

Assessing business plans for investment purposes

drs. F.A.T. van Beuningen

Founder of Crocus Ventures BV

The Netherlands

INSEAD


Sustainable Venture Workshop

DD. June 7th, 2002

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.

1. Topical questions

1. 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 “unique concepts” are a cause for suspicion.
- “Flashlights” 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 “business brochure” seldom balances the marketing- and the process site.

3. How to recognise feasible plans

- A strong focus 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 responds to a directly recognisable customer need.
- The "solution" needs little explanation to the prospected customer.
- Balance between the marketing and the process site.
- The concept is innovative but above all "complete". Innovation means "smart and solid", rather than 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.