

Sami Saari

**WHAT DO A BANKER AND AN INVESTOR LOOK FOR IN
A BUSINESS PLAN?**

Case study: Designer PC Cases

Thesis

CENTRIA UNIVERSITY OF APPLIED SCIENCE

Degree Programme in Business Management

November 2014

ABSTRACT

Unit Kokkola	Date November 2014	Author/s Sami Saari
Degree programme B. BA Business Management		
Name of thesis WHAT DO A BANKER AND AN INVESTOR LOOK FOR IN A BUSINESS PLAN? Case study: Designer PC Cases		
Instructor Janne Peltoniemi		Pages 31 + 29
Supervisor Janne Peltoniemi		
<p>A common reason for an entrepreneur to write a business plan is to use it as a financial proposal. Two of the most common sources of funding is the bank and an equity investor. The two financier groups however have different requirements for a business plan. Published business plan guides have received criticism for being too generalised when it comes to meeting the requirements of financiers.</p> <p>This study takes the perspective of an entrepreneur seeking funding for their new business idea. The aim is to examine the differences between the requirements of a banker and an investor regarding the content of a business plan.</p> <p>A case study was conducted to research the requirements of a banker and an investor. The study consists of two sections, a literature review to collect secondary data and two interviews with an investor and a representative of a bank to collect the primary data. A business plan was prepared for a real life business idea, It was based on a business plan content framework which resulted from the literature review. The plan was then presented to the banker and the investor for appraisal.</p> <p>The analysed appraisal meetings showed clear differences between the banker and the investor regarding what information they were looking for in the business plan. The banker relied on financial and sales information in order to make a decision, whereas the investor was keener to discover the characteristics and the skills of the entrepreneur.</p> <p>The business plan used in the study is confidential and therefore excluded from the public report.</p>		

Key words

content of a business plan, financial proposal, requirements of a banker and an investor

ABSTRACT
TABLE OF CONTENTS

1 INTRODUCTION	1
2 WHAT IS A BUSINESS PLAN?	3
2.2 Why is a business plan needed?	3
2.1 What does a business plan contain?	5
2.1.1 Products and services	6
2.1.2 Marketing, markets and sales	7
2.1.3 Finance	8
2.1.4 Goals	9
2.1.5 Risks and rewards	10
2.1.6 Management	11
2.1.7 Operation	11
2.1.8 Research and development	12
3 BUSINESS PLAN AS A FINANCIAL PROPOSAL	13
3.1 Debt financing	14
3.2 Equity financing	15
4 BUSINESS PLAN APPRAISAL	17
4.1 Methodology	17
4.2 Business plan for Designer PC Cases	19
4.3 Executive summary of the business plan - confidential -	20
4.4 Results	20
4.4.1 Meeting with a banker	21
4.4.2 Meeting with an investor	22
5 CONCLUSION	24
REFERENCES	28
APPENDICES - confidential -	
TABLES	
TABLE 1. The content of the business plan	19
TABLE 2. Summary of findings	23

1 INTRODUCTION

The subject of the thesis came from the desire to become an entrepreneur. Often the first task expected from an entrepreneur is to construct a business plan. Even though business plans can be written for various purposes, it is quite often used as a financial proposal. The guide books however, offer only general guidance for putting together a business plan. They often introduce the subjects that a business plan should contain, but rarely provide detailed description of the subject matter. Of course, this is understandable. It would be impossible to make a detailed guide for a business plan, when each plan is specific to the circumstances of the entrepreneur and their business idea.

Two of the most common sources for finance is a banker and an investor. The problem the entrepreneur faces is that there seems to be different requirements within the financiers. Bankers look for certain criteria in a business plan whereas investors have other requirements. Even amongst investors there are groups with slightly different requirements for a business plan. As a potential future entrepreneur myself the difference between the financier groups was intriguing. What is required from a business plan in order to meet the expectations of a banker? What is an investor looking for in a business plan? The aim of this thesis was to study the difference between requirements of the banker and the investor when seeking finance with a business plan. The study was limited to examining a business situation, where an entrepreneur is starting a new business and is looking for finance with a business plan. The study was carried out in the form of a case study.

First, it was important to understand the content of a business plan. What does the literature advise a business plan should contain? A literature review was conducted which resulted in an overall framework for the content of a business plan. The second requirement was to understand the difference between the requirements of the financiers. A general understanding of the requirements came through the literature review, but financiers needed to be understood in a real life scenario in order to gain specific answers. For this purpose a case study was commissioned. Because of the individual nature of a business plan a case study was assumed to be the most appropriate method of understanding the financiers. A business plan was constructed for my own business idea according to the proposed framework.

The plan was presented to two financiers to read. The financiers were chosen from the two main groups of financing: debt and equity financing. A banker represented the debt financing group and an investor the equity financing group. A meeting was set up with each of the financiers, where they could present their appraisal of the business plan. The appraisal meeting was very informal and the financiers were encouraged to go through the business plan section by section, think aloud and be as critical as they wanted to be. The purpose of thinking aloud was to better understand the thought process that the financier went through examining the business plan.

The results of the case study are specific to the circumstances of the entrepreneur and the business idea. According to the case study the banker was very objective and relied on the figures to tell the viability of the business plan. The investor certainly was not that bothered about the financial figures as the business was too small, but he was more interested in the entrepreneur. He also specifically stated that the entrepreneurial team is more important than the financial figures. The findings coincide with earlier studies and support the view that there is a clear difference between how a banker regards a business plan and what the investor expects from it. The outcome of this case study also supports the assumption that a banker will rely on and emphasise the financial figures whereas the investor considers the people behind the business idea more important than the financial figures.

2 WHAT IS A BUSINESS PLAN?

A business plan is a document that is widely used in the business world nowadays. When starting a new business, entrepreneurs are, if not expected, at least encouraged to prepare one. Some will even regard it as essential (The Startups Team, 2001). The academic world particularly teaches that a business plan is a crucial part of starting a new business. The traditional expectation is that a business plan will help the new business succeed better (Karlsson & Honig 2009, 29). However, business plans are not just for the entrepreneur. Today a business plan has become an important business document for managers and investors too.

In general a business plan is a written document that describes and analyses the business idea. It is also a roadmap for the business to project its plans into the future (McKeever 2011, 6). A business plan can also be used as a management tool to evaluate existing or new business ventures. In its simplicity the business plan answers the following questions: what is your business idea, what are you providing (services and/or products), how are you providing it and to whom. A business plan therefore, is a framework that, particularly a budding entrepreneur, can use to plan and evaluate his business idea. It is also a medium that can be used to convey the business idea to others (Suomen Uusyrityskeskukset ry 2014, 11).

2.2 Why is a business plan needed?

As already noted, a good business plan is a document that can help an entrepreneur to articulate their business idea to themselves and others. It is important to consider the potential readers of the plan, because business plans can be written for many purposes. A business plan can be used as an aid when selling an existing business. There might be a joint venture that an entrepreneur is interested in entering. It can be used as part of a tendering process, when competing for a business contract. Business plans are used to apply for a grant or regulatory approval. (Finch 2010, 2.)

Business plans can also be used to evaluate and improve the performance of an existing business. A business plan can help to decide whether to continue or stop a business. It can be also used to assess the risks of the business. (McKeever 2011, 6-7.)

When creating a business plan, the entrepreneur goes through a process, where they have to think through the entire business idea. They therefore have an opportunity to objectively and critically assess their business venture as a whole. The planning process helps them to anticipate and prepare for any potential risks. It makes the decision making easier in problematic situations. It improves their chances of success, when the entrepreneur has carefully planned their operations. The entrepreneur can also continue using the plan as an operating and management tool to guide the entrepreneur in their future business activities. (Bangs 2002, 1; McKeever 2011, 7-8.)

Perhaps, one of the most common uses of a business plan is to attract investors to finance a new business idea. A business plan has become a standard document for investors and funders to evaluate new businesses. The potential funders will look through the business plan very carefully before investing in a new business. For example, bankers will not consider releasing funds to a new business venture without a detailed and financially convincing business plan. (McKeever 2011, 6.)

Finally, a widely accepted assumption in the literature is that business plans are an essential and contributing factor to the performance of a business (Brinckman, Grichnik, & Kapsa 2010, 36; Delmar & Shane 2004, 403). Some suggest that the planning process itself is the important factor rather than the end product itself i.e. the business plan (Chwolka & Raith 2012, 394). However, others suggest that writing a business plan does not necessarily contribute to the success of the new business (Honig & Karlsson 2004, 30). This opposing view suggests writing a business plan is more of a compulsory media to be used to legitimise business ideas for the stakeholders than a critical factor contributing to the success of the new business venture. For the purpose of this thesis however, it is assumed and accepted that a business plan is prepared, when starting a new business, as it is widely accepted medium to present the business idea to others and could be therefore declared the norm.

2.1 What does a business plan contain?

According to the reference material there are four main areas that a business plan should assess: the people, the opportunity, the context and risk & reward (Sahlman 1997, 99). In other words a business plan should describe the people involved in the new venture as well as the business itself. This enables the reader to understand how the people involved are going to be able to contribute to the success of the business. The plan should also clearly state on what opportunity is the business based. There should be a profile of the business itself and an explanation of its products and markets. The possible growth opportunities should also be explained. The plan should also describe the context of the business i.e. the environment where the business is going to operate and the factors that may change, but cannot be controlled by the entrepreneur. The business ventures will always have risks and therefore potential dangers and hazards of the business should be indicated in the plan too. The business plan should also tell the reader why it is that the entrepreneur is starting the new venture. The new business should reward the entrepreneur in some way. Whether the reward is monetary or something else, it is up to the business in question, but it should be apparent from the plan. (Abrams 2010; Finch 2010; Pinson 2008a.)

Some key areas that a business plan should address have been mentioned above. These can be further developed into a more detailed framework derived from the reference material. The framework is not by any means a standard. It should also be pointed out that business plans have no standardised layout. The content and layout of a plan seems to vary according to the preference of the source in question. The following framework helps to understand and structure the different issues most relevant to a business plan. These issues can be divided into eight subjects that should be covered when planning a new business. These subjects are, in no particular order: 1) products and/or services, 2) marketing, markets and sales, 3) finance, 4) goals, 5) risks and rewards, 6) management, 7) operations and 8) design and development. These subjects are discussed in more detail later in the chapter. In addition to covering the above topics, it is often suggested that a business plan should also have some kind of executive summary of the business (Abrams 2010, 81; Bangs 2002, 65-66; Pinson 2008a, 21-22). The purpose of the summary is to tell the reader briefly the key aspects of the business. The reader may use the summary for the initial screening of the business plan and reject the plan, if the summary does not meet their expectations (Harvard Business School Press 2007, 18).

The above subjects mainly cover the business itself for example, what it is and how it is going to operate, but depending on to whom the plan is aimed, it should also contain a description of the entrepreneur. If the plan is mainly for the entrepreneur, then perhaps such information is superfluous to requirements. If the plan will be shown to others, particularly when seeking finance, the plan should contain information about the entrepreneur. Investors in particular, can be keen to understand what skills the entrepreneur possesses that enables them to make the business successful. Also, if the investor is going to be working further with the entrepreneur, for example helping them out in the business, then they will also want to know more about the entrepreneur (Mason & Stark 2004, 230-232). Therefore, describing the entrepreneur's background and skills can help to make the business appear a more worthwhile investment.

Another important area of the business plan is strategy. It will affect how your business will get off the ground and develop. Depending on the business it may be difficult to devise an overall strategy for the business, but the plan should indicate how each of the aforementioned framework areas is achievable (Pinson 2008a, 44). For example, when a new business starts and wants to sell a product, it should consider its marketing and promoting strategy or even manufacturing strategy. A suitable strategy of the business may depend on the nature of the product or the business environment. In order to be profitable the business may aim to mass produce the product. Another strategy could be that the product is better suited for a smaller market or even a niche market.

2.1.1 Products and services

The business plan should cover the products that the business is making or services that it provides. It is not necessary to described all products in great detail or write down technical specifications (Abrams 2010, 72). The plan should mention however, what is unique about the products or services. The entrepreneur's business should somehow differentiate itself from the competitors so that the buyers should have a reason to buy the new product or service (Bangs 2002, 21). In other words the products and services should be described in such a manner that the reader understands why the company's products have a competitive edge over its competitors (Finch 2010, 49).

Of course, the products themselves might not be anything special. The company's advantage might be more to do with how the products are manufactured or provided for the customer. In any case, for example a potential investor can be more interested in learning why the company thinks its products and services are going to sell more than its competitors rather than some technical description of the product. Unless, of course, the technical feature is the competitive edge.

A business plan should describe what the business is selling. It may not be as simple as just describing the hardware that business sells. From the customer point of view the business may be selling solutions to problems or a fashionable trend etc. For example a restaurant does not just sell food, but tastes, experience and even a place to be seen at. When a business plan includes all angles of selling, it shows the reader that the entrepreneur has a deeper understanding of their business. It is important to also describe the key features of the products that differentiate them from competitors and what benefits there are for customers to buy from the entrepreneur instead of his competitors (Bangs 2002, 21-22).

2.1.2 Marketing, markets and sales

A business plan should contain a marketing plan. It is one of the key aspects within a business plan. The marketing plan itself can be a large subject that can be described in great detail, but the business plan version could be thought of as a summary of the 'real' marketing plan. In its simplicity, the marketing plan should describe how the entrepreneur is going to make customers aware of their products. The plan should also describe what they want to convey to the customers about their products and the company and also how this information is disseminated to the customers (Abrams 2010, 149). Below is briefly described some key areas that a marketing plan should contain.

Part of the marketing plan is devising a marketing strategy for the business. The marketing strategy should be defined and its goals clearly described. The plan should also describe why these goals are important to the business and what the business hopes to achieve with the strategy. (Pinson 2008a, 44-45.)

For any business it is important to understand its core markets. This can be demonstrated with a market analysis. The analysis should describe the structure and the size of the market. If the market is diverse or big, the plan should demonstrate, whether the company is planning to target the whole market or for example just a segment of it. The plan should also mention any trends that the market has. These trends can cause both positive and negative changes in the market. The entrepreneur should show how they can take advantage of these changes or prepare for the risks involved. (Finch 2010, 34, 49.)

The customers and the competitors are important for any business. The entrepreneur should demonstrate that they know their competitors and is able to differentiate their own business from the others. The entrepreneur should carry out an industry and competitor analysis and these should be evidenced in the business plan (Friend & Zehle 2004, 54).

For example, the competitor analysis should describe the existing competitors' weaknesses and strengths and whether there will be any potential new entrants to the market. By describing specific customer groups the entrepreneur demonstrates their understanding of the market and to whom they are targeting their products (Finch 2010, 44-45).

Part of the marketing plan is also describing how the business is going to sell its products or services to the customers. For example, what type of channels the company uses to distribute its products: does it sell them in its own premises or maybe the company conducts its business purely online. The marketing plan should also contain a pricing strategy for the products of the business. The entrepreneur should describe how they will get the product to their customers. This will involve describing the distribution channels that the business is going to use. The entrepreneur can use several strategies and methods to aid the construction of their marketing plan. One of the most common frameworks for marketing plan is the four P's: product, price, place and promotion (Abrams 2010, 150).

2.1.3 Finance

Financing is one of the most important issues when starting a new business. Without the appropriate funding it is difficult to even get the venture off the ground. Even though this section is regarded as one of the most important topics in the business plan an entrepreneur

should not try to cram in lengthy financial calculations and future forecasts. What to include will depend on the purpose of the business plan. For example, if the entrepreneur is seeking finance with the business plan, then they should also take into account that different sources of money have different requirements from the business plan.

Bankers are generally interested in financial details, but in particular bankers are looking for collateral from the entrepreneur. Venture capitalists are interested in making returns on their investment in the business. Business angels tend to be interested in the returns also, but can also be more inclined to work together with the entrepreneur, hence the entrepreneur's personal attributes and attitudes become more relevant. (Mason et al. 2004, 229-232.)

Perhaps, the single most important financial assessment is a cash-flow analysis (Abrams 2010, 288). It is not enough to demonstrate profit calculations as interesting as they may seem to the entrepreneur and potential investors. The entrepreneur should be able to demonstrate how their business uses money to finance its operations (Finch 2010, 93) and what the potential sources of the finance are. The company may use debt or equity financing (Friend et al. 2004, 222) or both, but this should be clearly apparent from the financial plan.

2.1.4 Goals

It is important to set goals. It will help the entrepreneur to plan their strategy, when they know what their goals are. The business plan should explain what the company is setting out to achieve. When the business has defined its strategic position, it will help to determine what needs to be done in order to achieve the goals of the business. It will also help to understand what the business should not do. Therefore the entrepreneur can concentrate on the vital activities in the business and not try to do everything for everybody. (Abrams 2010, 135.)

Part of setting goals for the company could be to clarify a vision and a mission statements for the company. A well written and clear vision statement can communicate very effectively the aspirations of the company to its management and staff and become a powerful motivator. It will help the employees to embrace the ethos of the company and make their decision making in line with the company goals. (Finch 2010, 132-133.)

2.1.5 Risks and rewards

A business plan should contain a risk analysis. This is an opportunity for the entrepreneur to show that they understand the risks of the business. The entrepreneur can therefore explain how the potential risks can be minimised or dealt with in an appropriate way. There are four types of risk that should be assessed in the plan. These are mainly financial risks. The entrepreneur should demonstrate how they will cope when: sales are low, margins are low, costs are high or the business has big operational problems. (Finch 2010, 109-110.)

There are also other risks for which the entrepreneur should prepare themselves. The market may not respond to the products of the business how the entrepreneur envisioned. There may be various reason for this, for example, there simply is not a market for the company's products. These risks are difficult to overcome. The competitive environment may change when new entrants come to the market with more competitive products. The entrepreneur should prepare for this and not assume that things will stay the same. Technology can be a risk too. Competitors may invent better manufacturing technologies or the entrepreneur might find their products are not designed or engineered as well as they planned. Of course, the effect of technologies can be irrelevant to the business too. Problems may still occur with the product or service itself. They may not work as planned. The product may have a defect due to inadequate material or a vital design aspect was overlooked and is causing the product to fail. Also, with the potential success of the product the company will face risks concerning the growth of the company in order to meet the demand. The business plan should provide some evidence that this has been considered and planned for. (Abrams 2010, 141.)

The business plan should also explain why the entrepreneur is wanting to set up the business. In other words, what is the reward for the entrepreneur from the business? This can be fairly self-explanatory as usually the reward is measured in financial gains for the entrepreneur. However, some other types of businesses may require further explanation for example, charity organisations or joint business ventures.

2.1.6 Management

The business plan should show some evidence of how the business is going to be managed. Obviously, with a one man enterprise this is fairly straightforward. Often at some point the entrepreneur will have to consider hiring more people. As soon as the business organisation grows there will be a need to manage the business more efficiently.

The entrepreneur should describe their organisation carefully. This is a way to show that people behind the business are organised properly and have the necessary skills, experience and qualifications to manage the business successfully. Investors and lenders in particular, are keen to see evidence of this before even considering giving any money out. (Abrams 2010, 215.)

Relevant skills are particularly needed from the business team in areas like operational, technical, financial, marketing and personnel. The business plan should explain who is dealing with each area and why they are the most capable person to do it. The managers should be open to new ideas and willing to adapt to ever changing situations. One important thing to remember is that venture capitalists will back the people first and the business second. (Finch 2010, 60-61.)

There is another reason why describing the management in detail is so important. Failures of small businesses are often caused by managerial weakness. This weakness is said to contribute to 98 % of all failures. The main factors in managerial weakness are incompetence and inexperience. (Bangs 2002, 55.)

2.1.7 Operation

This section of the business plan should describe how the business is run daily. It is not necessary go into great detail, but briefly describe how the business operates. This is particularly important, if the reader is not familiar with the industry and may therefore have misconceptions that need correcting. (Finch 2010, 47.)

The plan should contain the issues that are crucial activities for the success of the business. Particularly, any operations that provide a competitive edge for the business should be mentioned. The entrepreneur should be able to define the processes of the business and demonstrate how the activities are controlled. Also, any issues concerning the typical problems in the industry of the business should be addressed or clarified. (Abrams 2010, 180; Finch 2010, 47-48.)

The plan should also mentioned where the business is located. How are the business premises or manufacturing facilities organised. Another important operation issue that needs describing is the organisation of the production, for example whether the company is dependent on one supplier only or are there other suppliers available and how the company controls the inventory. (Abrams 2010, 184-185.)

2.1.8 Research and development

This section may not always be relevant to the business plan. Some businesses may not need to carry out and invest in research and development. Ultimately, what to include in the business plan will depend on the type of industry the business is in (Bangs 2005, 69). If the company has its own products, the business plan should indicate how the products could be developed so that the business stays competitive. The business may also carry out research into new manufacturing techniques that will help it gain an advantage over its competitors.

If the company uses cutting edge technology in its operations, for example a new information system that provides a competitive advantage, it is an excellent idea to mention that in the plan. Investors in particular are always interested in a promising vantage in a business in order to invest. (Bangs 2005, 156.)

If the entrepreneur is planning to develop their business to the international markets then the business plan could include a brief outline how this is going to be achieved. For example, as the business grows the entrepreneur may look to transfer manufacturing abroad to a more cost effective country (Abrams 2010, 258).

3 BUSINESS PLAN AS A FINANCIAL PROPOSAL

The pertinence of the business plan's content is affected by the individual business case. Even though a general framework has been provided above, the entrepreneur's circumstances and the type of business proposed affect what is included in the business plan. Textbooks agree in general to the content of the business plan, hence the framework. The differences of opinion appear when deciding how this information is presented and to whom. Some textbooks suggest concentrating on particular things, for example, finance calculations, whereas others may focus on some other key points. The framework for the content described earlier is by no means definitive, this is simply down to the fact that individual circumstances of businesses and entrepreneurs vary too much to have a standard business plan. The framework represents the general areas that textbooks suggest the business plan should cover. There are many ways in the literature to break down and group the content of a business plan. A simple way to describe a business plan is to think of it as an answer to three questions: who? what? and how? The plan should describe who the entrepreneur is, why are they going to be successful. Obviously, the plan should tell the reader what the business is going to be producing i.e. the products or services on which the business is based and why these products will be successful. Lastly, the plan should describe how the entrepreneur is going to make all of this happen. In other words, how the entrepreneur can make the business successful in the environment it is going to operate and how this will make financial sense for the entrepreneur.

Some literature recognises the need to vary the focus and detail of the business plan according to whom it is going to be presented (Friend et al. 2004, 8-9; Mason et al. 2004, 242). However, this distinction often seems to refer only to the general content of the plan. For example, some business plan sources emphasise more strategy as well as financial projections rather than operational details. The educational literature prepares the business plan seemingly as an important tool for the entrepreneur to evaluate the new business, although some assume that it can be used for a proposal to gain finance, particularly from the bankers (Bangs 2002, 117). It is also suggested that one business plan to cater for all possibilities is not sufficient (Mason et al. 2004, 228). This suggestion indicates that business plan should take into account the audience to whom it will be presented. The plan might

be presented to parties like suppliers, distributors, bankers, investors, board of directors etc. and each party will examine the plan from their own perspective.

As already mentioned the most likely scenario for an entrepreneur to use a business plan is to gain funding. The literature suggests that even then there are different groups of people that will want to see different details in the business plan (Kirby 2002, 236). However, there seems to be very few suggestions in the general guide books as to what this difference might be. (Mason et al. 2004, 228.)

If it is assumed that often business plans are used to seek financing, the business plan will have to be written to suit the needs of the financiers. There are usually two types of financing available to entrepreneurs, namely debt and equity. Debt financing is usually provided by the bank and is one the most common sources of finance for an entrepreneur. Equity financing can be sought from investors like business angels and venture capitalists, although it may be that quite often these people will only deal with larger business ventures with bigger return of investment potential (Bangs 2002, 117).

3.1 Debt financing

For the banker the business plan should contain a firm argument why the money is needed and how it is going to be used in the business. For example, bankers are increasingly interested in cash flow (Berry & Robertson 2006, 188), because this will show the banker how the business can repay the loan. Lenders will also look for what other sources of finance the business has and are they properly in place and secure. The financial plan should also contain a description of potential collateral that the bank can sell, if the business is unable to pay back the loan. Similarly bankers are interested in the marketing plan and the management of the business. The banker is interested in how the business can cope with risks like competitors and price-wars etc. Banks are also interested in the borrower's track record and how they may have managed finances previously. (Bangs 2005, 22-24; Friend et al. 2004, 9-10).

This certainly seems to ring true when looking at the business plan guide from the international HSBC bank. The guide lists five Cs of credit that the bank will look for when

assessing the applicant: 1. character, 2. capital, 3. capacity, 4. conditions and 5. collateral (HSBC, 2014). The rest of the guide proceeds to provide guidance for the content of the business plan from the 5 Cs of credit perspective.

Bankers are not business experts, hence they will have to rely on concrete evidence to make a lending decision. For a new business this may be difficult to demonstrate and only possible through financial figures that are well argued. There are some studies into the banker's decision making that seem to indicate that banks, which use relationship information for making lending decisions, seem to have a loan portfolio that is riskier than banks whose decisions are made based on purely financial information (Trönnberg & Hemlin 2012, 1041).

3.2 Equity financing

Investors are interested in the overall strength of the business proposition. Investors evaluate business plans by looking for the internal consistency of different parts of the document (Delmar et al. 2004, 391). Investors look for a competitive advantage that enables the business to be more successful than its competitors. Investors are also interested in the management team of the company and their capabilities to manage the business successfully. Investors are also looking at the forecasted return on equity and if any further capital may be needed, because this may devalue the initial equity stakes. The forecasted growth potential of the business is also of interest to the investors as they are concerned about any potential dividend streams. (Friend et al. 2004, 10.)

An investor is usually a risk taker. They are mainly looking for a financial return for their investment. If, however, the business is not going according to the plan, investors can participate in the decision making process. Some investors act as business angels. They are interested in the entrepreneur and their abilities and will actively collaborate with the entrepreneur in the business activities (Mason et al. 2004, 232-234). Others act as venture capitalists whose main concern is making a profit. In terms of a business plan, these investors look for a way that enables them to exit the business so that they quickly realise any gains on their investment (Pinson 2008b, 106).

It is therefore suggested that when using a business plan as a financial proposal, the content of the plan requires modification in order to provide the information relevant to the financier. Even within groups of financiers various factions have different requirements for the business plan. The research indicates that a banker mainly relies on the financial information to make a lending decision. A second suggestion is that an investor may be more interested in the entrepreneur or the people behind the business idea.

As presented above a portion of the literature recognises that these groups of finance people have a different perspective on a business plan. Even though the differences have been recognised, the research only broadly suggest what those differences are, therefore making it difficult for an entrepreneur to understand exactly how they should emphasise these specific areas in their business plan. For the purpose of this thesis it is assumed that a business plan is needed in order to seek funding for a new business idea. Therefore this thesis concentrates on examining the requirement difference between two business plan readers: a banker and an equity investors.

4 BUSINESS PLAN APPRAISAL

One of the problems faced by an entrepreneur is how to write a business plan so that it will appeal to the financiers. The literature will give some broad answers to the problem, but business plans are difficult to generalise. Every business plan is specific to its business idea. A plan written according to a guide book may not be relevant to the purpose for which the plan is used. In order to understand the problem better and find some answers an experiment was set up that works effectively as a case study.

A business plan was written according to the theory presented in the literature research for a business idea of the author. Perhaps, a ready-made business plan could have been used and modified, but it was thought to be more relevant for the purpose, if the business plan was written in a real life context. The real life scenario adds more authenticity to the results of case study than a theoretical business plan would.

4.1 Methodology

A pertinent feature in any research is the general approach to it. There are typically two approaches that can be utilised: qualitative and quantitative. These approaches answer different questions about what you want to know. Quantitative research is the method used, when you want to know how many times or how often something happens. This approach analyses trends or wants to understand relationships between different variables. Qualitative research is the method used when there is a need to understand why something happens, but it is not possible to have all the variables. This approach attempts to explain the research problem in detail in order to gain specific understanding of the issue. Therefore, a qualitative approach was adopted as the most relevant methodology to this particular case as this study was looking for specific information regarding the content of the business plan. (Creswell 2012, 13-16.)

The actual research type was a simple case study that focuses on a specific aspect of the business plan: the financial proposal. One of the key characteristic of a case study is that it is anchored in real life (Ary, Jacobs, Sorensen & Razavieh 2010, 452). As the purpose of the

study was to examine the differences between the criteria of a banker and an investor, when they consider a business plan for financing, a real life business plan scenario was deemed most appropriate to study this particular phenomenon. The collection of data is a key element in research. First, a literature review was conducted in order to understand what is appropriate and relevant for the content of a business plan. Also, a short review was conducted into previous studies about the financing criteria of bankers and investors. A business plan was written according to the collected information. Secondly, a meeting was set up with a banker and an investor where they could appraise the business plan.

The appraisal meetings followed the principles of verbal protocol analysis (VPA). This methodology provides a better understanding of the decision making process (Miller & Brewer 2003, 333) that the financier goes through when examining a business plan. The VPA has also been used successfully in the past studies (Mason et. al 2004, 234; Zacharakis & Dale Meyer 1998, 57-76). Hence the meetings were kept informal. A structured interview could unintentionally influence the outcome of the appraisal and therefore skew the results. It was important that the financiers volunteered the information with minimum prompts from the interviewer to avoid any bias. Therefore, the financiers were free to voice their own opinions about the business plan and what they thought was good or bad in it and what further information they would require. The financiers were encouraged to think aloud. Also, the financiers had a realistic business idea to consider, so their behaviour would correspond more likely to how they would actually behave and think, when considering a business plan.

A survey with a set of questions was deemed inappropriate for this study. A self-reported survey can cause the respondent not to answer the question as him or herself. He or she may think of themselves as being the representative of a particular finance group and could have answered the questions from this perspective or simply answer the questions that they thought was desirable. The respondents could also sidestep their own criteria in real life in order to adapt to the circumstances, but for the survey they would answer according to the established 'standard' in their mind. The meetings were recorded and then transcribed. The transcribed documents were then comparatively analysed with the literature review working as a frame of reference.

4.2 Business plan for Designer PC Cases

The business plan was prepared for a real business idea (see APPENDIX 1). The plan was written using the presented framework as a basis for the content. However, the actual structure of the business plan was loosely based on a combination of business plan templates that are available from different organisations that help entrepreneurs to start their businesses, for example Uusyrityskeskus has a model template (Uusyrityskeskus Helsinki 2011) for their business plans. This was also partially used in this case study. Table 1 shows the content of the business plan used in the case study. It includes all the elements of the business plan framework introduced earlier.

TABLE 1. The content of the business plan

1 EXECUTIVE SUMMARY
2 BUSINESS IDEA
2.1 The product description
2.2 Background
2.2.1 Business idea – SWOT
2.2.2 Entrepreneur’s characteristics – SWOT
2.3 Ownership
3 OPERATING ENVIRONMENT
3.1 Macro environment
3.2 Market
3.3 Competitors
4 VISION AND GOALS
6 MARKETING PLAN
7 PRODUCT DEVELOPMENT
8 PRODUCTION
9 PERSONNEL PLAN
10 FINANCIAL PLAN
10.1 Pricing
10.2 Profit forecast
11 RISK ASSESSMENT

Chapter Two in the business plan describes the entrepreneur and explores the business idea using Strengths, Weaknesses, Opportunities and Threats (SWOT) matrix. It corresponds to the products and services section of the framework. Chapter Three describes the environment

where the business operates. This was analysed using Political, Economic, Social, and Technological factors (PESTLE). The chapter explains the overall business climate and goes through competitors and the market. The financial calculations were kept simple in the business plan, mostly due to the nature of the proposed business. The initial capital needed was calculated and the profitability calculations provided. Also, a break-even point was calculated determining the lowest price for the product. Finally, a three year profit forecast was predicted for the business in order to show the potential revenue stream. The business plan corresponds to all aspects of the framework albeit in a slightly different configuration.

4.3 Executive summary of the business plan

CONFIDENTIAL

4.4 Results

The noticeable difference between the two interviewees were the perspective from which they viewed the business plan. The banker was very clinical and mechanical when examining the business plan. It seemed like her thought process only included things that were geared towards the bank's criteria of giving out business loans whereas the investor was looking at the plan more from a general business perspective. Even though he was not going to personally invest, he was still excited and willing to examine the plan and think it through as a prospective new business.

Both interviewees agreed that the business idea is interesting, however neither of them would finance the proposal. The reason for this was different in each case. The banker thought the idea was interesting, but too alien to make a decision based on the business plan. If the business idea would have been, for example, a café or a hairdressing salon, the bank would have been more familiar with the industry and the market due to them being more common topics for a business plan in this region. Therefore, the bank would have been in a better position to start loan negotiations based on the business plan. As the proposed business was not a familiar one, the banker recommended going through the proposal with Firmaxi and also seek financing from Finnvera first. If that was not sufficient, then look for further

financing from the bank. The size of the business was too small for the investor. However, the investor liked the idea and estimated over 50 % chance to succeed. His reason for not investing was that the business would be far too small in terms of revenue and the investment required. The investor would be looking at investing hundreds of thousands rather than just tens of thousands. The summary of the findings is represented in Table 2.

4.4.1 Meeting with the banker

Overall the business plan contained most things the banker required. One big negative aspect for a bank was the reason for the type of legal structure proposed for the business. It was stated in the business plan that the entrepreneur would not be willing to risk his personal property for the business, hence the business was chosen to operate as a limited company reducing the risk to the invested capital only. According to the banker this sentence gave the impression that the entrepreneur did not believe enough in his business idea as he was not willing to put his personal property on the line for it. Therefore the banker could not potentially believe in it either. The problem from the banker's perspective was not that the business would be a limited company, but the reason why it was chosen. However, the investor's thoughts on the matter were entirely the opposite. He thought the limited company was the only viable choice and exactly for the reason stated in the business plan. According to him it makes running the business much clearer, as personal property and the property of the business are separate.

Another thing missing for the banker was a balance sheet forecast. Although, she admitted that due to the size of the company the missing balance sheet was not a deal breaker. The banker was also concerned about the payment terms, if the cases were sold to a distributor in the United Kingdom. She would have been interested to see how this ties down the company's working capital. A big issue for the banker was sales. As the product, industry and the market were not familiar to the banker she hoped to see more concrete evidence of established channels, which can be used to sell the product. An online shop as the main sales channel was not convincing enough for the banker. She would have liked to have seen evidence of using established retailers or distributors. The lack of evidence of convincing sales channels coupled with unfamiliarity of the industry was the biggest deal breaker for the banker.

4.4.2 Meeting with the investor

In general the investor thought the business plan was good. There were a couple of things that he pointed out in the plan. The first one was the SWOT analyses. According to him both analyses were not quite rightly executed. The internal and external issues were mixed in some of the results of the analyses. The concept of SWOT analysis is that the strengths and weaknesses are the internal factors to the organisation whereas the opportunities and threats are external factors to the organisation. It was really important to the investor that the SWOT analysis was understood correctly. He also offered some advice and suggestions in logistics, strategy, target market and customisability of the case. For example, the logistical issues could be further explored with the Business Model Canvas tool. As already mentioned he disagreed with the banker about the reason for choosing the legal structure for the business.

The investor did not spend too much time with the financial calculations. The only thing he pointed out was that there was no need to include VAT when calculating revenue. He thought it was unnecessary and confusing. The profitability calculations and the forecast calculations seemed to be in unfamiliar form for both of the interviewees, which was a bit surprising. The profitability calculation was constructed following the guide promoted by the Uusyrityskeskus (Suomen Uusyrityskeskukset ry. 2014). This demonstrates again that business plans are by no means standard in terms of how the content is presented. The profit forecast template was from the UK. All in all, the way the investor went through the business plan was like he was a mentor, but then as he was not going to invest in the business, perhaps he assumed more of a mentor role than he normally would have done.

The investor was keen to emphasise that the most important thing that he looked for in a new business venture was the team behind the idea. According to him there are investors who just look for the balance sheet in order to minimise the risk, but a risk investor will look for the people behind the business idea. Also, another thing that indicated his emphasis on people was the beginning of the appraisal meeting. With the banker the interview started within few minutes after just a short introduction, whereas the investor introduced himself and told me his background and business experience. He then expected me to introduce myself by telling him my background etc. It took over 20 minutes before the actual appraisal of the business plan started. He clearly wanted to know what kind of person was behind the business idea. The investor was also quite keen to know the mission and the vision of the

business. As the money required for the business in this case was not a considerable amount, but the business idea was still good, the investor considered it best to just make a small batch of the cases and get them out to see if they would sell.

TABLE 2. Summary of findings

	Banker	Investor
Would you finance? Reason for the decision	No -unfamiliar industry -financial figures lack evidence of sales	No -business is too small
General impression	-something new, different	-Good idea -Over 50 % chance of success
Points to improve	-more concrete evidence of potential channels for sales	-SWOT analysis -No VAT in revenue calculations
What was the financier looking for	-balance sheet -proof of sales' channels -evidence of viable market	-a bigger business -background of the entrepreneur -the drive, mission and vision of the entrepreneur

5 CONCLUSION

The difference between the interviews was quite a contrast. The banker's approach was very objective and analytical. Her main concerns were that the business would make financial sense and this should be evident in the business plan. In this case a couple more figures should have been provided i.e. the evidence of established sales channels and the balance sheet. The outcome of the interview does therefore generally support the researched literature. The banker was mostly concerned about the information effecting the business financially. Even when looking at the background of the entrepreneur the banker was concerned how the person had handled money previously, which coincides with some of the literature (Bangs 2005, 22-24; Friend et al. 2004, 9-10). Some studies claimed that the entrepreneur should be able to provide evidence of collateral (Mason et al. 2004, 229-232). This is not something that needs to be in a business plan according to the banker, but will need to be assessed later on, when actually applying for a loan. In this case study the evidence of collateral is important and relevant, but only in the subsequent loan application, if the business plan had passed the initial screening.

Another interesting find was that because the banker was unfamiliar with the industry of the business, she was perhaps even keener than normal on seeing evidence that the business idea was viable. This would indicate that in order to convince a banker to lend money she or he needs to see very well constructed financial figures, particularly when the banker does not know the industry of the business. It seems that in such a case like this, the banker might be more positive towards granting a loan, if the entrepreneur goes through the starting process with an organisation that helps entrepreneurs to start a business first. The results of the banker meeting indicate that, if the business idea is taken through this process with business professionals, then the bank is more likely to believe that the risk is worth taking. At the end of the day the banker is assessing the risks involved in getting the loan paid back.

The banker's unfamiliarity of the industry is an issue that was not discovered through the literature research or perhaps it is too obvious to mention. It raises a point that perhaps the entrepreneurs should be specifically forewarned to better argue the business idea through financials figures, if it is suspected that the banker is not familiar with the nature of the business idea. Obviously, this is a specific issue with this particular business idea and also

due to the small sample size. Any wider scale conclusion should be drawn very cautiously. It does however raise a question whether this is a wider phenomenon or just specific to this case. Perhaps this is an issue that needs to be further researched.

Where the banker was very cautious, the investor in contrast was enthusiastic to steam ahead by making a couple cases and get them out there to test the market as quickly as possible. His view was influenced most likely by the fact that to build a couple of cases would not be a big monetary investment. Therefore, it would be relatively easy to test whether the cases sell or not. Also, the investor referred to himself as a serial entrepreneur, who has started a business many times over so the threshold for him to try out a new business idea is not necessarily very high, as long as it makes sense on paper.

The outcome of the investor interview also generally supports the literature. The investors' reluctance to finance small enterprises was pointed out in some of the business plan guide books (Bangs 2002, 117). This was the case here too. The investor was not necessary interested in a small enterprise as he would prefer to invest bigger amounts. According to the Finnish company size definition (Yritys Suomi, 2014), the proposed business would only be a micro company. Although, micro companies can have revenues big enough to pique the interest of an investor.

Even though, this case study has only made a difference between bankers and investors, the literature research suggested that there are differences between investors too. This argument was also supported by the investor distinguishing himself from the pure venture capitalists, who only look at the financial figures, whereas he was more interested in the people behind the business idea. Whether he regards himself as a business angel was never discussed.

The meetings also differed from each other in the general flow of the interaction between the interviewer, i.e. the entrepreneur and the interviewee, i.e. the financier. The banker was very passive and the interaction was minimal, which could be a reflection of a formal business transaction in process. The appraisal meeting was simply a job for the banker to assess whether the business plan meets the banker's requirements and it was dealt with the appropriate efficiency and professionalism. The investor however was asking the entrepreneur questions about how they saw certain aspects of the business for example the target market and the vision of the business. The investor also then shared his thoughts on

the matter, gave advice and made suggestions. This indicated that the investor was trying to engage the entrepreneur in the conversation in order to find out how they thought about things and what kind of entrepreneur they would be. The investor's keen interaction with the entrepreneur, also the interviewer, was slightly unexpected. Being both the interviewer conducting the study and also the entrepreneur proposing the business caused a small conflict of interest. This resulted in some restraint being needed as the entrepreneur in order to remain impartial. It is therefore suggested that for any future similar studies these two roles should be physically separated. The juxtaposed roles may have had a small effect on how the investor saw the entrepreneur and could have had consequences, if the proposed business plan had been a viable investment opportunity. It is concluded however, that this did not affect the overall results of the case study. The banker hardly asked any questions at all and when she did the questions were mostly just to clarify a point in the business plan. The interaction in the meetings depends to a certain extent on the characters of the financiers and the entrepreneur, but the results of the study reflects the difference in approach to the appraisal of the business plan between the banker and the investor as described in the literature.

The results of the case study should be treated with caution. Even though the results seem to support the information available about the differences between a banker's and an investor's criteria for funding, the results are specific to the circumstances of the business idea proposed and the financier. Also, the sample size is very small so drawing conclusions about any possible trends should be treated carefully. The reason the banker approached the business plan with caution was because she was not familiar with the industry therefore, it would be inconclusive to state that she would always require proof of sales channels or balance sheet or generally better financial figures, but the fact remains that is what she has to work with when examining a business plan. With a more familiar industry she could have perhaps made a different decision. In comparison however, she was certainly concentrating more on the financial section of the business plan than the investor. As the business was too small for the investor to invest, his appraisal of the business plan may have been slightly different, if the business had been bigger. Perhaps, he would have scrutinised the financial information more, if the business had have met his initial screening criteria i.e. big enough business. Having said that he certainly made an effort to point out the things in the business plan that he thought required either improvement and gave encouraging comments. The suggestions and

requirements the investor had are only valid for this case study even though they appear to generally agree with the researched information.

In terms of the practical application of the case study, it demonstrates that there is a difference in the approach to business plans between a banker and an investor. An entrepreneur should only approach an investor, if the business idea is financially worthwhile for the investor. The investor is keen to understand what kind of person the entrepreneur is. The entrepreneur should be ready to sell themselves as well the business idea to the investor. Whereas the investor is interested in the capabilities and skills of the entrepreneur, a banker is also interested in the entrepreneur but in a more financial sense. A banker is looking for financial records and how the entrepreneur has handled money in the past. Also, the entrepreneur should be prepared to carefully construct financial figures and sales activities in order to back up a business proposal in an industry that is unfamiliar to the banker.

REFERENCES

- Abrams, R. 2010. *Successful business plan: secrets and strategies*. Fifth edition. Palo Alto: The Planning Shop.
- Ary, D. Jacobs, L. Sorensen, C. & Razavieh, A. 2010. *Introduction to research in education*. Eight edition. Belmont: Wadsworth Cengage Learning.
- Bangs, D. H. 2002. *Business planning guide: creating a winning plan for success*. Chicago: Dearborn Trade
- Bangs, D. H. 2005. *Business planning made easy*. Third edition. Canada: Entrepreneur Press.
- Berry, A. & Robertson, J. 2006. Overseas bankers in the UK and their use of information for making lending decisions: Changes from 1985. *The British Accounting Review* 38, 175-191.
- Brinckman, J. Grichnik, D. & Kapsa, D. 2010. Should entrepreneurs plan or just storm the castle? *Journal of Business Venturing* 25, 24-40.
- Chwolka, A. & Raith, M. 2012. The value of business planning before start-up – A decision-theoretical perspective. *Journal of Business Venturing* 27, 385-399.
- Creswell, J.W. 2012. *Educational research: planning, conducting, and evaluating quantitative and qualitative research*. Fourth edition. Boston: Pearson Education, Inc.
- Delmar, F. & Shane, S. 2004 Legitimizing first: organizing activities and the survival of new ventures, *Journal of Business Venturing* 19, 385–410
- Finch, B. 2010. *How to Write a Business Plan*. Third edition. London: Kogan Page.
- Friend, G. & Zehle, S. 2004. *Guide to Business Planning*. London: Profile Books Ltd

Harvard Business School Press. 2007. *Creating a Business Plan: Expert Solutions to Everyday Challenges* (Pocket Mentor). Boston: Harvard Business School Publishing Corporation

HSBC. 2014. How to write a business plan for SMEs. WWW-document. Available: http://www.hsbc.com.my/1/PA_ES_Content_Mgmt/content/website/pdf/commercial/sme_biz_plan.pdf. Accessed 21 August 2014.

Honig, B. & Karlsson, T., 2004. Institutional forces and the written business plan. *Journal of Management* 30, 29–48.

Karlsson, T. & Honig, B. 2009. Judging a business by its cover: An institutional perspective on new ventures and the business plan. *Journal of Business Venturing* 24(1), 27-45.

Kirby, D. A. 2002. *Entrepreneurship*. Maidenhead: McGraw-Hill Education

Mason, C. & Stark, M. 2004. What do Investors Look for in a Business Plan? *International Small business Journal* 22, 227-248.

McKeever, M. 2011. *How to write a business plan*. Tenth edition. Berkeley: Nolo.

Miller, R. & Brewer, J. 2003. *The A-Z of Social Research*. London: SAGE Publications. Available: <http://srmo.sagepub.com/view/the-a-z-of-social-research/n117.xml>. Accessed 24 August 2014.

Pinson, L. 2008a. *Anatomy of a Business Plan: A Step-by-Step Guide to Building a Business and Securing Your Company's Future*. Seventh eBook Edition. Tustin: OM..IM.

Pinson, L. 2008b. *18 Steps for Starting Your Business*. eBook edition. Tustin: OM..IM.

Saari, S. 2014. *Business plan: designer pc cases*. Centria School of Applied Sciences. Degree Programme for Business Management

Sahlman, W. 2011. How to Write a Great Business Plan. 2011 edition. Harvard Business Review 75, no.1.

Suomen Uusyrityskeskukset ry. 2014. Perustamisopas 2014. WWW-document. Available: http://www.perustamisopas.fi/sites/perustamisopas.fi/files/Perustamisopas_2014_web.pdf. Accessed 20.10.2014

The Startups Team. 2001. What is a business plan? WWW-document. Available: <http://startups.co.uk/what-is-a-business-plan/>. Updated 2013. Accessed 22 October 2014.

Trönnberg, C-C. & Hemlin, S. 2012. Banker's lending decision making: a psychological approach, *Managerial Finance* 38(11), 1032 - 1047

Uusyrityskeskus Helsinki. 2011. Liiketoimintasuunnitelman pohja. WWW-document. https://www.liiketoimintasuunnitelma.com/index.php?page=business_plan&subpage=business_idea. Accessed 20 August 2014

Yritys Suomi. 2014. Yrityksen koko. WWW-document. Available: <http://www.yrityssuomi.fi/yrityksen-koko>. Accessed 20 August 2014

Zacharakis, A. & Dale Meyer, G. 1998. A lack of insight: do venture capitalists really understand their own decision process? *Journal of Business Venturing* 13(1), 57-76