

## **Part 9: How to write an Information Memorandum or Business Plan to Raise Capital – Principal Risks & Problems**

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This is a continuing series of articles on how to write a Business Plan or Information Memorandum to raise capital, Part 9 discusses the business plan content specifically 'Principal Risks and Problems'.

### **Principal Risks and Problems**

Given the nature of new and emerging companies the development of a business is bound to have risks and problems, and the business plan invariably contains some implicit assumptions about them. It is important to consider these risks, as the identification of any significant negative factor by potential investors can seriously undermine the venture's credibility and hence jeopardize its financing.

Furthermore, identifying and discussing the potential risks inherent in the venture demonstrates not only that the proposal has been considered very thoroughly by the entrepreneur but also that risks can be dealt with. This enhances the credibility of the entrepreneur and/or his management team in the eyes of the investor. A positive treatment of possible risks helps dispel any reservations the investor may have.

This section in the Business Plan should therefore identify and discuss any major risks and problems which may possibly occur. Risks relating to the industry, company and personnel, product development, market and the timing and financing of the venture need to be considered. The following list is not exhaustive but indicates the sort of thing which may be relevant:-

- Delayed product development.
- Price cutting by competitors.
- Overspending on design, development or maintenance.
- Sales projections not achieved or overachieved.
- Difficulties in procuring raw materials.
- Problems in collecting from debtors.
- More significant R&D expenditure required to remain competitive.
- Underestimated costs and time delays in moving premises.
- Inability to recruit staff.

Possible risks and problems should be discussed in order of importance and management's actions to minimize the impact of unfavorable developments in each risk area should be stated.

The content of Business Plans will be further covered in subsequent articles by Len McDowall.

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### **About Len McDowall - Managing Director, Integral Capital Group Pty Ltd**

Len McDowall was previously inaugural Chairman and Managing Partner of Bird Cameron Chartered Accountants (now known as RMS Bird Cameron), which employed 1000 people in 50 offices in Australia and Hong Kong. Len, who established Bird Cameron's mergers and acquisitions division, has extensive experience in all facets of financial management with a particular emphasis on structuring and negotiating joint ventures and capital raisings. Following his retirement from the accounting profession Len and his partners established the Integral Capital Group in 1990 which specialises in mergers and acquisitions, public floatation's and capital raisings.