

## What do Investors Expect in Order to Fund a Business?

Edition 2/01

This can be a difficult question to answer, and plagues entrepreneurs daily. Investors are individuals and tend to be unique. However, following are some thoughts and a perspective that may help. Perhaps the most important element that investors are looking for in funding a venture is the management team that will make this business successful. This means experienced people with a track record of success and a willingness to tackle adversity day-to-day. It is assumed that experienced management will engage in good business planning practices and produce appropriate collateral documentation as a result of these practices. However, development of the materials necessary for funding a new product or service within an existing enterprise may not be the same as going to the outside investor community. It can be a challenge for experienced business managers to predict what will be the required documents and content in attracting outside investors. Following is list of collateral material expected:

**Executive Summary** – This is a 2 – 3 page summary of the Business Plan. This should include:

- The Company
- Corporate Objectives
- The Market relating to the product/service
- The Competition – current and future
- The Solution – Why are you better or unique
- Marketing and Sales – The approach for each of these
- Management Team – Active management and Advisory Board
- Financial Summary – Five year projections showing:
  - Revenue
  - Total Operating Expense
  - Income Before Tax
  - Net Income After Tax
- Exit Strategy

**Business Plan** – This document should be 20 – 30 pages and should include all of the above topics, but in more detail. It should also include sections on Operations, Product Development and Technology. The Business Plan is a summary of other more detailed plans:

- Marketing Plan
- Sales Plan
- Product Development Plan
- Operations Plan
- Technology Plan – include any Intellectual Property or Patents
- Financial Plan

The above detailed plans are backup for creating the summarized sections to the Business Plan, but will normally not be given to prospective investors unless they are asked for after presentations are made and a legitimate interest is expressed. If the backup materials have not been created, then the Business Plan becomes suspect due to a weak foundation. Lack of good foundation is often the reason for entrepreneurs' failure to secure investment

**Presentation** – This should be a slide presentation. PowerPoint or overheads can be used and be structured for a 10 minute formal presentation and 10 minutes of questions/answers. Although more time may be available, don't plan on it.

**Venture Sheet** – The Venture Sheet is a one page summary of the business plan, and is essentially a one page version of the Executive Summary. This is not required but can be an effective way to communicate the basics as a handout when attending networking sessions.

Although vision and concepts are the start of creating a new business, they alone will probably not secure any venture or angel investments. Ideas and concepts need development at a detailed level. A good Executive Summary and Business Plan may get you in the front door, but you may not make it to the finish line without good supporting material. Personal contacts and introductions play an important role in being invited to make presentations to investors. Often times outside assistance is necessary in making these introductions and the creation of the materials since internal resources are usually in short supply.

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