

Startup Business Planning: 5 steps to success

Have you already defined your ultimate goals? If not, it is high time to think of your business plan.

In order to confidently talk to investors, you, as the project initiator, should not “float” on the main issues. Therefore, we recommend beginning the development of any startup business plan with a financial model.

Why Start with a Financial Modelling?

The financial model extracts operating concepts from the mind of an entrepreneur and transfers them onto paper. It then becomes the basis for the analysis and development of a business plan.





If you understand the basic operational assumptions, you can develop a relevant business model.

Building a financial model is necessary in order to determine the viability of your startup idea. The operational assumptions that you must make before you go looking for investors are as follows:

- *What is your product / service, what problem does it solve, will people “buy” it and at what price?*
- *What will your fixed costs, or in other words the rate of capital consumption, be? Rent, communication, staff salaries, advertising and promotion. You will incur these expenses regardless of whether you sell something or not.*
- *How much investment money do you need and what will you spend it on: purchase of assets, start-up costs that can't be returned, etc.*

When you've collected all of this data and made the necessary calculations, you will have solid ground under your feet when communicating with the investor.

Who Should you Send your Startup Business Plan to?



Don't send a startup business plan to anyone until investors show interest in the project.



Always send only a summary to limit the amount of information provided.

Many venture capital firms use business plans to update their marketing information free of charge. Therefore, they may request them, but in doing so are not even considering financing anything.

Top Secret Tips for Acquiring Venture Capital

Investors know that return on investment is far more likely via a team that's actually done something than an individual with ideas and nothing else to show.



What Funding Stage are you at Now?

- 1** *Gathering statistics and legal documents*
- 2** *Creating your business plan*
- 3** *Elaborating the design and product strategy*
- 4** *Developing the digital product*
- 5** *Delivering the software product to market*
- 6** *Taking the first steps towards Commercialisation*
- 7** *Scaling the project, adding new features*

Investors are more inclined to invest their money in the later stages of development - especially in the last four stages.

The Key Risks Private Investors Take



Seed investors will assume the greatest risks – product, market, financing, execution and team risk.



Early investors generally don't take risks on products (building/testing) but accept some modest market risks, as well as execution and financing risks.



Growth Investors will only bear the risks of implementation and financing.



Late investors generally only accept the moderate risks of expansion.

Financial market risk is the one that all investors face, but later investors try to limit their bets to this, often using transaction structures and valuations as mitigating factors.

As you can see, the only investor who takes risks on an idea is the seed investor. If you are very lucky, you may secure such an investor, though they are very hard to convince.



When Sponsors are Ready to Invest

If investors can verify the following, they'll lend you the money for your IT project:

- *You are hard-working, ambitious and full of passion. That is, you must be willing to do a good job and suffer the pain of "founderism."*
- *Your idea is supported by a logical plan. Your investors can see how they can invest \$1 and expect a return of \$2.*
- *Your app idea is working and you'll do everything you can to reduce the investment risks.*

Entrepreneurs who approach investors with a well-thought plan are more likely to raise the necessary venture capital for a lower share exchange.

8 Things you should do before seeking funding

- 1** *Establish your company*
- 2** *Assemble your team with technical, marketing and sales skills*
- 3** *Undertake comprehensive preliminary market research and competitive analysis*
- 4** *Set domain name*
- 5** *Create a website or landing page*
- 6** *Build a prototype*
- 7** *Do real market tests with potential users and buyers*
- 8** *Provide a complete analysis and P&L forecast along with the development strategy*

All this may take a few weeks to work. But no matter what stage you're at, it takes a lot of time to raise investment funds.

Prepare investment promotion and investment memos, answer investor questions and demands and prepare yourself for the countless obstacles of time and energy-consuming activities.

Where to Start?

\$ 20,000 Instead of planning to raise \$ 250,000, focus on finding \$ 10,000 - \$ 20,000 in your own pocket to start right now.

MVP Use this money to create an MVP, get the initial user and let people work for you.

Ten Ways to Find an Investor for your Startup

Here we've collected the most popular resources for finding investors. Check all the options below and don't forget to chat with all your neighbors – information through the grapevine sometimes reaches the target person twice as quickly.



Startup Platforms

There are special platforms to help startup entrepreneurs. They provide information, research and assistance in all aspects of launching a new project, including communication with investors. For example, Startups.co offers a convenient channel for effective investor searches. Today, [Startups.co](https://www.startups.co) has more than 14 million users, making it the largest startup community in the world, offering exceptional opportunities to attract investors both to finance the project and as consultants. Another platform, [Gust.com](https://www.gust.com), has already invested more than \$1 million in various startups.

Network of Business Angels

Angel investors not only give you money, but also literally follow every step, prompt and guide, and most importantly share contacts and introduce you to the business community. You can start searching for such an investor on platforms like [Funded.com](https://www.funded.com), [Angel Investment Network](https://www.angelinvestmentnetwork.com) and [Angel Capital Association](https://www.angelcapitalassociation.com), where thousands of investors are represented and the various types of investments are described.



Crowdfunding Sites

Where can you find the most unexpected, non-standard investors? These are on crowdfunding platforms. Starting from the widest Internet audience, where ordinary users support projects they're interested in (sites like [Kickstarter](#), [Peerbackers](#) and [Indiegogo](#)), and ending with philanthropists wandering in search of those whose old dreams they can help to realise ([RocketHub](#)). There are also accredited investors, hunters for new ideas – for example, [OurCrowd](#).

Each crowdfunding site has its own specifics and its own way of attracting investors, so carefully study all the options to choose the most appropriate for your strategy.

Business Incubators and Accelerators

Your startup is your child and you need to take care of it accordingly. If you want the project to grow and prosper, consider the option of cooperation with an incubator or accelerator. Such investors usually want to be actively involved in the implementation of your idea – they want to help turn it into a viable business model and are ready to provide the necessary funds to do so.

Often, such incubators and accelerators offer space in their office, so as to make it more convenient to collaborate on a project. Since other startups work in the same space, you get the opportunity to exchange ideas and find non-standard ways of solving problems. Find the nearest business incubator or check this one – [InBIA](#).

Startup accelerators, such as [500Startups](#), [Ycombinator](#), and [TechStars](#), offer advice, small start-up capital and access to other investors in their network.



Social Networks of Professionals

Everyone knows the social network [LinkedIn](#), where you can still find investors. In addition to it, there are many professional networks where you can cross paths with potential sponsors in your industry. Many of these sites are even ready to connect you with the institutional investors from other countries who wish to join the global business space, and even ready to deliver your products to their country. Among such social networks should be noted [EFactor](#), [Startup Nation](#), [Xing](#), [Cofoundr](#) and [Meetup](#).

Direct Investment Market

Sometimes it's safest to take the long route and contact a private equity firm. Moreover, the volume of these investments can be from several thousand to millions - depending on the potential that they see in your project. The goal of such companies in this case is to sell their share several years after investing and thus to profit from the development of a startup. According to data from the [Private Equity Network](#), direct investment companies have invested \$ 347 million in 2100 companies over the year.

Online Loan Platforms

The increasingly stringent restrictions on obtaining bank loans lead to the fact that for a startup it is much easier to raise funds from alternative sources – for example, via online platforms that perform the same functions as banks. These can be P2P sites, unconventional funds, large investors willing to help small businesses and make a profit on the terms of the loan. Among the well-proven platforms are [Ondeck](#), [Prosper](#), and [Lending Club](#).

Doing the Marketing Yourself

Without marketing, commercial success is impossible. On the other hand, successful marketing, if you do it yourself and make it a part of your personal brand, will not only save you money early on but will also attract serious investors. You should position yourself on a personal website, on social networks, in guest posts on authoritative blogs, in [Quora](#) communication and in traditional media as well.



Friends and Family

It can be quite simple to find an investor in one of your friends or relatives, since these people have known you for a long time and believe in you. The most consistent and passionate support usually comes from a close circle of friends. Just remember that, using this channel of help, you need to separate personal and professional communication. To do this, record all the conditions and be sure to voice the possible risks. Make sure that people close to you understand they can lose their money. Try not to risk the loss of loved ones or friends due to investments.

Don't be disappointed if you don't receive interesting offers from investors or if you are flatly refused, even several times in a row. All this simply means that you haven't yet found an investor who fully complements your goals and needs. Try again and again until you find your ideal match.

“An offering memorandum is a legal document that states the objectives, risks and terms of an investment involved with a private placement.” Find out more details [here](#).

How to present your offering memorandum to the investor you'll discover below.

How to Make Investors Believe in You: 5 Secrets of Good Pitches

Even for companies with considerable appeal, it's a challenge to surprise investors with their business ideas. Your pitch deck is the most powerful weapon to get your app off the ground.

Why Does Your Startup Need a Pitch Deck?

Your main goal is to start a conversation. Your pitch deck is designed to evoke curiosity, attract the attention of investors and let them know more about you.

The key to doing this is to give the potential investors enough detail to enrich their vision, turning it into something tangible, rather than overwhelm them with data.



Deck Requirements

Your pitch must meet the following requirements:

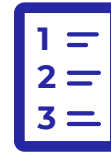
- *Be able to stand on its own. Although you don't want to include ideas and numbers that are not relevant to the present, these should be at the heart of your business. You should not remove the appendices and other resources to convey what the investor wants to hear.*
- *Concise. Investors are very busy. Keep it to between 10 and 13 slides.*
- *Accurate. If estimates are made (market size, customer demand, estimated management costs, etc.), they should be conservative. If you expand the numbers, it will be somewhat strange when those numbers don't match up.*



Mind the Timing

Keeping within the allotted time frame can be very difficult. Regardless of the format, be it 7, 5, 3, or even 2 minutes, you will need to train so as not to go beyond it. Seven minutes may seem like a lot, but even with such a generous restriction it is extremely difficult to match the time frames. Try with a timer. If this is your first time, you may miss by 2 minutes. To prevent this error, you should run a presentation with a stopwatch many times on your own, honestly pronouncing every word out loud. The actual presentation takes more time than the training version, so you need to fit with a margin.

Outlining the project in 3-5 minutes is more difficult than it seems. And the most important thing is often at the end.



Keep Theses Simple

Don't overload the presentation. People (and especially investors) are often prone to attention deficit disorder. No one can (and most importantly, doesn't want to) focus on complex structures. The presentation should consist of simple theses. As you read long texts only in exceptional cases, people listen carefully only when they know in advance that there will be something interesting.

You have no time to evoke their interest, so keep it simple. What, who, why, how much. Question - answer, thesis - the second - the third. The presentation should be simple and clear.



Don't Read from Slides

There is nothing sadder than reading from a slide. Everything is already written there and your audience will read it. When reading from a slide, you aren't looking at audience and will likely stray from the story line, speak monotonously and without passion and forget what else was on that slide.

The slide and the story should complement each other. The text on the slide is there to allow you to look at it for a second, remember what the slide is about and talk about it without looking.

A slide helps listeners to cling to the context if they've become distracted and are just refocusing their attention again. Pictures, numbers – yes. But the text is not for you.



Don't Make People Read

Nobody reads your slides. People look at pictures, but nobody reads texts if they are longer than three words or more than a few lines on the slide. Presentation slides should be much more concise than the story, otherwise you can throw them out. A few very short statements in large print. No literary bundles. Otherwise, there is no chance of anyone reading what you've written.

If you want to make them believe in your product, show them something real. An interactive prototype is a strong argument to attract the attention of the audience and demonstrate what your app is about. If you can share the first working model of the application (MVP), it dramatically increases the chances of winning the game.



Talk to people in the room

You know what your own product is and why it's great, but they don't. The most basic and unexpected things can be incomprehensible. An app for helping snowboarders is a guide to the slopes, or a guide to injury medicine, or an evacuation helicopter call button. Or does it help you communicate with friends, or an online store ... what is it? If the main leisure activity among the audience is not snowboarding but poker, you must explain very clearly all the basic fundamentals of the project, from scratch. In 3 minutes, of course. Focus more on what is interesting to a specific audience.

Investors don't need your detailed list of features – they need monetisation, market estimation, promotion strategy and development plans, as well as a clear understanding of why someone will use it.

The Information Memorandum Investors Really Want to Read

An innovative and memorable idea is important, but no less attention should be paid to how to present it to people, on which the further fate of the startup will depend. Your pitch deck should be supported by a well-thought-out offering memorandum.



What is an Information Memorandum?

The information memorandum (IM), sometimes referred to as the offering memorandum, is a legal document provided by the company to potential investors to explain the objectives, risks and investment conditions around the funding round.

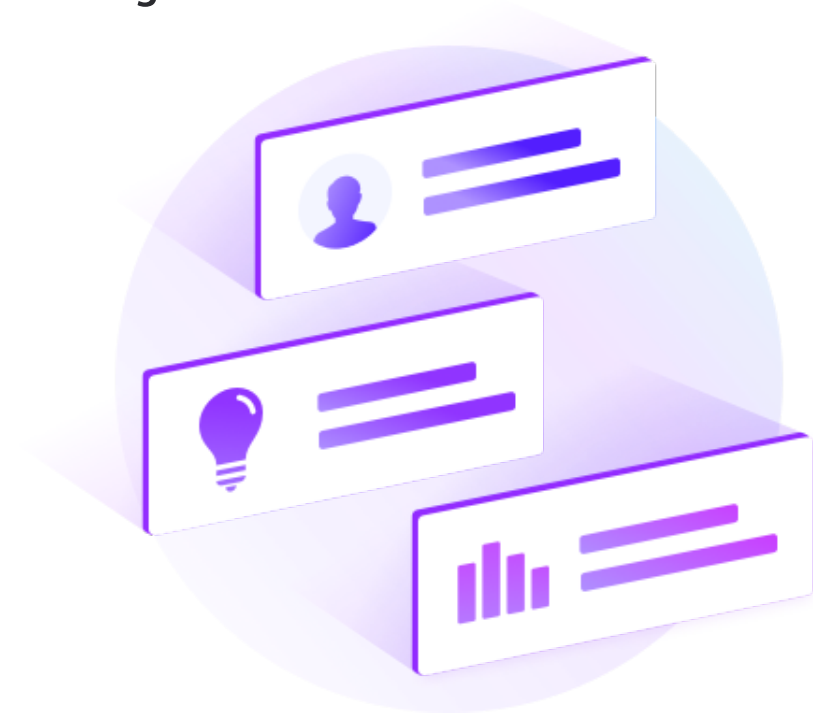
- *This includes management biographies, financial statements, company details and more to help investors learn more about future business and financial plans.*
- *This is a short document with about 20 to 30 pages highlighting the most important aspects and opportunities offered by your investment.*

When creating an IM, consider how investors will read it. They should be able to scan content pages and go immediately to the sections, subsections and even paragraphs that contain answers to their questions.

Simplicity is the Key to the Professional Offering Memorandum

Take a look at the advanced stages of development and define where you are right now:

- | | | | |
|----------|---------------------------------|-----------|---|
| 1 | <i>Letter from the Director</i> | 8 | <i>Risks</i> |
| 2 | <i>Investment Highlights</i> | 9 | <i>Team (management team)</i> |
| 3 | <i>Executive summary</i> | 10 | <i>Financial information</i> |
| 4 | <i>Company history</i> | 11 | <i>Financial Requirements /
Quotation</i> |
| 5 | <i>Expansion plan</i> | 12 | <i>Ambitions (long-term goals)</i> |
| 6 | <i>Market overview</i> | 13 | <i>Other information</i> |
| 7 | <i>Key success indicators</i> | | |



1. Letter from the Director

Much the same as the opening phrase of your speech, your letter from the director should make the rest of the message a success. Describe the following:

- *Who are you?*
- *What is your biggest idea? Where does it come from?*
- *Add some inspirational things!*

2. Investment highlights

You should list the main highlights of the investment in points, your quote and the reasons that make it such an exciting opportunity.

Why are your ideas particularly interesting or relevant?

Why do they need further development?

3. Executive Summary

The executive summary is a brief of the business plan. It was invented on the basis of executives not having time to read the entire commercial proposal.

It should be written last and contain only the most relevant and important points of the IM.

Use captions so that investors can easily refer to certain points. A little works well here as it's intended for scanning.



Include the following points:

- *The company and its founders - a brief history that highlights their qualifications (skills and experience).*
- *Market Opportunities - Scale of opportunities and prospects for growth, estimated market share.*
- *Product / Service / Technology - Exclusive Features.*
- *Past achievements - total sales, gross profit and pre-tax profit, explaining significant trends (if applicable).*
- *Summary of Financial Forecasts - Sales profits for the last 3 years (if applicable), a brief description of trends.*
- *Capital Needs - Reaffirm the capital you need, the share of each investment and how the funds are used.*

4. Company History

Even if you are a startup, there must be some important milestones: you have reached your current position and are only now passing the ball to the investors.

What have you done?

- *From the date of your establishment.*
- *Since then, what stages of development have you gone through (for example R & D, development, user testing, launch)?*
- *Prior and current shareholding of external shareholders (you may include their names in the appendix).*
- *Any major agreement with investors, suppliers, customers or other sources of credit.*
- *Great team expansion.*
- *Instructions for past financial performance (if applicable).*

Just starting your adventure? Here are some ideas:

- *Pre-launch database / email list size.*
- *All the customers you have.*
- *Any other investors who have supported you.*
- *Last success, like when you reached X number of downloads.*

These milestones are almost like social proof that your ideas are viable and show that you are the founder of a real undertaking.

5. Expansion Plan

Describe what aspects of the business expansion you see, but always be conservative. Keep assumptions to a minimum and make it clear that this is a hypothesis.

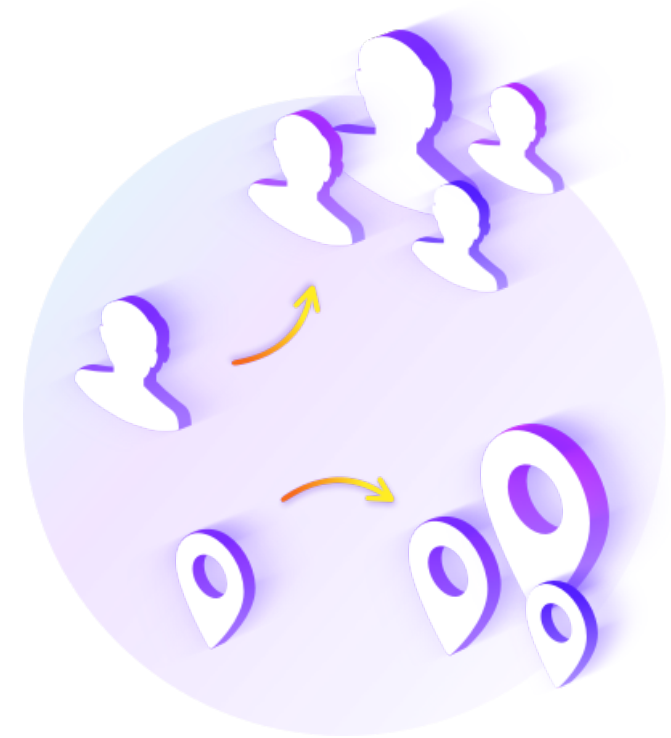
Here are some examples of advanced tasks for your IM development:

- *Increase investment*
- *Startup Version 2 / Main Update*
- *Expand existing product lines and add new features*
- *Market expansion – serving different customer segments or geographic regions*
- *Increase the number of employees*
- *Open an extra office*

It is also important to uphold every step of the growth plan

- *Why do you want to expand the project within 2 years?*
- *Is there any evidence that this is a good opportunity and a good move for you at the moment?*

This shows that you are not just investing in growth milestones because they look good on paper. These milestones should be highly targeted to your business.



6. Market Overview

This section shows that you have done your homework – you have already understood the world of products, competitors and customers outside the company.

In relation to the market itself, you need to include:

- *Assessment of the whole market volume*
- *Determination of the market segment you are working on*
- *Market development trends – Is it a mature / stagnant or a growing market?*

In relation to competitors, you must include the following:

- *Classify your target audience for each market segments.*
- *Identify your top three competitors in each of the chosen niches.*
- *Do a business comparison – What is your unique sales proposal? What is the monetisation strategy? What is your marketing strategy?*
- *Weigh your app store achievements – your average rating, positive and negative reviews, your keywords.*

The best way to structure this information is to perform a SWOT analysis.



SWOT analysis is a breakdown of your competitors' strengths and weaknesses, the opportunities they create for you and the threats they present.

Strengths

- *What are the advantages of your software product in comparison to others?*
- *What strong features and functionality does it have which others lack?*
- *What else can be represented as its strengths (new technologies, modern approach, unique idea, up-to-date design and convenient UI)?*

Weakness

- *What can impact negatively on your project (seasonal demand fluctuations, lack of stable financing, hacker attacks, competitors' actions)?*
- *What other weaknesses does your digital project have?*

Opportunities

- *Can you realise the Innovative approach to software development, based on new platforms and technologies, while the competitors must upgrade their products?*
- *Are you aware of any interesting trends your competitors may not have noticed?*
- *Can you gain and maintain technological advantages?*
- *Do they have any means of learning of these opportunities and that they should be taking advantage of them?*

Threats

- *What can your competitors do to provide a better solution?*
- *What obstacles can have a negative impact on them (seasonal fluctuations, new legislation or laws, international policy or new inventions)?*
- *What can competitors do in order to pose a threat to your business?*
- *Does technological change threaten your status?*

Demonstrating your position relative to that of your surrounding competitors will clearly explain how your application is different and help in the estimation of the real value of your business.

7. Key Success Indicators

One of the key factors for success is showing investors that you have considered how to evaluate performance. This specifically shows them the results they should look for in your efforts.

There are five key metrics for measuring the success of an app:

- *Get metrics – download and investigate*
- *Involvement metrics – active users, average session duration*
- *Retention indicator – customer lifetime value and loss rate*
- *Quality Indicators – App Store Ratings and Reviews, Manual Feedback, Auto Crash Report*
- *Behavioral indicators – equipment, location, time and frequency of use, user operations*

In addition to measuring the success of the product itself, you also need to set some KPIs for your business:

- *Income / return on investment*
- *Cost*
- *Brand awareness*
- *Social media presence*
- *Employee growth*



8. Risks

Your IM always contains some assumptions, so you can fix them here. It is important that you consider any possible risks involved. Discussing the risks indicates that you have fully considered the investment perspectives and put yourself in the investor's shoes.

List the risks in order of importance and likelihood of occurrence.



What can these risks affect?

- *Industry*
- *Company and staff*
- *Product Development*
- *Market*
- *Time and joint venture financing*

9. Management team

- *People in and around the team are the first focal point of investors' attention when they invest in an early-stage business.*
- *Explain why your team is worth investing in. Photos and short resumes for all those involved in the project should not be limited to direct or full-time employees.*
- *Include any consultants and mentors who bring you the advantage of credibility.*

10. Financial Information

This section integrates the entire IM into a juicy digital form.



Here's what you need to include:

- *Detailed information on past financial records, briefly describing key trends*
- *Expected growth over the next 3-5 years - set goals for total annual customers, revenues and expenses*
- *Any assumptions made in the forecast*

These predictions must be supported by the strategy described previously in the IM and should be conservative.

11. Investment Offers / Financial Requirements

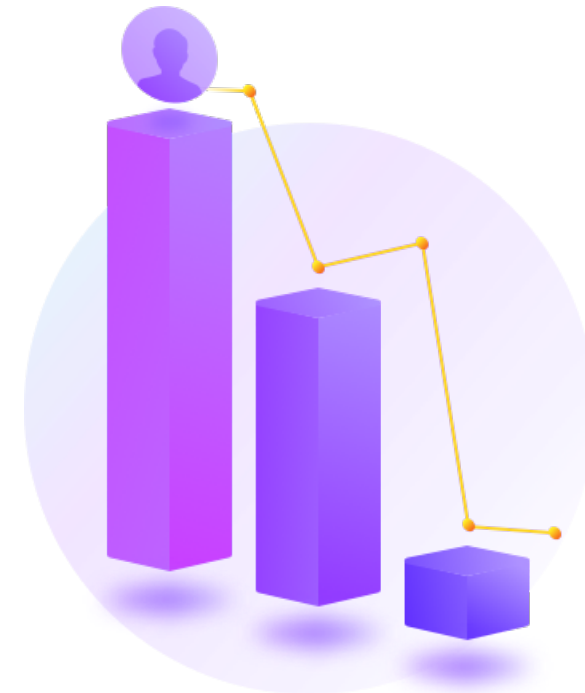
The key questions all investors want the answers to are as follows:

- *What is your company's market value?*
- *By how much can you increase it with investors' help, and how quickly?*
- *What are you looking for from this investor now, and what is the cost per share?*
- *What are you doing to raise the money? Including crowdfunding, government grants, other investors etc.*
- *Where is the money? How do you apply them to achieve your key success factors?*
- *What ROI will supporters see from their investment?*

12. Ambitions / long-term goals

This section integrates the entire IM into a juicy digital form.

- *Include a small portion of your BHAG (Big Hairy Audacious Goals) – this will motivate investors and bring them back to the level of excitement they have when they launch.*
- *Unlike the landmarks addressed in the expansion plan, these goals form your business overview. They should conform to specific deadlines and be implemented within 10 years.*



Address any doubts or limitations and consider what you want your app to achieve over time.

Why are your ideas particularly interesting or relevant?

Why do they need further development?

Are you ready to revolutionise the industry and completely eliminate the current market leaders?

Whatever it is, pack it neatly and succinctly into a small, inspirational package.

13. Other information

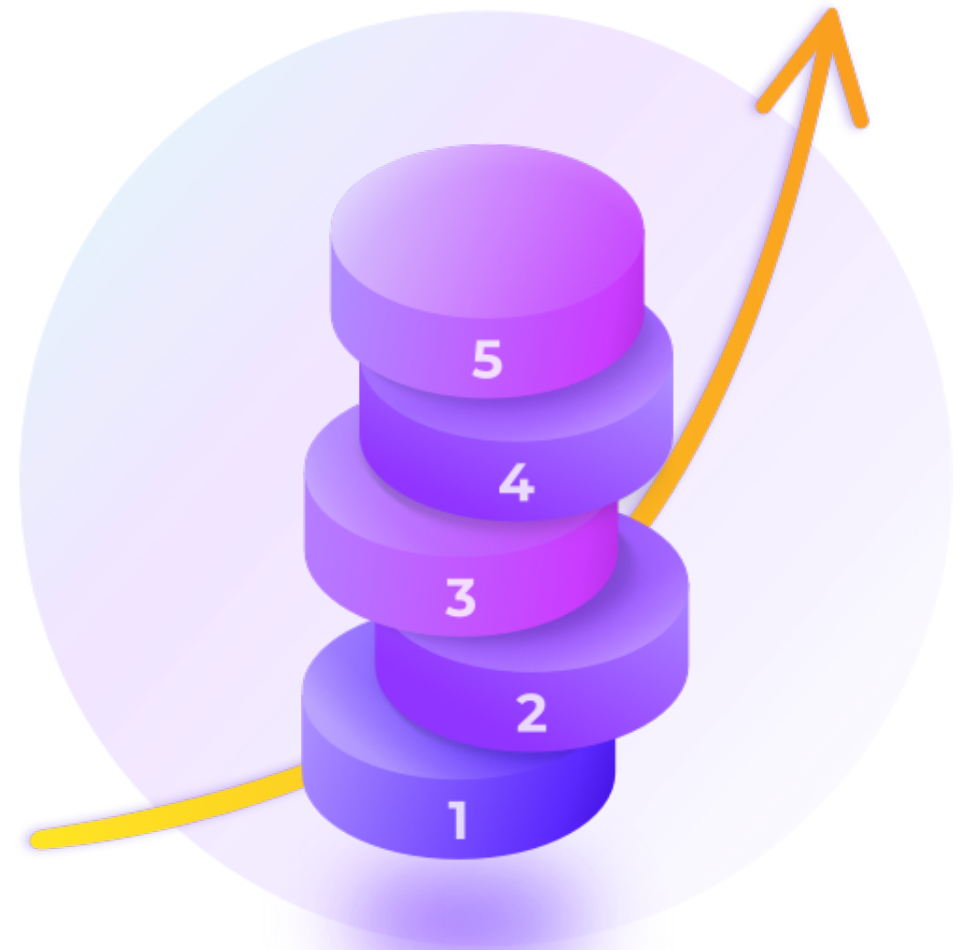
Some valuable add-ons to your investor memorandum should be placed here.

Investors may not even see it, but it allows them to find more information (such as legal statements, disclaimers, financial statements, raw data) that are not related to investment opportunities.

Your IM should be able to represent your overall project, so it's a good idea to include anything you think investors might want to see.

Insider secrets to Securing Investment

The idea itself is not always so convincing. To decrease the risks of losing their money, investors demand transparent financial profit indicators. The working process with real customers and real P&L figures demonstrates the feasibility of the project better than any slide show. Thus, the benefits of demonstrating your project as an MVP (minimal working project) play a key role in the investors' decision-making.



Both the portfolios of prominent investors and various successful case studies prove that you should take the following steps yourself before seeking funding:

- 1** *Investigate the market and make sure that your idea is viable as a startup.*
- 2** *Define your ultimate goals and develop a business plan.*
- 3** *Build a prototype or the MVP of your future app.*
- 4** *Create a detailed information memorandum.*
- 5** *Prepare a convincing pitch deck.*

Enjoy lean life as much as possible, and use your savings and funds from friends and family to develop prototypes and an initial customer base.

Not only does this allow your company to get a higher rating when you offer a proposal, but it also increases your chances of securing funding.

**Get in touch with Magora developers, if you have
any IT-related questions or need a project
development support.**