

How to avoid the Fatal Flaws in your Business Plan- When seeking to Raise Capital! Some Sound Advice from Achaeus Ltd

“Most business plans fail to raise capital. Here are some reasons why – and how You can make sure yours will reach the top of the pile.”

Introduction :-

You may feel that the title of this article is somewhat ‘harsh’; however, the reality is that the majority of business plans fail to pass even the initial screening phase by financiers. Consider the following statistics from one venture capitalist in 12 months...

- 509 plans scanned
- 53 worth more consideration
- 23 were thoroughly analysed
- 10 went to due diligence
- 7 were funded

That is a 1.4% success rate. And this is the norm!

Executive Summary :-

The executive summary should be two to three pages in length. It should give highlights of the following features:

- the business opportunity
- the product
- the market strategy
- the management team
- profit and cash projections, funding requirements
- returns to the investors.

Most financiers have particular investment policies. If your business project does not fit within these policies, it will be rejected immediately.

The Business Plan is Poorly Written :-

The business plan should not contain an over-abundance of descriptive adjectives. It should be a selling document that is concise, clear and logical; it should contain quantitative rather than qualitative information.

Product is the Main Feature :-

Although the product is an important part of the business, it is by no means the most important aspect of the business. It accounts for maybe 10% of the business.

Management Team not Balanced :-

Financiers prefer a ‘Grade A’ team with a ‘Grade B’ opportunity as opposed to a ‘Grade B’ team with a ‘Grade A’ opportunity. The people in the management team are the most vital element for the success of the venture. The business plan should demonstrate that the team has a combination of expertise and experience.

Market Research is not Adequate :-

Financiers insist that the business should be market-driven rather than product-driven. Knowledge of customer needs and wants are vital for a market-driven business. Quality market research is required to obtain objectivity.

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Lack of Linkages:-

The results of the market research should underlie the marketing strategies, the sales projections and the financial strategies. The business plan also should relate the results to market expansion and production requirements.

Initial Success dependent upon Export Sales:-

Export sales are difficult, take time to achieve, and require large amounts of funding. The business preferably should establish success in the domestic market first before engaging in export activity. However, in some cases the market is overseas. If so, then the plan must clearly state the strategies to achieve the sales targets.

The Assumptions are not stated:-

Although forecasting is a necessary part of developing a business plan, it is vital that the projections are based on well thought-out assumptions. These assumptions need to be stated clearly and in detail in the business plan.

An Over-Reliance made of Spreadsheets:-

Many entrepreneurs get 'carried away' with using financial spreadsheets. The information gained from the spreadsheets is only as good as the information that is put into the computer. Keep the spreadsheets simple and do not extend the data beyond what is justified for the assumptions they are based upon.

Funding Levels are not clearly spelt out:-

The business plan needs to spell out clearly the funding requirements and how the funds are going to be used. Many business plans appear to avoid the issue of funding, yet this is the reason the business plan has been presented to the financier.

Financial Risks Without Adequate Rewards:-

The higher the risk, the higher the reward expected by the financier. The business plan should show that the financier will receive adequate reward and share of the company. The founders must share the risk with the investor.

Conclusion:-

The investor is looking for the following factors...

- business plan should be well presented
- product should work and, most importantly, it should sell
- business should have a good management team
- market should allow for growth and profits
- management team should provide funds to the best of their ability
- business should show a high potential return.

Developing a successful plan is a huge task; it takes a lot of work, dedication and skill. However, if a business does develop a good business plan, it is much more likely to succeed.

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This Article is presented by Achaeus Ltd—a company dedicated to entrepreneurs and specialising in developing high growth, emerging businesses through a better understanding of the entrepreneurial and capital raising processes. Achaeus offers education programs in entrepreneurship, strategic planning, structures, venture finance, and provides entrepreneurs with access to business experts and investors. You can contact Achaeus Ltd on:-

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