



News

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Financing: How to improve the odds

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One of the greatest challenges facing most young technology companies is financing. Tech firms require seed money to get going and frequently find they need additional funds later on to fuel their burgeoning needs. Whether a company looks for wealthy investors, venture capital or traditional lenders to meet their financing needs, one tool always comes up during discussions: the business plan.

Business plans provide the basis for most decisions regarding whether or not your company will receive financing. This is a heady statement to make about one document. Is there a formula for constructing a plan that guarantees success? The answer is simple, but the execution of an effective business plan is more complex.

There is no guarantee for securing financing, but you can increase your odds by developing an effective business plan that follows some key elements I have discovered in my twenty years of business plan creation. Effective business plans must: 1) tell the story; 2) be believable, and; 3) be defensible. Most plans miss one or two of these elements.



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Tell the Story

Companies seeking funding must remember that financiers see countless business plans on a daily or weekly basis. These documents cover a multitude of markets, technologies and industries. It is impossible to expect any financier to be an expert in every technological niche, so help them by telling your story in terms that are understandable. Introduce them to the jargon of your industry by including a glossary of special terms. Use photographs, diagrams and charts to underscore important information, then provide the details in supporting paragraphs. Investors are a savvy group used to gleaning information from charts and diagrams. Avoid countless pages of text and spreadsheets. Help them get smart.

Make it Believable

Most business plans make a mistake in the eyes of investors in one of two areas: either the financial request appears too small to effectively support the company's growth projections or the market projections appear unrealistically high or unsupported. An effective plan must demonstrate sound logic throughout. Provide accurate, supportable pro forma balance sheets, income statements, budgets and cash flow plans. Get quotes for capital equipment needs. Include realistic payroll for all employees, including yourself or your team. Do not underestimate your marketing expenses. If there is bad news such as outstanding debt, personal unrecorded loans or lawsuits, make sure to include them. Potential investors will find out anyway and when they suspect you were not forthcoming, your chances for success disappear. Also note that financiers will chop your sales projections by ten to twenty percent to see if the company can still function. I do not recommend putting a twenty percent pad on your numbers, but I do recommend presenting a conservative financial picture and then telling the financiers in the plan.

Make it Defendable

Your company's business plan was written by you, or on your behalf, to present your case. The plan is personal. Help bring some objectivity to it by supporting your claims with outside resources. Good investors will challenge all of your analyses – operational, market, human resource and competitive – not just the financials. Claims backed up by government agencies, recognized industry specialists or professional associations lend credence to your numbers and relax financiers. Remember, investors risk a lot of money, but they also do not make any money unless they lend it. They want to believe your story, but you must help them by providing much needed, independent back up.

An Effective B-Plan

Effective business plans should always be written from the perspective of the reader. Introduce potential investors to your market, products and services, then explain why an investment in your company makes sense. Tell the story. Support your story with realistic analyses, facts and figures. Provide visual clues, not just text and spreadsheets. Make your claims believable. Finally, utilize reports from outside experts and agencies to back up your claims. Demonstrate objectivity. Make your business plan defensible. Following these three key elements while maintaining a keen attention to detail will enhance your odds at a meaningful dialogue with the investment community.

