

Five things prospective investors are looking for in your business plan

AllBusiness.com

Before writing a business plan, put yourself in the investor's place and consider what the investor might be looking for when reading your business plan. Obviously, investors will expect to see the details of the business, such as the type of business, location, business structure, and markets addressed.

Beyond the basics, however, there are key areas that investors will focus on. While the particulars may differ depending on the type of investor, the amount of the funding required, and the nature of the business, there are five main things investors will be looking for.

Investors will want to see your background in the industry and business experience as well as that of your management team. Many small businesses fail because of weaknesses in the management team.

Not only do you need to show how your product is unique, you need to prove that there is a demonstrated need for your product or services and a large enough market potential to make the investment worthwhile. Investors don't want to invest in "little" ideas - you have to show them the potential to be a big success.

No matter how unique your product or service may be, you must show that you know your demographics and will reach your target market in an ongoing manner. Your pricing and sales strategy have to be clearly defined and in line with industry norms.

Investors want to know that you have acknowledged and researched your competition thoroughly. In addition, they will want to see how you plan to contend with your competitors and distinguish yourself. What will give you the competitive edge?

Investors expect to see a return on their investment. Therefore, they want to see realistic financial projections that show how long it will take for the business to show a profit and for them to recoup their initial investment. They will also want to see a clear exit strategy: a way to make a profit and move on to the next deal.

Make sure your plan has all the information the investors want to see, and put it where it's easy to find. Many would-be investment plans bury or ignore the key investor concerns.

Some of these concerns are:

How much money you need and how much ownership you expect to give. You may be asked to show the valuation of your business. But if your valuation is unrealistic, you aren't credible.

Why you need money. Investors want to invest in growth, not owner peace of mind. Always show how you will use the funds.

Who else is involved, and to what extent. Specify details of founder shares, employee options, and investor shares. Your plan should show whether you will offer additional rounds of investment and how you will handle equity dilution.

How they get their money back. Investors make money by putting it into your business and getting a lot more money back out of your business a few years later. They don't care about your long-term business health. They want to see an exit strategy.

Who is in charge. Present the management team, with useful information about backgrounds, references, and relevant experience.

The vast majority of startups don't meet venture capitalists' demanding criteria for investment. Fortunately, there is a lot more investment going on at the second level, done not by VCs but by "angel investors." They might be wealthy individuals, companies, groups of local people united in a club or association, or some combination thereof. There are tens of thousands of them in the United States. It is hard to find and identify them because there are so many, but Web searches, local business groups, and business schools will help.

Checklist: Business Plan To-Do List

Writing a business plan can be daunting. But you can make the task easier by doing some research beforehand and laying the groundwork for sitting down to write it. Here are some things to think about before putting pen to paper.

1. Ask yourself why you are writing a business plan. Is it to raise capital or as a guide for running the business?
2. List your goals for starting the business and where you see the business in three to five years.
3. Clearly define your target audience.
4. Make a list of the data you will need to research. For example, you will need statistics on your demographic audience, your competition, the market, and so on.
5. Identify the experience and strengths of your management team. Gather biographical data on each person.
6. Start compiling all of your key financial documents. You can determine later which ones you will use in the business plan.
7. Read sample business plans. Since countless business plans have preceded yours, there is no need to reinvent the wheel. Look for business plans for businesses most similar to yours as a prototype to guide you.

New York Times, New York, 12 maio 2009, Small Business, online.