# Business Plans – What They Should Do ©

**Arthur Lipper**

**Business plans, which many entrepreneurs dislike writing as being seen to be constraining, are necessary in many cases to gain an audience with a potential funder. The plans should appear reasonable and be honestly tempting to ever-skeptical funders of early stage companies.**

**Most experienced funders would agree that few if any business plans are strictly or even mostly followed once the enterprise is funded. Experienced venture funders understand that the "conservative" projections made are seldom achieved in the predicted time frame.**

**Another reality is that in too many cases business plans are only really studied after an investment has been made and things have gone wrong. The one studying the plans can be an investor's attorney seeking to determine if fraud has been involved in the claims and statements made.**

**I believe that managing an early stage business is an exercise in managing the necessary steps to success. Therefore, I believe the business plan should be a scheduling of expenditures and expectations. Plans should be a description of what is expected to be achieved by each step before embarking on the next step. Of course,**

**there are overlaps and because there is an ongoing management overhead many of the steps are taken simultaneously. However, it is important for all parties to understand the dependence and likelihood of step success.**

**Entrepreneurs, especially those who have been responsible for the invention or development of the project, have great difficulty in describing their creation in terms which are clear and understandable to those unburdened with relevant technological expertise. The full and complete intellectual property (IP) description can and should be an annex. That which the investor prospect must be told and come to believe is the market importance of the IP and the size and scope of the market to be served. The reward for taking the risk must be disproportionate, favoring significantly the reward. Therefore, the project must have a realistically predictable high level of revenues, and perhaps profits, justifying the amount and terms of the funding.**

**The greater the comfort level of the investor prospect the more likely there will be a deal and the better will be the equity retention terms of the deal for the entrepreneur. Theoretically, debt is the form of involvement incurring the least risk to the investor. More of this later.**

**The relevant experience of management is a comfort element, as is the degree of development. What has been the record of success of the managers and how close to revenue generation is the project? If the managers are scientists the successful licensing of the IP is more likely to be accepted than if the project is planned to become a**

manufacturing and marketing business, as these require managers of different experience.

Advisory boards are important both in terms of the advice available to the managers of the business but also because of the implied endorsement of the concept of the project and skill and integrity of the managers. I believe that it is constructive if advisory boards include those with experience in the industries which are planned to be served, and not just those having scientific knowledge and experience.

Those serving on the company's Board of Directors are offering investors an even greater level of endorsement and assumption of responsibility. The Directors represent the investors, not the managers, though in early stage companies they can be both.

Financial statements and projected revenues are a necessary part of a business plan. However, the key number is the revenue projection. Therefore, the plan should include a description of the steps taken in asserting the stated revenues in the predicted period. Which prospective customers were surveyed? What percentage of the industry or competitors overall revenues were assumed? Are there articles predicting significant growth for the industry? Are the unique advantages of the product sufficient to assume gaining an important part of the revenue of the industry? How important is competitive pricing, or is the product so necessary and unique to customer that profit margins can be very large?

**There should be a "What can go wrong" list of possible problems as to timing and achievement, with the steps which will be taken if these problems occur.**

**There should be a disclosure as to the details of retention of managers including compensation and terms of employment agreements and shareholdings, including cash investment. This and other elements of a business plan can be annexes and made available only after an investor has evinced sincere interest in investing.**

**Non-Disclosure Agreements (NDA) are a problem. I won't sign them and in the books I have written on early stage company financing and management I advise readers not to sign them – until it has been decided to become involved depending on that covered by the NDA. My first statement to those seeking funding is "tell me no secrets" as first I am interested in understanding the business and its prospects. Only then am I interested in learning the details of how the business plans to succeed versus the competition.**

**The deal which is probably easiest to implement in early stage companies combines a short term, reasonable interest rate loan and a revenue sharing royalty commencing after the loan has been repaid.**

**A loan term of 5 years and an annual interest rate of say 10% - 12%, which may be somewhat more than a bank would charge if they would make the loan without personal guarantees and a longer term, with a**

**separable royalty of 2%, possibly declining based on cumulative payments received, should be attractive to business owners.**

**The reason it should be attractive to investors who believe in the company is that when the loan has been repaid the investor has no further risk and will be satisfied with the stipulated sharing of revenue. The loan will be prepayable without penalty and will be collateralized using conventional means. To learn more see www.REXdebt-shareRoyalties.com**

**Investors will also come to understand that owning an agreed percentage of revenues is better for them than owning a minority equity position. From my other writings (at www.Royalties.Website) business owners will understand why they are advised to retain the maximum amount of equity if the company is to become successful. See www.REXRoyalties.com**

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