

Five Things Prospective Investors Look for in a Business Plan

Before writing a business plan, put yourself in the investor's place and consider what he or she might be looking for when reviewing your document. Obviously, investors expect to see the details of the business, such as the type of business, location, business structure, and markets addressed.

Beyond the basics, however, there are key areas on which investors focus. While the particulars may differ depending on the type of investor, the amount of the funding required, and the nature of the business, there are five main things investors look for.

1. Investors want to see your background in the industry and business experience as well as that of your management team. Many small businesses fail because of weaknesses in the management team.
2. Not only do you need to show how your product or service is unique, you need to prove that there is a demonstrated need for your offerings and a substantial market potential to make the investment worthwhile. Investors don't want to invest in "little" ideas — you must show them the potential to be a big success.
3. No matter how unique your product or service may be, you must show that you know your demographics and can reach your target market in a continual manner. Your pricing and sales strategy must be clearly defined and in line with industry norms.
4. Investors want to know that you have acknowledged and researched your competition thoroughly. In addition, they want to see your strategy to contend with your competitors and distinguish yourself. What gives you the competitive edge?
5. Investors expect to see a return on their investment. Therefore, they want to see realistic financial projections that show how long it will take for the business to show a profit and for them to recoup their funding dollars. They also want to see a clear exit strategy: a way to make a profit and move on to the next deal.

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Ten Preliminary Steps You Should Take Before Writing a Business Plan

Writing a business plan can be a daunting task. Therefore, it is to your advantage to take time to prepare by following 10 preliminary steps:

1. Ask yourself why you are writing a business plan. Is it to raise capital or as a guide for running the business?
2. List your goals for starting the business and where you envision the business in three to five years.
3. Clearly define your target audience.
4. Write a table of contents so you'll know exactly which sections you need to research and find data to support.
5. Make a list of the data you need to research. For example, you need statistics on your demographic audience, your competition, the market, and so on.
6. List research sources that will be most helpful, such as Hoovers, D&B, or AllBusiness.com.
7. List your management team. If you are unsure of someone's availability, this is the time to determine whether or not they are on board. Gather biographical data on each person.
8. Start compiling all of your key financial documents. You can determine later which ones you will use in the business plan.
9. Read sample business plans. Since countless business plans have preceded yours, there is no need to reinvent the wheel. Look for business plans for businesses most similar to yours as a prototype to guide you. You can also talk to other business owners who have written plans before and seek out their expertise.
10. Determine which software program you will use to write your plan. You can use anything from a basic word-processing program to business-plan software. You need to use that which best suits your needs and level of comfort.

Once you are ready, begin your business plan with the understanding that it is a work in progress and there will be several drafts to follow as well as ongoing changes as your business progresses. The business plan is an evolving document that will grow and change with you and your business.

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