Have a Clear Business Model

A business model is the framework for how a business works. What problem are you solving and for who? What value do you offer them? And how do you reach them? It is important that you can demonstrate and communicate a clear business model to investors.

There are a few key questions that investors will want answered:

- What problem are you solving?
- What is your solution?
- Who are you solving it for?
- How do you make money?

Being able to answer these questions very clearly is a good sign that you have a strong business model.

What problem are you solving?

It is important to be able to clearly define the problem you are solving and whose problem it is. You should demonstrate that you understand the problem and can clearly define it and why the current solutions (or businesses) are not ideal.

- What is the problem you are solving?
- How big is the problem?
- Who does the problem affect?
- What are the current solutions or businesses addressing the problem?
- Why are they not ideal?

See the Tools and Resources section for an example problem statement.

What is your solution?

Now you must clearly define your solution to the problem:

- What is your solution?
- What is the most important thing that makes your solution different?
- Why is your solution better than those of others?

See the Tools and Resources section for an example solution statement.

Who is your customer?

Defining your customer and the market is essential for running a business, and if you are looking for investment, you'll need to demonstrate that your target market is large enough for growth potential.

- Who is your customer?
- How many are there in the region that you are targeting?
- How much of this market do you realistically think you can obtain?

How do you make money?

Every investor is going to want to know how your business makes money. There are a few different ways to demonstrate this, but one very common way is to calculate how much money you make per unit sold. A unit can be whatever you define it as: a customer, a product, the amount of an average transaction. It will depend on your business model and what makes sense for your business.

The reason for calculating how much money you make per unit is that it then makes it easier to calculate how many units you need to break even. Investors can then use this to assess how realistic your predictions are. Some things to think about are:

- What is your revenue structure? Do you sell subscriptions? Products? Services?

- What is your unit? Example: A restaurant might define their unit by how many customers they serve. So to put a number of their customer, they would need to know how much does the customer spend on average.
- How much profit do you make per unit? (Unit price – variable costs = gross profit per unit) Example: Using the restaurant example, the profit per unit would be calculated as: Average spend per customer – costs of foo = gross profit per customer.
- What are the main fixed costs for your business?

The other parts of your business model that investors will also want to know about are how you will attract new customers, what partnerships you will develop, what resources you will need, and whether it makes an impact (socially or environmentally).

All of this will feed into how your business operates and help investors make a decision about investing in your business.

Become Financially Ready

Whether a business is large or small, new or mature, one of the biggest challenges to entrepreneurs is managing their finances. This can be difficult early on in the business because the entrepreneur's focus is divided between growing their business, customer service, and managing staff. As the business grows, the entrepreneur must then try to address problems with their finances if they haven't paid enough attention to its management early on. Entrepreneurs looking for investment will need to have clear financial records to demonstrate past performance.

What is financial readiness?

Financial readiness means having the correct systems and processes in place to take on financing. Investors will want to know that you are able to handle any money they provide correctly, spend it appropriately, and accurately communicate how you are spending it. This means having very clear policies and processes for your financial handling and record keeping.

Why is it important to have clear financial records?

As a business owner, it is important to have clear financial data recorded in a bookkeeping system in order to generate financial statements. Not only is it important for investors; it will also help you to:

- Alleviate financial worries or stress
- Generate financial statements
- Separate personal finances from business finance
- Make better decisions
- Compare past performance to your current performance
- Keep track of debts easily

In the Tools and Resources section, you can find a financial readiness checklist to assess whether your business has all the correct financial policies, procedures, and documents in place to be able to take on financing.

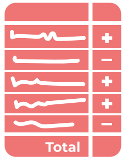
Servicing an Investment

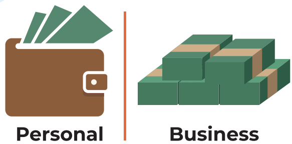
Linked to financial readiness is being able to make sure that you are able to manage the investment. Not only do you have proper financial records, but you have the team behind you to be able to use the money wisely and manage the investment. This does not only mean financially, but also ensuring you have the team to grow your business, find new customers

Why is it important to have clear financial records?

01
Alleviate financial worries or stress

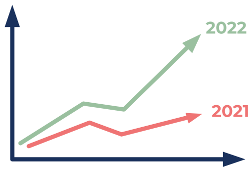
02
Generate financial statements





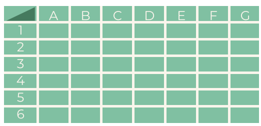
03
Separate personal finances from business finance

04
Make better decisions



05
Compare past performance to your current performance

06
Keep track of debts easily



and generate more revenue. Investors will need to be confident that their investment is safe with you and that they will be able to make a financial return.

Prepare Your Pitch

If you are looking for investment, one of the first things an investor will want to look at is a pitch deck. A pitch deck is a short series of slides (usually containing ten to twenty slides) that communicates the most important aspects of your business to the investor. It is a useful tool for you to be able to demonstrate that you have a great business idea and are ready to receive investment. Try to keep the pitch deck short, and stick to the most important information; you want to get their attention straight away and hold it. Think about what you would want to see if you were investing in a business. Some of the key points you should try to convey in the pitch deck are:

- That you are solving a problem that needs a solution
- That there is a big enough market for your business to grow
- That you can compete long-term with current and potential competitors
- That you are the right person to grow this business
- That your business can make money
- What impact your business can make on the community (for social enterprises)

We'll cover pitch decks in more detail in the next chapter.

Prepare Financial Forecasts

The pitch deck will summarize your financial projections, but investors will want to look at the financials in more detail. The goal of a financial projection is to forecast your predicted sales and profits over the next three to five years. Some other projections that investors will be interested in is customer acquisition, revenues, gross profit, and net profits.

With strong and clear financial projections, you will be in a better position to convince to investors that you are able to handle large amounts of money and know how to spend it wisely. You will also be able to show them how you will allocate the budget, how you're going to generate revenue, when you'll make a profit, and ultimately how you'll make a return on their investment.

Some key projections and figures you will need to communicate are:

- Profit and loss forecast for three to five years
- Cash flow forecast for three to five years
- Profit per unit sold (product, service, customer)
- Number of units to sell to break even

If you are not comfortable with finances, we recommend you speak with professionals or organizations that can help you with these forecasts.

Be prepared to formalize your business

Avoid penalties and the risk of the business being closed

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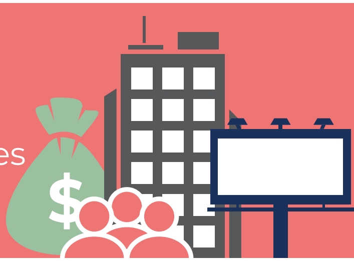
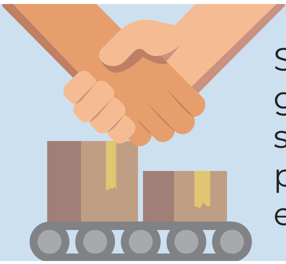
Protect your business activities





Stay eligible for growth opportunities, such as through large partnerships and exports

3

4

Keep your business credible and legitimate

Be prepared to formalize your business

As you look to obtain financing, you may need to register your business (if you haven't already). Investors will be looking to reduce their risk, and seeing a registered business helps them do this. Other reasons to register your business are to:

- Avoid penalties and the risk of the business being closed
- Protect your business activities
- Stay eligible for growth opportunities, such as through large partnerships and exports
- Keep your business credible and legitimate

If you are looking to get investment from an investment firm (equity investment) they will often ask you to register in Singapore or Malaysia, as these governments have more established legal systems.

Before you register, it is important to understand your responsibilities, including tax payments and filing (monthly and annually) and any extra costs you may need to account for, such as hiring an accountant. We recommend speaking with an accountant before you begin this process so you understand all the risks and responsibilities.