JÖNKÖPING INTERNATIONAL BUSINESS SCHOOL
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Attracting capital

The business plan from the investors' perspective

Bachelor's thesis in the field of entrepreneurship

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Att anskaffa kapital

Affärsplanen från investerarnas perspektiv

Kandidatuppsats inom entreprenörskap

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Bachelor's Thesis in EMM

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Abstract

Problem For entrepreneurs it can be difficult to attract investors. The business plan is a well-known document for that purpose, and is used widely by entrepreneurs and companies. With this in mind, several questions arise. What information in a business plan is important? Do the criteria for information in a business plan differ between banks, venture capital companies, and business angels? What is the perception of a business plan to these investors? These are questions future entrepreneurs have to deal with before taking action and start searching for investors. This thesis investigates the investors' perspective on the issue of entrepreneurship and business planning.

Purpose The purpose of this thesis is to *broaden the understanding of the business plan* as a mean to attract capital for new ventures. It further aims to investigate the *relevance* of the business plan and the *optimal composition* of information, according to the investors.

Method A qualitative method has been used in this thesis. Empirical findings have been captured from interviews with relevant actors in the investing market, and thereafter been analyzed with existing theories.

Result The overall conclusion in this thesis is that there is a very broad view of the business plan as a concept. There are different aspects of the business plans roles as a formal mean to attract capital. *Obvious differences* between how the three different investors evaluate a business plan have been found as well as that the investors find *other things* than the business plan to be *important* in a decision. The investors do not look solely on the business plan and then make the decision whether to invest or not. The third conclusion is that all three *investors enter a company with different roles*, affecting the business' activities in different ways. Finally, the business plan as a document is *never as formal as the theory states*. It is surprisingly different from the theory which claims that formality is an important issue in this kind of documents.

Kandidatuppsats inom EMM

Titel:	**Att anskaffa kapital – affärsplanen från investerarnas perspektiv**
Författare:	**Aspegren, David; Bech Jakobsson, Martin; Jacobsson, Karl**
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Datum:	**2006-01-18**
Ämnesord	**affärsplan, affärsängel, bank, riskkapital**

Sammanfattning

Problem Det kan vara svårt för entreprenörer att fånga investerares intresse. Affärsplanen är ett välkänt dokument för detta syfte och används ofta av entreprenörer och företag. Vetskapen om detta skapar flera frågor. Vilken information i affärsplan är viktigt? Skiljer sig kriterierna för informationen mellan banker, riskkapitalbolag och affärsänglar? Vad är uppfattningen av en affärsplan enligt dessa investerare? Dessa är några av de frågor som blivande entreprenörer måste behandla innan de börjar söka efter investerare. Den här kandidatuppsatsen undersöker entreprenören tillsammans med affärsplanen ur investerarnas perspektiv.

Syfte Den här uppsatsens syfte är att *vidga förståelsen av affärsplanen* som ett verktyg för att anskaffa kapital till nya företag. Vidare ämnar den att *undersöka relevansen* av affärsplanen och den optimala *sammansättningen* av information, enligt investerarnas uppfattning.

Metod En kvalitativ metod används i den här uppsatsen. Empiriska fakta har inhämtats från intervjuer med relevanta aktörer inom investeringsmarknaden, vilka därefter har analyserats med befintliga teorier.

Resultat Slutsatsen av den här uppsatsen är att det finns en mycket vid uppfattning av affärsplanen som koncept. Det finns fler aspekter på affärsplanens formella roll när den används för att anskaffa kapital. *Tydliga skillnader* mellan olika investerares sätt att utvärdera affärsplanen har kunnat urskiljas liksom att det finns *andra saker än affärsplanen* som är viktiga vid beslut från investerare. Investera ser aldrig uteslutande på affärsplanen för ett beslut om investering. En tredje slutsats är att de tre investerarna går in i ett företag med *olika roller*, och därigenom påverkar ett företags verksamhet på skilda sätt. Slutligen, en affärsplan är *aldrig så formell som teorin hävdar*. Det är förvånande vad uppsatsens resultat skiljer sig från teorin som gör gällande att formalitet är av högsta vikt för detta sorts dokument.

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1 Introduction

In this part, a presentation about the background, problem, method and purpose will be put forward

Entrepreneurs, who want to turn an idea into reality, often face capital intensive investments. In some cases families and friends can help. In other cases suppliers can give credits on payments or the founders can postpone receiving salaries, but in almost every case, sooner or later, outside capital have to be added.

The three most common sources of capital are venture capital companies, banks and business angels (see definitions in chapter 3.1). A business plan written by the entrepreneur is usually the first contact with the investor. The business plan describes the potential new business, and it includes descriptions of the business concept, the key players, a market analysis, a strategy to implement the new service or product and financial forecasts. It is written to attract capital, and it must attract the eye of the investors.

The research done on the topic of business plans is extensive. It is possible to go to any library and find manuals about how to write a business plan, but up until now the majority of the research has been done from the entrepreneur's point of view. For example there is a wide range of books and theses with titles such as "*How to write a business plan*". These are theories of how to write a successful business plan, concerning layout, information, and how to use it.

In this thesis, our aim is to have a more uncommon approach, we want to use the knowledge and opinions of the investors as opposed to that of the entrepreneurs.

The business idea should not be rejected by an investor due merely to an incomplete business plan rather than the merit of the idea. The question is: *how can an entrepreneur put his or herself in the best possible position when he or she is trying to attract capital to a new project?*

1.1 Problem discussion

For entrepreneurs it can be very difficult to write business plans that attract investors. What information in a business plan is important? Which pattern or exemplified source of theory should I use? Do the criteria for information in a business plan differ between the different kinds of investors? This is what entrepreneurs fear when they want to start a business, and sometimes they do not get started only because they know too little about how the investors think and act in these situations. The questions are not easy to answer without doing a great deal of research on the subject. Also, the answers will most likely differ depending on several variables. One variable, for example, could be the kind of company the entrepreneur wants to start. The line of business in the new project may also affect the investor's decision. Does the project, that the entrepreneur is trying to attract capital to, involve a lot of risk? How much does the investor want in return? Does the entrepreneur prefer to accept a lot of influence from the investor or does he or she want to work alone?

These are a few of the questions future entrepreneurs have to deal with and answer before they take action and start looking for investors. What are the answers? In this study we want to get hold of the investors' perspective on the issue of entrepreneurship and business planning. We are certain that this can be useful to any entrepreneur in the start-up phase. Questions always arise concerning how the investors think? How can I, as an entrepreneur, convince them that my company will be a success and what investor gives me the best chance of getting financial help?

1.2 Purpose

The purpose of this thesis is to broaden the understanding of the business plan as a mean to attract capital for new ventures. It further aims to investigate the relevance and optimal composition of the business plan, according to the investors.

1.3 Perspective

Most theses and papers within this field are written based upon reflections of already successful entrepreneurs. This thesis takes on a different perspective, it is focused on the investors and their requirements and criteria to *invest* money rather than what entrepreneurs think is needed to *receive* money.

2 Methodology

The purpose of this chapter is to present the choice of methods used for this thesis

2.1 Approaching the field of study

There are several ways of approaching a field of interest when you are in the process of conducting a study. Two of these are the inductive and the deductive approaches. When using the inductive approach, empirical findings are used to make conclusions, create knowledge for a certain field and even to come up with new theories or develop existing ones. The researchers should enter the empirical world with an open mind and should not be affected by existing theories.[1] A deductive approach will examine an empirical phenomenon with the help of existing theories. The researchers will study the theories in the field of interest and thereafter use empirical findings to explain this empirical phenomenon with the help of the theory. This approach does not deliver any new theories; the deductive approach more or less explains a phenomenon with the help of a theory.[2]

In our case we must approach the field of study with a certain amount of knowledge. Without this knowledge, the field of study will not have any limitations and can be too difficult to handle. We will study the literature of business plans and investors, and this knowledge will give us the foundation to know what to look for in the empirical world. There will be a deductive approach for this research. Besides the deductive approach, we will probably receive information during the interviews of the respondents that we have not studied theoretically. Saying that the thesis will be merely deductive or inductive, is not correct. We know that the approach will include both deductive and inductive traces.

2.2 Method for the study

The information that we need for our research can be collected in different ways. Basically, there are two different methods; the quantitative and the qualitative method.

Using a *quantitative* method, the researchers base their study on numbers, data, and statistics. These numbers can be found in databases, libraries, or similar institutions. The quantitative method will give you answers like how many, how much and so on. The results will be precise and generalizing. The research will be made with a distance between researcher and respondent, to give results that are reliable and statistically correct.[3]

The opposite of the quantitative method is a *qualitative* method. With this method, the research will not be based on statistics; statistics are in fact more or less irrelevant.[4] A common way for collecting qualitative data is interviews. With

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[1] Alvesson & Sköldberg, 1994

[2] Alvesson & Sköldberg, 1994

[3] Holme & Solvang, 1997

[4] Svenning, 2003

this method, knowledge about reality is created and a deeper insight in a phenomenon is reached. The results will be subjective and answer questions like why and how. The qualitative method's goal is to create an understanding of a certain problem, in its specific context.[5] The qualitative method characterizes by closeness to the problem, as a mean to understand and interpret the situation in which the studied objects can be found. The closeness between researcher and respondent is a condition for getting the information that is needed. To get a better understanding of the two methods, the two terms quantitative and qualitative should not be used. Instead you can think of the first mentioned method as a generalizing method and the latter one as an exemplifying method. [6]

It is the purpose of a thesis that decides which method that will be used. It is important to note that the use of one method does not necessarily mean that the other one cannot be used. This means that the important thing is not which method you use, one of them is not better than the other, the most important is that the method chosen will make you fulfill the purpose of the thesis. In some cases, a mix of the two methods is necessary for the fulfillment of the thesis's purpose. Our study is not searching for general conclusions for the field of interest that we have chosen, but for a deeper understanding of the thoughts, feelings, and opinions of different actors in this field. We want to know about the three different investors' thoughts, feelings, and opinions. We had an idea at an early stage that the best way to get the kind information that we needed, was to make interviews with selected persons. This kind of information is not about numbers or statistics, it is not information that can be measured on a scale. Therefore the choice of method for collecting information for this thesis is the qualitative method, with other words an exemplifying method is used.[7]

2.3 Trustworthiness of the thesis

Both the quantitative and the qualitative methods must have the ambition to get results with validity. Validity is about capturing the empirical world in a correct way. The way questions are constructed for an interview, the sincerity of the respondent, and influence of the interviewer could all have an effect of the results. To get results with validity, the researcher must be very careful when searching for empirical data, and be certain that the used data is relevant for the study. If the data is not corresponding to the real world, the researchers cannot make the right conclusions.[8] To maintain a high level of validity of the thesis, we have studied relevant literature and theories, and from this knowledge created a suitable structure for the interviews.

Reliability means that if the study should be conducted once more, with the same purpose and method, the same results will be obtained. Reliability is a term more often used when conducting a quantitative research than using a qualitative method. As said before, qualitative studies are exemplifying with subjective re-

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[5] Holme och Solvang, 1997

[6] Trost, 2005

[7] Svenning, 2003

[8] Svenning, 2003

sults. Two studies with same purpose and methods will not get the exact same results, since the data used will not be identical. Using a quantitative method will at least give the researchers a chance to use the exact data, for example existing statistics.[9]

We have collected empirical data by making interviews with people from the three different investors. From this information we have drawn conclusions for the whole company. This impact that one or two people can make, is a weakness for our results. With a limited amount of time and resources, we are forced to be limited in our research. A greater number of interviews would not necessarily have given us a different result, but it would have made us more certain of the justice that the results give the real world.[10] Important to remember is that a qualitative method has not the ambition to generalize, the results are only relevant for the specific studied subjects in its unique situation.[11]

Further critique on our method is that we, as individuals, have personal experiences and knowledge that may color our analysis of the empirical findings. It is possible that writers of a thesis understand the respondents' answers in the incorrect way. This have an effect on the validity of the thesis, and to counteract the influence of misunderstanding between the interviewers and the respondents, all interviews have been recorded and analyzed after the interviews.

2.4 Collecting data

According to Holme & Solvang (1997), the respondent should be chosen from criteria such as knowledge and understanding of the subject that is related to the purpose of the thesis.

That is why the need for people who reads business plans on a daily basis is of great importance to this thesis. These persons are reading the business plan because someone, in the context of this study, an entrepreneur, is trying to attract capital for a business. There are different types of investors, but since the purpose of this thesis is to examine the need for capital at the start of the venture rather then in the middle of a business lifecycle, the selection of investors was narrowed, and was finally settled down to three different types of investors.

Banks was the first choice of investor; they invest at all different stages of a venture's developing process. They are widely used, and therefore of interest to all entrepreneurs in need of capital. The two banks that were chosen are considered to be two different types of banks. One of the banks is a major bank with a great number of both private customers as well as corporate customers. The other bank is a smaller bank, with the niche to focus on a more personal service to a smaller number of customers, on the private side as well as the corporate side. Both banks offer the service of lending money to entrepreneurs so it would be suitable to get information from one bank of each pole.

[9] Svenning, 2003

[10] Wiedersheim-Paul & Eriksson, 2001

[11] Bryman, 2002

Business angels were the second choice of investors. They are private persons, mostly interested in investing in early-stage ventures. Even though business angels do not have a title they are a well used source of investment.

The third respondent was a venture capital company that focuses on early-stage funding. The company is making investments mainly domestic but also abroad. All respondents are located in Jönköping.

2.4.1 Qualitative interviews

A qualitative method suggests that data is collected by asking questions to a specific sample of the field of interest. Therefore we have chosen the method of interviews in this thesis. A qualitative interview is an interview that will give an understanding of the respondent's thoughts, values, and experiences on a specific subject.[12]

When an interview is conducted, it is of great importance to ask the right questions. These questions have to correspond to the purpose, and this is also demanded from the answers.[13]

According to Denzin & Lincoln (1994) there are different types of structures that can be used for an interview. In a *structured* interview there will be questions that are predetermined. The same questions will be asked to every respondent. This will give a lack of connection between the two of them and no room for additional questions from the researcher. The *unstructured* interview is more of an open discussion around a certain topic. A third kind of structure for an interview is a combination of the two mentioned. This one is called the *semi-structured* interview. The semi-structured interview will create a conversation and it will give the opportunity to ask open questions with open answers, and by some additional questions to get clarification about a certain subject.[14]

The structure for the interviews in this thesis are to a high degree constructed to make the respondent freely answer the questions, but to get some key-facts to compare between the different respondents, we have to conduct the interviews in a semi-structured way. The number of interview should be limited. According to Trost (2005), a number of 4-6 is the most appropriate. If too many interviews are made, the material can get difficult to analyze, and therefore give a result of lower quality.

Our empirical findings are founded from five interviews. We met two banks, two business angels, and one venture capitalist company. All interviews were made at the work place of the respondent. We used the same structure for all interviews (see appendix 1) and each interview lasted about two hours.

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[12] Trost, 2005

[13] Holme & Solvang, 1997

[14] Denzin & Lincoln, 1994

3 Attracting capital

We will in this section present the most relevant existing theory in the field of study. Included is what a business plan is supposed to look like according to the theory, which the most common readers of business plans are and their respective characteristics. We also include some general information on business plans and why it is needed.

3.1 The sources of capital

Before we discuss the business plan we need some underlying theory on different kinds of investors and their preferences when it comes to investing in new ventures. Venture capitalists, business angels and banks are the three investors we are going to look closer on in this thesis. As an introduction the differences between debt and equity will be described.

3.1.1 Debt versus equity

Debt capital is usually referred to as capital borrowed by a business that must be repaid over a period of time. A good example of debt financing is a regular bank loan. Interest is common in these kinds of loans and the financing does not lead to any outside ownership in the company, it only adds the money. The loans are usually secured or backed up with different kinds of assets that the borrower i.e. the entrepreneur controls. This means that loans of this kind almost without exception need some hardware assets. It can be difficult to obtain for companies which's core competences consist of intangible assets such as knowledge, skills and experience. These companies usually turn to business angels or venture capitalists instead.[15]

Equity capital is defined as funds raised by a formal business or a private person and given to the company in exchange for active ownership in the company.[16] This does not usually require the company to repay the loan or pay interest but to bring return such as higher worth of the stocks. Such capital is commonly given by business angels or venture capital companies.[17]

3.1.2 Venture capital companies

Venture capital companies or funds are referred to as companies that invest money in new or expanding companies in need of financing. They are known for backing companies with high risk.[18] In some cases venture capital companies also provide loans but usually they invest in shares and become shared owners of the company. When lending money they often demand a high interest rate.[19]

[15] Shepherd & Douglas, 1999

[16] Barreto, 2006

[17] Shepherd & Douglas, 1999

[18] Shepherd & Douglas, 1999

[19] Henricks & Riddle, 2002

Venture capitalists often prefer to invest in a new business in cooperation with another venture capital company, believably to lower the risk of the investment. Many entrepreneurs are therefore backed by at least two different venture capitalists.

Venture capitalists have power, and it is always to be expected that they are going to use it. Since they invest money through buying shares in the company they often, for example, claim a representative in the board of directors of the firm. They have expectations on the managers of the company to perform. Goals for developing the company is usually decided at the time of the investment and if these are not reached, a removal of people in charge is not uncommon.

Benefits of being backed by a venture capital fund are the expertise, contacts and experience the capitalists can offer the firm. They are also often the first reflection the entrepreneur gets on whether his idea is sufficiently good or not. The venture capitalist is often operating in one or a few sectors they know very well. Therefore they can make very accurate assumptions on whether a business will be successful or not. It is therefore also critical to choose wisely when, as an entrepreneur, searching for possible investors. Once they have made a decision to invest, some of the more active venture capital companies spend numerous hours a month assisting the management team of the backed company. As mentioned a network of contacts can also be added from the venture capitalist. It is often used to attract employees and co-investors.

Venture capitalists often differ in their criteria of new ventures to invest in because they have special preferences when it comes to type of industry, stage of development, geographic location or other areas. Therefore it is critical for the entrepreneur to find companies to approach that suits their own company the best. There are several lists of venture capitalists that one can use to find suitable investors. Venture capital companies often act as the lead investor, boosting the interest for the company, that may lead to further shown interest from other investors. The best way of first approaching a venture capitalist is through referral by someone who is well respected by the venture capitalist. Contacts and networks are therefore of significant importance when trying to attract capital from venture capitalists. Another good way of first contact, if the personal network is not credible enough, is through venture capital forums. These work for bringing entrepreneurs and investors together and have become more common lately.[20]

Important when it comes to venture capitalists, and other investors as well, is not to work only towards one investor but to keep your options open in case negotiations fail. Venture capitalists spend a lot of time analyzing your business plan but this necessarily does not mean that they will accept it.

What venture capitalists often eventually want is for the company they invest in to be sold either to a larger company or to the public. Then they can get their money back with interest.[21]

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[20] Shepherd & Douglas, 1999

[21] Henricks & Riddle, 2002

3.1.3 Banks

Banks are well used, well established institutions that are lending money to everything from well established firms to newly started businesses. They are considered to be the conservative party of lenders. Even though venture capitalists and business angels seem more exotic than banks, banks are the number one lender to successful businesses. One major difference compared to venture capitalists is that the bank wants little, if any, control of how the business is run. All they look for is that the payments are current and by what means the borrower intend to fulfill the obligations. If the borrower, however, get behind with the payments, the loans usually contain so many covenants that the borrower will easily fall into a trap, which will easily lead to the bank seizing your collateral, if not taken care of by the borrower. How relevant all the different covenants are, is up to the loan officer.[22]

A high degree of regulation has been placed on banks because of their importance to the economy and because they hold the deposits of millions of ordinary citizens. One of the consequences of this regulation is that bankers have limited credit granting discretion. Fifty years ago, credit was largely based on a banker's personal knowledge of an individual borrower, but regulators cannot test or evaluate personal relationships. They can only evaluate facts on the record. This is what made the banks being considered conservative in the range of risks they are willing to tolerate. The implication is that banks will only provide capital to firms that fit within a narrow range of documented financial performance. Companies that fall outside that range, for any reason, are wasting their time trying to get a bank loan and are better off considering other sources of capital, such as business angels or venture capitalists.[23]

Bankers are looking for asset security to back their loan and reduce the risk. Bankers will charge an interest rate based on the size of the loan. The interest rate will depend on the current market conditions as well as the level of risk involved in the loan. Bankers will usually expect a business to start repaying both the loan and the interest immediately after the loan has been granted.[24]

3.1.4 Business angels

Business angels, or informal investors, are referred to as people who invest their own personal money in, most commonly, early-stage ventures. Business angels are often considered an important source of funding because they are a large (amount of money) source of equity today. It is hard to say exactly how big the amount is due to the discretion of the personal funding. They often accept to fund people and firms that do not receive funding from conventional venture capitalists or banks. That is because business angels do accept a smaller rate of return on their invested money and they are, believe it or not, more prone to take on big risks. Funding among friends, families and business associates is a big part of business angel funding. Business angels are typically former entrepreneurs and/or managers in companies and they therefore have a good view of the

[22] Henricks & Riddle, 2002

[23] Vance, 2005

[24] Barrow, 1995

whole aspect of starting up and managing small businesses. Another thing that distinguishes a business angel is that they usually rely on their gut feeling rather than results of formal analyses and careful reading of business plans. They are also more interactive with the entrepreneurs and hope to be able to use their experience to help them developing the company.[25]

For business angels the personal chemistry between the entrepreneur and themselves is of major importance, they invest in a company because they like and believe in the founder and the business idea. The business angel is, compared to the other sources of capital, more unconventional. If the entrepreneur for example gets turned down by 20 banks there is a great possibility that the 21st bank visited turns him down as well. The bankers have fundamentally the same education and the same formulas and criteria. Business angels on the other hand typically do not have any education at all for evaluating business plans and therefore getting turned down by 20 angels does not mean a thing.[26]

3.2 The business plan

Anybody beginning or extending a venture that will consume significant resources of money, energy or time, and that is expected to return a profit should take the time to draft some kind of business plan.[27]

Besides the need for a business plan when raising capital from equity investors there are other areas that the business plan fulfills.

- This systematic approach to planning enables you to make your mistakes on paper, rather than in the marketplace.
- Once completed, a business plan will make you feel more confident about your ability to set up and operate the venture.
- Preparing a business plan will give you an insight into the planning process. It is the process itself that is important to the long term health of a business, and not simply the plan that comes out of it.[28]

3.2.1 Role of the business plan

The business plan is useful internally and externally for a company. Internally it will be a tool for attracting human capital. It is not uncommon that a potential employee wants to see the company's business plan before making a decision whether joining or not. The business plan will also be a guide for the manager and their strategic choices. The business plan gives solid overview of the business, the market, the competitors, and its potential advancement. Therefore a

[25] Shepherd & Douglas, 1999

[26] Henricks & Riddle, 2002

[27] Henricks & Riddle, 2002

[28] Barrow, Barrow & Brown, 1998

business plan is a document that must be developed with its company and its market.[29]

Externally a business plan is a useful tool in many ways. For the entrepreneur it will be a professional written document to show areas of interest for potential investors concerning the venture. A well-written business plan will communicate the true potential of a business idea and catch the eyes of the reader. It could be the most important step when an entrepreneur tries to start a business,[30] but it has the same importance for an existing company that needs to seek funds for a multi-million dollar investment. Only the extent of the business plan varies.

The role of the business plans is to communicate the right of existence for a company. Everyone who has an interest in a company and needs information will find a business plan useful. Among the ones who read a business plan you will find banks, venture capitalists, business angels, customers, suppliers, distributors, law firms, and accountant firms.[31]

3.2.2 Parts of the business plan

There is almost an endless source of literature in how to write a business plan. The entrepreneur can go to the nearest library, bookstore, or browse the internet for help. There are consultants who are specialized in writing business plan such as well-known firms as *Ernst & Young*, *McKinsey & Company*, and *PriceWaterhouseCoopers*. A lot of institutions offer free guidelines on how to write a business plan. One is *affärsplanen.se*, another is *CONNECT* Sverige *(see appendix 1)*. *CONNECT* Sverige is an independent institution that is financed by major Swedish organizations focusing on stimulating and developing entrepreneurship. On their website, *connectsverige.se*, entrepreneurs can download a guide in writing a business plan. After browsing different kinds of literature, we have decided that this guide gives a fair picture of what content a business plan should have.

A business plan starts with an *executive summary* of one page. The executive summary should in a concise way high light key parts of the business plan. It might be that the financier decides whether to continue reading the business plan or not by the way the summary is presented. In a short and concise way, the entrepreneur will here describe the business idea, the team behind it, the product/service, strategy of having a success, and all the financial information. It should emphasize on why this is something to invest in, it must catch the eye of the investor. This is the part that should be written after the whole business plan is developed. Often, this is the hardest part to write in the business plan, nevertheless, it might be the most important one.[32]

Many readers claim that they make up their minds within the first five minutes of looking at the *business description* of the business plan.[33] This first section is to

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[29] Zetterberg, 2004

[30] Barrow, Barrow & Brown, 1999

[31] Zetterberg, 2004

[32] Barrow, Barrow & Brown, 1998

[33] Cohen, G Nigel, 1994

give the reader an inside information in what type of business this is. It briefly explains how long the company have existed and what the main objectives are today. It also mentions in what way the company is unique on the market. It should be as concise and interesting as possible. It should focus on the most important elements of the company. The reader should after this section have the understanding of what the whole plan is about and know what to expect when continuing reading. Also, this is the part where the long term visions of the company should be mentioned.[34]

Another important part of the business plan is where the *key players,* who are going to run the business, are presented and described. It may be no more than a simple paragraph noting that the entrepreneur will be the only executive and a description of him or her or it may be a major section in the plan, consisting of an organizational chart describing interrelationships between every department and manager in the company, plus bios of all key executives. Mainly, this section gives the reader information of the person behind the business idea, what type of business background this entrepreneur has, and what he or she can contribute with.[35]

An explanation of the type of *product or service* that will be provided to the market should be included in the business plan. It provides the reader with a detailed description of products, the service that is offered, and how much each product group generates in revenue. It clearly describes the products and services provided by the company, as well as the benefits of each product and service that the company is offering.[36]

When writing a business plan it is important to conduct a m*arket analysis*. In this section, the market, customers and competitors will be discussed. Also, what type of market strategy the business is intending to follow in terms of pricing, selling, distribution, service and marketing. More then any other section, it justifies the reason for being in business. Among other things, this section should mention to whom the product or service should be targeted.[37]

Investors want to know how the company is going to be run. Different companies have different types of *organization*, and will work differently towards the outside environment. This is the section that deals with all the plans made for how the organization will work. The operational plans that the managers will develop are the vital action plans for the company. These are the plans that will be implemented and against which performance will be measured.[38] How many hired people, when to hire them and if they will be in the company just in the beginning or throughout the growth of the company. The business plan should reassure readers that the entrepreneur has thought of these important issues.[39]

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[34] Henricks & Riddle, 2002

[35] Henricks & Riddle, 2002

[36] Ross, 1998

[37] Ross, 1998

[38] Wesley, 2002

[39] Henricks & Riddle, 2002

In many businesses, there are outside *owners* of the company. They may consist of venture capitalist or former founders of the company. However, in smaller businesses the president is also the owner, or one of them. Even though the owners may not actively work in the business, they are worth more to the company than what is mentioned. Such leaders have developed a circle of business friends, can use their network to get to the right resources, and are experienced within the industry – all factors that can support the success of a venture.

Information about the *production* also has to be mentioned in the business plan. If there is need for new technology, update of current production or extension of the existing product line. [40]

Regardless of previous sections, the *financial section* is the one that carries the greatest burden. Investors interested in the business plan will go through the financial projections with great care.[41] The most common basic financial statements are profit and loss statements, balance sheets and cash flow statements. There is a need for a detailed description of the financial information regarding the product and service that is offered. According to theory it is also very important to have a solid exit strategy and it is usually included in this part of the business plan. It makes it a lot easier to attract investors when you can convince them that they can get out of the collaboration easy and whenever they want. In order to go into a business they really want to be sure that they can get out without any problems. The exit plan should therefore also include a long term plan for the business, so that the investors know what will happen in the future. Combined with these issues are also questions like what kind of company is the entrepreneur striving to build? Is he or she in it for the big money and a quick exit or to trying to build a solid, stable, long term growing family business? This really needs a long term plan for your company and these are questions that the investor wants to have answers to. Venture capitalists generally look for high returns and an exit strategy of about 3-7 years. They usually work with companies wanting to grow big and go public or be sold in later stages. Banks will have an exit in the form of securities that is needed in the first place in order to be granted the loan, needed for the venture. Business angels also look for big returns but they are typically more flexible when it comes to the exit strategy. They often differ in their preferences and can go into business without such a well-defined plan or strategy. They are usually less formal with these things and not as sophisticated as banks or Venture capitalists. They often also, as mentioned before, have personal relationships with the entrepreneurs and this might affect everything.

Some examples of possible exit strategies would be:

- Merger/Acquisition
- Buyout by partner in business
- Franchise the business

[40] Ross, 1998

[41] Covello, 1998

- Hand down the business to another family member[42]

Just as the business plan should include statements of objectives and strategies, it must also contain a brief description of *implementation and control* and how to monitor the results.[43] It should contain strategies for implementation, on how to fulfill the different visions/objectives of the desired future state of the company and how to react if the visions are not fulfilled within the time period. Also, how to monitor the results and follow up that both the strategies and the goals are achieved.[44]

Additional information of importance should be added to the end of the business plan as *appendices*. A typical business plan runs 15 to 20 pages, but there is room for variation. Extra information such as surveys, outside interviews, and all extra information that does not have direct implications to the business plan can be included. [45]

3.3 Evaluating the business plan

To be able to attract funding it is crucial to use information in the right way and look on and evaluate the business from the investors' perspective. Dean A. Shepherd and Evan J. Douglas (1999) mention the following points as important when presenting a potential new business to investors:

- Does it fit within the domain of the investors' knowledge and experience?
- Does the new product or service offer superior value?
- Does it serve a long-felt need?
- Does the new venture hold a proprietary position?
- Will the new venture grow by rolling out new products, new markets or both?
- Is there already some hard evidence that the business will be a success?

It is according to most theory important that you choose to target investors that are interested in your area of business or your market. The investors clearly have to understand your technology to invest in your business. This is something to keep in mind because targeting the wrong investors is something that can cost a lot of money for the entrepreneur, and alter the entire future of the venture.

Obviously investors primarily look for entrepreneurs and firms providing superior value to customers. It is crucial to include the price of the new product or service in this discussion. The combination of quality and price should be superior to the competitors' offerings. When it comes to serving a long-felt need, meaning situations where the need is widely recognized and the knowledge of the problem is widespread, customers can instantly see the benefits of the new product. To be

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[42] Pollov, 2005

[43] Barrow, Barrow & Brown, 1998

[44] Cohen, William A, 1995

[45] Henricks & Riddle, 2002

in a proprietary position means that the company has access to something absolutely unique. It may be a certain production process, a unique product or a unique distribution system.

The discussion of so called follow-up products is very common and important to most investors. They often think one step further and are very aware of that the first product released may have a short life-cycle, although it is a success. But a success for 6 months followed by nothing does not make a very good investment. Investors want to see some future plans of action that the entrepreneur has planned to undertake after launching the first product. In essence, investors look ahead, far ahead.

Any evidence found in and around the marketplace that the business is going to be a success makes the investors happier to invest. Entrepreneurs are often visionaries, but investors do not invest in visions, they invest in products already tested in the marketplace. Therefore, to attract a lot of money, you have to already have scored some points in the marketplace.[46]

3.3.1 Presenting the business plan

Writing a business plan is a continuous process. Clarity and brevity are of greatest importance. Everything except the key issues and details should be edited out. This requires changes to be done continuously. Critical reviews by outside parties are therefore of importance to get the right design. It must not be too long since there will be a presentation of the business concept and final stage when the investor will be able to ask any questions that are needed in order to get finance. This view of the different stages in the process of getting the intention of the investors is known as *the three stage approach*.[47]

After *writing* the business plan there are, according to most investors, still two more steps before the entrepreneur can receive any funding. He or she namely has to present the business plan and receive and answer questions on the business plan, and do this in a satisfactory way.

The *presentation* is for the investor a chance to see the faces of the people behind the business. It is a way for the investor to evaluate whether they have what it takes and it is therefore a most crucial event for the entrepreneur. Questions that the investors are asking themselves would be; "Are these people I can trust? Do they have the brains and energy to run the company successfully? Can I see myself doing business with these people?" The investors will at this stage evaluate the team just as much as the business concept itself.

The *question and answer period* is often used to conclude and bring the written business plan together. Potential questions and issues are answered and solved and there is an opportunity to dig deeper into certain areas of the plan. Things that have not been brought up by the entrepreneurs in the presentation can be further clarified. It gives the entrepreneurs the opportunity to show that he or she knows their field of expertise and that they can get this venture going. It is crucial that the entrepreneurs take their chance to impress the investors and show

[46] Shepherd & Douglas, 1999

[47] Shepherd & Douglas, 1999

that they really can turn this opportunity into a full-scale business success. Some entrepreneurs find it effective to plan on keeping certain competitive advantages, such as patents or constantly evolving things like product developments, out of the business plan and the presentation to bring it up on the question and answer session. In all sessions and contacts with the investor it is important to be brief and to the point. Investors do not have much time for each potential entrepreneur and one can be sure of that between your business plan is read by the investor and your presentation session the investor will have read multiple other business plans and your plan might have been forgotten among others. It is therefore also important that your business plan is to the point and not too long. 25 pages is said to be the upper limit in this context. It should be easy to find and to quickly grasp its most important parts. To, by any means, build and maintain the interest of the investor is seen as the most challenging part for a lot of entrepreneurs.[48]

3.4 Roles in the new venture

The creation and development of a new venture is almost in every case a team effort. What roles are there to be filled in order to be successful? Here follows some examples of important entrepreneurial roles and their respective characteristics.[49]

3.4.1 The holder of the strategic assets

The holder of the strategic assets is the heart of the new venture. It is the person or persons who own the rights to for example patents, or simply have the intellectual property that the firm is built around. Other assets might be trade contacts or ideas of a new business concept. The rights to start up a franchising subsidiary is another example.[50]

3.4.2 The manager

The Manager role is conceptually different from the holder of the strategic assets and they are therefore preferably two different people, or more. The Manager of the new venture should have good business-planning skills, strategic-marketing expertise and necessary leadership and management skills to fulfill his or her task. The manager is supposed to manage the holder of the strategic assets in a way that puts the assets to the best possible use. The new venture is in the start-up phase usually pretty vulnerable so it is crucial that the manager has the ability to make the right decisions at the right time. He or she should according to most literature on the subject have basic knowledge in the field of entrepreneurship and its concepts.

To be able to discuss how to attract capital through a business plan we also have to bring up the importance of having a capable management team. It is in all

[48] Shepherd & Douglas, 1999

[49] Shepherd & Douglas, 1999

[50] Shepherd & Douglas, 1999

situations important to have a management with a broad spectrum of skills. They have to motivate, lead and make the right decisions as often as possible. To be able to convince the investor to finance your company you have to be able to prove to him or her that you and your company have the right management. This is one of the main objectives when presenting your business plan. Diverse and complementary skills are very highly esteemed in today's environment. Again, you have to prove to the investor that you and your surrounding staff will be able to pull the whole thing together. The entrepreneurs are many and the investors are few, you have to show that you have what it takes. It is not uncommon in today's new ventures that the technological side is strong but the management is weaker. There has to be a balance between these two.[51]

3.4.3 The investor

Investors are the ones who are willing to put capital at risk to fund the establishment of the business. The most important investors are banks, business angels and venture capital companies.[52]

3.5 Summary of theory

The creation of the business plan mentioned earlier that consists of *executive summary, business description, key players, production and service, market analysis, organization, owners, production, financial section, implementation* and *appendices*, is an ongoing process. It is not only for the entrepreneur to foresee the future outcome and potential problem in the venture, but also a creation with a goal to attract investors to become part of the venture. The writing combined with the presentation and the investor's time to ask questions about the venture makes the so called *three-stage-approach*.

There are three different investors: *business angels, venture capitalists* and *banks*. They will all have, and serve, different purposes in the venture. They can chose to make the venture have a dept that needs some sort of regular payment, or the investor wants some sort of equity (ownership) in the company that will pay out an early dividend. The investors will also have different *roles* in the company, anything from the financial investment to serve a managerial role as well.

This is the theoretical framework that will be used to analyze the empirical findings. Each group will then separately be analyzed, conclusions will be drawn out of the findings, and guidelines for future entrepreneurs that seek funding will be discussed (See chapter 7).

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[51] Shepherd & Douglas, 1999

[52] Shepherd & Douglas, 1999

4 Investors' perspective

In this chapter we present the results of our interviews. This is the investors' perspective of the relevance and composition of a business plan.

4.1 Venture capital companies

The most common way for an entrepreneur to contact the venture capitalist, from now on called VC, is to send them a business plan. Our respondent says that they prefer a business plan before scheduling a personal meeting, so the VC can get an opinion about the entrepreneur and the business concept. Without any form of advertising at least two business plans arrive each week from capital seeking entrepreneurs.

The first contact between the entrepreneur and VC is usually made on the initiative of the entrepreneur. The entrepreneur either sends VC a business plan, preferably as an electronic document, or the business concept is briefly presented via telephone. If a business plan is sent, VC will analyze it and get back to the entrepreneur with a decision. If VC finds the business concept interesting, a meeting will be held to meet the entrepreneur and to discuss the business concept. If VC is not interested in investing, the entrepreneur will be contacted anyway. VC stresses that a business plan is never ignored, without letting the entrepreneur know the reasons. Other ways for the entrepreneur to get in touch with a venture capital company, is by the help of a VC's network. VC tells us that the company has a broad network with other venture capital companies. If one of these companies gets in touch with an entrepreneur who has an interesting idea about a business concept, but this business concept is not in the line of business of the venture capital company, a recommendation is given to another venture capital company that may be interesting in investing. According to VC, this also works the other way around. A venture capital company can recommend another venture capital company to contact an entrepreneur who has a business idea suitable for the latter company's investing strategy.

4.1.1 Relevance of the business plan

VC respondent states that:

> *"The business plan as a formal document, is for me less important than you think, the thoughts and ideas behind it are the most important. I have even agreed to invest in entrepreneurs who gave me their business idea written on a napkin."*

Structure and language is something that has nothing to do with the business according to VC. It is the idea and people behind the business plan that is of importance, not his or her skills in writing. He also adds that:

> *"…the strength of working this way though, is that I can control quite a big part of the process…"*

and:

"…it is bad in the sense that it takes a huge amount of my time and sometimes I make the wrong first assessment, and after 2 months of work, I end up not making the investment. That is when you think about retiring."

All the business plans go through the same thorough analysis. The entrepreneur could expect an answer within a week. The response could be anything from a rejection (which also contains an explanation of why it was rejected) to a name of a different venture capitalist the entrepreneur should turn to since the area is not interesting for this capitalist. When a business plan is accepted, a form of questions will be added to answer questions that need to be answered. The business plan should not be long or difficult to read. Between five and ten pages is the optimal size of a business plan.

4.1.2 Composition of the business plan

VC reads a lot of business plans, to them it falls natural to look at certain parts before others. VC knows what to look for, however they often overlook simple mistakes because they know that the business plan will keep being updated, often with their help. To just read the executive summary is not professional according to VC. Being an investor also means being an entrepreneur, by just reading the summary, the possibility of finding something new within the idea ceases to exist. A full description of the people behind the idea and their historical background is necessary information when evaluating the business.

The financial section should have been made by a person who knows how to do it properly. The entrepreneur may have a great idea, and may be a great businessman, but may not have enough financial competence. According to the VC though, the financial numbers are in most cases irrelevant, since there is nothing that the entrepreneur can back up. The VC prefers to do the financial calculations together with the entrepreneur as the business evolves.

Patents and other forms of legal rights are valuable information for VC, since a good business idea with a patent in the core, makes way for a great investment. This should definitely be included in the business plan.

Regardless of all the areas of interest in the business plan, the one area of interest that needs to have a solid explanation to open the way for investment is the exit strategy. The only reason that the venture capitalists invest is because they have an exit.

Contracts should be written about everything, not only the exit strategy. As our respondent put it:

"One of the most common reasons to why I reject a business plan is that they do not have any contracts written. I never go into business with entrepreneurs who do not know who the owner of the patents or other legal information is."

Problems like this are according to VC far too common. Another reason to reject is, according to our respondent, as follows:

"It is also very common that for example three people come to me with a good idea. My first question is: Who is going to be the CEO and who is going to be the accountant? What are your roles going to be? The answer is almost every time that they will run it together. That is not good enough."

VC want to state that they always wants things to be clear, simple and that the entrepreneur show that they have thought about a lot of different possible scenarios in the future. Roles have to be set ahead of the investment and contracts have to be written when it is possible. It is also important to explicitly decide what will happen with the venture if one of the founders wants to withdraw. Problems that come up in situations like this has to have been dealt with in the start-up phase. Our VC respondent puts it as follows:

"ALL projects come to an end, for one reason or another, and there are ALWAYS complications about the financial payout. I have to avoid this at any cost. I do not know of any venture capitalists who would enter a project where there is more than one entrepreneur, and the roles of these in the new company are unclear."

According to VC private equity invested by the entrepreneur is a sign of confidence. It shows that the entrepreneur believes in the project and is willing to take a financial risk. Weather the entrepreneur has his or her own money or not is of less importance. It can be private money or borrowed money. However, if the entrepreneur has other financers it is preferred that the co-investor invests more then just hard cash, it should be intelligent money. This means, according to VC, that the co-investor should not be someone who invest capital and thereafter sits and wait for financial return. A perfect co-investor is the one who can offer knowledge suitable for the business concept, a network of contacts, simply a co-investor who takes an active role in the new venture. VC stresses that this is the optimal co-investor. Even though a bank does not provide intelligent money, it will help the entrepreneur in his or her new business, and it will also split the risk of the project, which is something that VC think is something positive.

Except from the financial support, VC can offer contacts via its network, and also expertise about certain fields of knowledge. The venture capitalist will enter the company and become more then just a financer, their experience is something that can be of great assistance for the entrepreneur, as well as the capitalists' wide network. As a venture capital investor, VC says that there must be a determination to be entrepreneurial in order to understand and to find business concepts and entrepreneurs with potential. If an entrepreneur contacts VC and presents a business idea with great potential, but the presentation is poorly done in the business plan, VC will help the entrepreneur to make a complete business plan. What VC mean is that a great idea should not be rejected because of a poor business plan.

The line of business is very important for the VC. If the business concept in the business plan does not fit with strategy of VC, they will not invest. VC invests in projects that are in the line of business where VC has its knowledge. Weather the entrepreneur has previous knowledge about the business or not, can be of great importance. VC wants the entrepreneur to know the line of business with all its potential threats and opportunities. An entrepreneur, who has not made any kind of recon of the market, is easy to recognizes, says VC, and this is something that is highly negative for the entrepreneur.

An area of great importance in the business plan, in the eyes of the VC is the business concept, meaning when and what they will sell and to whom. Almost all of the business plans that are rejected are rejected because they do not explain what they are going to do, and most of the times, to which they are going to sell the product or service. Most areas are of importance to some extent. However, there are parts that are of less importance, according to VC. From past experience, the entrepreneur expresses himself as the conqueror of the world, which makes the VC to take a step back and be objective. Also, the sale prognosis is something that is of less importance, even if it is based on a qualified forecast, it is still a guess, and basing a decision on that, is a commonly mistake made by investors in general.

4.2 Banks

A business plan is a common document when entrepreneurs seek to raise capital at a bank. Each year the bank receives a couple of hundreds of business plans from entrepreneurs. Out of these B1 grants loans to about 10%, for B2 there is no relationship between number of business plans received and loans granted. At B2 a file about the customer is created where data and information is collected. This information corresponds to an ordinary business plan, and is created to get a deeper understanding of the customer. Further, both B1 and B2 agree that the business plan that we showed them, taken from CONNECT Sverige, correspond to the regular business' plan that they work with.

The first contact between the entrepreneur and the bank is on the initiative of the entrepreneur, without exceptions for both B1 and B2. Either the entrepreneur visits the bank office without having an appointment, or the first contact is made via phone. In some cases when the contact is made by phone, the bank receives a business plan in advance before the face-to-face meeting is held.

A normal business plan is about 5 pages according to B1. This is also according to B1 and B2 appropriate number of pages for business plans. In the case of a company seeking loans for additional investments in an existing company, a bigger amount of capital is needed, and therefore the banks demand a more extensive business plan. A length of 5 pages is preferred instead of 20 pages according to both banks.

At a first glance, about 10-15 minutes is spent by both banks on an initial understanding of the business plan and its contents.

4.2.1 Relevance of the business plan

The need of a business plan is obvious according to our respondents but it is not the only thing that matters. As B1 puts it:

> *"The existence of a business plan is crucial as a tool to in a formal way make the investor understand the goals and strategies of a new business concept. We get a lot of business plans sent to us so it is important that we can understand it quickly."*

And when we asked B2 how important the business plan is when evaluating a new business proposition:

> *"First, we look at the business plan, then the different characters in the new venture. Patents and legal information are also of very big importance."*

The business plan *is* important when dealing with banks. They need everything to be included in the business plan because they do not have time to meet with all entrepreneurs to discuss different issues because they read too many business plans.

4.2.2 Composition of the business plan

Next it is important to investigate what banks find are the most important parts of the plan and how current entrepreneurs generally design them. The representative from B1 puts it:

> *"The contents of course vary from business plan to business plan but the parts are fundamentally the same as in your example. What I find the most important are the business idea and description, the key players and the financial information."*

The example of business plan referred to in the quote is a typical theoretical one written by CONNECT Sverige, a supporting network for entrepreneurs. (see appendix 1) We used their business plan example for deciding what the most important parts are during the interviews. Both banks agree on that the most important parts are the *business description, the key players and the financial information.*

The *business description and idea* must have a good possibility to succeed. B1 highlights the fact that the bank is a supplier of capital, and wants to get the money paid back plus interest. The bank will not take any kind of risk when they lend money to entrepreneurs and therefore they have to be sure that they don't do any risky investments. They can not affect or change any things being done in the company after the investment is done so they have to trust the entrepreneurs. If the business description has a lack of confidence from the bank, the entrepreneur will not be granted a loan. Circumstances, that affect if the loan is granted or not, may be what the situation of the relevant market and product look like, or simply the existence of a market. That the entrepreneur can offer its customer something that that the competitors can not is very important. The likelihood of success of a product or service is one of the most important parts of a business plan.

Behind the business concept stand one or several individuals, so called *key players*. Both B1 and B2 say that they do not lend money without having a certain amount of trust for the entrepreneurs. The record of the entrepreneur, including education, relevant experience for the business, is important facts for their decision. Especially B2, as a smaller bank, emphasizes the importance of having right people behind the business concept. B1 has a larger amount of customers and really do not perform any deeper investigation of the entrepreneur. Common for B1 and B2 is that the entrepreneur must know how, and with whom, he or she will manage the company. This is according to both banks due to the hands-off role that the bank plays. In no circumstance, the banks are willing to manage the entrepreneur's business. Banks are only suppliers of capital, nothing more.

What the bank can bring the new venture in this matter to help it succeed is fairly limited. Both B1 and B2 say that they in no way can guide the entrepreneur in his or her way to run the business. What they both can offer is recommendations for members of the board, accountants and other consultants. The people that they recommend are connected to both banks network and existing business connections. No effort is made by either B1 or B2 to search and find suitable partners for the entrepreneur.

Financial data, such as a budget, liquidation budget, cash flow, and sales forecast, are some of several data that both B1 and B2 demands from the entrepreneur. Both banks says that without financial data that makes sense, and also shows that the business can be profitable, the entrepreneur is not likely to be granted a loan. There must be more than a thought or a feeling for a business concept, reality must be calculated into numbers. The way B2 put it is significant:

> *"It is crucial for us that we diminish, or optimally almost completely remove, the risks of the investment, it is not our policy to interfere with the running of the new company so we have to use and trust our financial instruments. They are very important for us."*

Private equity or co-financers is demanded by both B1 and B2. A clear description of this should be included in the business plan. None of the banks says that private equity, as a mean to show confidence by the entrepreneur is necessary. The important thing is that the bank does not stand for the risk completely alone. B2 says that a business plan that exceeds the amount of risk that they are willing to take can be granted a loan if the major part of the capital needed by the entrepreneur is invested by a third party.

What do the banks want in return for financing the entrepreneur? Both banks are in the business of lending money for a certain price. They expect the entrepreneur to repay the loan plus interest. Of highest importance for B1 and B2 is the future ability of the entrepreneur to pay the loan back. In the case of B1, no trace of personal interest exists. They lend money that is all. B2 has a slightly more personal interest. B2 tries to keep in touch with the customer on a quarterly basis to follow up the business of the entrepreneur. B1 follows up once a year when they look at figures and the current situation of the customer. It is however only a check of how the business is performing and how likely it is that the payback plan is kept, they do not interact in any way through trying to change any strategies or routines.

According to B1:

> *"I would say the most common reason to why we reject a business plan is that either the business concept or the financial information is too weak."*

B2's opinion is:

> *"The business plan will help the entrepreneur to communicate thoughts and feelings about the project, if they can not persuade us that the business concept is good we can not take the risk."*

B2 also agrees on that they indeed have rejected a lot of business plans because of the lack of good and proper financial information and they also add that a business plan that seems to have potential in succeeding is no good if the entrepreneur does not give the impression that he or she can turn the idea into reality.

4.3 Business angels

Our respondents BA1 and BA2 have both been working as managers. These appointments have given them good strategic thinking and knowledge needed to increasing the chance of making the right decisions when investing money. A genuine interest of doing business has been the main reason why they can call themselves business angels. BA1 has a more active role in his different investments. He is involved as a kind of mentor and chooses his investments carefully. BA2 on the other hand has taken a more passive role as he merely invest money in projects that catches his own absolute interest and he does not profit as much from it.

Both BA1 and BA2 are used to receiving business plans from capital seeking entrepreneurs. The business plans they receive comes from Sweden, Scandinavia, and the rest of Europe. BA1 receive about 50 business plans each year while BA2 receive 10-15 business plans. When showing the business plan from CONNECT Sverige (appendix 1) which were used during the interview, BA1 commented:

> *"A typical business plan I receive does have some of the headlines but definitely not all of them, it is not as formal as you put it. It is more of a showing of thoughts and ideas than a complete business plan, the business plan is being shaped afterwards."*

BA2 states, like BA1 that all parts are rarely present, and if they are, they are not very extensive.

BA1 and BA2 agree on that the first contact between them and the capital-seeking entrepreneur is usually made on the initiative of the entrepreneur. Either, the entrepreneur has found them on different lists of business angels, or they have been recommended to make contact by a third part. In some cases the business angel has heard of the entrepreneur and the project via a personal network. In a case when the business angel finds the project appealing, the business angel contacts the entrepreneur for further information. In the case where the entrepreneur contacts the business angel, it is most common to do so via phone or e-mail. When the first contact is via phone, the entrepreneur introduces the business concept and this may lead to a first meeting between the two of them.

The standard length of a business plan is according to BA1 and BA2 5-10 pages. They both see the business plan, written by the entrepreneur as a business plan under development. As long as the relevant information is included, the 5-10 pages are sufficient. The time that the two business angels spend to analyze a business plan depends on the length of the document. They both agree on that a business plan is always read in a serious way. They never have just a glance it, both of them tries to understand the entrepreneur's situation and the thoughts behind the idea. In some cases it takes several hours to get an understanding of a business plan according to BA2.

4.3.1 Relevance of the business plan

A business plan as a first presentation is a good way for the entrepreneur to show that some thought and hard work lies behind the idea. This is an advantage according to BA2.

BA1 states, which is agreed upon by BA2:

> *"The business plan IS an important document, no argue, but it is rare that I reject an investment because the business plan is bad, it is a dynamic document and I often help them make it better."*

They further state that the business plan structure and the way it is presented in writing is not important. They do not care all that much about which kind of business plan guidelines the entrepreneurs use when writing it.

4.3.2 Composition of the business plan

Both interviewed business angels point out parts in a business plan that is to a greater importance than other parts. The parts that they point out are business description, key players, the product or service, and the market analysis.

The business concept must be appealing to both responding business angels. Except from that the entrepreneur's business idea has a fair chance to be a success, both BA1 and BA2 say that there must be a personal interest in the idea. BA1 says that the investment must give financial returns that are why he invests. But he would not invest in business concepts that belong to a business area that he does not have any interest in or knowledge of, except if he feels that it is an excellent method to getting to know something new.

The key players are of greatest importance. A business plan should show that the entrepreneur knows what he or she is doing. There must be substance in the information given in a business plan. Where has the entrepreneur found the information and how has he analyzed it is very important according to BA2. Further, the entrepreneur must give an impression of commitment. The entrepreneur has to be convinced of what he or she is doing is a winning concept, and at the same time have a good perception of the environment.

The environment includes the fit of the products or service in a market and an analysis of the market, among others. BA1 and BA2 points out that it must be very clear who will be the customer and why. Further comment was made by BA2:

> *"The benefit that the customer will gain from the product is crucial, and the price that he or she is willing to pay for it. A market analysis of the competitor's strengths and weaknesses should be included, as well as a forecast for the development of the competitors and the risks that may be present. Other kind of information is of secondary importance."*

Capital from the entrepreneur is always a plus according to BA1 and BA2. This shows that the entrepreneur believes in the business concept and he/she also shows commitment by taking a financial risk. Capital from a third part is also welcome, but not without that the business angels feel confidence for this investor. There cannot be any conflict of interest between the third part and the business angel. Furthermore, BA1 say that he prefer an active role from the third investor, meaning someone who can add something to the project.

Except from helping the entrepreneur to get in touch with persons from the personal network, both BA1 and BA2 try to use their personal experience to help the entrepreneur in his or hers project. BA1 says that his own experience and the way that he can help the entrepreneur with this knowledge, is crucial for which project he wants to invest in. A project in a field of business of what he has no knowledge of and where he cannot help the entrepreneur is not likely to be a potential investment.

BA1 makes it clear that investing in a project must result in some sort of capital gain. Most common, he says, is that they split the shares in a new company, and from these shares a financial gain can be obtained. Besides from having these kind of investments as a mean to have an income, BA1 see himself as an entrepreneur, with a *call* to help other entrepreneurs succeed in business life. He talks about the entrepreneurs and new small businesses as the future of the national economy. Besides from the capital gain, he as well as BA2, finds a personal satisfaction in having a part in an exciting adventure with the entrepreneur, with the goal to develop a new idea to a success in business life. Or as the way BA2 put it:

> *"It is all about having fun."*

The main reasons for rejecting a business plan is that the entrepreneur is not in the field of business that the business angel is interested in, the business concept does not appeal to the business angel, the entrepreneur does not seem to be able to handling the project in the aspects of experience, commitment, partners, and that the business angel cannot invest enough capital for the project or simply that the business plan is not written in a solid way.

Both BA1 and BA2 have certain line of businesses of which they have a stronger interest in. If the entrepreneur and his business concept do not fit this frame, the business plan will be rejected. The business plan will also be rejected if the business concept is not likely to be a success.

If the entrepreneur according to the business angels is not the right person to make an idea to reality, there might be a solution to the problem. BA1 say that if the entrepreneur can find partners that make the management team to a stronger team, he might consider making an investment.

Capital is also a reason for rejecting a business plan. The entrepreneur is simply demanding more capital than that the business angel can invest, even if the entrepreneur in 100% thinks he or she need more money than they actually do, according to BA1.

When the business plan seems to be written in an unserious way, or without solid grounds to the information, BA2 will not make an investment. BA1 is more willing to accept shortages in the business plan, since as he says. "The numbers, calculations, and forecasts of the business plan are always exaggerated so I do not take them seriously. This is something analyze myself."

5 Analysis

In this section we use the theory to analyze the empirical material we collected during the interviews

5.1 Venture capital companies

A behavior at VC that does not agree with theory is the level of formality of the business plan. The existing theory from Henricks & Riddle (2002) as well as Cohen (1994) tell us that a typical business plan should be 15-20 pages with variation according to its specific purpose. In this case VC has not a problem at all with receiving a very brief, simple business plan to just get an idea of what the whole business idea is about. From then on they, if the idea is good enough, start working and develop the idea. The venture capital company said that they are at first mostly interested in the business idea and the people behind it. They know that they can affect the other components later on and even help the entrepreneurs writing a business plan to try to attract other investors. This is true because they do not have that many projects underway at the same time. They can always spend some extra time on those they find the most promising. A lot of bigger venture capital companies need a more complete business plan to be able to quickly grasp an overview of the whole project and then make a decision. In theory the venture capital companies are big institutions that read and analyze a huge amount of business plans, therefore they require quite formal standardized. This does not fit with the small venture capital company used as respondent in this study.

Just like stated in both existing readings and by our respondent, small venture capital companies can be hard to find especially when the entrepreneur is operating in a special niche market or equivalent. Special entrepreneur-supporting networks might be a good solution. For example through networks of venture capital companies where venture capital company that does not operate in a given market segment sends the business plan on to a company in the network that does.[53]

5.1.1 Relevance of the business plan

As Zetterberg (2004) states, a business plan is a very useful tool for attracting capital. According to our VC respondents the business plan is a useful tool but not completely necessary in the first stage of interaction between entrepreneur and investor.

Shepherd & Douglas (1999) states on how to write a compelling business plan that it is a continuous process not started and finished the night before the first written presentation. There is, which is called the three-stage approach, after the *writing* of the plan a stage of *presenting* it and then a *question and answer period* where the last question marks are straightened out. Usually the role of the investor starts right after the presentation of the plan to raise questions in the question and answer period. Our respondents' view of this, which differs from theory, is that he might sometimes enter the process at an earlier stage than said

[53] Shepherd & Douglas, 1999

in the theories. For example he enters the picture, if he is welcomed, even before the business plan is finished to help to get it the way he wants it and many other potential co-investors as well. VC wants the business plan to include the, for them, most important parts in terms of descriptions of how things are run in the new venture. They only put this extra effort if the idea is really good though, if not, they would not waste the time. In reality the three stages might very well be mixed up and not distinctly divided like three stages and they might not always be in the same order. Our venture capital company finds the presentation mixed up with the question and answer period the most important part. Here they can get the relevant information needed for them to be able to decide whether to invest or not.

There must be a fit between business descriptions and the VCs investment strategy. Just as Shepherd and Douglas (1999) mean, VC will not invest in something that is beyond their field of knowledge or interest. Knowledge and experience is considered from the investor's perspective when a business plan is being presented. The findings tell us that a business plan outside an investors investing strategy, is a waste of time for both parts. An entrepreneur must focus and seek capital at a venture capital company that is investing within the domain. Other aspects are size of amount that is needed as well as geographical preferences from the investor.

5.1.2 Composition of the business plan

The venture capital company reads a lot of business plans, so to them it falls natural to look at certain parts before others. VC knows what to look for, however since they are more interested in the seed stage of the business, knowledge of that the business plan will keep getting updated, will make them overlook simple mistakes, according to our respondent. Zetterbergs (2004) disposition of a business plan describes different parts that a business plan should include. VC acknowledges the relevance of all these parts but there is certain information in a business plan that the venture capital company finds more important than other. Information such as a description of the people behind the idea and their historical background and the business description is necessary information are main points in the business plan. The theory and our respondent answers do not really fit in this matter, the composition of the business plan is not as pre-determined in reality as in theory.

The financial section should have been made by a person who knows how to do it properly. The entrepreneur may have a great idea, and may be a great businessman, but may not have enough financial competence. According to VC, the financial numbers are in most cases irrelevant, since there is nothing that the entrepreneur can back up. VC prefers to do the financial calculations together with the entrepreneur as the business evolves. This means that a financial section is of importance, but only if it is professionally done. Since many entrepreneurs are new in the area of business administration, a lack of financial data is no problem for VC. In addition to this, the will to show ambition by constructing a financial section can only beneficial for the entrepreneur according to VC. Patents and other forms of legal rights are interesting to know for VC, since a good business idea with a patent in the core, makes way for a successful investment. In theory the mentioned parts are of more extensive importance.[54]

Exit strategy is to both the theory and our VC a very important part. If the exit strategy is not clear and stated in a signed contract, it is not likely that the VC will have the courage to take a chance and enter the company with funding. But, again, this is also something that can be taken care of during the process, at least if there is time to take on these kinds of problems. The interview told us that if the business idea is really good and something that the VC is interested in and believes in, he will probably have quite patience with all kinds of failures in the business plan and he will be willing to help throughout the process. If not, they will reject it and say that this is not their area of expertise. In theory the exit for a venture capitalist is possible through for example mergers and acquisitions, franchising the business, handing down the business to another family member or buyouts of one or many of the entrepreneurs.[55] Our respondent agrees on that the exit strategy is something that has to be decided and formally agreed upon early on in the process. The time horizon is different from case to case because every business matures differently. It is hard to say a specific number of years.

The composition of the management team of the new venture is an issue of big importance according to our respondent. Shepherd & Douglas (1999)say that it is crucial that the team is distinctively set up and that everybody knows of their role and what to do. This is something that VC points out several times during the interview. The owner of rights for patents and other intellectual resources should be clearly set up before contacting the venture capital company. They do not want to go into business spending a lot of time and resources to settle problems of this nature. This is according to our respondent one of the most important problems to deal with in the start-up phase, and something that must be taken in a serious manner by the entrepreneur.

The venture capital company evaluates the different members of the management team and their respective abilities to do their job. It is also very important to clearly state what roles the different founder will fill later on, this is also found in the theory of course but we felt it was even more important to our respondent than it is stated to be in the theory. It is according to VC far too often a couple of entrepreneurs come to see the venture capital company with only a good idea. What they haven not thought of is who legally owns the patent, who is going to be the CEO of the company and so on. Everything has to be clear or you are just wasting your and the venture capital company's time. These are things that some venture capital companies, preferably smaller and more flexible ones can raise with the entrepreneurs at a meeting while bigger venture capital companies more likely need this to be all clear at the first glance at the business plan.

When the venture capital company makes an investment, they enter as a co-owner, a mentor, and as a manager. The venture capital company will help the entrepreneur with contacts and practical issues to get a functional operating business. Since the venture capital company is working with several investments at the same time, the resources are limited and the entrepreneur must be able to

[54] Zetterberg, 2004

[55] Pollov, 2005

manage the daily routines. VC can therefore be seen as an investor like the one in theory.[56]

5.2 Banks

The interviews found that B1 and B2 both find the business plan as a crucial document for an entrepreneur who is trying to attract capital, which agrees on the theoretical view of the business plan. The first contact between the entrepreneur and the investor is likely to be a business plan in the form of a written document.

Shepherd & Douglas' (1999) three-stage approach can be found in the case when an entrepreneur is using a business plan as a mean to attract capital. At the first stage the entrepreneur writes a business plan with no help from the bank. After a contact has been established, a personal meeting is held. The presentation is an opportunity for the bank to get to know the entrepreneur and to get a deeper understanding of the business concept. During the presentation, the entrepreneur has the chance to fill in gaps in the business plan or add information that was forgotten in the written business plan. Our interviews told us the banks do not make a decision during this presentation. They want to get some thought into it and maybe ask questions to the entrepreneur. The question and answer period is not an independent phase, but a period that starts during the presentation and then during later contact between the bank and the entrepreneur.

Shepherd & Douglas (1999) states that during the personal meeting, the investors will at this stage evaluate the team just as much as the business concept itself. This is a true statement to both of the banks. They both state that even if a business plan seems to have potential in getting finance, it will never work if the entrepreneur gives a bad impression.

5.2.1 Relevance of business plan

Both B1 and B2 confirm that the business plan is a common document as a mean to attract capital. The business plan, according to the banks, should be a document containing between 5 and 10 pages with room for variations depending on the size of the need for capital, which is less than Cohen (1994) states. Here empirical findings contradict the theory of this matter. The banks read a lot of business plans, which is necessary considering the amount of time that a business plan consumes. B1 and B2 cannot spend an hour on each incoming business plan and also deal with the other daily routines. A business plan consisting of 5-10 pages with relevant information will please the banks. If the business plan is too long, there might be a risk that the bank only will read selected parts, and miss important information that the entrepreneur wants to communicate.

5.2.2 Composition of the business plan

Just as well as B1 and B2 agrees on that the content of a typical business plan is equal to the one presented by Zetterberg (2004), they both point out parts of the business plan that are to greater interest than others. The business description or

[56] Shepherd & Douglas, 1999

business concept should state what the business idea is all about and in what way the business is unique on the market and how to get there. If this information does not communicate trust to the banks, there will be no investment. This can be seen as a result of the fact that the banks are not willing to take any unnecessary risk. Both B1 and B2 agree that the business concept on many occasions is too weak or does not answer the right questions. This is also true concerning financial statements. The budgets, liquidation budgets, cash flows and sale forecasts need to be well stated in the business plan. Since banks are institutions that are seen as the conservative part of lenders, it is not surprising that both B1 and B2 demands financial data that shows the potential of the new business. A thorough calculation based on facts found on the market is needed, and it will be followed up by the banks existing lenders in the industry. The banks want little or any involvement in the business, but have some in the beginning, when looking up the business plan. This is done by a comparison to similar companies the banks have as clients. Another of interest for the banks is the entrepreneur behind the business, what the theory names as the key players. Henricks & Riddle (2002) says that the section of the business plan may be no more then a simple paragraph, which one of the third most important parts of the business plan. It should contain more of the history of the entrepreneur.

The respondents want nothing to do with the business itself, all they are interested in is that the payments are paid on time, and does not care how as long as it does. B1 states that there is no trace of personal interest in the business. However, B2 which is the smaller bank, with fewer customers, have not much, but some personal interest in the business. B2 follows up the business of a quarterly basis as to the once per year made by B1. The conclusion that the banks have a kind of supervising role and not an active role in the new project founded by an entrepreneur can be drawn from these findings.

The banks make their exit when the loan is repaid or when an entrepreneur dissolve a company. If the loan is fully repaid, the bank has received the money with interest and they are satisfied. If the loan cannot be repaid, the bank turns to the securities that the entrepreneur has given.

5.3 Business angels

Both BA1 and BA2 states that the business plan should be short, concise and easy to analyze. This is something that contradicts the theory, which states that a typical business plan runs 15 to 20 pages.[57]

The formality of the business plan is not crucial to BA1 who looks more to the chemistry between him and the entrepreneur. A business plan might fail in information, but this is not necessary to be decisive for the decision of BA1, if this information can be communicated during a personal meeting.

5.3.1 Relevance of the business plan

The business plan as a formal document is accepted by BA1 and BA2. What separates their perception of the business plan from theory is the level of formal-

[57] Henricks & Riddle, 2002

ity. According to the respondents it is not the way that the information about the new business is presented, the important thing is that the relevant information is communicated. BA1 can accept a short and unstructured description of a business concept, as long as additional information is given during a meeting. BA2 prefers a more structured business plan before meeting the entrepreneur. Even if all parts often are not included in the business plans, BA1 and BA2 say that the information behind the headlines is often presented in the business plan. Also, the information in business plans should also be adapted to the line of business the entrepreneur works within.[58]

The business plan as a document that must be written as a process and that must be updated is an accepted fact for both theory and our respondents.[59] The business plan should, according to BA1 and BA2, be written with clarity and brevity, and in a way that catches the eye of the investor. The information that is included in the business plan must be relevant for the purpose, and not be too long or include information that is merely superfluous. The Three-stage approach of Shepherd & Douglas (1999) can be found in the interaction between the entrepreneur and our interviewed business angels. At first, an initial business idea is written down by the entrepreneur on either hard copy or as an e-mail. This can be a business plan or a document that has similar information. After the business concept has been presented via mail or telephone, a meeting is held. This meeting will be an opportunity for the entrepreneur to connect with the business angel. The understanding and the trust for the entrepreneur from the investor's side, is essential according to both BA1 and BA2. What can be found about the presentation stage is that the actual presentation and the question and answer period often start at the same time. The presentation in these cases is more like a discussion between business angel and entrepreneur than a mere presentation, according to our respondent.

5.3.2 Composition of the business plan

According to Henricks and Riddle (2002), a good feeling about the business concept and the people behind it are points that separate the business angels from the other investors. This is true for both BA1 and BA2. There are parts in the business plan that is to greater importance than others. These are the parts of the business description, key players, information about the product or service, and a market analysis. Both a personal and a financial interest for a business angel can be found behind an investment.[60] There must be a feeling, as BA1 say, that a product or service can be successful and there must also be an interest in working with this project, not only a will to create financial returns. The key players are one of the most important things in a new project or company. There must be something that supports all facts and forecasts in the business plan. This is according to BA2 one way for the entrepreneur to show that he or she has put some time and work into the business plan. The market analysis must, as explained above, be supported by reliable information and sources, to give both the entrepreneur and the business plan credibility. This goes along with the the-

[58] Shepherd & Douglas, 1999

[59] Shepherd & Douglas, 1999

[60] Henricks & Riddle, 2002

ory that, entrepreneurs are often visionaries, but investors do not invest in visions, they invest in products already tested in the market place.[61] So it must have some sort of valuable ground to stand on, even if it is a new product or a new market.

A business angel entering a new project without having an exit strategy is not uncommon according to Pollow. BA1 says that the most common way to exit is to sell the shares that he received from investing in the company. A time-line that can be used for each investment can not be found in the exit strategies of BA1 and BA2. BA1 and BA2 have an attachment to the investment as a potential money maker but also a way to experience something satisfying. When writing the business plan for the investor, one must think in terms of what is important for the investor. BA1 and BA2 would like to have answers to questions like: does the business concept fit in within the domain of the investors' knowledge and experience; is it likely that the product or service will be a success; and does the new product or service offer superior value, are all very important for the evaluation of the business plan. A well written business plan will communicate the true potential of a business idea and catch the eyes of the reader.[62]

The business angel enters the new company with a role like something in between a manager and a mere share holder. Both BA1 and BA2 have the will and the demand to be a part of the new venture. As an investor they look for the financial return, as the manager they try to lead the entrepreneur in the right direction. BA1 stresses that it is the entrepreneur that should lead the new company, with the help of others. In other words BA1 and BA2 cannot enter a new venture and support this venture on a twenty four seven basis.

[61] Shepherd & Douglas, 1999

[62] Barrow, Barrow, Brown, 1998

6 Conclusions

In this part different conclusion will be drawn to fulfill the purpose based on the analysis

The purpose of this thesis was to broaden the understanding of the business plan as a mean to attract capital for new ventures. Further it aimed to investigate the relevance and optimal composition of the business plan, according to the investors. Our findings have brought us to a greater understanding of the field. As an additional chapter, the thesis will be ended with managerial implications for the benefit of the entrepreneur and other readers of interest. In managerial implications, the conclusions found, will be further discussed.

From the different investors' perspective, we can definitely state that there are *obvious differences* between how the three different investors evaluate a business plan, and what parts they find important in it.

It is also important to mention that *other things than the business plan are important* when attracting capital for newly started companies. The investor does never look solely on the business plan and then make the decision whether to invest or not. Other factors play a large role in the pursuit of capital. The people behind the business plan as well as how they present themselves and the business plan are also of great importance.

We have found that the three *investors enter a company with different roles*. Banks take a more hands-off role with only quarterly or annually follow-ups. They lend money and expect it to be paid back on time and with the agreed interest. Venture capital companies undertake a more active role in the management as partners or sit in the board of directors. The business angels can also take an active role, but mostly they serve as a mentor for the entrepreneur.

Another important conclusion we draw from our study is that it is *never as formal as the theory states*. The theory states that formality is an important issue in this kind of documents. That statement is proven wrong in this study.

6.1 Reflections and further studies

At the end of the study, there are a few things that could have been done differently. The respondents chosen do not represent each respective group of investors to the fullest. The venture capital company we chose, a quite small regional company, might work completely different compared to the bigger nationwide investors. The same goes for the business angel, who is a private person investing his or her own money. No generalization can be done by interviewing two business angels, but on the other hand, they might wary a lot from case to case anyway. Banks would not be a problem, but venture capitalists that are interested in early-stage finance and business angels in general would be difficult to obtain. Overall, we feel that these points do not affect our result too much, our result still holds but it can not be used for generalization in its respective matter.

After the study we feel that there are still some questions that need further investigation. The question arise: how much value to the company does the venture capitalist or business angel add when he or she interacts and affects a lot of the routines in the new venture? Is their so called experience really positive in each case, or is it in some cases better with the hands-off manner of the banks? Which is generally the most victorious approach?

A business plan could have a broader spectrum of usage. Another suggestion for further studies is to investigate the importance of the business plan for the employees of a company. Can a business plan with success be used to motivate people in an organization and make them strive towards the same goals? Maybe it could help strengthen the team spirit and culture in today's complex companies where it sometimes is unclear what the objectives and purposes of different processes are.

That the business plan is a well studied topic at universities is a fact. Every one of the authors has studied the art of writing a business plan and how to use it. What we agree on and what we think most students probably also agree on, is the high level of theoretical approach that the universities use. Literature like the one used for this thesis is studied, and the students learn how to write a theoretically correct business plan. Then what? Do the students learn how to use the business plan in the most successful way, or do the universities create knowledge that has obvious limitations? This thesis gives us a deeper understanding of the business plan as a tool to attract capital. Our study together with the people we interviewed all give us an understanding of the business plan in this specific context. The kind of information that should be included in a business plan can be found in the literature, and there are a lot of good manuals on how to write a business plan. From our thesis we have found that different kinds of investors do not think that all information in a business plan is of equal importance. What we also have found is that the business plan does not have to be a formal document, consisting of a certain number of pages and paragraphs. It is simply the information that is relevant, and not that the information is communicated in a theoretical correct document. Together with a business plan and a business concept that appeals the investor, a presentation and interaction between entrepreneur and investor can be decisive. This gives us a thread from the business concept to the presentation, and finally to the interaction between persons. All these parts must be a match for the investor, and none of these can be created with a document. More emphasis should be put on the importance of other aspects of the business plan. Still, the importance of the business plan as a tool to attract capital is supported by all interviewed persons, but there is more to it. We think that the business plan should be used as a tool to enhance the interaction and not as the only link between the entrepreneur and the investor, when it is used as a mean to attract capital.

7 Managerial implications

This is the final statement from the authors containing areas of usage of the found conclusions

When writing a business plan in order to draw out investors, one should know the different kind of money that each of them contribute with. Banks only contribute with hard cash, and besides different recommendations to which to turn to in for assistance, no other value is contributed. On the other hand, they are the ones that leave you alone, and let the entrepreneur work undisturbed. Venture capital companies are looking for more control, they have human resources and knowledge to contribute with, and beside the money invested, they also have a broad network that the entrepreneur can use to his or her advantage. The business angels could be compared to the venture capitalists, or at least a smaller venture capitalist company. The business angels want shares in the company, but compared to the venture capital company, they would like to serve more as a mentor then a supervisor.

Before mentioning the different views and priorities in the business plan, the part(s) they have in common, and see as highly important, should be emphasized. All the three different types of investors mention the business idea/concept as the one thing that makes an investment take place at all. This part must be well worked, clear and. Key player is also something that they agree upon as an important part of the business plan. The business angels however, turn to the question and answer period as a time to get to know the key players, rather then reading about them in the business plan. Banks will judge the business plan as a whole and the entrepreneur, but still the weight of the business plan is heavier. The venture capitalists know, that the business plan will change form throughout the venture, and will therefore pay more attention to the entrepreneur then the business plan itself.

The banks would like to see a well developed, trustworthy and extensive financial section. That part is fundamental in order to get any finance from the banks. It is of great importance that it is based on more then just a guess, since the banks will cross check this section with similar businesses they have in their portfolio. The venture capitalist on the other hand knows that being an entrepreneur does not mean being a specialist on numbers. He would like to build up the financial section together with the entrepreneur and an outside professional. For the business angel, the need for hard facts that is trustworthy, maybe based on similar ventures on the market is needed.

The organization or how the structure of the company will be, is one thing that the venture capitalist see as very important. This could be because he or she will take an active role in the company by entering the board of directors or even within the company itself. It should therefore clearly be stated what specific roles all the people connected to the company will play. This is something that both the banks and the business angels see as a less important part of the business plan.

Overall, the difference between the venture capital, business angels and banks is significant. The need for custom made business plans to meet the different investors is needed. Business angels and venture capitalists are similar in a lot of aspects, and the banks differ from them both. This is mainly because they have a strict rule system.

According to all the three investors the business plan is crucial for the entrepreneur when attracting investors. They all have different preferences and values on the business plan itself, but they all agree that it is needed in order to obtain any kind of funding. One part of the business plan that they all agree on is of great importance, is key players. All state that the person behind the venture is at least or in some cases even more important than the business plan itself. The entrepreneur, when meeting the investors for the first time, should take this meeting very seriously. It should be looked upon as a hiring interview. It is a way to present the business concept to the investor so they can see the venture in the way you would like them to see it. The business plan should be looked upon as the entrance ticket to the investors' office.

Having read different publications about the process and value of a business plan, theory clearly emphasizes on the importance of formality. Everything should follow the same template and regulations. The only one who needs some extra formal consideration are the banks, and that is because they receive so many business plans per year that they need them to be similar to each other in order to read and store them in the correct way. According to all three investors, the business concept is the key to acceptance. If that part is pushed to the side, you will need more then just formality to get their attention.

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Appendices

Appendix 1 - The parts of the business plan

Below is the reference business plan we have used to evaluate which parts of a business plan is the most important according to different investors.

Sammanfattning.

1. Affärskoncept.

1.1 Affärsidé.

1.2 Affärsmodell.

1.3 Mål.

1.4 Vision.

2. Ledningsgrupp.

2.1 Ledning.

2.2 Nyckelmedarbetare.

2.3 Belöningssystem.

3. Produkter.

3.1 Produktsortiment.

3.2 FoU.

3.3 Patent.

3.4 Licenser.

4. Marknadsplan.

4.1 Marknaden.

4.2 Kunder.

4.3 Konkurrenter.

4.4 Marknadsstrategier.

4.4.1 Prissättning

4.4.2 Försäljning.

4.4.3 Distribution.

4.4.4 Service.

4.4.5 Marknadsföring.

5. Organisation.

5.1 Operativ organisation.

5.2 Legal organisation.

5.3 Styrelse.

5.4 Medarbetare.

5.5 Revisor.

5.6 Samverkanspartners.

5.7 Lokaler.

6. Ägare.

6.1 Ägarförteckning.

6.2 Historik.

7. Produktion.

7.1 Produktionsorganisation.

7.2 Produktionsmetodik.

7.3 Underleverantörer.

7.4 Produktionsekonomi.

7.5 Miljöaspekter.

8. Ekonomisk översikt.

8.1 Kostnadsstruktur.

8.2 Investeringar.

8.3 Ekonomisk situation – nuläget.

8.4 Finansiering.

8.5 Kapitalbehov.

8.6 Exit.

8.6 Ekonomisk utveckling – prognos.

9. Genomförande.

9.1 Aktiviteter.

9.2 Probleminventering.

9.3 Riskanalys.

Bilagor.

Appendix 2 - Questionnaire

Affärsplanen som ett verktyg för kapitalanskaffning

1. Anser Ni att detta innehåll motsvarar en typisk affärsplan(AP) som Ni får in från kapitalsökande entreprenörer(E)/företag? Se bilaga 1.
2. Hur sker första kontakten mellan Er och den kapitalsökande entreprenören?
3. Hur många affärsplaner uppskattar Ni att Ni får in under en månad/ett år?

   Hur många av dessa finansierar Ni?
4. Hur länge bearbetar Ni vanligtvist en affärsplan för en (första) bedömning?
5. Vad krävs i fråga om innehåll för att en AP ska uppfattas på ett positivt sätt?
6. Är någon del/information (se bilaga) i en affärsplan viktigare än annan?
7. Välj de delar som har störst respektive minst betydelse för Er och motivera varför.
8. Brukar Ni sakna någon information i en affärsplan? I så fall vilken och varför saknar Ni denna?
9. Tycker Ni att någon information är överflödig i en affärsplan? Anser Ni att denna del skulle kunna kortas ned/ tas bort?
10. Förekommer det att Ni endast läser sammanfattningen av en affärsplan och i så fall varför? Om inte, vad i sammanfattningen fångar Ert intresse?
11. Har struktur, språk och layout betydelse för ett beslut om finansiering?
12. Kan Ni bidra med något mer än finansiering, t ex kontaktnät, mentorskap?
13. Har det någon betydelse om en medfinansiär/entreprenören själv är med och finansierar?
14. Har den bransch som entreprenören verkar i en betydelse för Ert beslut om finansiering?
15. Har den bransch som entreprenören verkar i en betydelse för vad Ni vill se i en affärsplan?
16. Finns det en typisk anledning (i fråga om innehåll i AP) till att en affärsplan refuseras?
17. Vad vill ni få ut av att finansiera en E? Pengar? Känslomässiga värden? Status?
18. Hur lång, i sidor, ska en affärsplan vara?
19. Finns det andra omständigheter utanför AP som påverkar Ert beslut?

Appendix 3 – Interviews

Interview with B1: 2005-11-08

Interview with B2: 2005-11-11

Interview with VC: 2005-11-16

Interview with BA1: 2005-11-17

Interview with BA2: 2005-12-06