

Research on Investment Decision-making Method Based on Business Plan

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Abstract. A good business plan is the key to business financing. A business plan is of great significance for corporate financing. Whether it is for the enterprise itself to sort out the project and positioning, or for the financing of investors, it is a key part. This paper analyzes the significance of the business plan for corporate financing, and then explains what the business plan should include, and what issues should be paid attention to in the process of writing a good business plan, so as to achieve the real role that the business plan can play in corporate financing. It has been proved that the investment decision screening method based on business plan has high application value.

Keywords: Business plan; corporate finance; Investment decisions.

1. Introduction

The competition among countries in modern society has evolved into the competition of scientific and technological innovation, and investment, as an intelligent capital, is a common behavior in the technology market, which penetrates into high-tech fields such as mobile Internet, cloud computing, big data, artificial intelligence, Internet of Things and other new generation information technologies, providing financial and talent support for technological development, and greatly shortening the cycle of transforming scientific and technological achievements into productivity [2]. According to the China Venture Information Report, in terms of investment scale, the overall investment scale of the VC/PE market in 2020 was US\$176.7 billion, of which the VC market accounted for 35%. In terms of the number of investments, a total of 7,821 investment events occurred in the VC/PE market in 2020.

The probability that a project can be invested is extremely low, and each project needs to be screened layer by layer before finally obtaining financing, and institutional investors are faced with tens of thousands of projects. So, in the face of many projects, how should investment institutions improve efficiency and initially screen the projects they like? The first contact of an investor with a project usually comes from a Business Plan (BP), which is a written document produced for a business development plan. Specifically, in order to achieve financing or other purposes, the business plan is actually a written material drafted by the company, enterprise or project unit on the basis of scientific research, analysis, collection and collation of relevant information on the project in the early stage, which is arranged in a certain format to fully show the current status and future development potential of the company and the project to investors [1, 2].

2. The Significance of the Business Plan for Corporate Financing

2.1. Significance for the enterprise itself

In fact, the process of writing a business plan is also a process for enterprises to sort out their own projects and positioning. By writing a business plan, the operator will have a better understanding of the business model and the overall situation of the business. First, analyze the needs of the market, and then put forward how the enterprise meets this need, what other competitors in the market provide these, where are our advantages compared with them, how to highlight our advantages, how can we keep this advantage, where is the difference from others, and how much does this advantage bring to us or how much return.

Through combing, it is also to avoid only being full of enthusiasm but lacking in-depth thinking. Putting some of these thoughts on paper also forces companies to rethink the feasibility of their own operational ideas, correct unrealistic ideas, avoid false and empty ideas, and reduce the cost of trial and error. It can deepen the company's memory of the core, such as market competition, solutions, etc [3].

2.2. The role played in the financing of enterprises

A business plan is a stepping stone to finding investors. A business plan is a necessary presentation material in the communication process, which can more intuitively express what you want to express through the business plan, such as business ideas and so on. Write something that is more focused and lets investors know what you're talking about. At present, the success rate of Chinese enterprises in international financing is not high, not because the project itself is not good, nor the return on investment of the project is not high, but because the sloppy preparation of the business plan and the planning ability of the project party make investors feel disappointed. Of course, impressing investors doesn't mean that you can do it with just a business plan. A well-prepared business plan can help you open the door, and there will be more challenges once you enter the door.

Investors receive a variety of business plans every day, just like HR looks at resumes, and at this time, companies can only beat others in the professionalism and quality of business plans. Therefore, when a company wants to get investment, it must first make a business plan a top priority. The drafting of a business plan, like the financing itself, is a complex system project, which requires not only research on the industry and enterprises, but also a good writing foundation, know how to highlight the key points and how to capture the hearts and minds of investors. So, we must put ourselves in the shoes of investors and think about what they want to see most.

A good business plan can add a lot of points to your business. Before starting a business, you can do a business plan to review your ideas. A good plan is half the battle. Surveys have shown that companies that have made business plans develop faster, get materials from suppliers faster, and receive their first orders faster. Work better on product improvements and have a lower chance of failure. In the development of an enterprise, the business plan is made very early, and it is difficult to play a direct role in sales or corporate profits. But it helps you build your company, keep it running smoothly, and reduce the likelihood of failure [4, 5].

Before writing a business plan, it is necessary to fully understand the purpose of writing a business plan, which is to stimulate investors' interest in continuing to understand the project, rather than explaining their own project clearly. On average, early-stage investors see more than 300 projects a year, and usually 80% of projects will be brushed off after the first meeting, and there is no follow-up value. In the 1-hour meeting of the first meeting, there is only 10-20 minutes to introduce the project. How to explain the basic situation of the project clearly and the highlights in ten minutes is the real purpose of the first meeting. The business plan should serve this purpose to increase the success rate of the interview.

3. How to Write a Business Plan

How to make a good business plan? Just because a business plan doesn't have to be academically written doesn't mean it doesn't need to be analyzed. Be creative and have a clear structure in your business plan. There are two main difficulties encountered when writing a business plan: first, the business plan is too boring, and second, they don't know what to include. Let's look at what a business plan should include and what you need to pay attention to during the process of writing a business plan [6, 7].

3.1. What should be included in the business plan

3.1.1. Project overview

A one-sentence introduction, with a concise and clear sentence to summarize the project in what field to solve what problems, let investors intuitively understand what you are doing now. Avoid jargon.

3.1.2. User pain points

List the most important pain point keyword ABC of users separately, indicating that the user group has such needs. Currently, it is important not to have painless pain points, or list reasons that are not just needed. The pain points need to correspond to the product function, and this is where the value of the product is reflected.

3.1.3. Industry analysis

The purpose of analyzing the current situation of the industry is to inform investors about the importance of the role that the product plays in the industry. Conduct an overall analysis of the current situation of the industry, list the pain points of the industry and explain and analyze them.

3.1.4. Product advantages

Describe the situation of the product in detail, demonstrate the advantages of your own product and other products, and how to solve the pain points of users/industries, including the form, core functions price and advantages of the product. Why can we achieve this advantage, will it be replaced, and whether it is irreproducible.

3.1.5. Competitive product analysis

The main purpose of analyzing competitors is to highlight the strengths and differentiation of the product. For the current market to produce similar products of enterprises or companies of the company's products with data analysis to find out the existing specific problems. Don't just use words to introduce, use data to speak. The object of analysis includes not only the product, but also the basic operation model of the enterprise.

3.1.6. Business model

The most important thing about a business model is viability, whether it can generate revenue and profits. If you just have an advantage, it will not work without publicity. It is necessary to turn its own advantages into tangible profits. This brings us to the functioning of the market.

3.1.7. Operational status

This section uses as many icons as possible to show the progress and data of the project operation. Clearly tell investors about the current situation of the company, so that investors will be more assured.

3.1.8. Core team

In the early stages of an early project, the team is a key indicator of funding. The core team members can be founders, co-founders, CXOs, etc., and the description information includes: real avatar, name, and profile (the profile includes core competitiveness, past professional background, and the matching degree of the role can be highlighted). Be careful not to introduce too many members of the core team, and it is most appropriate to introduce 2-4 people, and appropriately supplement relevant industry experience.

3.1.9. Development planning

The development plan is not only to sort out the company's own ideas, but also to show investors that the company's next development path is clear and definite. Enhance investors' confidence in the project. Development plans can be written in three stages: short-term, medium-term and long-term.

3.1.10. Financing plan

It is necessary to state how much money the enterprise needs to finance, the purpose of the funds, and whether it has any previous financing experience. Financial projections are one of the most important parts of a business plan. This is the most overlooked aspect. This section needs to be what our three- to five-year financial planning is, assuming financing is in place, with a focus on the first year. Including sales revenue, net profit, valuation, investment plan, market value planning, financing amount and financing method, use of funds, etc.

3.1.11. Contact information

The contact information of the company is left to facilitate the contact of interested investors to contact the company.

3.2. Things to pay attention to in the process of writing a business plan

We all know how important a good business plan is for business financing. So, it takes a lot of effort to write. Most people are clear about the framework of the business plan; however, it is not good to get stuck in the framework. Just like writing an article, it should not be limited to just one form, the content should be substantial, and it should be able to highlight the main points. Let investors clearly know that your project has potential and is worth investing in. A good business plan presents investors with nothing more than two words: potential.

There are a few things to keep in mind during the process of writing a business plan.

Concise: The length of the business plan should not be too long, there should be no lengthy text introduction, avoid using too many professional words, and try to explain a thing in a visual and intuitive way. The logic should be clear and organized. A good business plan gives a clear idea of the company's business opportunity, the resources it requires, the process of seizing the opportunity, the risks and expected returns.

Complete: Full disclosure of information related to the investment.

Get straight to the point: The purpose of writing a business plan is to get investors to invest, not to make small talk with investors. Therefore, you should avoid content that is not related to the topic and get straight to the point in writing business plan.

Do your market research: Putting an idea or investment into practice isn't just a matter of words. Do your market research before doing so. The analysis mainly focuses on the nature of the product or service, the current situation in the field, the market prospect and the situation of competitors [8].

From the perspective of investors: In the process of writing, you should analyze the problem from the perspective of investors and get to the bottom of it. Make sure that the questions investors want to ask are clearly answered in the business plan. For example: how much return can be obtained, the risks that investors may encounter, the feasibility of the plan, the size of the market, how the company can win potential customers, and when to withdraw the investment.

4. A Real-life Business Plan Case-A Lozenge that Prevents and Alleviates Esophageal Cancer

This section takes the promotion of a R&D lozenge as an example to analyze the specific content and steps of writing a business plan. This is a lozenge that can prevent and alleviate esophageal cancer, allowing patients to take one tablet after eating spicy food or drinking hot water to prevent esophageal cancer, and it can also be used as a lozenge to relieve the symptoms of esophageal cancer.

4.1. The business plan must have a clear mission and goal

The mission is to innovate product development to provide preventative and repairing solutions for esophageal health. By doing so, we aim to reduce the incidence of esophageal squamous cell carcinoma and enhance the quality of life for all people. To achieve such a mission, our goal is to

become a leader in esophageal health, continuously researching and innovating to provide more effective and safer products.

4.2. Clarify business logic

When making a business plan, we must explain the business logic clearly, and introduce it clearly according to the logic of “why to do it, why to do it now, what to do, how to do it, why we do it, what we can do, and how it will be done”. It can also be understood as answering three questions: for whom do you provide products and services? “For whom” is who my customers are and what needs they have; What products/services are offered? It is the value I create for these people, including my products and services; How is it provided? It’s how the business is done, which is what we call the business model. In the business plan, we have a clear company and product introduction, a clear target consumer and target market, and a detailed market analysis and marketing strategy. Through the business plan, we show investors our clear business logic, so that investors can invest in our business plan with confidence [9].

4.3. Clarify the product’s strengths and marketing strategy

We are introducing a throat lozenge, priced at 1.5 yuan per piece. It contains a specific protein that effectively repairs esophageal epithelial cell damage and prevents esophageal squamous cell carcinoma. The product is easy to consume, with an appetizing taste and suitable for daily health maintenance. We did a lot of upfront market research. To get a more professional insight into our project, we interviewed a doctor in Beijing to understand and determine the direction and role of esophageal cancer lozenges, and interviewed the CEO of Nutrichem Jiahe to understand the market trends and how to price lozenges. We decide to increase brand awareness and market presence through advertising, health seminars, and social media. We had planned to bundle it in hot pot restaurants and other places linked to esophageal cancer to increase sales. We went to Sanlitun, Beijing to carry out offline publicity activities, specifically to invite passers-by to tear off labels to help everyone understand the symptoms of esophageal cancer, and distribute leaflets to promote the team. In addition, we have also created an official account to educate the public about esophageal cancer and the introduction of esophageal cancer [10].

4.4. The completeness of the business plan

To attract investors’ investment, we ensure the completeness of the business plan, so that investors can have a more complete understanding of our project. Write a complete business plan from the mission and objectives of the project, the introduction of the project and the product, the advantages of the product, the market analysis, the competitive analysis, the financial plan and other aspects, and strive to let investors see our attitude and potential business value.

5. Summary

All in all, the importance of a business plan should not be underestimated, and how to get investors interested in the project that the company finances are something that companies need to consider. This requires the company to sort out the positioning, market analysis, financing needs, operation plan, risk analysis, etc. of the project after some investigation, and then present it to investors in a simple and easy-to-understand way. A high-quality business plan is made based on actual investigation, so the business plan not only plays an important role in financing, but also has strategic guiding significance for the development of the enterprise.

The investment decision-making screening method based on business plan proposed in this paper has certain generality and can be appropriately adjusted in the actual application process. It has been proved many times that the preliminary judgment method based on the business plan has great application value for investment decision-making screening.

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