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WHAT DO INVESTORS LOOK FOR IN A STARTUP BUSINESS PLAN?

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Objective: To synthesize the information that private investors favor in the business plan of a startup. Discuss the preferences that different types of investors have regarding the elements that should compose a business plan and compare their approaches to that plan.

Methodology/Approach: Based on an extensive online search of terms such as business plan, startup, venture capital, entrepreneurship, business angels, we identify and analyze the relevant scientific papers published on the subject, with emphasis on two types of investors, business angels and venture capital companies.

Main results: In general, both types of investors seek similar information and follow similar decision processes. However, the literature suggests that business angels have a less-structured investment decision process and attach greater importance to information about the entrepreneurial team, while venture capital companies stand out in the relevance given to the market in which the business operates.

Theoretical/methodological contributions: A comparative overview of the positive and negative aspects of business angels and venture capital companies in startup business plans.

Relevance/Originality: The business plan is the essential element of planning and communication of the business idea, so matching the informational expectations of potential investors is a contribution to the success in obtaining financing, which is particularly relevant in the case of young businesses with a reduced (or non-existent) track record in the market.

Keywords: Business Plan; Startup; Business Angels; Venture Capital; Entrepreneurship.

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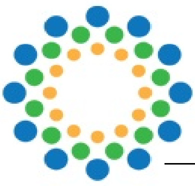


1 INTRODUCTION

The business plan is a formal document, much used by entrepreneurs, that gives a detailed description of the objectives of a company and the means to achieve them. The use of this document is very widespread and encouraged in competitions for business ideas, idea acceleration programs, company incubators and, as Honig (2004) states, in a very significant number of secondary schools and universities, as the most important tool in the teaching of entrepreneurship. This document is regularly required by banks, business angels or venture capital companies, in order to gain a more detailed understanding of the business opportunity they are analyzing.

Using a literature-review approach, the objective of this work is to study and understand the information that private investors look for when they analyze a business plan, and from the point of view of financial backers, contribute to an understanding of how entrepreneurs can more fully meet the recipients' expectations of information and therefore help increase the probabilities of success in the obtaining of financing for their undertaking. In order to do this, we focused on analyzing the informational preferences of two types of investors: business angels and venture capital companies.

Briefly, business angels can be described as individuals, investors in venture capital who cover the equity gap, that is, they provide amounts of financing that entrepreneurs are unable to fund, but less than what venture capital companies intend to invest. In turn, venture capital companies obtain most their funds from individuals, organizations, banks, pension funds and insurance companies and invest them in startups in exchange for a share of the capital, as explained by Wallmeroth et al. (2018). Venture capital companies (and venture capital funds) typically have a greater level of intervention in later phases, to help the company accelerate its growth.

As stated by Mason and Stark (2004), financial backers have differing criteria when they evaluate a business plan. While banks place a lot of importance on finan-

cial aspects, venture capital companies and business angels are much more interested in the market. Business angels differ from venture capital companies in the importance given the entrepreneurial team and the investor fit.

The heads of venture capital companies place great importance on the market in which the investment opportunity is located, as do business angels, but Mason and Stark (2004) state that this question is more relevant for venture capital companies, because the ones in charge believe that their experience and skills may have greater weight in this area, while business angels are more careful to safeguard the risk of agency.

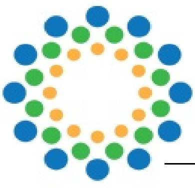
This article refers to a particular type of companies, startups, in other words, recently formed companies. The objective of this type of company is to develop a business model with a high degree of scalability, innovative features, and growth potential.

In addition to this introduction, the article is organized as follows: Section 2 describes the material and methods used; Section 3 discusses the information from the point of view of business angels; Section 4 presents the viewpoint of venture capital companies; and Section 5 concludes with a summary of the common points and fundamental differences.

2 MATERIAL AND METHODS

For the carrying out of this work, an extensive online search was made for key words, such as business plan, startup, venture capital, entrepreneurship, business angels, seeking to identify scientific papers published on the subject of financing decisions, with special emphasis on two types of investors, business angels and venture capital companies.

The selected scientific articles were taken from sites of magazines or online platforms—Google Scholar, ResearchGate, *B-on Biblioteca do Conhecimento Online*, or ABI-Inform and Proquest. Additionally, in order to obtain more detailed in-



formation, the webography available from public institutions of support to entrepreneurship was taken into account, and when necessary, the references contained in the selected articles were also considered.

In the research carried out, information in Portuguese and English was consulted, and only those articles were included for which there was access to the full text and which dealt with questions regarding the financing decision process of acceptance or rejection and the elements on which the decision is based.

For the organization of the literature review, the information gathered is analyzed for the possibility of preferences of the two types of private investors (business angels and venture capital companies) based on the collected literature in terms of the distinct information transmitted by the business plans they evaluate, seeking to systematize the negative and positive factors that characterize the approaches of each of them, in order to understand in which factors the differences lie.

3 THE POINT OF VIEW OF BUSINESS ANGELS

As Mason and Stark (2004) affirm, different investors actively seek different characteristics in a business plan. In this respect, business angels have interests that differ from those of managers of venture capital companies or other institutional investors, so that the business plan prepared by the entrepreneur ought to have the characteristics suited to the type of investor being approached. Besides this, the methodology used to draw up the business plan varies according to the phase the company is in.

A business angel is an informal investor in venture capital. According to the Support Institute for Small and Medium-sized Businesses – IAPMEI (2018) the "BA (business angels) are individual investors, normally businessmen or directors of companies who invest their capital, skills and experience in projects developed by entrepreneurs who are starting out their business activity or are in critical phases of growth."

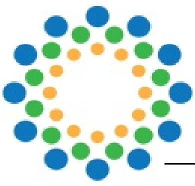
Mason (2006: 261) defines business angels as “individuals with a high level of personal assets who invest their own funds, time and experience in unlisted companies, with which they have no family connection, in the expectation of earning capital gains.”

In regard to the characteristics of this type of investor, as Mason (2006) demonstrates, the business angel is between 45 and 65 years old, normally a successful businessman who sold his company and has a higher education (normally a bachelor’s degree, as few have a doctorate).

After surveying business angels of the NBAN (National Business Angels Network), Mason and Harrison (2002) note that 91% of the replies came from men and 9% from women, confirming the expectation that most of the informal investors would be male, 62% had a fortune of over 1 million pounds and 71% had been an entrepreneur in the past. The male investors showed less interest in supporting the next generation of entrepreneurs and were less interested in products and services that bring social benefits, facts that may be relevant to entrepreneurs in the choice of an investor. Female investors are less interested in the areas of electronics and computer hardware, while the men are less interested in creative environmental and industrial technology (Mason and Harrison, 2007).

According to Croce et al. (2017) the rate of rejection of the opportunities presented to business angels is around 90%. These numbers show that these agents are very demanding and make it clear to entrepreneurs that they need to present their projects in the best way, specifically through a well-prepared business plan.

The decision-making process of the business angels can be divided into two phases, and the criteria used for each of them depends on the phase. Croce et al. (2017) defend the position that this process can be divided into three phases: pre-screening, screening and due diligence. In the pre-screening phase, according to Paul et al. (2007), the investors want to familiarize themselves with the company, and in this phase they ask for a very short business plan (up to three pages), although some investors opt for longer documents. The following phase (screening) involves a



more detailed analysis of the company, and a more detailed business plan is usually required in this phase. During the due diligence, final research is done before signing the contract, and it is at this time that the conditions of the business deal are debated and the amounts involved are negotiated.

According to Paul et al. (2007), this type of investor takes 3 to 18 months from the first contact until the investment is made.

In the next two sections, the positive (Section 3.1) and negative (Section 3.2) characteristics of the business plans for a startup are analyzed, from the perspective of business angels. This discussion is summed up in Tables 1 and 2, respectively.

3.1 Characteristics of the business plan of a startup considered positive by business angels

Paul et al. (2007) analyzed the criteria for the rejection of investment opportunities, validating the hypothesis that business angels value investment proposals recommended by other investors, since proposals forwarded by venture capital companies had a 47% higher probability of passing the pre-screening phase. In this context, it is important for the business plan to include information on positive references to the company made by other investors (whenever there are any). As Harrison et al. (1997) have already shown, the investment is much more likely if there are references from someone who is trusted. Low amounts involved in the operation also relax the conditions imposed by the investor.

In the study by Croce et al. (2017), it was also possible to note the preferences of business angels in relation to certain business areas. Medicine/biotechnology was the most sought-after area, attracting 45% of the total funds, followed by energy (15%), which demonstrates that business plans with ideas or from companies in these fields have a greater probability of obtaining high levels of financing. Another factor that is highlighted is the business angels' preference for areas with which they are familiar, that is, they give preference to business ideas they understand better and in areas they already have experience in.

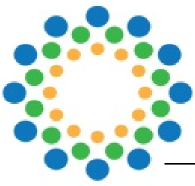
According to Mason and Harrison (2002), 64% of the investors say they have already defined the investment criteria, which includes the development phase of the business, the sector in which it is included, the technology and the location. The business angels studied by these authors demonstrated their preference for companies that are looking for financing to expand, but they are also willing to enter in during the initial phase and in a pre-startup phase. There are also some restrictions in regard to the sector, the preferred area being the internet, IT (Information Technologies) and telecommunications (40% of the preferences), which appears to coincide with the perception that investors prefer areas in which they have more experience.

Paul et al. (2007) confirm the importance of the investor being suited to the business, seeing that business angels feel more comfortable about investing in a sector in which they have more knowledge and experience.

However, according to Mason et al. (2017), the characteristics of the investor himself may no longer be as relevant as before. In fact, as these authors state, given that it is more and more common for investors to be part of investor networks, through which the business angels make joint investments, and therefore, it is not necessary to have such thorough knowledge of a sector, since it is possible to take advantage of the knowledge of a co-investor. Besides, no evidence was found to prove that the characteristics of the investor were particularly relevant in the reasons for rejecting an investment.

Sahlman (2008) says that the information the investors wish to know about the sector is whether it is growing, or not. If the sector in question has great potential, the business plan should explain why.

In a study carried out on a competition of business ideas in Singapore, Foo et al. (2005) evaluated the influence of the diversity of an entrepreneurial team on the assessment of the business opportunities. In this case, the investors included a mix of business angels and managers of venture capital companies. The assessment was made through the analysis of a business plan. Foo et al. (2005) conclude that



the diversity in the tasks carried out is appreciated by investors, that is, the division of tasks among the entrepreneurial team members increases the probability of investment. No evidence was found that the investors were looking for entrepreneurs with training in certain areas, but different educational backgrounds led to a more positive assessment.

According to Mason and Stark (2004), business angels stand out for their “hands-on” approach, in other words, they want to maintain regular contact with the company invested in and use their time and their means to actively contribute to the success of the business they invested in. Therefore, since they are going to be dealing with the entrepreneurs personally on various occasions, this type of investor highly values who he invests in: the person and his characteristics. The business angels, according to Mason and Stark (2004), go as far as saying they want to feel a “chemistry” with the entrepreneurs they invest in. In this context, Paul et al. (2007) state that the entrepreneurs must be clear with the more hands-on investors and explain the type of help they are looking for.

We emphasize that investment is more probable if the entrepreneur already has experience, is a realist, demonstrates openness and integrity, if the business opportunity has the potential of generating high profits, if there is an exit plan and the investor is involved in strategic decision (Feeney et al., 1999).

After investigating the investment process of business angels, focusing on their last investment, Paul et al. (2007) say that the personal contact with the entrepreneur is very important and the feeling that comes from that contact may awaken interest in the business. Paul et al. (2007) also mention that some investors demonstrated a preference for businesses that are close geographically. This fact appears to be due to its being easier to control the company invested in and stay in contact with the entrepreneurs.

A recent study made by Mason and Botelho (2017) reinforces the perspective of the importance of personal contact for business angels. This is the factor most cited by these investors, followed by the technical aspects of the

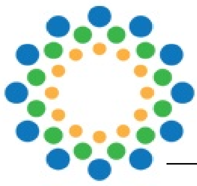
business and the aspects linked to intellectual property, a factor usually mentioned less frequently in this type of studies.

According to Mason and Rogers (1996), investors also want to see commitment on the part of the entrepreneurs, that is, the fact the latter put their own funds into the company is seen as a positive factor. In addition, investors ask for financial forecasts, in order to understand what main investments are going to be made.

According to the entrepreneurs contacted by Mason and Harrison (2002), the main motive for investing is the potential for a high appreciation on their participation, followed by a personal satisfaction and a constant return (dividends). The factors that encourage investors the most are the reduction in income taxes on the amounts invested (mentioned by 43%), economic growth (listed by 26%) and low capital gains taxes (26%).

Mason and Harrison (2002) mention that negotiations fail, mainly because of the lack of agreement on the price or the share (50% and 44%, respectively). Other factors, such as the lack of agreement on the make-up of the board of directors or the contribution of the hands-on investor were mentioned 18% and 15% of the time.

According to these authors, 85% of business angels affirm that they are not especially interested in socially useful products. The opinion of the community was also not deemed to be particularly relevant. The factors that most discourage their investments are the high capital gains taxes (30% say this has a strong effect on their investment decision) and the high taxes on dividends (27% say this has a strong effect on their investment decision).



Positive characteristics of a startup business plan, according to business angels	References
• references from other investors • medical area, biotechnology, energy, IT and telecommunications • investor fit • information on growth in the sector • division of tasks among the entrepreneurs • distinct educational backgrounds among the entrepreneurs • clarity regarding involvement expected from the investor • characteristics such as experience and being realistic • business that is geographically close • high potential for valorization • high dividends • entrepreneurs who put their own funds in the company • forecast for exit • inclusion of images	• Paul et al. (2007); Croce et al. (2017) • Mason and Harrison (2002); Croce et al. (2017) • Paul et al. (2007) • Sahlman (2008) • Foo et al. (2005) • Foo et al. (2005) • Paul et al. (2007) • Feeney et al. (1999); Mason and Botelho (2017) • Mason and Harrison (2002); Paul et al. (2007) • Mason and Harrison (2002) • Feeney et al. (1999); Mason and Harrison (2002) • Mason and Rogers (1996) • Feeney et al. (1999) • Chan and Park (2015)

Table 1: Positive characteristics of a startup business plan, according to business angels
Source: elaborated by the authors (2018).

As a relevant factor, but still not studied very much, the visual element of the business plans must be referred to. Chan and Park (2015) assessed the effect that inserting photos of the products and colors in the business plan has on the decision of the investors. The conclusions they reached were mixed: inserting more images, that is, a more graphic business plan, increases the probability of being chosen in the initial assessment (pre-screening*)*, but this effect is null in the following phases.

3.2 Characteristics of the business plan of a startup considered negative by business angels

In the study by Feeney et al. (1999), the failures of entrepreneurs most often pointed out by the would-be investors, applied to startups and to companies with some experience in the market, deal with the characteristics of the entrepreneur (specifically, the lack of management skills, the lack of realistic expectations and personal qualities such as integrity, vision and commitment) and the characteristics of the business (specifically, a weak management team, short on balance, experience, discipline or team spirit).

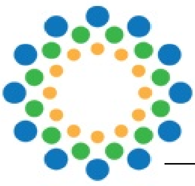
According to Mason and Harrison (2002), over 60% of the business angels say that their capacity to invest is limited by their lack of knowledge about certain sectors, technologies or markets. Therefore, 55% say they prefer to invest in businesses that are geographically close. In the study in question, which was made on British investors, only 10% considered the hypothesis of investing on the European continent and the number dropped to 4% when the possibility of investing

in North America was brought up. Consequently, the entrepreneur will have a greater chance of success by contacting a business angel who is located in the proximity of his company. However, it was mentioned that these conditions may be less restrictive if the entrepreneur is deemed to be highly credible.

In the work of Mason and Harrison (1996), the entrepreneur's characteristics were listed as a factor for rejection in 41% of the businesses not invested in, a conclusion similar to that of Mason et al. (2017), in a study in which the people were mentioned 59% of the time as a factor for the rejection of the business during the corresponding assessment. Concretely, investors were adverse to an entrepreneurial team made up of just one person and they were looking for a multidisciplinary team (including various skills). Motives of a financial nature were given in 34.4% of the rejections, specifically, for unrealistic or unfeasible projections. Motives related to failures in marketing were mentioned for 46.9% of the projects rejected, more specifically due to a lack of a marketing strategy, the wrong choice of the target market and the existence of barriers to distribution. Failures in relation to the product were pointed out in 9.4% of the cases, especially the possibility of the underlying technology being antiquated. Other reasons, such as a poorly conceived idea, doubtful practices, conflicts of interest, a management philosophy that is too vague, or current shareholders not interested in selling were given 18.7% of the time.

According to Mason and Rogers (1996), the criteria for the rejection of investment projects vary according to the phase of analysis, and in the screening phase, business ideas are many times rejected for reasons linked to the entrepreneur and the management team, and in this phase, the degree of innovation of the business is not so relevant. The companies rejected in the screening phase tend to be smaller than their counterparts that were not rejected and that have a greater level of liquidity.

The investors interviewed by Mason and Harrison (2002) highlighted as factors that reduce the probability of investment: unrealistic hypotheses in the business plan, information that is not credible and an entrepreneurial team that has



little credibility. Other negative factors are the providing of insufficient information, a business concept that still needs development, and limited prospects for growth.

When they interviewed business angels, Mason et al. (2017) discovered that the factors most often listed by them as deal killers were related to the entrepreneurs (27 of 30 interviewees mentioned this point). On this point, the subcategory of personality was referred to 11 times, the level of knowledge 6 times and being realistic 4 times. The category product/market was referred to 12 times, with the following subcategories standing out: market size (mentioned twice) and the protection of intellectual property (twice). As for the financial attributes, which were pointed out 4 times, an exaggerated valuation and a certain unwillingness to discuss conditions were both referred to twice. The fact the investor did not fit the business was referred to 3 times.

Although business angels want to intervene in the company invested in, it is hoped that this involvement will be sporadic, as the investors consulted by Mason and Harrison (2002) say that the demand for a lot of time is a negative factor, since they only work an average of 6 days a month for the businesses in their investment portfolios.

Although the majority of business angels contacted by Mason and Botelho (2017) identified the personal characteristics of the entrepreneurs as valued factors, there were important exceptions. Among the negative factors of the entrepreneurial teams, two investors highlighted the following points: having a CEO with a financial background is seen negatively and harms the probability of investment, as it is preferable to have someone with experience in the areas of sales or marketing to lead a startup, and having someone in an important position (in this case, the reference was to the office of Chief Medical Officer) who is a successful academician, curiously, was seen to be a negative sign, the preference expressed being that academicians should be in non-executive positions.

According to Croce et al. (2017), the companies rejected in the initial phase have some characteristics in common, such as the fact that they have been in

operation for a longer time or they have a lower ratio of intangible assets to total assets. In the due diligence phase, businesses are more likely to be rejected due to their profitability (profits lower than the benchmark drive investors away). Croce et al. (2017), in particular, highlight the fact that, from the financial point of view, financial forecasts that are not very realistic are seen by business angels as a negative factor and something to be improved, specifically a very low estimate of the development costs.

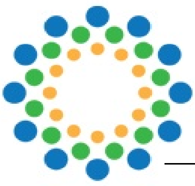
Feeney et al. (1999) also refer to the low potential for profit, the lack of capitalization/liquidity, the lack of information and the lack of suitability of the investor to the business, as negative factors in the information given in the business plan.

Negative characteristics of a startup business plan, according to business angels	References
• characteristics such as lack of knowledge or realism	• Feeney et al. (1999); Mason et al. (2017); Croce et al. (2017)
• business geographically distant	• Mason and Harrison (2002)
• one-person team	• Mason and Harrison (1996)
• unrealistic financial forecasts	• Mason and Harrison (1996); Mason et al. (2017)
• legally questionable practices	• Mason and Harrison (1996)
• small market	• Mason et al. (2017)
• lot of time demanded from the investor	• Mason and Harrison (2002)
• CEO with a financial background	• Mason and Botelho (2017)
• low ratio of intangible assets to total assets	• Croce et al. (2017)
• low profitability	• Feeney et al. (1999); Croce et al. (2017)
• low liquidity	• Feeney et al. (1999)
• low level of equity	• Feeney et al. (1999)
• use of very aggressive colors (especially red)	• Chan and Park (2015)

Table 2: Negative characteristics of a startup business plan, according to business angels
Source: elaborated by the authors (2018).

Chan and Park (2015) say that colors influence the decision of the investors, emphasizing that red, when it is used, reduces the probability for the success of a business plan. Additionally, they point out that colors are interpreted differently in different countries, in other words, in the western world, for example, red has a negative connotation in the business context (associated with a drop in the stock market or with negative values on financial statements). Therefore, business plans that include this color may be perceived negatively by investors because they increase the conscientiousness of danger and the attention to detail.

Auken and Carraher (2012), focusing on an area that is less developed in the literature (agribusiness), state that there is much greater difficulty in obtaining financing. After consulting 56 financial backers (which included investors and banks,



as well), they found that the most common reasons given for not financing a business were the lack of collateral (50.9% of the cases), a weak or non-existent business plan (49.1%) and a high risk (34.5%).

4 THE VIEWPOINT OF VENTURE CAPITAL COMPANIES

Another significant way to finance entrepreneurial projects is through venture capital companies. According to IAPMEI, “The holdings in the share capital of companies through venture capital are achieved through the carrying out of capital increases, which may be complemented by loans, supplementary capital contributions or other analogous financial instruments, by a specialized venture capital operator, specifically, venture capital companies or venture capital funds.”

This type of company differentiates itself from business angels because it does not invest its own funds, a fact that alters, in some cases, the methodologies used and the criteria for investing.

Hall and Hofer (1993) state that companies supported by venture capital companies are more successful, and it is therefore important to know their criteria in selecting investment. However, as Fried and Hisrich (1994) mention, making venture capital decisions is difficult, involves risks of adverse selection, leads to a great dependence on the performance of the entrepreneur, and after the investment is made, it is highly illiquid.

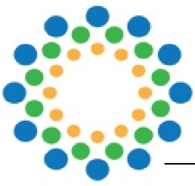
Tyebjee and Bruno (1984) were the first to characterize the investment process of managers of venture capital companies, identifying 5 points: (a) Deal Origination – which is the initial contact, (b) Deal Screening – deciding whether to move forward with more investigation into the company, (c) Deal Evaluation – a more detailed analysis of the company, (d) Deal structuring – detailing the conditions, should there be a desire to move forward with an agreement and (e) Post-investment activity – monitoring and possible involvement for the success of the business.

As Mason and Stark (2004) affirm, the financial backers have distinct criteria when they assess a business plan. While banks place a lot of importance on financial aspects, venture capital companies place significantly greater weight on the market.

These authors state that the market in which the investment opportunity is found assumes a fundamental importance for venture capital companies, because the persons in charge of them believe that it is in this area that their experience and knowledge can be more preponderant. Kirsch et al. (2009) studied the way in which venture capital companies analyze requests for financing, specifically the assessment they make of the business plans. There were 1063 requests for financing analyzed, 718 of which contained business plans. The results show that when there is social mediation, that is, when a certain business was referred to by a third party, the investment probability increases. In fact, in the sample of Kirsch et al. (2009), only one business was invested in without mediation, which is something that is very significant.

Kirsch et al. (2009) also assessed whether the business plan was complete, in other words, whether it contained the following elements: description of the product/service, description of the market/analysis of the industry, the proposed value, competitive advantage, the phase the business is in, the description of the team, marketing plan and financial model. Of these 8 points, they found only 4.7, on average. This, however, did not confirm the hypothesis that if the companies fill out all the points of the business plan, they have a greater probability of receiving financing.

Using semi-structured interviews and verbal protocol, Hall and Hofer (1993) conclude that managers of venture capital companies make an initial assessment in under six minutes and an overall evaluation of the proposal in about 20 minutes. Initially, the criteria used are tied to the adaptation to the guidelines of the company for which they work, the existence of profits and the growth of the sector in question. In the following phase of evaluation, the existing references are relevant, with proposals presented by people of confidence receiving a high level of interest.



Kaplan and Stromberg (2004) analyzed 67 investments made by 11 venture capital companies. Of these, on 25 occasions, investments were made before there were sales, demonstrating that venture capital companies are also willing to invest in the seed phase (although this type of investment is normally associated with business angels). From the reports on these investment opportunities made by the employees of these funds, it was found that the investors demonstrated a preference for information technologies and software (24 investments), while the numbers in the areas of biotechnology, telecommunications, health and retail were also significant.

The following two sections analyze the positive and the negative characteristics (Sections 4.1 and 4.2, respectively) of the business plans of a startup from the viewpoint of venture capital companies. This discussion is summarized in Tables 3 and 4, respectively.

4.1 Characteristics of the business plan of a startup considered positive by venture capital companies

Mason and Stark's study (2004) presented three business plans (for an online training company, a Chinese restaurant, and a laboratory for absorbent products) to three managers of venture capital companies, all of whom turned down the opportunity to finance the online training company and the restaurant, but two of them said they were considering investing in the laboratory. From a verbal analysis made of the proposals, it was possible to see that the heads of the venture capital companies considered the market factor as the most important (22% of the references were to this factor), followed by financial matters (21%). The entrepreneur (12%) and the strategy (11%) were also important. The investor fit, that is, the suitability of the investor to the business, was referred to only 1% of the time.

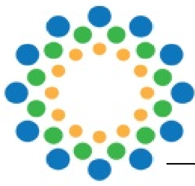
In terms of external factors, the study by Kaplan and Stormberg (2004) stresses that investors value the size of the market and its growth (mentioned 68.7% of the time), specifically for the high margins of incumbent companies; they are interested in the competition and barriers to entry in the market (32.8%), specifically, because of the existence of a patent, the advantage of being a pioneer, a highly

segmented sector, and little competition; they value customer relations (29.9%), through contacts with large clients and the acceptance of the concept by the professional community; they also mention the importance of the product being ready for the market within a maximum of 15 to 18 months, innovative technology and the possibility of outsourcing to reduce the complexity of the operation.

Fried and Hisrich's study (1994) began by assembling information on 18 United States venture capital companies, from interviews carried out with the employees, who were asked to describe the most recent investment project they had been involved in. This eliminated the bias from investors' mentioning the best characteristics of the investments they already knew had gone well. The investments described encompassed various phases: seed phase (funds to enable the startup of a company – 3 investments), first phase (first large investment – 7 investments), second phase (second large investment – 4 investments), management buyout (takeover of company control by the management – 2 investments), leveraged buyout (acquiring control of the company by a debt-financed operation – 1 investment) and recapitalization (entailing a process of the financial restructuring of the company – 1 investment). These authors write that three general criteria were found that oriented the investments: the concept, the management and the returns.

The concept included four fundamental points: the growth potential for the profits, the possibility of the new product being placed on the market in two or three years, the existence of a competitive advantage, and restricted needs for capital. The management criterion includes an entrepreneur with integrity, who performed well in previous employments (although having been in an unsuccessful company does not immediately disqualify him), is a realist, and demonstrates a capacity for work, flexibility, leadership and management skills. As for the returns, investors are looking for the possibility of an exit (through the sale of their holdings, for example), a high rate of return, and a high return in terms of absolute values.

Foo et al. (2005) assessed the influence that the diversity of the entrepreneurial team has on the assessment of the investors and conclude that teams made up of members that carry out distinctly different tasks are valued more highly. Based



on a competition of business plans in Singapore, the choices of the jury (which included heads of venture capital companies) indicate that the areas of study of the entrepreneurs, and their age and gender diversity are of little importance.

Kaplan and Stromberg's study (2004) presented the various reasons for investing in a startup, led by the quality of the management (mentioned for 59.7% of the opportunities). Included in this category by these authors were factors such as previous experience with venture capital, positive references from other investors, the ability to develop an interesting product using little capital, and commitment on the part of the entrepreneur (quitting a previous job or mortgaging his own home, for example).

Positive characteristics of a startup business plan, according to managers of venture capital companies	References
• growing market	• Mason and Stark (2004); Kaplan and Stromberg (2004)
• barriers to entry	• Kaplan and Stromberg (2004)
• contacts with large customers	• Kaplan and Stromberg (2004)
• innovative technology	• Kaplan and Stromberg (2004)
• potential for growth in profits	• Fried and Hisrich (1994)
• low needs for capital	• Fried and Hisrich (1994); Kaplan and Stromberg (2004)
• entrepreneurial team, specialized in various areas	• Foo et al. (2005)
• company performance to date	• Kaplan and Stromberg (2004)
• preparation of financial forecasts	• Van Osnabrugge and Robinson (2000
• existence of patents	• Hoenig and Henkel (2015)
• existence of partnerships with other companies or public entities	• Hoenig and Henkel (2015)

Table 3. Positive characteristics of a startup business plan, according to managers of venture capital companies
Source: elaborated by the authors (2018).

The second most-often mentioned factor of interest to the investor is the performance to date (mentioned 26.9% of the time), which consists of the demonstrated profitability of the business model or the development of a product that is well positioned to achieve the sales objectives.

The third most-mentioned factor, according to Kaplan and Stormberg (2004), is the amount of funds at risk (19.4%). This point encompasses the low need for capital and the investor control over company growth. Although not as important, mention is also made of the search for businesses located in the region where the investment fund is already working, involvement with another company that can be a partner, and the entry of other successful investors.

According to Van Osnabrugge and Robinson (2000), significant importance is given to the calculation of financial forecasts and the financial information already available. In order to lessen the asymmetry of information, venture capital companies are looking for involvement in businesses in the sector they are familiar with.

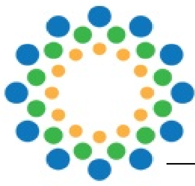
In the study made by Hoenig and Henkel (2015), great importance is given to patents and alliances between companies and less importance to the experience of the team. More importance is given to sales alliances when the technology is unknown. Team experience is less valued when the technology is considered good.

In sectoral terms, one can see that the importance of patents is significantly greater in biotechnology businesses than in clean technologies or ICT (Information and Communications Technologies). Experience is also more valued in biotechnology businesses. Sales alliances stand out in the ICT. Patents are valued by the investor, but not as a factor indicative of the quality of the technology.

According to Kirsch et al. (2009), the hypothesis that the existence of prior financing increases the probability of new financing is not confirmed. Neither did they find that the investment probability was affected by listing on the business plan the amounts being sought. They did not confirm that the inclusion of information about the team had an effect on the financing. The hypothesis was not proven that companies had a greater probability of financing when presenting business plans showing a greater specialization of the promoters in different tasks. Having an MBA does not improve the probability of financing.

4.2 Characteristics of the business plan of a startup considered negative by venture capital companies

Kaplan and Stromberg (2004) list management quality as a risk in 61.2% of the cases, specifically due to the possibility of the entrepreneur lacking focus and spreading his attention out among too many matters, wanting to acquire other companies in the short term, the company being too dependent on one person, the



team's lack of experience, and the lack of someone responsible for sales and marketing.

Macmillan and Narasimha (1987) studied the characteristics of business plans financed by venture capital companies and those that were not financed. The study was based on 27 business plans that resulted in entrepreneurial financing and 55 that did not.

Negative characteristics of a startup business plan, according to managers of venture capital companies	References
• excessively optimistic financial forecasts	• Macmillan and Narasimha (1987)
• too much focus on just one area of the business plan	• Macmillan and Narasimha (1987)
• intention to acquire other companies in the short term	• Kaplan and Stromberg (2004)
• company too dependent on one person	• Kaplan and Stromberg (2004)
• lack of person in charge of sales	• Kaplan and Stromberg (2004)
• lack of analysis of the competition	• Macmillan and Narasimha (1987)
• need to make a lot of investments	• Kaplan and Stromberg (2004)
• lack of analysis of the competition	• Macmillan and Narasimha (1987)

Table 4. Negative characteristics of a startup business plan, according to managers of venture capital companies
Source: elaborated by the authors (2018).

The investors looked for business plans that forecasted good performance, however, when the numbers were too optimistic, the investors shied away. The business plans invested in presented 47% gross margin/sales, 16% profitability of sales, 28% return on assets, 29% return on equity, 28% fixed asset turnover. The difference is very significant in comparison with the 77% return on equity, for example, of the businesses not invested in. Macmillan and Narasimha (1987) present the hypothesis of there being a "window of acceptability" for financial forecasts, above which the numbers are not credible and below which they are not interesting.

As for the structure of the business plan, Macmillan and Narasimha's study (1987) shows that investors are looking for balance, that is, too much attention given to one of the points of the business plan (such as marketing, strategy or the financial aspect) jeopardizes the probability of investment.

In the work by Macmillan and Narasimha (1987), when investors were questioned about startups with very optimistic performance forecasts, they said they feared there was an insufficient analysis of the competition and the risk of entry of new competitors and the possibility of underestimating the investment necessary. It

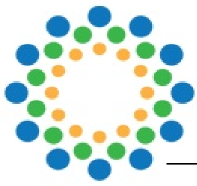
was felt that the financial ratios should be compared to those of the sector, in order to understand the reasonability of the forecasts.

In relation to capital needs, according to Kaplan and Stromberg (2004), they many be considered as threats if they are high, there is a lack of valuable assets and there is an expectation of the need for new financing in the following year.

5 CONCLUSION

This paper summarizes the information that a business plan for a startup ought to contain, in order to correspond to the aspects valued most by business angels or venture capital companies. The option for the viewpoint of the financial backers of venture capital rather than bank financing results from the importance of the former in the financing of emerging businesses, typically without a track record in the market, and from the preference manifested in various contacts with entrepreneurs, who evidenced some resistance to go into debt and preferred to give up a part of their company to enable the start or growth of their activity. Additionally, financial backers of venture capital may provide relevant contacts, synergies, and strategic counselling, so that their value is not limited to mere financing.

Business angels and venture capital companies act in much the same way, in various points, although there are some outstanding differences, such as the fact that business angels focus more on the people they invest in and on the investor fit. Business angels want to have contact with the entrepreneurs, and many of the investment decisions involve this direct contact. They look for a diversified entrepreneurial team, in other words, members who perform different tasks, and they avoid one-person teams. They have a clear preference for markets they know, feeling that, in this way, they can help the entrepreneur more. They want a well-defined financial plan and value high dividends. As for the venture capital companies, they pay a lot more attention to the financial information. They want to invest in a lucrative startup and consider low capital needs as important. They are looking for an entrepreneur with experience. It is important for the market to be growing and, if possible, to be of a significant size.



The heads of venture capital companies, as well as business angels, significantly value the market in which the investment opportunity is located, but this question is more important to the venture capital companies. This difference may be due to the fact that, typically, venture capital companies invest in companies working in the market for a longer time, and consequently, they may present more detailed financial information. Business angels have a greater propensity to invest in recently created entities, and having a more informal investment process, place more value on contact with the entrepreneur and his characteristics. Their investment process is less formatted, because they are investing their own funds and do not have to follow the instructions of a company. These two types of investors distinguish themselves in their approach to the market, seeing that business angels want to enter into markets they know, and venture capital companies give more value to growth in the market in question. The two types of investors analyzed coincide in regard to the high importance they give to positive references from other investors, paying special attention to businesses recommended to them by people they trust. As expected, in both cases, there is a preference for lucrative businesses with high returns.

The research also allowed us to conclude that investors make exceptionally fast assessments of the investment opportunities presented to them, a fact that suggests short models should be used for business plans, when applying to entities dedicated to the incubation of companies, for example. The investors are looking for a lot of information, but presented in a very condensed form, so the promoters should provide a short presentation to send to investors when presenting their business, and then, if the potential investors so wish, they can send a more detailed business plan.

In short, this work sought to provide entrepreneurs with information on how to prepare a business plan specifically addressed to its recipient, which implies that the document for a business angel will be distinct from the document to be prepared for presentation to a venture capital company. This fact increases the possibility of the business plan capturing the attention of the financial backer entities, and therefore, a greater possibility of receiving financing.

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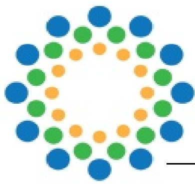

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