

How to Write a Business Plan for Raising Venture Capital

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Are you looking to raise venture capital ^[1]?

You need a good idea – and an *excellent* business plan ^[2].

Business planning and raising venture capital go hand-in-hand. A business plan is required for attracting venture capital. And the desire to raise capital (whether from an individual “angel” investor or a venture capital firm) is often the key motivator in the business planning process.



But how exactly will your business plan persuade investors to sign a check?

This article provides advice on how to position each section of the business plan for an investor audience. These tips draw on Growthink’s decade of experience consulting to start-ups in the business planning and capital raising process.

Executive Summary

Goal of the executive summary: Stimulate and motivate the investor to learn more.

- **Hook them on the first page.** Most investors are inundated with business plans. Your first page must make them want to keep reading.
- **Keep it simple.** After reading the first page, investors often do not understand the business. If your business is truly complex, you can dive into the details later on.
- **Be brief.** The executive summary should be 2 to 4 pages in length.

Company Analysis

Goal of the company analysis section: Educate the investor about your company's history and explain why your team is perfect to execute on the business opportunity.

- **Give some history.** Provide the background on the company, including date of formation, office location, legal structure, and stage of development.
- **Show off your track record.** Detail prior accomplishments, including funding rounds, product launches, milestones reached, and partnerships secured, among others.
- **Why you?** Demonstrate your team's unique unfair competitive advantage, whether it is technology, stellar management team, or key partnerships.

Industry Analysis

Goal of the industry analysis section: Prove that there is a real market for your product or service.

- **Demonstrate the need** – rather than the desire – for your product. Ideally, people are willing to pay money to satisfy this need.
- **Cite credible sources** when describing the size and growth of your market.
- **Use independent research.** If possible, source research through an independent research firm to enhance your credibility. For general market sizes and trends, we suggest citing at least two independent research firms.
- **Focus on the “relevant” market size.** For example, if you sell a portable biofeedback stress relief device, your relevant market is not the entire health care market. In determining the relevant market size, focus on the products or services that you will directly compete against.
- **It's not just a research report** – each fact, figure, and projection should support your company's prospects for success.

- **Don't ignore negative trends.** Be sure to explain how your company would overcome potential negative trends. Such analysis will relieve investor concern and enhance the plan's credibility.
- **Be prepared for due diligence.** It's critical that the data you present is verifiable, since any serious investor will conduct extensive due diligence.

Customer Analysis

Goal of customer analysis section: Convey the needs of your customers and show how your company's products/services satisfy those needs.

- **Define your customers precisely.** For example, it's not adequate to say your company is targeting small businesses, since there are several million of these.
- **Detail their demographics.** How many customers fit the definition? Where are these customers located? What is their average income?
- **Identify the needs of these customers.** Use data to demonstrate past actions (X% have purchased a similar product), future projections (X% said they would purchase the product), and/or implications (X% use a product/service which your product enhances).
- **Explain what drives their decisions.** For example, is price more important than quality?
- **Detail the decision-making process.** For example, will the customer seek multiple bids? Will the customer consult others in their organization before making a decision?

Competitive Analysis

Goal of the competitive analysis section: Define the competition and demonstrate your competitive advantage.

- **List competitors.** Many companies make the mistake of conveying that they have few or no real competitors. From an investor's standpoint, a competitor is something that fulfills the same need as your product. If you claim you have no competitors, you are seriously

undermining the credibility of your plan.

- **Include direct and indirect competitors.** Direct competitors serve the same target market with similar products. Indirect competitors serve the same target market with different products, or different target markets with similar products.
- **List public companies** (when relevant, of course). A public company implies that the market size is big. This gives the assurance that if management executes well, the company has substantial profit and liquidity potential.
- **Don't just list competitors.** Carefully describe their strengths and weaknesses, as well as the key drivers of competitive differentiation in the marketplace. And when describing competitors' weaknesses, be sure to use objective information (e.g. market research).
- **Demonstrate barriers to entry.** In describing the competitive landscape, show how your business model creates competitive advantages, and – more importantly – defensible barriers to entry.

Marketing Plan

Goal of the marketing plan: Describe how your company will penetrate the market, deliver products/services, and retain customers.

- **Focus on the 4 P's.** They are: Products, Promotions, Price, and Place.
 - **Products.** Detail all current and future products and services – but focus primarily on the short-to-intermediate time horizon.
 - **Promotions.** Explain exactly which marketing/advertising strategies will be used and why.
 - **Price.** Be sure to provide a clear rationale for your pricing strategy.
 - **Place.** Explain exactly how your products/services will be delivered to your customers.

- **Detail your customer retention plan.** Explain how you will retain your customers, whether through customer relationship management (CRM) applications, building network externalities, introducing ongoing value-added services, or other means.
- **Define your partnerships.** From an investor's perspective, what partnership you have with whom is not nearly as important as the specific terms of the partnership. Be sure to document the specifics of the partnerships (e.g. how it will work, the financial terms, the types of customer leads expected from each partner, etc.).

Operations Plan

Goal of the operations plan: Present the action plan for executing on your company's vision.

- **Concept vs. reality.** The operations plan transforms the business plan from concept into reality. Investors do not invest in concepts; they invest in reality. And the operations plan proves that the management team can execute on your concept better than anybody else.
- **Everyday processes.** Detail the short term processes and systems that provide your customers with your products and services.
- **Business milestones.** Lay out the significant long-term business milestones for the company, and prove that the team will execute on the long-term vision. A great way to present the milestones is to organize them into a chart with key milestones on the left side and target dates on the right side.
- **Be consistent.** Make sure that the milestone projections are consistent with the rest of the business plan – particularly the financial plan.
- **Be aggressive but credible.** Presenting a plan in which the company grows too quickly will show the naiveté of the management team, while presenting too conservative a growth plan will often fail to excite an early stage investor (who typically looks for a 10X return on her investment).

Financial Plan

Goal of the financial plan: Explain how your business will generate returns for your investors.

- **Detail all revenue streams.** Be sure to include all revenue streams. Depending on the type of business, these may include sales of products/services, referral revenues, advertising sales, licensing/royalty fees, and/or data sales.
- **Be consistent with your pro-forma statements.** Pro-forma statements are projected financial statements. It is critical that these projections reflect the other sections of your business plan.
- **Validate your assumptions and projections.** The financial plan must detail your key assumptions, and it is critical that these assumptions are feasible. Be sure to use competitive research to validate your projections and assumptions versus the reality in your market place. Assessing and basing financial projections on those of similar firms will greatly validate the realism and maturity of the financial projections.
- **Detail the uses of funds.** Understandably, investors want to know what, specifically, you plan to do with their money. Uses of funds could include expenses involved with marketing, staffing, technology development, office space, among other uses.
- **Provide a clear exit strategy.** All investors are motivated by a clear picture of your exit strategy, or the timing and method through which they can “cash in” on their investment. Be sure to provide comparable examples of firms who have successfully exited. The most common exits are IPOs or acquisitions. And while the exact method is not always crucial, the investor wants to see this planning in order to better understand the management team’s motivation and commitment to building long-term value.

Above all, the business plan is a marketing document that helps to sell the investor on the business opportunity, the management team, the strategy, and the potential for significant return on investment.

Raising venture capital ^[1] is a difficult and time-intensive challenge. There is no easy shortcut or silver bullet. However, you can greatly improve your chances of raising venture capital by writing a business plan that speaks directly to the investor’s perspective.

Ready to get started? Download Growthink's business plan template ^[3] and finish your business plan today.

About Growthink

Since 1999, Growthink's professional business plan writers and investment bankers have assisted more than 2,000 clients in launching and growing their businesses, and raising more than \$1 billion in growth financing.

Need help with your business plan?

Speak with a professional business plan writer ^[2] today.

Raising money from individual "angel" investors?

Contact our private placement memorandum ^[4] experts.

Or, if you're developing our own PPM, consider using Growthink's new private placement memorandum template ^[5].

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