



Road test your business plan with The Business Plan Experts

By Richard Milton

You only get one chance. So make sure your plan is as sound as it can be now - before you stand in the “Dragon’s Den” in front of the tough businessmen and businesswomen asking for hard cash.

The harsh fact is that as few as 2 per cent of start-ups who seek funding from a venture capital source have their plan accepted and get funding. Once you’ve been turned down, your plan is ‘shop-soiled’. You need a plan that works first time – and leaves nothing to chance.

Venture Capital versus Angels or Crowdsourcing

Who do you ask for money? Many business start-ups are attracted to the idea of angels or crowdsourcing. They seem a lot friendlier than the thought of having a scary, hard-nosed VC investor breathing down your neck. And the idea of giving up a hefty slice of equity is unappealing. Having lots of small investors seems like less trouble and no one is going start telling you how to run your business.

While this might be the right approach for some, I’d strongly recommend the venture capital route. If someone invests in your business, then your plan has passed its first big test. If you can’t get a VC interested, you need to look again very carefully at what you’re planning – they are more likely to be right than you are.

Having an experienced VC on your team – maybe on your board of directors – is a priceless asset. A wise counsel you can call on, who will be only too willing to protect his or her investment. And if you do get into trouble, the chances are your investor may be in so deep they feel they have to back you a little further.

Your Business Plan – the big picture

From the outset, you need to understand what canny investors are looking for in a business plan. It’s not, as you might expect, a rosy set of figures predicting massive profits down the line. Investors have seen it all before. They’ve invested in some successes and they’ve invested in their fair share of projects that ‘couldn’t fail’ but somehow flopped anyway. They know that any figures you put into your spreadsheets are largely guesswork

William Sahlman, Professor of Business Administration at Harvard Business School, has written,

‘ . . .judging by all the hoopla surrounding business plans, you would think that the only things standing between a would-be entrepreneur and spectacular success are glossy five-color charts, a bundle of meticulous-looking spread sheets, and a decade of month-by-month financial projections.’

‘Nothing could be further from the truth. In my experience with hundreds of entrepreneurial startups, business plans rank no higher than 2—on a scale from 1 to 10—as a predictor of a new venture’s success. And sometimes, in fact, the more elaborately crafted the document, the more likely the venture is to, well, flop, for lack of a more euphemistic word.’

‘What’s wrong with most business plans? The answer is relatively straightforward. Most waste too much ink on numbers and devote too little to the information that really matters to intelligent investors. As every seasoned investor knows, financial projections for a new company—especially detailed, month-by-month projections that stretch out for more than a year—are an act of imagination.’

Investors know there is one set of financial figures that is important – cash flow - and I look in detail at this in a moment. But, from a big picture perspective, instead of spending late nights worrying over the details of the revenue forecasts or niggling over costs, focus on the two things that matter most to investors – **who** and **how**.

Who means the people who will actually be running the company on a day-to-day basis. Have you/they got experience and credentials in this kind of business? Can they be trusted to act responsibly with the money and deliver a return?

How means what are the exact details of your sales and marketing plan? Who is going to do the selling? And what will you do if the customers refuse at first to buy your product or service despite all your efforts?

‘Who’

First and foremost investors will be interested in you, the entrepreneur they are trusting with their money. As Professor Sahlman says in Harvard Business Review, we live in an age of slick PowerPoint presentations and glossy brochures packed with internet buzzwords and social media marketing-speak. But none of this cuts much ice with investors.

They will be looking very closely at the career details of the people who will be running the new business. Have they previous business experience? Have they experience in this new field?

It’s surprising how little entrepreneurs write about themselves in their plans, assuming that investors will be interested mainly in the business model, and the figures. But if your neighbour asks to borrow your car for the day, you will be interested mainly in how likely he is to return it in good condition – not what route he plans to drive, or where he’s going to have lunch.

When it comes to giving a resume of yourself and your credentials, it’s a good idea to get someone else to write it – we all feel rather bashful at blowing our own trumpet too loudly, and we often underestimate the importance of our experience.

There are two important points to remember here. Don’t simply try to make yourself look good with generalisations and superlatives: give specific examples of your competencies and your

achievements. Where you can, cite facts to give the reader a sense of the size of work you can do. 'Project manager of IT projects with budgets of up to £1.2m and teams of up to 12 staff' is stronger than 'project manager of various IT projects'.

Also focus on ends, not means. Don't say 'He has in-depth experience of helping others formulate their business plans.' Instead say, 'He has 25 years' experience of helping companies obtain the venture capital funding they need', or 'He has 25 years' experience of executing marketing plans that have resulted in companies meeting their sales targets.'

'How'

One section of your business plan is likely to come in for more scrutiny than any other – your marketing plan. This is the one part where you must stop guessing, estimating, predicting, and say with clarity and precision just how you will reach your target audience and market your product or service.

As with your personal credentials, it's important to be concrete and specific. Every day, business plans land on investors' desks, saying things like, 'Our state of the art website will attract our target audience to a highly optimised landing page where they will be offered the first level of customer engagement.' And 'Carefully targeted social media interactions via our Blog and Twitter as well as our Facebook page will enable us to quickly build a large fan base.'

You need to be specific about how you will achieve this. Exactly how will you optimise your website to rank high with the search engines? How many websites have you optimised? How many of your sites rank Number 1 on Google? And what, in monetary terms, is the value of a big Facebook fan base to your company?

Show that you understand your market segments and how to access them. Which social media sites do your target audience use? Do they read blogs or tweet or do they hang around on Facebook? And if – for example – it's Facebook, how are you going to sell to people who only want to chat to their friends and relax?

Investors have read too much bull to accept anything less than clear, straightforward descriptions of exactly what you will do to tell people about your new business, and its products or services. What they are looking for above all else is clarity of vision and purpose – someone that knows what they are doing because they have thought it through, rather than learning on the job at the investor's expense.

The overall thrust of your business plan should be not to impress investors with how slick and cool you are, but how in charge of your project you are and how straightforward you are in describing the project to others. The simpler your explanation, the more you'll come across as in charge.

Why cash flow is important

When asked to estimate how long it will take for their start-up to break even, most sensible people will guess somewhere in the region of 6 to 9 months – maybe a year. A year sounds a long way off – long enough to cover most eventualities. When asked how much funding they need, most people will think in terms of a round number that's appropriate to their scale of business. For a shop or an online retail site perhaps £100,000 or £250,000. For a serious magazine publisher or a posh restaurant, perhaps half a million. For a manufacturing business, with premises and machine tools, perhaps £5 million. These numbers sound big – bigger than most of us are used to in our personal lives, so – again - they sound big enough to cover every eventuality.

However big and comforting these numbers sound, they may still not be enough. The stumbling block that trips up many new businesses is cash flow. Even with success in sight, a product or service that people want and steadily increasing sales, they run out of cash to pay the bills. They still have to put up the shutters, just as they are about to reach break-even.

There's one important rule of thumb that every experienced investor knows: your costs will be higher than you think, your revenue will be lower than you think, and it will take longer than you think to break even. Without being too pessimistic, your plan should reflect these inescapable realities. By doing so, you are communicating to investors that you are trustworthy because you are being realistic.

Asking for £10 million or £50 million will not by itself decrease your chances of receiving the investment you need (although it will guarantee they will look a lot more closely at you and your plan). In fact, in some cases, it will make your plan seem more realistic to be demanding.

Three Golden Rules

Finally, here are three golden rules that you break at your peril.

1. Keep it short. Inexperienced business plan writers often try to make up in wordage what their plan lacks in substance. If the business idea is sound, if the people running the show know what they are about, and if the plan spells out exactly how the sales and marketing will be done, then it should be possible to summarise the business in one paragraph, and to set out the details in a few (probably less than 10) pages.

An exceptionally complex business model, or special market opportunity, may need more room to explain but beware – the longer your explanations, the more restless and the more wary potential investors will become.

Keep your language simple and free from jargon and techno-speak as far as is possible. Techno speak won't make your potential investors feel you know your stuff. If they have trouble understanding your proposition, they will assume that your potential customers will also have the same problem (and they'll be right).

Don't copy the kind of language you've read in other people's business plans because that will make investors think you've also copied their ideas. Use fresh language to communicate by example that your thinking is also fresh.

2. Keep rooted in reality. Wherever possible, base your projections on existing experience. If you claim that your new website will attract 1 million visitors a month, describe similar websites that have already achieved that level of traffic and how they did it. If you project sales of 1,000 pairs of shoes a month, describe other outlets who are selling products at that level and describe how long it took them to get there.

3. Establish conclusively, preferably with numbers, the demand for your product or service. Most businesses that fail haven't done enough market research, or asked the right questions. Many entrepreneurs skip this essential chore, or stack the deck in their favour, in case they find out they haven't got a viable business. This applies even to major corporations (such as when Coca Cola changed the taste of coke). Without a brisk demand, any business is dead in the water. When presenting your market research, don't claim that your product or service has no precedent, or no competitors – that will suggest to investors that there is no demand for your product.

Next Steps

If you're having trouble meeting these criteria with your plan, it's probably time to seek professional help. If you'd like further advice, in strict confidence, do contact us.

The Business Plan Experts can help in a number of key areas:-

- **Researching** and writing complete business plans
- **Completing** partly-written business plans
- **Marketing** strategy and marketing planning (including social media marketing – Blogging, Facebook, Twitter, Pinterest)
- **Market research** (including market segmentation, identifying audiences, identify target social media)
- **Web marketing** (including Search Engine Optimisation, web design, digital PR, article writing)
- **Reviewing**, editing and proofing your completed business plan
- **Writing** or reviewing your biographies and resumés.

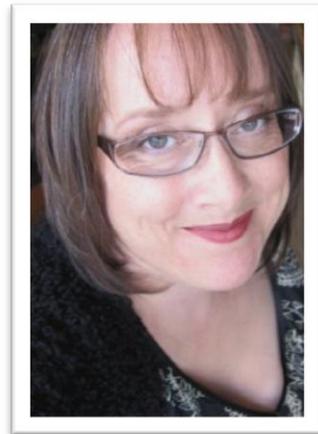
Good luck with your business planning,

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