

Business Plan Evaluation Guidelines

Ten Things You Must Know Before Presenting Your Business Plan to a Potential Investor

By: Jean Duane, MBA

Before writing a business plan, it is important to know how a potential investor evaluates the plan. The following Guidelines provide the entrepreneur with a tool to use while writing their plan. It helps the entrepreneur write the plan with their audience in mind by providing a set of questions address in the plan. The Guidelines encourage originality rather than starting just another “me too” business. This article will provide basic assessment Guidelines to be used to evaluate business plans.

The business plan needs to cover all of the key functional elements including marketing, operations, engineering, IT, human resources and management. It should include a comprehensive discussion of the industry and how this new business fits into the industry. The two-page executive summary should summarize all of the key elements of the plan such as the key financial metrics, the experience of the management team and the marketing niche that this company fills (preferably one that is not already filled). Risks that could be incurred must be addressed in the plan. It is important that the reader has not identified a risk that could put the company out of the business that was not addressed in the plan. Research is fundamental to support the basic premise of the plan.

As an entrepreneur goes through the process of researching their potential market, collecting data to use in their financial statements and interviewing key industry leaders to reference in their plan, it is important that they keep good notes on who said what, and where they obtained key assumptions. The plan needs to include a list of references and sources for assumptions in order to substantiate the assertions and claims. Saying “research shows”, and then not providing a reference for the research is as valid as making up the number yourself. A good business plan will have a reference list and be footnoted throughout to indicate the entrepreneur completely researched all aspects the business proposition. By following these business plan evaluation guidelines, a business plan writer will be assured of considering all of the fundamental elements used by potential investors to evaluate a business plan.

Business Plan Evaluation Guidelines

The following is a methodology to use to evaluate a business plan.

1. **Research** – Are all perspectives examined? The basic premise of the plan is supported with primary or secondary research. Are the statistics / facts provided from reliable sources? Are the sources referenced in the plan? Are they current?
2. **Outside Resources** – Entrepreneurs are encouraged to conduct interviews or surveys to support their plan. Interviewing entrepreneurs in similar businesses in a non-competing area can provide a wealth of information for the business plan. Conducting formal or informal surveys of the potential market can also provide significant information about the market and financial assumptions to be used in the plan. This is important to do to prove that there is a market for their product or service. It is also important to summarize the survey, the methodology and results in the Appendix of the document.

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3. **Comprehensibility** – Is the premise understandable? Include diagrams or pictures to help the reader understand what you propose. (Often plans are technical in nature, so this is very important.)
4. **Content** – Does the plan include a thorough plan for all of the key functional elements? Has the writer considered all important aspects of launching this business such as legal considerations, environmental, precedents and regulations governing the industry? If customer service is emphasized, is there a Quality Control plan included? Are the timeframes realistic?
5. **Comparison** – Does the plan include a comparison of all of the key functional areas to similar businesses, such as staffing requirements, salaries of staff or targeted market segment and financial comparisons? Does the financial model compare ratios to other businesses? Does the plan discuss how it fits into a special niche? Is there an analysis of the financial statements built into the plan? Are the assumptions in the financial statements realistic? Does that cash flow statement show that the business can meet it's obligations on time? Is there a best/most likely/worst case scenario included?
6. **Creativity** – Does the writer prove the plan using clever correlations? For example, some businesses are brand new so there is little to compare them to. Has the writer investigated businesses that perhaps appeal to the same customer set and used statistics from those existing businesses? Is the original idea creative or is it just another "me too" business?
7. **Experience** – Does the entrepreneur show that they have experience in this business? Do they have a team that compliments any deficits they have? Do they discuss past successes, organization accolades, management experience or significant involvement in this area?
8. **Realistic** – Is the premise believable? Can the business sustain itself with the basic assumptions the writer is making?
9. **Risk Mitigation** – Has the writer addressed the risks the reader has identified as they read the plan? Is the reader left reassured that the writer has thought through all aspects and developed a good "what if" analysis?
10. **Grammar, Punctuation, Spelling** – Is this written correctly? Is it readable? Would a reader think this person is educated based on their writing style? Does the writing style lend credibility to the idea? Is it formatted in a readable manner?

In the 1990s when free money was flowing from the Internet craze, incomplete, unsubstantiated plans were funded on a regular basis. Today, potential investors scrutinize plans much more carefully. Entrepreneurs need to write thorough plans that prove their premise with a combination of empirical and secondary research. They must cite references to substantiate their financial assumptions. They should reveal risks and provide a mitigation plan for the most likely risks. Proving a business premise is an art form and using this business assessment approach will help the entrepreneur create a comprehensive, viable plan.

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