Building on firm foundations

"Suppose one of you wants to build a tower. Will he not first sit down and estimate the cost to see if he has enough money to complete it? For if he lays the foundation and is not able to finish it, everyone who sees it will ridicule him." (Luke 14:28-29)

Jesus' words are still relevant for assessing business projects today. In preparing a formal business plan or investment proposal:

- Identify the project's objective: build a factory, introduce a new product line, initiate a marketing campaign, structure an acquisition deal, etc
- Prepare a clear plan of action: document the tasks and deadlines
- Assess the plan's financial implications: prepare financial forecasts based on suitable models of the project's incremental cash-flow
- Undertake sensitivity analysis: measure potential downsides based on the perceived risk of the project
- Evaluate the project's viability
- If the figures do not stack-up, do not proceed: rather than seeking to achieve an ambitious objective and failing, it may be better not to attempt the task.

Funding Where a company neither has, nor is likely to generate, the required level of cash, some external funding will be required. Once the amount and type of finance required has been identified, appropriate sources can be approached (see table).

Investment category	Type of finance	Typical source
Initial requirements	Loans likely to be written off Risk equity	Family & friends
Research & development	Risk equity Loans	Business angel or Venture Capitalist
Working capital	Invoice discounting (if sales exist) Extended credit Medium-term debt	Factor & invoice discounter Suppliers Bank
Fixed assets	Lease or HP	Specialist asset financier or bank

Understanding what financiers require to make a positive decision to fund your business will help you produce appropriate documents for discussion with potential backers.

Business plan The importance of a concise plan that clearly sets out the relevant facts, including the financials, cannot be overstated.

The quality and internal consistency of plans is important to funders who often complain that those seeking funds focus more on the idea than the finance required. Companies might be keen to get projects started but they should still think properly about their plans.

There can never be any guarantees that funders will back your business or that your project will be successful. However, you can increase the likelihood if your business plan presents your company and its strategy in the best light by ensuring that:

- the plan is realistic
- the financial statements make sense
- the commentary is clear and concise

Outcome A structured approach to business planning, will help you:

- identify a clear and realistic strategy that helps to clarify what you need to invest in to progress
- achieve the financial resources necessary to see the strategy through
- introduce the right management team and processes to make it happen

In addition to ridicule, failure can lead to unemployment, bankruptcy and worse. If early advice is sought and the right approach followed, success can be achieved. **AI&B**

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