

Assessing business plans for investment purposes

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Introducing Crocus Ventures BV



 Bringing technology, capital and realisation power together.

Technology focus:

- water,
- solar,
- wind and
- renewable materials.

Status: 2002 three to five investees, next year to raise fund.

Expertise: business building, business and technology assessment and link to capital.



- 1. Topical questions on the context of business plan assessment.
- 2. How to quickly recognise invalid business plans?
- 3. How to recognise feasible business plans: a plan worthwhile to investigate?
- 4. Indicators for a truly winning business plan: the one to consider investing in!
- 5. Conclusions.

Contents

1. Topical questions



- On what source(s) of information can an investor base his judgement on a venture?
- 2. Is a business plan assessment a useful tool to judge the chances of success of a venture?
- 3. What are the elements of the business plan to judge upon?
- 4. Can these indicators help to more effectively and efficiently identify the winning ventures?

1.1. The sources available



- Essential to the investor is an adequate prediction on the chances and risks involved for a venture to become successful; profitable and sustainable.
- For young companies financial statements and forecasts have hardly any predictive value at all.
- The business plan is therefore inevitably an important information source to predict the ventures' chances to become successful.

1.2. The business plan



A solid business plan is a document that thoroughly, transparently and coherently describes all aspects of a new business proposition:

- the business concept,
- the prospects of it,
 - the market,
- the people behind the venture
- the financial and operational foundations,

etc.

Drawing up a business plan basically serves two goals:

- thoroughly exercising through the business concept,
- to raise funds and/or assets with external parties.

1.3. Significance of assessment



 "Invalid" business plans have essential flaws and therefore face a very high chance of failure.

 Only 1 in 3 of the feasible business plans were classified as "winning" propositions.

A "winning" proposition at least has the necessary foundations in place to become successful.

An investor will not base it's opinion on the business plan alone, but a positive assessment is tentative for any deal.

2. Indicators for invalid business plans (I)



- Claims for <u>"unique concepts"</u> are a cause for suspicion.
- <u>"Flashlights"</u> should make the assessor extra alert:
 - assumptions on market and or customer behaviour differing from current practice,
 - high risks and interdependencies,
 - the need/wish to change value chains.
 - Cumulating risks indicate failure.
 - Emphasise on "WHAT": forget it! The essence of a solid plan is "HOW" to get it done!

2. Indicators for invalid business plans (II)



Overly detailed financial statements indicate a lack of understanding of the operational side of turning a new venture into success.

Weak assumptions and reasoning strongly indicate flawed concepts.

Excessive use of "fancy buzzwords" point to a low degree of "originality" and critical thinking.

A business plan that mimics as a <u>"business brochure"</u> seldom balances the marketing- and the process site.

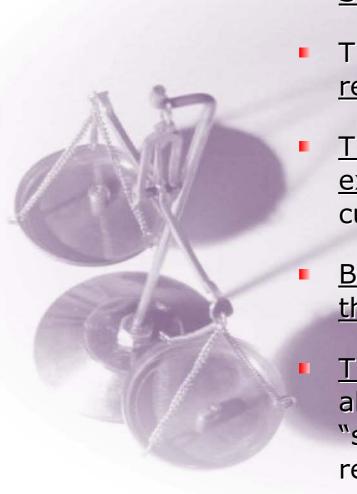
3. How to recognise feasible plans **CROCUS**



- <u>A strong focus</u> at feasible goals and targets and restrictions to what is necessary to make the plan work.
- Flexibility to adapt to new circumstances without losing focus;
 - Realism on the ventures own abilities and possibilities in the marketplace.
 - Managing risks and interdependencies.
- Consistency with existing business-and transaction models.

4. Indicators for a truly winning business plan





- Strong implementation focus!
- The concept responses to <u>a directly</u> <u>recognisable customer need</u>.
- <u>The "solution" needs little</u> <u>explanation</u> to the prospected customer.
 - Balance between the marketing and the process site.

 <u>The concept is innovative</u> but above all "complete". Innovation means "smart and solid", rather then being revolutionary.

5. Conclusion



- A comprehensive set of indicators was developed that can help to assess strengths and weaknesses of:
 - a business concept,
 - the proposed way to make it operational,
 - the qualities of the team involved.
- Together with the VC/investors' key asset business sense, these indicators can help:
 - to speed up the assessment process,
 - to minimize allocated resources,
 - to get more accurate judgements at the same time.