINESS PLAN IS FOR

It goes without saying the writer has to have a clear idea of what the proposed business is about; but in order to write a business plan that *really* works, it is essential that you also both have, and can show that you have, a full understanding of the following:

- what you, the writer, want to achieve
- who you need to convince to take action in order to achieve it
- what that action needs to be
- what will attract the reader to say ‘Yes’
- what will put the reader off, or even say ‘No’

At the most basic level, a business plan is simply what the people responsible for the business expect to happen over a defined future period: what will happen when, and why, and with what results; and what resources might be needed in order to achieve it. For a simple and stable business, this will not be difficult to determine. Just keep doing what has previously succeeded, and you will probably get the same results; fairly easy to work out what is going to happen. Unfortunately, there are not very many simple and stable businesses. Working out what is likely to happen in a changing world is more taxing, and much more interesting.

Business is all about making money, converting your starting money into more money: adding value, making a profit. Perhaps the simplest business is just to sell a skill or service with no complications, doing something that other people want or need and are prepared to pay for. Your cost is nothing, other than your time, so all receipts are profit. But that rarely ever happens, there are nearly always some overheads or expenses that reduce the profits. Maybe you need to buy materials in order to sell them at a higher price; perhaps you need premises from which to operate, or vehicles in which to travel; you probably need to pay for other goods and services in order to continue doing what you do; sometimes you have to buy expensive equipment before you start because that's what you use in your work; you may well have to publicise what you are doing in order to alert and attract potential customers; then you may well have to employ others in order to make the most of the opportunities, with all the inherent difficulties and costs involved in that.... Before you know it, you have a complex business that needs to be planned for and thought about in quite a lot of detail if you are going to get the best out of it.

And while each level of complexity adds extra profits (or if not, why bother?) it also increases the risk that something will go wrong. So how do you work out how likely the whole thing is? We look at the variable factors that influence profits, and what can be done to assess, manage and mitigate these variables. We identify the risks associated with businesses and deal with them practically.

The whole point of any business is to make a profit, so it is important to show how much will be made and when. For any successful business these potential Rewards must be bigger than the Risks, and this is certainly a judgment that is going to be made by anyone choosing to back the business. We will look at how to assess, quantify and make judgments about Rewards, what any backer will want to know, and how you make sure you tell them just that.

But describing in some detail what might happen in a business is not even half of what a business plan is about. In many ways, working out what will happen is the easy bit. The key to writing a business plan that really works hinges upon why you are writing it. If it is just to satisfy your own curiosity, it will be fairly easy; but if it is going to have to satisfy someone else's curiosity, to the point where they end up saying 'Yes', then it will have to be written with care. So even before getting to grips with the mechanics of actually writing the plan, it is essential to understand what you are trying to achieve and who you are trying to influence by writing it.

There is really only one productive reason to write a business plan: to influence how people behave.

If you are writing a plan solely in order to monitor business progress, providing targets against which you can measure how your business progresses, the plan is simply a projection, which again is relatively easy. But if it is important that the business runs to this plan, then it is also true that the plan itself has to influence behaviour, even if only providing you yourself with the motivation necessary to keep you on track.

Whether asking for extra resource or seeking funding from outside sources a plan has to be written to generate enthusiasm; and not just enthusiasm, but enough enthusiasm to get positive action. Which means you have to understand what your target wants, and this in turn means understanding what might influence him and how it does so; it means getting inside his head, understanding his 'hot' buttons, analysing your business in the same way that he would in order to get across the message that you want him to receive.

A major consideration for a backer is to minimise his downside, so it is important to appreciate how you can add comfort for backers, and how Risks and variables can impact the message you want to give. Once you have a fair understanding of what your business has to offer, you need to decide how much money it needs in order to achieve it, and what 'kind' of money that is. And finally you need to interpret all this to make your proposition sufficiently attractive that your target says 'Yes' without imposing restrictions on you that are too burdensome.

Then it is crunch time: the next major step is putting your case, both in writing and in person. Because after the backer has read the plan, he will want to meet you to get it explained, and test you out.

First of all we are going to look at what we mean by Risk, how to assess it, and what can be done about it.



## 2 RISK

Rewards must be bigger than Risks.

The fundamental issues for the reader of a business Plan are: Will he be more likely to make money than lose it? What does he see as the Risks? What are the implications for him, his money, or his job? How does he rate the assumptions you have used to build your Financial Model?

Recognising Risks is relatively easy. Business is all about recognising what might go wrong, assessing and pre-empting it with sensible actions. More difficult is to persuade the serious reader that you have everything possible covered: that you will be able to manage all that fate throws at you, and that his benefits outweigh his downsides.

### **What is ‘Risk’**

Many people do not properly understand the nature of ‘risk’. Risk per se is not dangerous; it is the consequences of what happens should the risk occur that might be. When given the choice between something high risk or something low risk, most take the low risk option; a few, possibly suspecting a trap, take the high risk option; only a small minority ask “risk of what?”, and of course they are right. The original question is fundamentally flawed, because it does not give any information about the consequences should the risky event happen. Risks are the factors that allow unpredictability to creep into an outcome.

Each risk has two components:

The likelihood of it happening, and  
The impact it has should it happen

In a business environment, these are most easily distinguished by considering two simple situations.

It is quite common in any business that from time to time human error will cause invoices to go out late. This is annoying and might cause some local difficulties, but it is unlikely to cripple the business. The risk is likely, but relatively trivial.

On the other hand, it is very unlikely that a dishonest employee will remain undiscovered for long enough to embezzle a business-crippling sum of money, but it could, and sometimes does, happen. This risk is then unlikely, but major.

In all probability, few people actually care about the risks to a business per se. What they care about is what you, the management, do about them, and the impact they have on the bottom line should they happen. External factors such as tax, exchange rates, the price of energy, or industrial action, to mention just a few, will affect performance; management's role is to minimise any negative impact, taking full advantage of helpful influences. It is how the management deal with Risks that matters: how they minimise both the variables and their impact on the business.

How is it simplest to assess these considerations when looking at risk?

Clearly the first step is to recognise what risks are threats. Below we deconstruct what 'business' is, and look at several different factors in more detail. By separating out these aspects and analysing them more closely, the different natures of various Risk factors become readily apparent. It becomes much easier to assess the likely impact of what might, or might not, happen and either plan for it or put an awareness of it in your plan. You will be far more ready and able to discuss your business with prospective backers, knowing that it will be unlikely that they can come up with something you haven't thought of and planned for.

These are the five different aspects of 'running a business' that we look at:

<b>Vision</b>	this summarises what you are trying to achieve and how far you are trying to go, and is itself subdivided into Concept, Marketplace, Revolution/ Evolution, Focus, Size, Scale, Scope and Timing
<b>Stage</b>	which describes the maturity of a business, from start-up to large and established
<b>Model</b>	this is the mechanics of how you propose to do it, and is subdivided into Sales/Marketing, Operations, Resources and Finance
<b>People</b>	are the biggest risk factor all, being responsible for bringing the whole thing to life. 'People' is subdivided into Character, Experience, Knowledge and Capability
<b>Motivation</b>	which is perhaps easy to define, yet most difficult to maintain under pressure.

But before we delve into the details of the various Risks, we need to have a quick look into how they can be assessed.

## **Quantifying Risk**

Traditionally, 'risk' is found by multiplying the likelihood of occurrence by the severity of impact. Unfortunately, this is less helpful than it might be because, while the mathematical product would be the same, the impact on a business of a 'likely but trivial' risk is actually quite different from that of an 'unlikely but major' risk. They differ in quality. This does not mean that the 'unlikely but major' risks can not be coped with, merely that they have to be properly assessed. Understanding what to do with which risks is the key to success.

When considering any particular factor, you need to decide whether it has more of a 'likelihood' or of a 'severity' character. In real life complex factors will obviously have components of both, but the trick is to isolate particular factors into their simplest components, which are likely to influence just one dimension.

Assessing Risk is purely subjective. Every risk factor you assess will be done subjectively, upon considered reflection and preferably after discussion with other informed people. The more you do this kind of analysis, the better and more reliably consistent will become your judgments. It's a bit like learning the violin: horrible at first, but with practice it can become deceptively simple.

## **The Business Plan: Vision Risk**

Vision is what gets your juices flowing. If there's not much Vision, it's not exciting so it is unlikely to appeal to those who are looking for high rewards. So, for example, the Vision has to be very exciting if you wish to get a Venture Capitalist or Business Angel on board. For Banks, vision is clearly far less important than security and certainty.

What are you trying to achieve? We said that Vision breaks down into various component parts, so we look at them in turn:

### **Vision: Concept**

What is really unique about your proposed concept? Is there anything really original about it? What are its inside track and unfair advantage? What makes it tick? Does it promise recurring revenues, and realistically how good could it get?

### **Vision: Marketplace**

The context of the business in the world at large is inevitably key: how does it interact with what is already in the Marketplace? How possible is it that competitive pressure could have a significant impact?

What is the macro environment your opportunity is attempting to flourish into? Equally to the point, what is the macro economic environment itself doing? For example, what are the general economic trends and are there any sector specific trends? Which way are any technological and social trends moving? What is existing mainstream manufacturing and international competition doing? What might help or hinder? Does the business depend upon an existing widespread infrastructure, or even could it need to create one from scratch, as in LPG or electric cars, or in communications? Can any suppliers control critical resources?

What is the market like: is it fragmented, or monopolised by one big player? Who controls the market: are there any pre-existing entrenched positions, vested interests or standards? How likely is it that any potential competitors will take unassailable advantage through contract, relationship, price, technology lock-out, or whatever? If there is no competition, why not: is it because the market does not really exist?

Are there any 'on-off' factors? How mature is the sector, what barriers to entry already exist and what could you introduce yourself? What is the cost of such entry?

What is your expected time to market (multiply this by at least two!), and what follow on opportunities exist? Can you create any alliances to leverage your business?

### **Vision: Revolution/Evolution**

Is your opportunity evolutionary, in that it is taking a new stance or development on an existing technology or market? Will you find a receptive market keen for better? Or is it revolutionary, disruptive? Are you going to have to educate everyone about something new, no matter how good? If so, how much money will you need to throw at it to succeed?

### **Vision: Focus**

Is it a one-product business? Or worse, are you a one-product entrepreneur? Or even worse, is there a grave danger that you are so full of great ideas, possibilities and opportunities that it becomes impossible to focus on actually doing one? Or can you create a sensibly balanced plan?

### **Vision: Size**

'In early stage deals, size matters'. How big is your business Plan's starting point?

### **Vision: Scale**

How far do you want it to travel: what is your upside, how big could it get? What would be needed to increase sales a thousand fold, ten thousand fold, ten million fold? Are there any economies of scale as volumes increase?

### **Vision: Scope**

Are there any synergies with other of your products or services that can be exploited on the back of successful sales, customers, relationships or brands?

### **Vision: Timing**

As an Angel investor once famously said: 'If you think you have identified a real opportunity, then you had better go like mad into the market.' Why now? Who else is doing, or is about to do, the same thing?

### **The Business Plan: Stage Risk**

David Berkus is one of the original Californian Business Angels and is renowned for his thoughtful and practical contributions to Business Angel thinking. He has written several books on the subject, and devised his own method for making rough valuations of early stage businesses. As a business grows and develops, various milestones are passed and several major difficulties overcome. Working prototype, first sale, repeat sales, multiple customers, recruitment, sustainable profits, experienced management team, senior non-executives on the Board...each step progressively demonstrates that the business is a good one, here to stay. But of course, no business has ever started off as a mature profitable enterprise.

Stage is what it is: if it is very early, you know it is riskier. Factor it in, of course, but don't discard your ideas just because they are early Stage. Every business ever has started from small beginnings, and always will. With excellent Motivated People (you) with good Vision and a Model that is realistic and simple, and doesn't rely on re-educating the world, you can manage the higher Risk inherent in early Stage businesses, especially if you are going to have the close involvement of an experienced mentor.



## The Business Plan: Model Risk

It is worth making a quick note to clarify one essential point: a business Model is often easily confused with the management's ability to implement it. A Model is management independent, a matter of theory: is it elegant? Should it work? Does it depend on magic moments? How competent would you need to be to implement it? Have you remembered you can only recruit people, not Super Heroes? How does the business convert your expertise and resource into bank balance?

There are four pillars of the business Model:

<b>Sales and Markets:</b>	what is to be sold and to whom
<b>Operations:</b>	how is it to be organised
<b>Resources:</b>	what are needed to achieve all this; and,
<b>Finances:</b>	what money and information are needed to keep the rest on track

## Model Risk: Sales and Markets, Product / Service

What are you selling? Have you ever seen a solution without a problem? How many great ideas have there been for things that no-one wants? Maybe that's unkind, but if you take a look through the records of the Patent Office you will get the picture.



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On the subject of Patents, what is your Intellectual Property Rights position? Do you own or licence the rights to your product or service, and is it protected? Intellectual Property is highly prized because a Patent, or better still a ring fence of Patents, makes a good barrier to entry. But while getting a Patent granted is relatively easy, getting it granted throughout the world, and especially keeping one throughout the world, becomes very expensive. Often this means that even though there is a Patent, prohibitive costs have forced corners to be cut leaving holes in the protection. Ironically, the better the commercial outlook for a device, the more likely it is to come under the competitive scrutiny of major competition, and major competitors tend to have very deep pockets. What is the litigation risk? Is Patent protection insurance a consideration?

Does it work? What are its main features and benefits? What competitive edge does it have? Are there any technological dependencies? What is the probable technology lifetime of the product? How much will it really cost to be market ready? Is the profit potential enough to give a satisfactory return on investment of capital, time and opportunity cost?

### **Model Risk: Sales and Markets**

This is the most basic consideration of all: without a market, there is no business. How big is the market? How mature is it, how fragmented, how accessible, and with what potential? How well do you really understand it?

Do you have a believable way of generating revenue and how are you going to achieve it? In practice there can be any number of ways of doing this, with no unique solution or right or wrong way: so does your way make sense?

What evidence can you provide that there is demand out there? Who are your customers and has anyone bought yet: are there any letters of intent or other proof of your value proposition, other than from your friends and family? Why will customers part with money? And keep on doing so? How many can you sell at what price to whom and how often? What are the sales conversion ratios and is there any evidence to back this up? How profitably? How achieved? Without costing too much to serve? Will your customers become loyal? What are they doing now without you?

How will you achieve all this and with what marketing costs? How much money will you make, and are there any scale dependencies? How will you ensure that all this is repeatable?

What are those customers doing now as an alternative? What alternatives could or do exist? What is your competition: who else is supplying or attempting to supply your intended market, and with what resource and success?

Is there a Regulatory or Compliance reason your product or service should be bought, and what will complying cost?

Market reports can be very useful sources of background research, but readers should be aware that the researchers don't usually have their own money being risked on their reports!

### **Model Risk: Operations**

If your sales and marketing model is believable, once you have captured the demand can you satisfy it in a way that makes sense? What is your Distribution strategy: can you make and deliver your product to the right place at the right price and on time? How in practice will the product be sold, made, transported, stored, delivered, invoiced, paid for and so on? Are your Operations in line with and sensitive to your planned growth? Is your administration thought through, at sensible salary levels? Does it look effective and efficient, and how competent would your management and staff need to be for it all to work smoothly? Have you remembered to allow for errors frailties and imperfections?

What information, controls and systems will be important in running the business?

If there are any requirements for regulatory compliance, have you thought these through definitively?

### **Model Risk: Resources**

What things, space and people are needed to do all this, and how does this change as the business grows? Have you got enough – of whatever! – planned in to make it work? Without wasting cash on over supply, yet without being under-resourced? Enough of the right people in the right places at the right times? Enough physical space, both for people and for things? Transport, logistics? Information? Technical? Intellectual?

What skills, resources and relationships do you already have? We're not asking here about your entrepreneurial flair, but we are asking can you show that you appreciate the sheer management issues of resource availability and allocation, and can cope.

What are the potential problems and disasters? Have you planned for enough resources to cope with the unforeseen? If not there'll be a very high chance that you will run out of cash, and have to go cap in hand for more.

### **Model Risk: Finances**

This pulls together everything in your model. How sensible is it? This is not just about the obvious question, is there enough cash, it is about whether there are any key dependencies or drivers, and if there are there any major weaknesses.

What information do you propose to collect, how will it be measured, why, for whom, given to whom, with what result, repeatedly, consistently, compliantly?

Are the assumptions you are basing your projections on sensible and realistic? It is worth noting that 99% of plans never achieve projections, mainly because the vast majority of plans assume that everything works without hindrance, rather than that they will have to operate in the real world with rain, bad hair days, staff off on 'sickies' and the internet down.

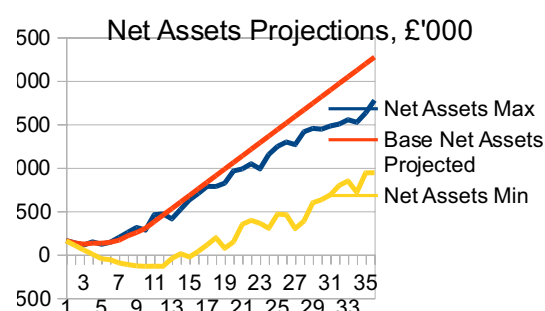
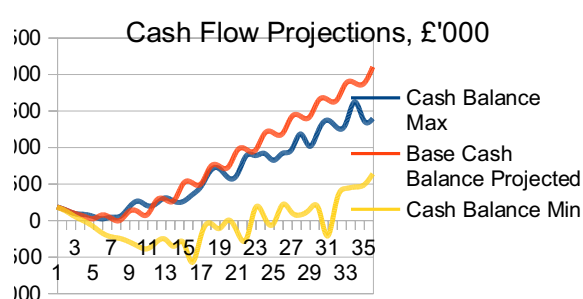
Looking at your financial assumptions, you have to decide what realistically could go wrong and how in practice your assumptions might vary. And as you are going to have to do something about it, this is a great place to start. A key element of understanding what could go awry, what could need to be closely managed, is to give each of the financial assumptions a range of values, rather than a single number. Each range is arrived at after detailed consideration of how you propose to implement your plan.

One very simple and obvious example is Debtor Days. Many businesses have to extend credit to customers, and then call in the money owing. In their business forecasts there is an assumption about how long that takes; typically, a business gives 30 days credit, and their plan makes the assumption that 30 days after invoicing the business gets paid. Then ask yourself if you have ever even seen a real business where they actually get paid exactly in 30 days? Not a day early or a day late, ever?

Of course, spreadsheet technology is a major factor that limits any alternative to this approach when you are doing your forecasts, but that does not make it true in the real world; and anyway you can do variable forecasts on a spreadsheet with a bit of skill imagination and patience. A real business that demands payment in 30 days is actually doing quite well if it gets paid in anywhere between 30 and 50 days. Some customers pay well, others are always a struggle, and the reality of the situation is that in a case such as this debtor days would be better expressed as 40 days +/- 10 days.

So in traditional business plans each of the financial assumptions, such as the time it takes to get paid, is typically specific in order that it can be easily projected, and is a simplification of real life. Even if for no other reason, this makes the financial forecasts wrong simply because a single figure has been assumed, when in practice the reality is that the figures falls within a range. By including your own assessment of this range you are effectively showing how good you are at managing, how well you understand and can control what's going on.

The impact such variations can have is vividly shown in the following graphs, taken from our fictitious business plan example, where the red lines are the 'traditional' projections. The blue lines give the upper range with variable assumptions and the yellow lines the worst theoretical position.



There are three lessons to learn from this. Most obviously is that the 'max' position is actually worse than the 'base' position, the traditional projection. Upon reflection this is not so daft. Consider simplistically the business of running a hotel: there is a limit to the number of rooms that can be full, and it is impossible to make up a day's shortfall by renting out over 100% of the rooms on the next day. Wherever there is a resource limit – people, space, whatever – it is impossible to exceed it, but it is only too easy to leave it a bit underused. In other words, where there is a resource limit the variability is asymmetric: 'down' can be worse than 'up', as 'up' is restricted.

Secondly, the 'min' position is highly artificial because the projections are just projections, just numbers. There is no management input to make any difference or change the course of events. Inevitably in any business there will be bad days, but no competent manager will simply ignore them. He will do something about them, perhaps put extra effort into pulling in debts, getting alternative suppliers, improving staff training: whatever is needed. So, in a real business the worst positions from the graphs will not arise, because these worst positions arise from compounding bad day after bad day without intervention.



And you will also note that even in the 'min' position, the dreadfully run business would still turn out viable if allowed to survive its worst cash balances.

Making allowance for the variations that real life brings into the equation highlights those areas in the business where value is most quickly lost. Assessing these variables has obvious implications for the subsequent management of a business: it is how management deal with the variability of real life that matters; how you minimise the impact of variations and risks, making your financial projections more believable and your results more achievable. Some variations may be more within the control of management than others, whilst other variations might require management to be responsive and flexible. It enables you as management to focus on the business variables most critical to success, and most amenable to your influence.

There are up to 12 independent assumptions of financial inputs you may need to make for projecting your Financial Model, and 6 of these can vary in both of two ways. Each of these is a variable, but some are more so than others. Each assumption in the list that follows can potentially vary in ways that will have major impact upon your business model and forecasts, and all the potential significant variations will have to be factored in. Not every assumption is relevant to every business, while some less traditional businesses may have to use additional assumptions:

	Start variation	Growth variation
Sales £	+/-£	+/-£
Unit Sale Price £	+/-£	+/-£
Marketing £	+/-£	+/-£
Payroll £	+/-£	+/-£
Sales Lead Time months	+/-months	
Capital Expenditure	+/-£	
Cost to produce £	+/-£	+/-£
Creditor months	+/-months	
Debtor months	+/-months	
General O'heads £	+/-£	+/-£
Stock turn months	+/-months	
Interest rate	+/-%	

The earlier the stage of the business, the greater will be the range of the potential variations in the assumptions, and the better managed the business will need to be in order to succeed. This is, of course, not as nice as being able to be precise, but it is what it is. You need to understand both the Risks and how your assumptions might vary in order to give yourself the best chance of succeeding.

Is your model realistic, in the sense that it is in line with your management ability and experience? Will you be able to control your business and keep to plan? Do you actually understand your finances and who needs what when, for if you can't show that you do and are on top of them others are unlikely to trust their funds to your stewardship. Model is not overly important for Business Angels or Institutional Investors, because if they like you and your People and your Vision, they will help with your Model. But Model is everything for Banks and Grant Funding as they do not want involvement, they just want results.

The next issue is: could the backer work with you? However good your business model is, someone has to make it happen, turn it into Bank Balance. That someone is you.

### **People Risk**

So far, the Business Plan is theory: maybe good, maybe less so. But even if it's the greatest, it's still theory. And People, the means by and through which all else becomes reality or not, is the biggest risk factor of all. Before going into detail, just think for a moment about the overall picture.

People convert the business Model into bank balance. They are key, always; but even more so if you are trying to get a start up or early Stage business going. People, and that means you, have to be good, you have to be Motivated, and you have to be able to show that you will remain so throughout the plan.

It is worth looking at this from your reader's point of view. He is the person you are trying to convince, maybe to put money in. What can you say to convince him that his money will be in good hands with you?

Can you produce any evidence from your CV that you can do it? What is your track record? You also need to be aware that in the process of growing a business to attract a purchaser, the business becomes increasingly attractive to you as a lifestyle. You have to persuade someone you have never met and whose only knowledge of you is what he is reading. You have to demonstrate both that you have the ability to implement your plans, and that your goals coincide with his.

## **What is an entrepreneur?**

An entrepreneur could be described as someone who knows where he wants to get to and works out how to get there, not someone who is not sure where he is and needs to work out where he's going. As Andrew Carnegie said, 'Pay less attention to what men say, and more to what they do'. Be aware, though, that you may need to exercise caution in describing your attributes, depending on who your plan is targeting. There are many different aspects of entrepreneurial flair, none wholly correct, certainly none without exception and not all of them good. You can see from the following list of typical entrepreneurial attributes what different targets will be looking for, and what they will be looking to avoid!

Intuitive, able to see the big picture without losing attention to detail; competitive to a fault; innovative operating style; risk taker, thrill seeker, lover of novelty, unpredictable; impatient, impulsive, obsessive, short attention span, multitasker; charismatic, enthusiastic, passionate, inspirational; inductive, subjective, 'gut' decision maker; a need to prove something, to overcome insecurity or inferiority; perfectionist, striving for superiority, natural leader; able to cope in all environments, never phased; goal oriented; high self esteem almost to arrogance.

The attributes a backer should be looking for in an entrepreneur are those suited to a leader: creating and growing a business, and fighting his corner against all comers, overcoming all the obstacles on the way to reaching break even and self sufficiency. But being excellent at one function does not necessarily mean being excellent at others: starting, developing and growing a business is not the same as successfully running a mature one. It is a case of horses for courses: even the best management experience in a large corporation does not imply competence at Start Ups. What do you need in order to demonstrate 'competent management'?

There are four major risk factors in People:

**Character**  
**Experience**  
**Capability**  
**Knowledge**

all have to be present, both in you and also in your team.

### **People Risk: Character**

These are all fairly obvious positive character traits: trustworthiness, honesty, reliability, integrity, strength of character, ability to listen and learn, hard working, showing commitment and enthusiasm, likeable; someone who adds value, someone who can focus.

With Character Risk, you need to show you are honest: by way of obvious examples not moonlighting for the competition, posting the business keys back to the bank or likely to run off with a secretary. Backers will be particularly sensitive to any suggestion that you might be cutting them in on a closed deal; they will think of you as a wheeler dealer, and wonder if you are trying it on with anyone else. Do you have any existing stakeholders who are being forced to dilute or make compromises, and what is your approach to that? Don't get caught suggesting questionable tactics regarding tax or domicile; not that sensible planning is in any way negative, just make sure it is above suspicion.

Moral hazard is the catch-all term that suggests that people might not be straight in their dealings, that they might cut and run should the going get tough, or in extreme cases simply that they are dishonest. A bank will often demand a personal guarantee from a borrower in order to focus his mind, and ensure that it stays focussed: to ensure that his motivation to repay the loan does not waiver in future.

Many successful businesses have been founded by entrepreneurs who left established companies where they identified a niche market their employer did not want. Often, the new business has the former employer's blessing, and may even have been sold or given away. But, whilst this is undoubtedly true, be very aware that if there is any uncertainty involved, not to mention deception or skulduggery, any backer will quite rightly run away instantly.

With Character Risk, you need to be ten out of ten. No question, no debate.

### **People Risk: Experience**

Have you ever been through the pain barriers of, for example, recruitment and providing training? Do you actually know what it takes? Or, somewhere in the middle of the plan, do you say you will recruit a sales force, and from that point on sales increase exponentially? Obviously here if you can show any track record of success it will be extremely helpful: of growing a business, of recruiting and managing a team, maybe even of involvement in a successful business sale.

You may well be asked to provide an early version of your plan, as that often gives a particularly useful insight into your story. When was it first written, and what has happened since then, and why? How many times have you been round the block? What's changed, and why?

Equally valid is to be asked for an early written plan of a previous business in which you were instrumental in order to see if you got anywhere near your forecasts. The more you are asking for, the tougher the questions will get, so it is best to be well prepared.

You can't buy experience, you have to go through things and learn from them to get it. But if you have exemplary Character, high Motivation and are Capable of learning, you can get away with some inexperience if you are prepared, and allowed, to go through an intensive and possibly painful learning curve.

### **People Risk: Capability**

Can you actually do it? Can you grow a business? Can you implement, and get others to do it too?

Unfortunately, time won't have any impact upon your ability: either you've got it, or you haven't. Coaching and training may well help, but only if the ability to learn and adapt is already there. Your Capability must already be demonstrably high.

And if you are to have any chance of attracting the money or resource you need, you will have to show financial capability.

### **People Risk: Knowledge**

What do you know, and how relevant is it? What expertise do you have regarding your chosen industry and technology? Are you known and respected by others in your field? You probably know more about your technology and model than your reader does, but what about matters of pure business?

Do you fundamentally understand all that is required to turn your Model into reality? Do you understand enough about sales and marketing, and who will be your customers? Do you understand accounts and finances? Are these enough for the business? If there are any areas of knowledge where you lack confidence, you or a colleague must acquire them, or forget about your plan.



## People Risk: The Team


Business needs a rounded team: those people who create work, and those who actually do it, sometimes repetitively under difficult conditions. Those who decide what to do, and those who need to be told what to do. People who can sell, and those who can count and record. It takes all sorts, literally.

Do you recognise the various role requirements of manager, creative and technician? Are you a leader, a manager who can inspire a team? If you have already brought in competent associates, it tells readers that you have a certain charisma and can sell your idea and motivate others, as competent team members who have already committed will already have made their own assessment of the viability your project.


Another useful way to look at a team is to draw up a functional organogram. Analyse the positions in the business that need to exist in order to function optimally, and build an appropriate reporting structure to accommodate them. Write down a summary of each job description, allocating personalities to each role and identifying all the characteristics of an ideal candidate. Can you identify all the roles, and how many are currently competently filled? Where are the gaps?

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How is your team going to react to external advice? What's the chemistry, is there a personality clash? The more competencies your team has overall, the greater is the risk tolerance of the other factors. When looking at a team, think 'balanced'.

### **Motivation Risk**

The next insight the reader will gain from your plan is your motivation. What have you already sacrificed for the business in terms of cash and sweat? Neither has any financial value at this point, but they do demonstrate your commitment. What are you proposing to pay yourself, and what car are you proposing to drive? Do you come across as greedy, or needy for higher salary and benefits than are justified at this stage of the business? Are your personal and family goals in line with your aspirations for the business? Do you come across as exit or lifestyle oriented? You still have to live, of course, but you should wait and take benefits from the cash profits when they come in.

Is the business your 'baby': will you be able to let some of it go?

And what do you stand to lose if you fail to deliver? It is very important to show that your commitment to success is underpinned by fear of failure. You need to show that irrespective of your absolute financial position any potential loss you might suffer is relatively substantial and that you have nowhere else to run should times get difficult.

### **Risk Management**

Risk Management encompasses recognising what risks are relevant, assessing them as to how they might impact upon the situation, and developing courses of action to prevent or mitigate those impacts.

In general, the strategies to manage various specific risks include

- Avoiding the Risk;
- Transferring the Risk to Another Party;
- Reducing the Negative effect of the Risk. This comes in two forms:
  - reducing the likelihood of occurrence, or
  - reducing the severity of impact should it happen; and
- Accepting Some Risk.

Ideal use of these strategies may not be possible as some of them may involve unacceptable trade offs.

### **Avoiding the Risk**

First, risk can be avoided. Fairly obviously, you do not have to accept any risk if you don't want to: just say 'no'! The only drawback with this approach is that if you do want to be involved in any business, you will have to accept some level of risk, and if you just can't get comfortable with it then you need to accept that the entrepreneurial role is just not right for you.

### **Transferring the Risk**

Next you can try to transfer some or all of the risk to a third party. This is possibly the best way to cope: you may not be able to reduce the risk itself, but you can share it. Get others involved, especially in both decision making and strategy. For 'unlikely but major' risks, you can often pay an insurer to take the risk from you.

### **Reducing the Negative Effect of the Risk**

Reducing the risk comes in two shapes: reducing the likelihood of occurrence, and reducing the severity should it happen.

The more research you do, the more you will discover and draw attention to risk factors and the less likely they are to happen. You will also be better positioned to put in place measures to reduce the severity of a factor. As they say, being forewarned is being forearmed: having an awareness of the potential of what could go wrong puts you in a great place to prepare contingency plans and minimise any damage.

### **Accepting Some Risk**

Finally you might decide simply to accept the risk: it is either so imponderable or so unlikely to happen that you just resign yourself to taking it on the chin should it happen, or it is so trivial that it doesn't much matter anyway.

And in your Plan, having identified such risks and proposed this strategy, you will have covered yourself against recrimination. Alternatively, the experienced reader – bank, investor, whoever – may come up with a solution simply because they have seen it before. Either way, they will be more impressed that you have a clue.

It is also very possible that if your backer is going to be actively involved in the business the identified risks are likely to be significantly reduced. Having an experienced businessman closely involved in helping decision making or day-to-day mentoring reduces risk factors because he may well have dealt in the past with similar situations: he knows better what to look for and what to expect.

## **Risk Homeostasis**

Risk homeostasis implies that each individual has an inbuilt level of acceptable risk which feels comfortable, and this varies between individuals. When the level of risk in one part of the individual's life changes, this tends to mean that there will be a corresponding counterbalance in what and how much risk is acceptable elsewhere.

There are implications here for how you write your plan. Many studies have shown that those who value the future more highly have lower accident rates and take fewer risks than those who discount the value of the future. With that in mind, you can see that the higher is the perceived risk that your plan might fail, the more capable and determined you must come across to ensure that every potential risk is overcome.

## **Non-Financial Risk**

We have looked at the personal characteristics of the management team and how supremely important it is to avoid the suspicion that you present a risk of Moral Hazard. You really do need to be aware of the downsides that others might see from their perspectives.

When thinking about your plan, it is also essential to appreciate that the reader might well be concerned about many risks other than the purely financial. All major businesses have hard earned reputations to consider, and will want close control of the image and public relations of any new project. There is always concern about litigation, about Intellectual Property, about other non-financial liabilities; and especially with large companies there will be concerns about the greater corporate strategy, and how any new project might fit in.

Again, investors can perceive themselves to be at risk in several other, non-financial ways. Personal Risks again include threats to reputation, and there will also be concerns about how much time the investor may have to commit with what impact upon his lifestyle. Of course he may well want some higher level involvement, but he will hardly ever want a full time job. And if he feels there is even a small risk that he might have to end up having to be too involved, he is likely to be doubly wary.

We have looked at what we understand by Risk and the uncertainty inherent in Risk. Next we need to ask what readers look for in a Plan, how do they decide if it's worth meeting the authors? If you can get that right, at least you'll get to meet them and put your case.

### 3 UNDERSTANDING OTHER PEOPLE'S MOTIVATION

The first step in getting other people to act is to work out what motivates them: 'What Is In It For Them?'

If your Plan is for your own purposes, motivation will look after itself. If it is designed to persuade a backer to provide resource, for example for a new project, you will have to pitch to their specific requirements. Usually, to do this you will to appreciate their need for Return on Investment, Internal Rate of Return, payback periods, terms and conditions... whatever their criteria, ensure your plan delivers.

If seeking money from outside, you first have to decide what need the money for: for short term cash flow support while customers pay you, or to cover quarterly VAT; for longer term finance of capital equipment or plant; for investment in people to make something happen which is currently under-resourced; for developing a new product or market...or what?

Whatever the reason, it will have a Risk and Reward profile that you'll need to understand and match with the best source, in order to make a case that fits with their reason for funding. Don't forget that so far as the reader is concerned, the most important thing is 'What's In It For Me'; anything and everything that gives him what he is looking for is good, and anything that gets in the way of that is bad.

#### WHAT KIND OF MONEY

It might seem as if 'money is money is money': that there is only one kind, and you get to spend it.

But for those people who have enough money to invest, either of their own or on behalf of others, it can be a very different story. They often have very specific requirements as to what happens to their money, what conditions they attach and what they expect in return.



Any backer will want to reduce the downside of his perceived risk as far as possible, so it is essential that every entrepreneur fully understands where the backer is coming from. For example, acting as a manager for an institution that has money to lend or invest has its own problems and issues, not all of which relate to the decision whether or not to back you. It is very different if you have your own money as a wealthy private investor. But trying to deal with an independently wealthy investor, answerable to no-one but himself, brings its own set of problems. And if an entrepreneur doesn't appreciate such differences, he is unlikely to succeed in persuading someone with money to part with it.

It is critical that when writing a Business Plan that you understand the nature of money. You need to have a very clear understanding of what you need, why you need it, what you will use it for, how long you need it for, what is the risk profile, what returns are you offering, and what you have to provide in return.

Deciding correctly what 'kind' of money you need is essential because approaching the wrong type of backer is embarrassing, and certainly a waste of everybody's time.

### **Grant, Award, Charity and Trust Money**

If very lucky, a business can be given money. Obviously this comes with the toughest set of rules and expectations.

- Risk factor:** High, but very specific. Usually the money is on offer purely because of the higher risks associated with the required goals, whatever they are. But they will want their Reward
- Reward:** Achievement of the required goals
- Target:** Very specific and highly targeted

Where the money is needed for something that somebody has decided is for a greater good, a Grant just might be available irrespective of the risk just because the outcome is considered desirable.

There are (probably?) thousands of sources of Grant, Award, Charity and Trust money, on offer for a host of different things...employee training, vocational education, environmental improvement, business development...right up to specific awards for original product development and research. There are probably as many different sources of Grant and Award money as there are Grants and Awards, and just finding out about them can be difficult and time consuming. Applying for them is often painful; and actually getting funded can be a great achievement.

Grants aren't usually just about handing out money to any aspiring business, they are specific. And they often insist on some form of 'matched funding', meaning that you may also have to source the balance elsewhere.

Each year there are also numerous awards that are also up for grabs. These usually recognise achievement, and can often bring publicity as well as financial support. Awards are therefore a limited source of funding for some businesses, giving the few businesses who qualify a significant boost to their development.

Grants and awards are particularly suited and available to:

- Start-up businesses

- Younger entrepreneurs

- Businesses in industrial areas with above-average unemployment

- Businesses in rural areas

- A business with a specific, often socially worthwhile, project they could not otherwise hope to complete.

You usually have to qualify on at least one of the following criteria to be considered:

- Geography

- Business Stage

- Business Sector

- Business Purpose: for example, young person start-up, ethnic minority, social need, and so on

Each Grant will be awarded for its own particular reason, and have its own set of idiosyncratic rules. Applying for it will be a one-off process, so applying for several Grants is a major undertaking. The only way to succeed is to do exhaustive research about the Grant and the Awarding body to ensure the application is appropriate, and then go through every hoop and over every hurdle they put in the way. Exhausting, yes; but if the money and the pay off are large, it could very well be worth while.

More often the business will not qualify for a Grant and the money that is needed is definitely at commercial risk, so there remain only sources of risk money: Banks, other lenders, and Venture Capital. Next we look at banks and other lenders.

## Lenders

- Risk factor:** Very low to zero. Will often require security and/or guarantees  
**Reward:** Low-to-modest. Interest and Capital payments in full and strictly on time  
**Target:** General, low risk, usually asset or cash flow finance against debtors

A bank is a financial institution whose primary activity is to make a profit by acting as a payment agent for customers and to borrow and lend money. It is an institution for receiving, keeping, and lending money. As it has to repay its debts, it has to know that its loans are safe. It does not take risks.

Banks use other people's money themselves. Their shareholders provide the bank's capital base, and this is leveraged with additional borrowed money. Both shareholders and the providers of additional funds want a return, so the bank has to use the money at its disposal to make a margin: it has to lend it out at a bigger rate of interest than it has to pay.

Banks and other asset lenders, such as factors, keep ownership of their money. What they do is simply allow the business to borrow it and use it for a while, in exchange for paying interest. The cost of this money is usually reasonably modest, meaning that the lender's Reward is commensurately modest, which in turn means that it is not going to be risked. At, say, only a 5% margin over what they have to pay for the money they lend on, it is obvious that they couldn't afford to have many bad loans before they go out of business. Clearly they will put conditions on it.

And they will want their money back, often on demand, which is most likely to be at the least convenient time. So anything you put in the plan either has to allow for that, or make the case for a minimum term of lending.

A main key to getting a Bank Manager's attention is to present a plan that is not going to cost anyone their job: it must look safe, thorough, generate more than enough cash to pay their interest, and give a near-guarantee of being repaid within a reasonable timescale. If the money needed is not at significant risk of loss, and if it is needed only temporarily, or for a definite low-risk purpose and timescale, and if both the business and its principals have good credit records and especially if there is security on offer to underwrite the money against loss, then a bank or similar should be able to provide what is necessary.

By now you will appreciate that banks prefer lending to those businesses that don't need any money. So you need to make your case in a way that sounds just like that: as though you are doing them the favour by accepting their money, but of course don't put it like that or you will come across as cocksure which you don't want. You will need to show that your cashflows can easily cover their repayment terms, and that the business will always have far more value than the money it is borrowing. Even so, you may well have to be prepared to give personal guarantees that the business will repay the debt. The reason why banks often insist on personal guarantees has nothing to do with their belief in the business: they wouldn't lend at all if they didn't believe in it. It is to eliminate moral hazard.

Banks only make profits for shareholders by using their money, or by selling other of their financial services to customers. So if a business approaches a bank for money, it is going to have to do something in return that makes the bank money, and allows the individual bank manager to further his career, and definitely not jeopardise it. So for a bank manager, his Reward is having confidence that interest and capital will be paid regularly on time, and it is very likely that the business will have to have do its business banking with him, and insure through him, as well as provide various securities to minimise his downside, giving the bank a decent margin and him a bright future career in banking.

**Asset Backed Lending** is a fast way to raise corporate finance, so long as there are assets both available and unencumbered. If the customer base is of sufficient quality, it may be possible to finance some cash flow by using debtor funding such as factoring; but the usual problem for the early stage business is that there are rarely valuable assets to borrow against.

If the purpose is to get a business going, expand it, or develop a new side to it, the outcome can not be guaranteed. Risk is involved and banks will not be interested, so other sources of money must be found. These sources are those who are experienced and realistic about business, and accept the possibility of losing their money, even though they definitely don't want to. That is the nature of what they do. In return they will want a much bigger potential reward.

### **Business Angels**

- Risk factor:** High. Usually looking to build a structured portfolio to minimise systemic risk
- Reward:** Very high, 30% to 50% pa with targeted exit, and often personal lifestyle factors too
- Target:** Each Business Angel is his own person, so there is any number of specific individual targets

Investors such as Business Angels and Venture Capital Funds sell their money for a share of your business, or equity. And you are very expensive. Just think what they could buy for, say, £150,000 on the High Street. So they are going to want a lot in exchange. And the trouble is that there probably isn't anything on offer, except you and your commitment.

Business Angels are Investors in (usually small) unquoted companies with high growth potential. Investments in businesses such as yours are high risk and illiquid, so there have to be some awfully good reasons why anyone willingly invests. It is difficult enough to find a genuine Business Angel or Institutional investor whose investment criteria you are lucky enough to fulfil, so getting your plan right will save you vast amounts of effort and stress which could otherwise end up wasted. You need to be tuned in to exactly what Angel investors are looking for.

It goes without saying that they are looking for substantial investment growth, but most Angel investors are also often looking specifically for involvement: for lifestyle, for fun. Almost without exception, Business Angels are successful businessmen in their own right who enjoy doing business, and want more than just financial returns. Many want a direct personal involvement in the businesses they back. It is more like being a 'grandparentrepreneur' rather than just an 'entrepreneur', and clearly the right Angel backer could be extremely useful to you.

How can Business Angels help you and add value? It is potentially a long list that often includes

- Introductions to other backers
- Introductions to key customers
- Introductions to strategic partners
- Attracting introducing and recruiting new talent
- Advice on strategy and exit structure
- Acting as a mentor with considerable relevant experience
- Adding presence and credibility to your proposal
- Raising your status and profile by adding his name and personal reputation

So it is no surprise that there is a cost to all that. All Business Angels are likely to say that they offer expertise, experience, contacts and hope; and some of them will be right. You must decide if what they offer is deliverable, and as they will often require some form of mentoring or strategic control, you must also decide if the cost, both of a share in your business and in terms of restrictions, is worth it to you.

A common issue for entrepreneurs is the fear that an investor will want to take control of the 'baby', but in reality that is very rarely the case. Business Angels have nearly always spent their life working hard at the coalface and are now thankful to have someone else – you – do the donkey work. For the relationship to work, fundseekers should have a clear idea of the very substantial non-financial attributes – skills, contacts, sector experience and so forth – the right investor should bring with him, what they would ideally like from their investor, and how much they want him to be involved. Then they should write their plan accordingly and go look for it.

Almost certainly most Business Angels will want directorships, and impose various conditions about information and management to keep on top of what is happening in the business. These will probably be dealt with in the subscription agreement rather than through the shareholdings. So while they probably won't want above, say, 30% or 40% of the shares, they may well want more of the vote, or at least a veto over major decisions.

You must be prepared to lose a share in your business, possibly a bigger share than you want or thought likely. Fifty percent of something is far better than one hundred percent of nothing. And if necessary you must be ready to share your business with those who are not investors but without whose input and skills you have no business.

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One final point to make concerns your company if you have set one up. Unless there are compelling reasons to keep it, it is quite possible that a Business Angel investor will choose to set aside anything you already have and set up a new, clean company, a 'Newco'. Any assets such as intellectual property will be assigned to the new vehicle, leaving any potential hazards behind. It will make a difference to you only if there really are hazards in the original set up, such as losses you can not recover or minor shareholders who might take umbrage. It is certainly worth keeping this in mind before spending time or effort on creating a business vehicle of your choice.

## Venture Capital

- Risk factor:** Less than you might think, they (ought to) know exactly what they are doing
- Reward:** Very High, often over 100% pa. Often looking for very high growth potential specific sector businesses to 'turbocharge' and exit at high profit relatively quickly
- Target:** Often sector specific and highly strategic

Some institutions tend to regard early-stage investment as a distinct asset class with its own set of challenges and opportunities, regardless of sector, and they are considered generalist investors. Others focus solely on sector specific businesses such as technology, biotech, environment or healthcare. Before approaching any of them, you will need to have done your homework.

Typically, institutions will look for propositions where the business concept, management quality, market structure and distinctiveness of product or service can propel a sustained and growing business. They use other peoples' money; having their own investors to whom they are answerable means that they in turn need to invest in businesses with a high chance of exceptional reward. They look for businesses operating in fast-growing niches that differentiate themselves from their competitors and protect their differentiation.

They will sometimes even be prepared to change the management team to achieve this; and that means you. Having made all the very significant efforts to get in front of an institutional investor, the last thing you want to do is have them invest only to terminate your contract, so it is important that you have confidence in your successful track record before deciding to pitch. Do your research thoroughly into the track record of investment houses so you know where and how you stand.

Having got to grips with the Risks inherent in business and who you need to target with your plan, it's time to look at what it's all for: the Rewards.

## 4 REWARD

How much of what kind of Reward is needed to attract a backer? As always, the answer depends on who you are trying to attract.

From your research and financial projections, you will know how much of what kind of money, or monies, you need to fund your business. All except pure risk backing will have quite specific requirements, which could be almost anything depending upon what you are trying to achieve and what you are applying for. This puts you in the best position to ensure that your plan hits whatever ‘hot spots’ your readers will want. So long as you have done your research and pitch accordingly, you should be fine.

### **Business Angels and Venture Capital**

Things are very different for high Risk/Reward investors. Their Reward is the cash they end up with after making a successful exit. What and when this will be is of course unknowable, but you have to make estimates. The problem is how you ascribe a value to a business, especially one that currently has no sales and no balance sheet. The process of doing this involves several steps, each of which involves making assumptions and each assumption could justifiably be deemed somewhat arbitrary. Therefore choose your assumptions with care, be confident in your reasoning and be prepared to argue your case.

In principle, the first bit is easy: you have to get a value of all the future earnings of the business, which is done by adding them all up from your forecasts. Unfortunately, though, you can not simply take the projected earnings for each year from the plan and add them up. In order to compare this with the sum the investor has invested, in other words to work out how big is his Reward, each future value has to be brought back to today’s values. This means you have to apply a discount to each year’s figure to get it back to today’s present value. Only then can you add up the Net Present Values for each projected year. And because you are discounting the earnings from different future years, you have to apply a different discount to each year. We will see how you choose this discount shortly.

So far so good, but in a growing business, it is also no good just valuing the first few years’ income. There is going to be much more after that. And it is usually in those future years where the real value is to be found, when the business should be raking in the profits after the early years of getting established. To work out how these future earnings influence valuations, you need to multiply the Net Present Value by a factor known as a multiple. But how should you decide what would be a fair multiple for your proposed business?

You first decide what would be the multiple of a comparable business based upon your business's projected maturity and stability: clearly this will change as time passes, but as it is all conjecture anyway don't push your luck by going too far forward. To do this, you will have to do some research by looking at the multiples of quoted companies that are in the same sector as your business. Of course this won't be perfect, but it is probably as good as you can do. You then need to discount the number you have by what is known as the 'Private Company Price Index', and at last there is actually a real figure published for this by the accountancy firm BDO Stoy Hayward: you can Google it.

To give you an idea of the sorts of multiples that apply to the sale of private companies, here are some examples:

A well established and steady business with a rock-solid market position, whose continued earnings will not be dependent upon a strong management team: three to five times profits

An established business with a good market position, with some competitive pressures and some swings in earnings, requiring continual management attention: two to four times profits

An established business with no significant competitive advantages, stiff competition, few hard assets, and heavy dependency upon management's skills for success: one-and-a-half to three times profits

A small personal service business where the new owner will be the only, or one of the only, professional service providers: up to one times profits.

But we are not yet dealing with a 'For Sale' business, and hopefully we will not be dealing with a nice steady established business. We are valuing what should be an exciting high growth opportunity, with correspondingly exciting multiples.

The discount rate that you use has a great influence upon the Net Present Value, and selecting an appropriate discount rate – the 'required rate of return' – is critical. The 'required rate of return' is the investor's minimum acceptable return on his investment and should reflect the riskiness of the investment. It must also take into account any proposed financing mix. It is common in Business Angel circles to use discounts of over 30% pa, while Venture Capitalists can work to 75% pa and more.

Why do Business Angels appear to require such a big return? The answer is straightforward: in reality they don't get it from most investments, as most investments return nothing at all. If the investor is to build a profitable portfolio, and let's face it you need him to or he wouldn't be an investor at all, he has to target returns of that order so that his 'winners' more than pay for the losers.

Over five years, an investment returning 30% pa will grow about four-fold. Thus one business exiting successfully after five years will pay for three other investments that fail: a ratio of 1 in 4. Statistics show that there are in fact about two decent business successes in every twelve investments, so one business in every six more or less pays for the failures. In addition, one investment in twelve is likely to be a real star, which is where the investor's real rewards are made. Therefore, if investors use 30% as their target return, they end up with a portfolio that stands a very fair chance of returning a decent overall profit.

So a Business Angel will arrive at the Net Present Value of your business by discounting, for example, at a 30% discount rate each year. The effect of this is to give a Net Present Value of around 1/6 of the future value after five years, about 1/4 of the value after four years, about 1/3 the value after 3 years and 1/2 the value after two years. And while all this seems incredibly arbitrary, if you think through what you are suggesting as a value and can therefore justify your assumptions, you will be putting yourself in the best possible position. At least if you do use a 30% or more discount rate, you will stand a decent chance of attracting an investor.

However, each shareholders' Reward is of course proportional to his own shareholding, so each investor will get only their respective percentage of this value. If he deems this return insufficient there are a number of alternative ways he can structure his investment in order to get his required rate of return. This introduces a negotiation.

Most easily, he can ask for a bigger shareholding, or keeping the same shareholding can put in most money as debt. Less commonly, especially among Business Angels, he might require high-yielding preference shares. You can't prepare for these alternative approaches, other than being aware of the possibilities and having an understanding of what might be demanded.

In summary, an investor's Reward is found by comparing the Net Present Value of the business's future earnings with today's cost of the investor's percentage shareholding. Another way of putting this is to add up each year's future net Profits as projected using the variable assumptions in your forecasts, each year being discounted by an assumed discount rate to today's values, multiplied by an assumed 'market' multiple, discounted to the investor's shareholding, all compared with the sum he is being asked to invest.

## 5 PREPARING THE BUSINESS CASE

You will recall that in the section on People Risk an entrepreneur was described as ‘someone who knows where he wants to get to and works out how to get there, not someone who doesn’t know where he is and has to work out where he’s going’. Preparing a Plan can also be compared with a journey. If you are starting out on a journey, you will have a very clear idea of where you want to finish. It is probably an address somewhere, so you start the journey by putting in your finish point. If you start out without knowing where you want to finish, you will end up anywhere. The best Business Plans are written in a similar way: backwards. You know how much money you want to make and by when, so you know what you want your business to look like when you exit. To get the exit price you want, you know what your earnings will have to be and what your Balance Sheet will have to look like. Of course, these will only be projections based on current comparables and multiples, but you have to be aiming at something definite.

So you know where you’ll be in, say, five years, and clearly it is easy to produce current Profit and Loss accounts and Balance Sheets for your business, so you also know where you are starting from. What will the business have to look like in four and a half years if you’re going to get to five as planned? And what must it look like in four years? And three years? Two years? One year?

Given where you are starting from, what resources do you need now to get there? A Business Plan fundamentally is financial: it’s what the Profit and Loss, Balance Sheet and cash flows will look like at various times in the future. You have to work out in detail how you are going to ensure your journey does go from your ‘now’ to your desired ‘then’. What are the risks, how will you manage them in order to gain your reward? What do you base your assumptions on, and why have you chosen your assumptions and not others?

Think it through: risk, uncertainty, reward; vision, stage, model, people, motivation. Can you explain what you have to offer, and can you sell it? Do you understand your market backwards? And your business model? Do you have a good team, do you understand what could go wrong, and what to do about it?

Think it through: to impress someone sufficiently that they will entrust you with their money, and lots of it, you will really have to understand your finances, and especially your cash flow. Do you genuinely understand how and when you propose that your backer will get his reward, or do you simply have a vague notion of ‘then we float the business’. Do you really have a game plan for the exit, understanding what it takes and how long it takes?

Even when you satisfy yourself that you have a genuinely good business opportunity, you still have to demonstrate to a backer that what you propose is deliverable, that it is not simply a pipe dream. Your CVs provide the necessary credentials, and the credibility that gives the reader the assurance that all you put before him has authority of someone who knows what he is saying.

### **Preparing the business case: Background**

As briefly as possible you should give the backer a clear idea of where you are now and why, and why you and the business are now ready to go for it.

### **Preparing the business case: Risk**

If you are going to succeed in getting backing for your business, you will have to understand how you will be perceived by potential backers. A key component of any confidence they might have in you will be provided by your assessment and management of the risks as you see them. If your treatment of risk shows that you really do appreciate what is involved in managing a growing business from the point of view of your target reader, you will be well on the way to getting a backer.

Don't forget, either, that great businessmen are also seen by the larger population as risk takers, and this gives rise to small dilemma. Laying too much emphasis on risk management carries the implication that there are too many risks to avoid, whereas failing to do so implies that you may not be very risk aware. Further, if you are not going to stick your neck out way beyond anyone else's, how will you achieve the extraordinary results that no-one else can achieve?

This apparent problem resolves itself when you realise that great businessmen usually do not see themselves as risk takers. They see themselves rather as good decision makers and risk managers. Bear in mind too the phenomenon of 'risk homeostasis' by stressing that you are a decision maker as opposed to a gambler, pushing upsides up while limiting downsides. So you need to present yourself as one prepared to take a calculated risk, aware of and able to cope with the downsides but doing everything possible to generate the upside.

You need to demonstrate too that you are aware in your risk assessment and management of the likelihood and impact that various risks present. Show that you are aware and competent, and you should be believed.

Go through every aspect of your Plan and assess what risks a backer would see, and treat them the same as he would. Why not give them marks out of ten to reach an overall risk assessment? Looking at it in overview, where can you improve your odds?

### **Preparing the business case: Vision**

Do you have a clear, identifiable and realistic vision for your business? Do you recognise that competing directly with the world's major operators is unlikely to succeed, even if you only want a tiny share of the market, because they have money and they want the same share too?

Why is the marketplace ready for you to unleash your business on it: why is now the time to move, rather than last year or next? Is your concept revolutionary or evolutionary? What is the business focus? Does it have the ability to scale up, and how many fold? Is there any scope for horizontal growth? Where appropriate, highlight those assumptions that justify your Vision to explain why these specific ones were chosen.

Can you fire the backer's imagination so that he wants to be in your future more than you need to be in his?

### **Preparing the business case: Stage**

To be fair, you might think there isn't much you can do about this: your business Stage is what it is, and you need money to go further.

First, test thoroughly whether there is any possibility of adding credibility to your case by advancing the business stage. Can you bootstrap anything? Can you beg or borrow resource in order to go an extra step along the stage continuum, say by proving a concept, getting a commitment, making a sale, or getting a customer's written commendation? Anything will help if it adds credibility.

If you really have gone as far as you can, you will have to convince potential backers that you have so thoroughly researched your business that despite its relative immaturity the risks involved have been minimised. You need to persuade them that your competence more than makes up for early stage risk, and that the rewards you offer more than justify taking the plunge.

### **Preparing the business case: Model**

All too often, entrepreneurs are so engrossed and enthusiastic about their plans that they completely forget that it is new to everyone else. We have genuinely read Business Plans where the writer did not explain what the business actually did: talk about not seeing the wood for the trees!



Never assume that your target backer will understand, or even be especially interested in, the technical details. Mr Walls did not succeed in selling billions of pork sausages by explaining in detail how they are made; he sold the ‘sizzle’. Leave the technical stuff for the appendices, or if you are asked.

Your text has to explain why you choose what you choose, and what controls you have. You will need to show rigour in justifying your assumptions and the variations therein by backing them up with hard research or actual experience.

### **Preparing the business case: Model: Finances**

This is the key part of your Plan, that around which all else revolves and upon which your Reward depends.

Some of the financial assumptions you make in your Plan, such as interest rate and currency exchange rate, are external factors over which you have no control but which could have significant impact on your ability to keep to plan. Other assumptions are very much under your influence: debtor days is an obvious case in point. Yet others are a mixture: overheads combine external costs like utilities with your use of them, efficient or otherwise.

What are your confidence levels in choosing the values you use, what is the variability involved? It is important that you appreciate how this variability impacts on the message you want to send, and most importantly that you show that you know how to interpret all this to make your proposition attractive to your chosen target.

### **Preparing the business case: People**

People are the key to a successful business, and flexibility, leadership and great business credentials are key to people. In order to attract a backer, you need to show beyond doubt that you have what it takes, and that you can provide your target with comfort that you can give him what he wants, with minimum personal exposure to whatever he doesn't want.

Your and your colleagues' CVs are key documents and should be very brief business biographies of between two and three hundred words. They are there to explain to the reader what authority you have in writing the plan, choosing the assumptions you have chosen and managing the growth of the business. Show the backer how your collective experience, knowledge, skills, capability and character justify your choices and will enable you to make him money through you. And if you don't have enough of what it takes in every department, acknowledge that you need to get someone else to join you who has, and maybe let him earn a share in your business too.

If you do have an uncertain CV, use your document to put your case, explain your history from your viewpoint. Whatever you do, be aware of Moral Hazard: do not try to fool the backer. When he finds anything that misleads or that has not been disclosed, as he surely will when doing his Due Diligence, he will be off and your reputation will be badly damaged.

### **Preparing the business case: People: Character**

Make a brutally honest assessment of your character. If you can't give yourself ten out of ten, don't waste your or others' time because no-one will back you. Tough, but true. Of course, we're not talking about parking tickets or the occasional minor slip up, but we are talking about character flaws concerning trust in relationships, alcohol, drugs, or honesty. If you have any genuine doubts, talk them through with a confidant and if still in doubt, and if you can, get someone else to run your business on your behalf and keep enough shares to make it worth your while.

And while they have nothing to do with character, also bear in mind that any issues, or potential issues, with your health and age will need to be similarly addressed; don't give backers any excuse to introduce doubts.

### **Preparing the business case: People: Experience**

You can't fake experience, but you can make the most of what you have. If you really have insufficient for the tasks you are proposing for yourself, get someone else involved who can help.

### **Preparing the business case: People: Knowledge**

This is obviously one area you can influence, and especially if your experience is low you need to score highly here. However you do it, you need to give yourself at least eight out of ten between Experience and Knowledge.

### **Preparing the business case: People: Capability**

Capability is probably the most difficult competence to demonstrate unless you have a good track record in management. Without that, all you can do is ensure that your Plan is as expertly written (by you!) as is possible. If in addition you can attract other competent people to join your team, or act as champions for you until they join your team, at least your emergent Capability will be on show. You will need to give yourself at least seven out of ten across experience, knowledge and capability.

### Preparing the business case: Motivation

It is extremely difficult to prove something that hasn't happened, yet what the backer wants is proof that you will be motivated after his injection of cash. Your record to date in this project or other projects you have been involved with gives him a track record, which is very indicative. Indeed, if it is sufficiently impressive it should do the trick.

If it is not, you will need to be prepared to negotiate terms which prove you have what it takes. These can include performance based share options, ratchet mechanisms, buy back clauses, or anything similar. Beware, though, that all complications of this nature can be expensive to implement and can have unintended consequences. At the very least, whatever you stand to lose will have to be sufficiently painful to satisfy your backer that you will not give it up easily.

### Preparing the business case: Reward

Reward is the key subject of your Plan: it is after all the main objective of what you are trying to do. But it is also the topic that is subject to most variation in the way you can express it. It all depends on what will turn on your target.

"I studied English for 16 years but...  
...I finally learned to speak it in just six lessons"

Jane, Chinese architect

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This is a really sensitive area for entrepreneur and backer alike. If you don't put something about expected returns into your Plan, many backers won't bother to read further. If on the other hand you are too cautious, or definitive, or aggressive in your assessment of the reward, many backers will doubt the plan's credibility and still won't bother to read further. It is a genuine problem to pitch it right.

Your business possibly has little intrinsic value, so make sure that any real or potential asset – such as Intellectual Property – you might have is fully exploited in the initial valuation. Before committing yourself in words, make several valuations using realistic variable assumptions, and compare how they each look. Be conscious that your projections are just that, projections. Using variables in your reward calculations will help you find an acceptable upper mid range point, but beware that most backers will immediately use this as their initial bargaining position. Use phrases like 'the target return for an investor' and 'the target shareholding' and 'negotiable structure' so you don't fall into the obvious traps. Be aware too that your readers will have their own requirements when it comes to reward, and that the same financial reward can often be arranged in various different ways, for example for tax purposes. Your suggestion might not fit the reader's needs, so be prepared to change for the right reasons.

If your business qualifies to give any tax advantages for qualifying investors, it is a good idea to state the potential rewards both in net terms and in gross terms as not all investors will themselves qualify.

## 6 WRITING A BUSINESS PLAN

A well written and structured Business Plan should, of course, describe as accurately as possible the business opportunity and potential outcome, incorporating a clear summary of how the outcome is to be achieved against what odds.

A well targeted document should appeal specifically to your target audience, to appeal to those of his instincts that will motivate him to say 'Yes'. So a plan for target A may well be inappropriate for target B, and so forth. It has to be written with cunning. You wouldn't make a sales pitch to any company using a different company's data and branding, would you? The implication of this is that a poorly targeted document again reflects badly on you, and the reader will be concerned about whether you really understand what sort of funding you need, and what you are really trying to do.

And remember that Winston Churchill once famously said, 'I am going to have to make a long speech tonight because I have not had time to write a short one'!

### HOW A BUSINESS PLAN IS READ

Most Business Plan readers are professionals, or at least they behave professionally when it comes to business. For example, a Business Angel, Venture Capitalist or Grant Award administrator might typically see ten or fifteen new Business Plans every week. Some will see many more. Please note that we said 'see', not 'read', and there is of course a major difference. Reading a plan properly will take upwards of a couple of hours, while many backers will spend only two or three minutes on each plan. Does it appeal? Does it make him want to read further? If not, it won't be read properly.

So it's not worth even wasting paper and postage unless you take writing your plan seriously and make a serious effort to get the backer to read it.

The reader will first of all try to understand what is in it for him. Does it excite? If so, he'll want to see if he thinks it is deliverable: can he visualise who wrote the plan. Was it the principal, or an adviser? If the latter, who owns the ideas? Was it written as a strategy for the writer to give him a road map, or is it little more than a wish list? Are the principals knowledgeable or do they come across as 'winging it'? And which audience was it written for: a bank, or management peers, or was it targeted at an investor?

Once it is read properly, and if you are still on his radar, it might join a pile of other plans that he has read and thinks interesting. If so, what will make your plan stand out so that when he revisits his ‘interesting’ pile he comes back to your plan? It must be memorable, both in content and in presentation. That need not mean expensive, simply visually memorable, as otherwise it could get overlooked. The backer may make only one or two investments each year so you have to make your plan compelling and memorable, from the first word on the front page onward. Don’t give the reader any excuse to put it down.

If you think that this is a bit over the top, consider that you are asking him to back your judgement with lots of money for several years, and think again. The first time he knows you exist, his first impression of your ability, is your document: so make it a good one.

## **WHAT A BUSINESS PLAN IS**

This is about how and why you need to put into your Business Plan what you do.

Your business sells, for example, widgets. Your Business Plan does not sell widgets. Your Business Plan sells the concept of success in your business to the others whom you need. You have to get their agreement and investment of time, enthusiasm and maybe money in your business; you have to get them to say ‘Yes’ to your proposal, not to buy your widgets. That is worth repeating: your Business Plan is not to sell widgets.

In the most extreme case, finding a Business Angel or Venture Capital, your plan is specifically to help you sell a share of your business to an investor at a meeting: widgets are just the way your business makes profits. And the first step in the process is to persuade the investor that he simply has to meet you. It’s not what you sell; it’s how you make money, why you make money, when you make money, how much money you make, and how you control all those external factors that get in the way of your making money by selling them. While it is true that your Business Plan is a sales document, it is you that it should be selling: it advertises you. In this context, it is aiming specifically to raise money from someone you have never met who has the money you want, and you need to meet him to explain why.

That is what your Plan is.

## WHAT KIND OF BUSINESS PLAN TO WRITE?

There are four main reasons for writing a superb Business Plan.

Perhaps not so obviously, if a Plan is superb then it must by definition be describing a superb business opportunity. This is clearly very good news for everybody involved, because it is going to make a lot of money for everyone. Which is very nice; the whole point, really!

Secondly, a superb Business Plan is a reflection on the author. It shouts out loud in technicolour (to mix metaphors) that the author is someone highly capable, who knows his business inside out and back to front. Any backer reading a superb Business Plan is going to want to back the person who can produce such a compelling business, such a superb opportunity.

Thirdly, a superb Business Plan adds a great deal of value to the entrepreneur's proposition. No longer is he an applicant seeking someone – anyone – to back him, he is dictating the terms, inviting backers to make offers. Superb plans can even prompt competition between investors to be allowed to invest. The entrepreneur can demand a 'beauty parade' of potential investors, taking his pick of those who offer the most and demand the least in return.

And last, especially if you are serious about raising funds, your plan simply has to be superb for if it is not you will almost certainly fail. No ifs or buts, no excuses.

We have never seen a superb Business Plan fail to get investment on advantageous terms, but it has to be admitted that we haven't seen too many superb Business Plans. But we have seen maybe thousands of plans, some good, a few dire, and roughly one percent actually manage to get any Business Angel funding at all. So the effort of writing a superb Plan, of making your business into a superb one, has to be worth trying.

But, inevitably, there is a downside: you actually do have to write your Plan. And writing a superb Plan is not easy, it takes a lot of effort and research, and maybe taking some difficult decisions about your team. But it really is worth it.



Of course you may not be able to write a superb Plan: lots of things might prevent you. Often an entrepreneur is still holding down a full time job and working on his own business in what spare time he can find, and producing a superb Plan is simply beyond his resources. Whatever, make the very best case that it is possible to make. The better you make your plan, the better you research, manage and present your case, the more likely an investor is to want to back you and the higher is the value that you add to yourself and your proposition, so the less you will have to give away. So in order to give yourself the best chance of succeeding, leave nothing to chance and ensure you cover every angle.

At least so far as the backer is concerned, his first inkling that you exist usually comes with the first time he picks up your Business Plan. His first impressions could make or break your proposition, so you have no choice but to make them as good as you possibly can or live with the consequences.

We have seen why an in depth understanding of all potential target readers is essential. Often an entrepreneur will wish or need to approach several different backers at the same time, and more often than not a combination of different 'kinds' of backer is right for a business. Most of the time it will mean writing several versions of the same plan, each with a subtly different emphasis and aimed at a different specific target audience, as each will have different sensitivities and 'hot' buttons.

Paradoxically, the plan for Business Angels should not give everything away. You need to explain in more than enough detail to get your target's juices flowing and keen to meet you, but not everything. If you try to answer all his queries in the plan, and he's not quite understood so he doesn't ask to meet you, you'll never have the chance to put him right. You must make the target want to meet you so you can persuade him of your credentials and abilities. He might be missing out on the best deal ever: you owe it to him as well as yourself to get the plan right, and to tempt him into that meeting.

### **Writing a Business Plan: Style**

Does the first page make the reader want to find out more?

Great entrepreneurs don't have to be great writers, but keeping it simple and clear is a must. Make sure you don't blind anyone with jargon. Jargon isn't clever, it is confusing. It can also be counterproductive as it could well hide your brilliance. Don't let bad writing obscure your brilliant ideas, and don't give the backer any reason to put it down.

Understand your target, understand how much detail he will need, and what detail. Consider your target's personality and concentration span, so write to appeal, not bore or overpower.

Treat your target as highly intelligent but ignorant. This means that you have to explain everything clearly, but also that he is very quick on the uptake so do not labour any points and explain things just once, concisely. Remember that every backer will be looking at dozens, perhaps hundreds, of plans so it is essential to keep it as short as possible without leaving out anything important.

If your emphasis is to go after the money, then the man will run a mile; so go after the man and he will bring his money with him. The plan is written and expressed specifically to address the issues that the target might have. And, because the backer does not exist who does not want to reduce his exposure to risk, he will almost always try to share the risk with others.

Finally, and especially, backers do not like surprises. If you have anything which could come out unfavourably in due diligence get your explanation in first by explaining it your way in the plan. It might be hard, but it is so much better than if he finds out afterwards.

### **Writing a Business Plan: Presentation**

We suggest you write your Plan logically: from where you are starting from, go through your objectives, details of any legal entity you propose, how you plan to achieve your objectives, what evidence you have to back you up, what might get in your way that you will have to overcome, what is in it for the backer, and what credentials you have to speak with authority.

*The examples given are wholly fictitious and are solely for illustration purposes*

**Front page:** is for a **sound bite summary** addressed to the backer with "What's in it for You": it is designed to make him want to read on. Don't use the front page for just a title, because the target can forget a title but he won't forget 'What's In It For Me'. Maybe use a different colour ink, or paper, or a stand-out typeface. If appropriate, indicate potential returns both gross and net of tax.

*Example for Investor*

*Writing a Plan Ltd*  
*company registered in England and Wales no 12345678*  
*Presented by The Author*

- \* Exciting high growth opportunity*
- \* Massive, rapidly developing growth market*
- \* Experienced Management Team*
- \* 50% sales ledger finance sought*
- \* up to £100,000 overdraft facility sought*
- \* £200,000 development Grant sought*
- \* Creating 36 new jobs in Development Area*
  
- \* £200,000 investment sought*
- \* projected 47% pa return for investor*

*example for Lender*

*Writing a Plan Ltd*  
*company registered in England and Wales no 12345678*  
*Presented by The Author*

- \* Exciting high growth opportunity*
- \* Massive, rapidly developing growth market*
- \* Experienced Management Team*
- \* £200,000 development Grant sought*
- \* Creating 36 new jobs in Development Area*
- \* £200,000 investment sought*
  
- \* 50% sales ledger finance sought*
- \* up to £100,000 overdraft facility sought*

*example for Grant Administrator*

*Writing a Plan Ltd  
company registered in England and Wales no 12345678  
Presented by The Author*

- \* Exciting high growth opportunity*
- \* Massive, rapidly developing growth market*
- \* Experienced Management Team*
- \* 50% sales ledger finance sought*
- \* £200,000 investment sought*
- \* up to £100,000 overdraft facility sought*

*\* £200,000 development Grant sought Creating 36 new jobs in Development Area*

**Page 1:** heads off with the **executive summary** of 2–300 words explaining the investment opportunity (not the business!): who, why, what, where, when, how, IPR, how much is needed with what returns.

*example to excite a potential Investor, to get him to read the Plan*

### **Executive Summary**

*Writing a Plan Ltd (company registered in England and Wales number 12345678) has been created in response to very high demand. Founder The Author started writing business plans 5 years ago and has been overwhelmed by widespread requests. Based in the Development Area of Somewhereon, The Author now has annualised sales of £100,000, employs six full time staff and needs several more for expansion despite using very efficient production technology. Sales are projected to rise by 300% pa for the foreseeable future. Funding is sought to finance rapid profitable growth, being a £200,000 Grant to provide 36 new jobs over 3 years in Somewhereon, sales ledger finance of 50% of debtors, up to a £100,000 banking facility, and a £200,000 investment projecting 47% per annum returns over 3 years for the investor.*

*example for Lender*

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*example for Grant Administrator*

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**Pages 1 to 9** (yes, that is 1 to 9 and not 19 or even 10, but it could be fewer): Start with the **Background** to your plan: where are you now, and why. What is the business currently doing and why? A very brief history to give context, with information about location, turnover, profits, products, sales, customer profiles, employees, Intellectual Property – anything and everything that makes the business special, what differentiates it from other businesses. What is suddenly special about your circumstances – why are you doing this business plan now?

Then describe where you plan to be and when. The commentary needs to excite the target in the way you intend: hit his hot buttons, whatever they might be. Your analysis of strengths weaknesses opportunities and threats should ideally be simply part of the text, where you explain how you arrive at both the assumptions and the variations therein shown in your spreadsheet printouts, and how you manage the variations if – when! – things are not on plan.

Use the text to explain **What** (Vision): What overall is your goal? What do you plan to achieve by when, and how will you recognise it when you get there? What are your Concept, Marketplace, Revolution/Evolution, Focus, Size, Scale, and Scope.

**Why** and **Where** (Sales & Markets): Include your reasons and/or experience for saying what you say: product range including Intellectual Property, product development, sales demand, customer profiles targeted, research

*If possible you need to give data from actual experience: sales lead times, sales conversion ratios, salesman success rates, payment terms demanded and actual, sales potential and why (e.g. sales per '000 population and relationship with marketing spend), competition and why they are not going to take your market, proprietary software, costings, margins, price points, research into new product and why...and so on. Every claim has to be justified with Ts crossed and Is dotted.*

**How** (Operations), include reasons for any assumptions regarding delivery, production costs, lead times...anything and everything relevant to the way your business will work in practice

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**Mireia Marrè,**  
Advanced Engineer from Spain.  
Working in the wind industry in Denmark since 2010.

"In Denmark you can find great engineering jobs and develop yourself professionally. Especially in the wind sector you can learn from the best people in the industry and advance your career in a stable job market."

*Explain the physical processes involved, the administration of the sales, what sales training is needed and why, especially if there is a compliance reason, with specifics of the regulatory bodies and what compliance involves, delivery times, creditor and debtor controls, who does what exactly and how managed.*

**Using What** (Resources) include reasons for any assumptions regarding premises, people resource and people costs...anything and everything relevant to the things you will need to make sure your business works in practice

*Explain and justify the administration ratios, IT systems, premises and how planned expansion will be done in practice, and capital expenditure to buy/do what.*

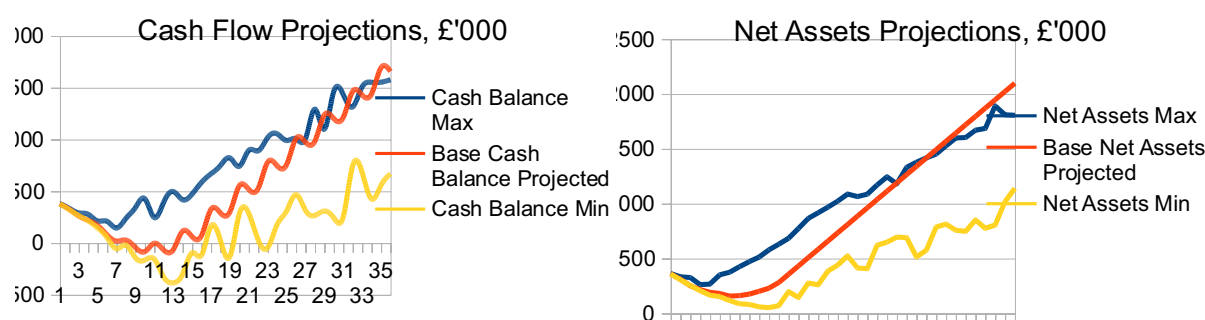
**How Paid For and controlled** (Finances): if the Profit and Loss, Balance Sheet and Cash Flow don't have the same timing in the presentation (see below), you will need the text to explain briefly why not and what the implications are. It can be very helpful also to produce graphs of the cash flow, profits and balance sheet because graphs are easily presented, give a readily understood visual summary and demonstrate your awareness of the major timing issues. Include reasons for financial assumptions not already covered, together with explanations of how you propose to monitor and control costs. *In the example, you would explain that there are no growth assumptions because over just 36 months inflation growth (as opposed to business growth) is insignificant, rents are fixed, whatever etc. Different scenarios will of course have different considerations.*

*Explain and justify why risk money, Grant money, and overdraft contingency are needed; why the debtor finance is secure and sensible and how you justify the levels proposed. Why the cash flow only potentially requires the overdraft, and why it is not an inevitability. Why the cash flow potentially lags behind the profits.*

By far the most important downside consideration for backers is cash flow so you need clearly to demonstrate how much you need, making allowances for things that go wrong or take longer. It can be a good idea to include in your graphs the maximum and minimum variations. If you do, be sure to point out that the correct implications are not the numbers that the graphs show, but the management issues that overcome the problems.



The graphs below of projected cash flow and net assets show the potential positions projected traditionally (the Base position) and with variable inputs as described in the assumptions. Both the 'max' and the 'min' lines are composites, they are the best and worst points from a whole range of projections, no one projection follows either line. What the 'min' case shows is the worst possible potential position, if every day in every way everything went hopelessly wrong, of which you are fully aware and for which you have full contingency plans. Such plans will involve avoiding the position (delaying expenditure, reducing controllable lead times, chasing debt), mitigating the damage (forewarned is forearmed for creditors, lenders), and coping with it through overdraft.



and by **Whom** (People): not so much the numbers involved to do what (that is in Resource), but the qualities and experience of the team: who will you need with what qualifications, who do you already have; especially and if appropriate recruitment and training

*Explain and justify the numbers of people with what qualifications and skills we already have and will need.*

Show when, how and how much **Reward** you are offering. For example, if you propose to sell the business, you will need to show your awareness of your competitors' appetites and war chests for potential acquisitions. It is far too early to go into any detail, but you will need to show you are thinking strategically.

*Justify the valuation multiple for investors by giving comparable companies' multiples if at all possible; for Grant Administrators the employment potential with local data; and for lenders the reliability of your growth forecasts.*

Take all necessary steps to ensure that you qualify for whatever tax breaks might be available. No investor will invest purely for tax, but you need to show competence by being aware.

**Page 10:** CVs of Principals

**Page 11:** Single excel page detailing all the assumptions with variations in the forecasts. The figure for each of your assumptions will be stored in the spreadsheet in a cell, and each cell has its own unique cell reference in the spreadsheet. Link the cell for each assumption to the relevant calculation cells in the Profit and Loss, Balance Sheet and Cash flow forecasts so that a knowledgeable reader using the spreadsheet software can follow the audit trail of the calculations and test the figures through the construction of 'what if' scenarios.

Next to the assumption figures enter the variation in the assumption. If you are competent with the spreadsheet software, use these variable figures to make variable projections ranges. Alternatively, you might wish to find a friend who is and who understands the principles.

***Assumptions used in Projections, £'000 unless otherwise***

	<i>Start Figure</i>	<i>Start variation</i>	<i>Growth Figure</i>	<i>Growth variation</i>
<i>Number of Salesmen</i>	0	0	0	0
<i>Units sold per Salesman</i>	1 per month+/-	+/- 1	0	0
<i>Sale unit price £</i>	10	0	0	0
<i>Unit cost £</i>	0.5	0	0	0
<i>Salesman payroll £</i>	15 pa	0	0	0
<i>Travel per salesman £</i>	12 pa	0	0	0
<i>Sales Lead Time</i>	2 months	+/- 1 month	0	0
<i>Sales Commission %</i>	10.00%	0	0	0
<i>Admin per sales</i>	1 per 2	0	0	0
<i>Payroll per Admin £</i>	15	0	0	0
<i>Sales Training</i>	1 per salesman pm	0	0	0
<i>Management Payroll</i>	120 pa	0	0	0

	Start Figure	Start variation	Growth Figure	Growth variation
Management Travel	24 pa	0	0	0
Marketing £	12 pa per salesman	0	0	0
IT £	36	+/- 25%	0	0
Office General Overheads £	24	+/- 25%	0	0
Professional £	24	0	0	0
Rent £	36	Per 10 staff	0	0
Insurance £	6	0	0	0
Research £	30	+/- 25%	0	0
Sundry £	12 pa	+/- 1	0	0
Capital Expense £	3	0	0	0
Creditor months	1 month	0	0	0
Debtor months	1 month	+/- 1 month	0	0
Stock turn months	2 month	+/- 1 month	0	0
Percent of Sales Financed	50.00%	0	0	0
Interest rate %	2.00%	0	0	0
VAT rate %	20% pa	0	0	0
Depreciation Rate	20% pa	0	0	0

**Pages 12 to 14:** Profit and Loss, Balance Sheet and Cash Flow are each a single landscape spreadsheet page. You will already have decided the timeframe for your business forecasts for Risk and Reward purposes, and should have prepared several different spreadsheet monthly forecasts of your accounts, each based upon different variable assumptions, to give you maximum and minimum case scenarios. *Over the projected timeframe, here thirty six months, there will likely be some months at the beginning where you are just spending money. At the end, before you sell the business, you will just be making money. In the middle is the interesting bit when things start to change for you: you want to highlight what changes, when and why.*

The projections should show these 'interesting' bits month by month, while including the months at both ends only in summary by quarter or even half yearly.

The Balance Sheet and Cash Flows should be in the same format, as the Profit and Loss but may well not cover exactly the same months.

*The example shows the projections with a limited range of entries. Of course, there could be many different entries: the example is not to show what to put in, but to show how to show it.*

<b>Profit and Loss</b>																	
<b>Month</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>17</b>	<b>20</b>	<b>26</b>	<b>36</b>
<b>Sales Training</b>	3	3		3	3	3		3	3								
<b>Number of Salesmen</b>	3	9	9	12	15	18	18	21	24	24	24	24	24	24	24	24	24
<b>Sales</b>			30	60	90	90	120	150	180	180	210	240	240	240	240	240	240
<b>Cost of Goods</b>			2	3	5	5	6	8	9	9	11	12	12	12	12	12	12
<b>Sales Costs</b>	4	11	14	21	28	32	35	41	48	48	51	54	54	54	54	54	54
<b>Sales Travel</b>	3	9	9	12	15	18	18	21	24	24	24	24	24	24	24	24	24
<b>Management Payroll</b>	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
<b>Management Travel</b>	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
<b>IT</b>	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
<b>Office</b>	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
<b>Marketing</b>	3	9	9	12	15	18	18	21	24	24	24	24	24	24	24	24	24
<b>Professional</b>	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
<b>Rent</b>	3	3	6	6	6	9	9	9	12	12	12	12	12	12	12	12	12
<b>Sales Admin</b>	1	1	3	4	6	6	8	10	11	11	14	15	15	15	15	15	15
<b>Insurance</b>	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
<b>Research</b>	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
<b>sundry</b>	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
<b>depreciation</b>	-	0.09	0.14	0.13	0.18	0.22	0.26	0.26	0.30	0.34	0.34	0.33	0.33	0.31	0.30	0.27	0.23
<b>costs</b>	40	60	65	84	101	113	116	136	155	152	159	164	164	164	164	164	164
<b>Profit</b>	-40	-60	-35	-24	-11	-23	4	14	25	28	51	76	76	76	76	76	76
<b>Cumulated Profits</b>	-40	-149	-185	-209	-219	-243	-239	-225	-200	-171	-120	-44	32	259	486	940	1697

<b>Balance Sheet</b>																	
<b>Month</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>17</b>	<b>20</b>	<b>26</b>	<b>36</b>
<b>Fixed Assets</b>	3	9	9	12	14	17	17	20	22	22	22	21	21	20	19	17	15
<b>Stock</b>	2	5	5	6	8	9	9	11	12	12	12	12	12	12	12	12	12
<b>Debtors</b>			36	90	198	234	252	378	450	414	576	630	558	576	576	576	720
<b>Cash</b>	378	261	218	169	77	17	27	-43	-85	-3	-69	-68	114	324	552	1008	1657
<b>Creditors</b>	27	41	38	52	61	68	65	79	88	83	85	86	86	86	86	86	86
<b>VAT</b>	-5	-17		3	11	7	20	36	21	43	71	34	67	67	67	67	101
<b>Sales Ledger Finance</b>			15	30	45	45	60	75	90	90	105	120	120	120	120	120	120
<b>Loan</b>																	
<b>Grant</b>	200																
<b>Investment</b>	200																
<b>Total Capital</b>	400																
<b>Reserves</b>	-40	-149	-185	-209	-219	-243	-239	-225	-200	-171	-120	-44	32	259	486	940	1697
<b>Assets</b>	382	275	268	276	297	277	305	365	400	445	541	596	705	932	1159	1613	2404
<b>Liabilities</b>	22	24	52	85	117	120	144	190	199	216	261	240	273	273	273	273	307
<b>Net Assets</b>	360	251	215	191	181	157	161	175	200	229	280	356	432	659	886	1340	2097
<b>Financed By</b>	360	251	215	191	181	157	161	175	200	229	280	356	432	659	886	1340	2097

Cash Flow																	
Month	1	5	6	7	8	9	10	11	12	13	14	15	16	17	20	26	36
Capital	400																
Sales Ledger Finance		30	45	45	60	75	90	90	105	120	120	120	120	120	120	120	120
Debtors		18		72	126	54	144	252	90	234	360	126	288	432	432	432	144
Creditors		38	52	61	68	65	79	88	83	85	86	86	86	86	86	86	86
Sales Ledger Finance		15	30	45	45	60	75	90	90	105	120	120	120	120	120	120	120
Payroll £	18	38	47	51	52	64	72	69	75	79	79	79	79	79	79	79	79
Rent	3	6	6	9	9	9	12	12	12	12	12	12	12	12	12	12	12
Interest																	
Tax																	
VAT				11			36			71			101				
sundry	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Cash Flow	378	-50	-91	-61	11	-70	-42	81	-66	1	182	-53	9	254	254	254	-35
Cash Balance	378	169	77	17	27	-43	-85	-3	-69	-68	114	61	70	324	552	1008	1657

**Page 15:** Single excel page with your calculations for value, together with relevant assumptions.

### **Valuation in £000:**

		<b>£</b>
<b>Net Assets at end of year 3:</b>		2097
		<b>discount</b>
<b>Year 3 profits:</b>	909	0.34 312
<b>Year 2 profits:</b>	908	0.49 445
<b>Year 1 profits:</b>	-80	0.70 -56
<b>Net Present Future Value</b>		701
<b>Multiple</b>		3.00 2103
<b>% shareholding</b>		30%
<b>Present Value of Future shareholdin</b>		631
<b>cost of shares</b>		200
<b>return pa to investor</b>		47%

### **Assumptions used in Valuations**

<b>Discount Rate</b>	30.00%
<b>Shareholding</b>	30.00%
<b>Multiple</b>	3

**Appendices** should normally be omitted in the first introduction of your plan to the target backer, it is better to summarise what is available on request; they should anyway be as short as possible. However, if you know you are targeting a ‘thorough’ and analytical type of backer you should include Historical Accounts (if relevant), any Technical information and what Market Research details add substance to your proposals. Other backers will ask for the appendices if they want to see them.

**How many summaries** should you write? You will need several, especially short summaries if you are going for Business Angels. Business Angels will ask to see various lengths of your plan: some will want the full works, while others will not want to read all that but ‘please just send me a 2-pager to start with’.

So you will need a 50-words ‘sound bite’, a 200 worder, a 500 worder, a 1-pager, and a 3-pager as well as a full plan. Make them all exciting to read, full of interest and potential, without being over the top.

### **What to do with your Plan**

Remember that everyone else who is looking for money is muddying your waters. To have the best chance of success don’t spread your plan around: do research and target only likely takers. If you use funding intermediaries make sure their brief is specific: there’s nothing quite so damaging to a plan than for a backer to receive multiple copies from different sources. Make sure you manage backers’ expectations and especially do not hide surprises; only ask for a confidentiality agreements if essential, and you will find that larger companies and Institutions may anyway be unable to sign them.

## 7 THE PITCH

If your plan works, you will most likely be asked to make a presentation to your target. This is your opportunity to impress, and also your chance to blow it. Preparation is key, and being on top of your game is the way to have them say ‘Yes’.

Remember that you are selling your business, not ‘widgets’.

Hit your target’s hot buttons, address his concerns, make him feel comfortable dealing with you. Perhaps the most unnerving pitch, because it is least familiar, is to Venture Capitalists or Business Angels. We look at them here, for other pitches the principles are the same but the circumstances possibly less demanding.

### **Pitching to investors**

There are three kinds of investor pitch. The first is wholly informal, which you never know can lead to surprising new contacts and networking.

#### **The informal Pitch**

Most of the time, you will be unprepared for a pitch. Why?

Because, most of the time in some unexpected situation someone will innocently ask you ‘What do you do for a living?’ and you will blather on for a while, then give up, probably when they lose interest.

And not merely is that not very socially clever, it is a real waste of an opportunity. So put as much effort into your pitch as you do into your plan. Prepare and practice sound bites, ‘I do ‘XX’ and I need £YY to do it. And I’m looking for someone who can add more than money: I need a ZZ guru’, so you are never caught off guard if someone casually asks. It’s what you will be measured on: how you present. Practice, feedback, think: again, again and again! As Lord Birkenhead said of Winston Churchill: ‘Winston has devoted the best years of his life to preparing impromptu speeches’.

#### **The Formal Pitch**

Then there is the highly formal prepared Pitch which must last for exactly so long in front of an audience of Business Angels. These are always worthwhile, and several Networks organise formal Pitching events. Even if you don’t raise money there, the practice is invaluable.



This main Pitch is when you are trying to interest someone who has not yet read your plan, or at most a brief synopsis put about by the Network, and the purpose of your Pitch is either to get the backer to want to read it, or better still to get him to a meeting.

The Pitch should not be a verbal repeat of the written plan, because people respond differently to speech, but it should, of course, be based on the written plan with these important variations:

Tell them what you intend to say (introduction)

Tell them what you're saying (main Pitch)

Summarise with what you just said (summary)

Keep it simple, cover the essential points ("What's in it for Me": what how much when why how where and who).

As with the written plan, work on various versions.

Do a 5-minute, a 10-minute and a 15-minute version.

And do a version that allows greater flexibility, for when you are talking with your backer target informally.

If you want to do a PowerPoint presentation, please do not simply reproduce on your slides what you are saying. Use fewer slides than you think ideal, and put the main salient points in big letters. Your talk is to explain the slides, and your slides are to illustrate your pitch. Use pictures, graphs, diagrams but as few words as possible. And whatever you do, do not read them: you should be facing your audience and wowing them, trying to get the odd eye contact for feedback and to initiate relationships. Smile!

Remember that when you are talking, you are saying what you think you should say. When you are answering questions, you are addressing what your audience wants to know. There is a big difference.

So never take up more than half of your allotted time on your Pitch: then invite questions from the floor. In your Pitch, leave details unanswered: leave that for the questions. When answering questions, answer fully but briefly: solicit as many questions as possible from as many different people as possible. Answer each as briefly as you can without being rude or incomplete, don't go on and on in answer to one question. If you can do all this, you will impress the audience and you will have a queue to talk with later.

## The Speed Pitch

And finally there is the pitch you will need if you attend any of the ‘Speedfunding’ type of events that are often arranged by Business Angel Networks. Investors sit at tables and entrepreneurs join them in turn for a set time depending on how strictly the event has been arranged. You usually have, say one or two minutes in front of each investor to make your case, then swap tables any number of times. This tends to be a combination of a very brief formal Pitch and the meeting, in that you use some of your available time to make a set pitch, then have an equally brief informal chat to establish human contact. The idea here is to get the investor to want to follow up the introduction with a lengthier meeting.

But even though pitching comes in three types, they are the same in principle: they need practice, and more practice! Remember you want to give him the information he wants, rather than telling him what you think he wants, so solicit questions. Keep your pitches short, keep away from unrequested detail and work on several versions. Nothing to it, really.

**FACTCARDS**

Are you working in academia, research or science? And have you ever thought about working and moving to the Netherlands?

Factcards.nl offers all the **information** that you need if you wish to proceed your **career** in the **Netherlands**.

The information is ordered in the categories arriving, living, studying, working and research in the Netherlands and it is freely and easily accessible from your smartphone or desktop.

**VISIT FACTCARDS.NL**

## 8 THE MEETING

Finally, we come to the Meeting when you meet your target backer. This could be formal in the Bank Manager's or Grant Administrator's office, or in more-or-less informal surroundings where the backer will try to find out what it is that makes you tick. This is similar to the Pitch, but informal: keep to the point and do not bore with lengthy answers.

He will almost certainly have thoroughly read your plan and may well try, possibly quite subtly, to put you off. Don't be surprised if he refuses to listen to a prepared pitch in a meeting: he may well simply say 'Yes, I understand all that. But I want to find out if you understand it too without notes or prompts'. And don't get overconfident if instead he is exceptionally nice with you, behaving as if you are the best thing he has ever seen and hanging on your every word. He didn't get to sit on his side of the table without being razor sharp, and without being able to see through you in seconds if you show any shortcomings in your approach or attitude.

Remember that he's not trying to find out about your business, because he already knows what he wants about it. He's trying to find out about you, and if he likes what he sees, he's going to decide if he can both trust his money with you and work with you.

You will be tested with the awkward questions; about your assumptions; about your credentials. And backers will always listen closely to your answers: how flexible is your approach? Can you cope easily with challenge? Will you be amenable to working closely with them, or will you insist on doing your own thing: can you learn, or do you give the impression that you already know best?

Know the business inside out: and if you need your right hand man with you because he's the one who understands the money side, or whatever, take him with you. No backer of any colour will put his money your way if you even look like you're not on top of your game. No excuses.

It's worth repeating: you are not selling widgets, you are selling yourself and your ability to make money from widgets, especially when things go wrong. Which in the real world, they always will. He will pick out something to ask you about, it doesn't matter what, to see if you really understand your plan. He will test your case to destruction, not just to see if it does destruct but to see if you self destruct too when under pressure. To get across the right message you need to ensure that the backer really understands that you understand not just your business, but the business of business: you want him to back you and not your idea.

Do your rehearsals before the meeting, and not with the backer. Do not even think about 'winging it'. You won't get two chances.

That's it; good luck!