



Business Plan Basics

What to include in an investor-ready business plan, and how it may differ from the information necessary for bankers or granting organizations

Whether you're talking to investors, banks or granting organizations, you will need a well-written business plan that is clear, concise and compelling. Everyone who has money to offer a company likely receives more quality proposals than they could possibly fund. So it's important to know what the various kinds of funders are looking for and steer their decision in your favor.

For any sort of proposal you submit, realize they are being read and judged by real people. Draw these readers in by telling an exciting story. What is your company going to do? Why should they care? Why is your company going to do more with their money than any of the other companies asking them for funding?

Before beginning to write your business plan, it is important to know why you are writing it and for which audience. There are four key differences between debt, equity and grants:

1. **Expectations.** Lenders expect you to pay back the principal with interest. Investors expect you to pay them much more (five to 30 times more) than they give you. Grantors expect you to help fulfill the mission of their organization and submit reports to this effect periodically or at the completion of the grant.
2. **Tolerance for risk.** Banks have a very low tolerance for risk. They target default rates in the low single digits. In other words, they expect to get paid back at least 95% of the time. Experienced angel investors, on the other hand, expect that only 10-20% of the companies they invest in will actually do close to what they project. These "winners" make up for all the losers or "minor gainers" to generate sufficient returns for the entire portfolio of investments. The risk tolerance for granting organizations varies, but generally is very high. One perception of grants is that their purpose is to fund the riskiest of opportunities – those that no profit-minded person or institution would support. In practice, some grants are awarded to the only company that applies and fulfills basic requirements because the organization needs to give out the money (i.e. 99.9% risk tolerance). Other grant application processes are extremely competitive and are strictly monitored and evaluated. The lesson is to take grant applications as seriously as you would a bank loan application or a meeting with investors.
3. **Emotional attachment.** Bankers are relatively by the book (some literally refer to a book to decide if a loan will be made) and relatively unattached to the business. Their main ... and secondary ... concern is that they will get the money they are owed as expected. Investors care what the company does almost as much as how well the company does. Many investors will get actively involved with a company, perhaps even join the board of directors. For investors and grantors, there is usually a big difference between a children's



magazine publisher and an adult magazine publisher or between a company that generates spam email and one that prevents spam. In fact, investors or grantors may not even review companies that engage in business outside their areas of interest. Some banks have industry specialties and often focus only on companies in those areas. Other banks will place the finances of a company well above the descriptions of the company. If the numbers meet or exceed the relevant industry metrics in “the book,” then they will likely offer a loan (as long as the company is not engaged in illegal or unethical activities).

4. **Terminology.** At their core, bankers, investors and grantors focus their evaluation on the same key parts of the company and business plan. However, they may call them different things as industry practice. For example:
 - a. Team: Whose names are included in the plan? Who are these people? Will these people do what they promise?
 - Banks call this “Character” or “Credit” History
 - Investors call this simply “Management Team”
 - Depending on the type of grant, this may be called “Management,” “Project Team,” “Research Team,” or “Principal Investigator”
 - b. Projections: What will the company be able to achieve with this money? Will they generate sufficient results to be interesting?
 - Banks: Capacity to Pay
 - Investors: Return on Investment (ROI)
 - Grantors: Work Plan/Outcomes/Job Creation
 - c. Financial Stability: Will the company continue long enough to succeed during this period? Will it continue after I get my money back or my money runs out?
 - Banks: “Capital” (Debt/Equity Ratios)
 - Investors: “Funding Requirements”
 - Grantors: “Financial self-sufficiency”
 - d. Shared risk: All business has some risk in it; do the founders share that risk or is my money the only money at risk? What happens if things don’t turn out as expected? What will the team do to make up for it?
 - Banks: “Collateral”
 - Investors: “Skin in the Game”/“Founder investments”
 - Grantors: “Company match”
 - e. Big Picture: Is this company going to succeed at its mission? Will it actually be able to sell to paying customers?
 - Banks: “Conditions”
 - Investors: “Market/Industry/Regulatory Environment,” or “Competition”
 - Grantors: “Fit” to grantor’s mission
 - f. Professionalism and Fit: Are the founders and executives professional, ethical, good to work with? Is the business plan complete and free of typos?
 - Banks: “Confidence”
 - Investors: “Fit”
 - Grantors: “Other”



5. **Negotiation flexibility.** Banks generally have preset terms for loans and don't allow companies to negotiate the interest rates. Usually the only area open to negotiation is payback terms – when you have to make payments, which affects cash flow. The agreement length also is the most commonly negotiated term for granting agencies, but in that case, refers to how long the grant will last and when the work will be completed. With both banks and grants, the company is usually at the receiving end – the company presents the terms and the company can either take the terms or not. When dealing with investors, the field is wide open. Many prefer the company to come to them with a term sheet (i.e. a detailed description of how much money they need and under what terms). Other investors will present their own terms (venture capital firms operate this way). In either case, investors can, and often do, negotiate on a wide variety of terms. Early investors usually focus on company valuation (i.e. how much the company is worth, which translates into how much of the company the investor buys with their investment).

With an understanding of these differences, you can better craft your messages to your audience. How much detail you put in each section depends on how important it is to the funder you are targeting. Following is a basic outline for a business plan that captures all the essential elements they need to see:

Executive Summary:

Not a summary of what is in the business plan (i.e. table of contents), but a summary of the key messages you want the audience to know and remember.

- What does the company do? What do you sell?
- Why do customers care? How many customers will care?
- How is the company better than the competition?
- What is the opportunity for funders? Why should they get involved?
- Who is leading the company and why are you worth trusting?
- What milestones have you reached already and what will you reach soon?
- Key financial statistics: funds required and their use, financial history and projections for revenue, cash and/or profits.

Company Overview:

- Corporate structure (C-corp, LLC, sole proprietorship, non-profit, etc.)
- Ownership (all owners of the company)
- Start up expenses and money needed from others to begin and grow:
- The amount of loan/investment/grant needed and what it will accomplish
 - o For banks, also include requested repayment terms and collateral offered
 - o For investors, also include additional funding needed over the next 3-7 years, percent of company available to investors, estimated return on investment and exit strategy for investors.
- Opportunity – what will the company be and do?



Where capital and opportunity meet

Description of the company's key products and/or services:

- What do they do?
- What's unique about them?
- How much do they cost to deliver? How much will you sell them for?

Description of the market:

- Why are your company's products or services needed?
- How many customers will buy your offering?
- How will you sell it to them?

Competitive analysis:

- Who else is currently selling similar benefits to your potential customers? What other companies may enter the market as well?
- Why are you able to compete, and win, against them?

Operational Plan:

- How will you make, receive, inventory, send and get paid for your products or services?
- Who are your suppliers?
- Where will your company be located?
- What permits, licenses, etc. do you need (and have)?
- How will you manage accounts payable and receivable?

Introduction to the management and team:

- Who is running the company?
- What is their relevant experience?
- Who else do you need to hire and what skills will they need to have?
- Who is leading the company (i.e. Board of Directors)?
- Who is advising the company (i.e. Board of Advisors)?

How you will be successful:

- How much money will you make?
- How will you create liquidity for investors (an exit), generate cash for lenders or help achieve the grantor's mission?
- How do you define success?

Financial Analysis:

- Start up cost estimate
- Break-even analysis
- Profit and Loss forecast
- Cash flow projection (month-to-month)
- Projected Balance Sheet
- Lenders need to also see personal financial statements – your personal assets and liabilities.



Where capital and opportunity meet

You should put all detailed descriptions, illustrations, documents, letters, etc., in the appendix.

Last, but not least, remember to include your contact information! As obvious as that is, it is surprising how many plans don't include any way to contact the company.

For more complete templates for business plans, including suggested table of contents, you can refer to numerous online resources, such as www.score.org/business_toolbox.html or www.bplans.com/sp/.

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