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Key Investor Readiness Skills

MODULE 1: Enhance Your Writing

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MODULE 1: Enhance Your Writing

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1.1 Enhance Your Writing: Introduction

Put yourself in this position. Last week you submitted an investment proposal to a potential investor, requesting \$600,000 to finance your growth. This morning you got a rejection letter. You know that your plan has excellent potential and all the information was there. Where did you go wrong? Poor writing habits may have been your downfall. We'll give you some tips and techniques that will help you write a more effective investment proposal. With crystal clear writing your investment proposal will have a better chance of grabbing the investor's attention.

There's no question, the success of your investment proposal is influenced by the strength of your writing skills: how persuasive you are, how well you're able to convince the investor that you're competent, and how well you can support your arguments with facts and logic.

In This Module

You'll learn how to get the investor's attention and keep it. You'll consider how detailed your proposal should be and work on making your document clear, concise and credible. You'll learn the importance of persuasive writing and how to use it in your proposal. And you'll see how graphics and other design features can improve the readability of your proposal.

- Write for the Investor
- Remember the Main Features of Effective Writing
- Exploit the Powers of Persuasive Writing
- Drive Home Your Message With Layout and Graphics
- Capabilities Check

The New Tech Story

Follow the fictional company New Tech Distributors Corp. (New Tech) as it pursues venture financing. This case example gives you a feeling for the "real" data and strategic decisions you'll be facing.

1.2 Write for the Investor

A popular saying in the retail industry is "The customer is always right". Why is this the case? Because at the end of the day, the customer has the power to walk out of the store without purchasing anything.

In the investment process, the investor is the customer and you are the retailer. At any time, the investor can reject your proposal. So how do you keep the investor involved in your proposal? How do you anticipate the questions and answer them? How do you make it hard to say no? To fulfill all these needs in your writing, you have to understand your potential investor and the investor's information needs.

Be sure to look at *Step 5: Build an Investment Proposal*. It will guide you on what elements to bring together in a successful investment proposal.

Create an Investor Profile

How do you cater to the investor and the investor's expectations? A good starting point is to put together a profile of your investor's needs. These needs will vary depending on the type of investor (e.g. private investor or institution) as well as the type of financing provided (e.g. debt, asset-based or equity). You can develop the profile yourself, but consider also whether a business advisor who understands the needs of various investor types can help you with the task.

The profile will help you assess the scope (How many topics do I want to cover in this section?) and depth (How much detail do I go into on this concept?) of your proposal. Remember that you're competing for the investor's time, so your writing goal should be to provide the investor with the right information in the right amount of detail.

Use the Profile to Customize Your Proposal

With the profile in hand, you can fine-tune your document to address the specific needs and interests of this investor. Here are some "before and after" questions to help you anticipate what the investor will be looking for. Use the first set of questions before you begin writing the document, to help you plan it. Use the second set after you have produced a draft, to help you assess whether your proposal is on track to meet the investor's needs.

Before Writing	After Writing
What does the investor want?	Does the proposal show we can meet this need?
What is important to the investor?	Have we addressed those important areas directly?
How will the investor perceive the proposal?	Have we shown that our proposal represents a good, positive opportunity for the investor?
What information does the investor expect to see in each section?	Have we met those investor expectations, or are there gaps and problems in the information?
What impact will the information in the proposal have on the decision?	Have we made it easy for the investor to come to a positive decision?
How can we present the facts so that they are clearly understood?	Are all the facts expressed in a clear, simple, organized way?
What objections will the investor have to my proposal?	How have I counteracted these objections?
How can we best present our firm's ability to meet the projections we have set out?	Are the projections backed up by strong supporting information?

FAQ

What are the sections of an investment proposal and what goes in them?

A typical investment proposal contains the following elements, though there are many ways to organize the information.

- Executive Summary
- Company and Ownership
- External Environment
- Products and Services
- Management Team
- Financial Plan
- Financial Structure and Valuation
- Operational Plans
- Appendixes

Step 5: Build an Investment Proposal has details on each of these components and suggestions on how to structure your proposal.

1.3 Remember the Main Features of Effective Writing

Chances are you won't be available when the investor decides to read your proposal. So you won't be around to answer questions. That's why your proposal needs to be written in a clear and precise manner so that the investor is receiving the exact message you want to deliver.

To deliver your message more effectively, remember the three C's. Writing must be:

- clear;
- concise; and
- credible.

As you and your management team draft sections of the proposal, use the following checklist to test whether you're achieving the three C's.

Three C's for Better Writing	Acheived? Y/N
<i>1. Clear Writing</i>	
The purpose of the message is obvious.	
The meaning comes across right away, without re-reading or guesswork.	
The wording is simple and familiar.	
Specialized or technical terms are defined; a glossary is provided if there are many technical words.	
<i>2. Concise Writing</i>	
The wording is precise and direct.	

There are no double meanings or ambiguous sentences.	
Sentences and paragraphs are short and come right to the point.	
Everyday, easy-to-read words are used throughout.	
There are no pointless repetitions.	
3. Credible Writing	
The message is believable; it conveys the sense that it is accurate.	
The claims that are made are supported by strong evidence.	
If there are facts a reader might question, complete documentation is provided.	
The writing is free from errors in grammar and spelling.	

Avoid These Writing Problems

Why do people quit reading in the middle of a document? Here are the most common reasons. Avoid these writing problems if you want the investor to read all of your proposal and get involved with your message.

- Too many complex terms that aren't defined or explained.
- The overall message is lost in a sea of detail.
- The document sounds like a boring textbook.
- The ideas aren't organized for easy understanding.
- Exaggerated language gives the feeling of a sales pitch ("fabulous opportunity," "unbelievable potential").
- The proposal takes a pompous tone that "talks down" to the reader.
- There are no visuals or graphics to appeal to the eye.
- The reader is forced to draw conclusions — the main points are never stated clearly.
- There are obvious errors or gaps in information, giving the impression of carelessness.

Tip
Build Your Proposal Through Storyboards

Try a technique called "storyboarding" to outline what will be put into the proposal. This is an activity that can benefit from the brainpower of your whole management team, so call them together for a pre-proposal work session.

For every section of the proposal, paste a large piece of paper on the wall. Give everyone markers, and ask them to move through the various parts of the proposal-story, adding their ideas to the pages.

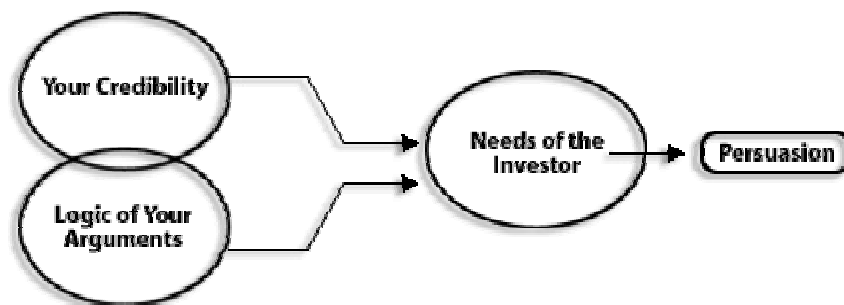
Post the following questions on a different wall, and ask the group to refer to them often as they work.

- What are the key messages we want to send for this section?
- Are there any graphics that would support the text?
- What are the supporting arguments for each message?
- What data do we have to back up our supporting arguments?

1.4 Exploit the Powers of Persuasive Writing

The all-important purpose of your investment proposal is to persuade an investor to become involved with your company. While you'll need to present good, solid information in the document, you also need to present it in a positive and appealing way. Now, as you know, there's a fine line between skillful persuasion and a heavy-handed pitch. The former can change your beliefs, attitude and, eventually, your behaviour. The latter can close your mind and get you looking for an escape route.

There are three elements that will influence how effective your writing is at positive persuasion.



Your Credibility

Here is how you build credibility in persuasive writing:

- support your facts with adequate research from reliable, verifiable sources;

- acknowledge opposing points of view and compare their advantages and disadvantages to your proposed solution; and
- use a tactful tone that respects the reader's point of view.

The Logic of Your Arguments

Using logic in your arguments is another element of persuasive writing. In the investment proposal, you're building an argument for your organization. You have no guarantee of success, so the strength of your logic will determine if your ideas are worth supporting and, ultimately, worth investing in.

Here are some keys to building a logical message:

- Be orderly — the investor should be able to follow your thought process step-by-step. The goal is to anticipate the investor's concerns and walk through your method of addressing those concerns in a clear manner.
- Be direct — write statements that are to the point.
- Have a definite pattern of organization and stick to it.
- Explicitly state conclusions and recommendations.
- Use specific examples.
- Be brief while still providing essential information.
- Validate your claims with enough supporting information. For example, include documented sources or recent data that can be easily verified.

Your Ability to Appeal to Investor Needs

Satisfying the needs of investors is the third element in the persuasion process. This will encourage them to say, "This is interesting! I want to know more." Changing their behaviour, motivating them to act, is the key to successful persuasion. The investor profile you looked at earlier in this Step will help you determine what drives investors, what needs you must help them satisfy.

To get you focussed on meeting the investors' needs, consider the following questions when you're reviewing your proposal:

- **Motivation.** Does the proposal demonstrate a clear benefit to investors? Will the opportunity be rewarding for those who act now?
- **Consistency.** Do the rewards offset the risk to investors?
- **Value system.** Are your messages in line with the investors' values (e.g. to be an innovator or to accept greater risk for potentially higher rewards)?

FAQ

How do I keep my investment proposal from sounding too much like a sales pitch?

- Stick to the simple facts and avoid making claims you can't back up.
- Get rid of adjectives that sound like an exaggeration, e.g. "best," "innovative," "unique," "fantastic."
- Don't try to create a false impression of closeness with the investor (e.g. "We know you'd just love to get in on the ground floor with us.") Maintain a respectful distance.
- Don't use pressure tactics like tight timeframes for a decision or threats to move on quickly to other prospects.

1.5 Drive Home Your Message With Layout and Graphics

Since the time of Egyptian hieroglyphics and early cave paintings, visual aids have played an important role in communicating our thoughts, values and beliefs. In this era of desktop publishing and presentation software, we can use graphics and layout techniques to provide information more effectively than words alone. The key is to use these techniques appropriately so that they enhance your main points, not create confusion.

The Case for Graphics and Layout Strategies

When you're preparing your proposal you must present the information so that it's easy for the investor to understand. Sure, you could explain everything in text, but you risk losing your audience along the way. Also, some concepts are hard to explain in words and the investor may quickly become confused.

Incorporating some graphics and layout techniques will improve your document in several ways:

- conciseness — you can condense information without losing the meaning of the message;
- simplicity — complicated data can be graphically presented in a way that makes the information easier for the investor to read or visualize; and
- emphasis — you can highlight particular material as being worthy of additional attention.

Here are two handy checklists to use when you've completed a first draft of your proposal.

Proposal Formatting Checklist

Have We...?	
Used headings to guide the reader's attention?	Headings should pull readers into the content. Investors have the option to read on or not, so use headings to capture interest and "sell" the information that follows them.
Used numbered and bulleted lists for easy reading?	Bullet points are good attention grabbers. Use numbers if order is important (e.g. you are implying a sequence) or if you need to reference those items later. Use bullets if all the points are equal.
Used underlining or bolding to highlight key information?	The investor's attention will be drawn to underlined or bolded information. Consider using underlining if you think investors are going to skim over a section that you want them to read.
Used white space to increase attractiveness?	Use wide margins and not too many graphics on one page. When a page is cluttered with information, the reader may get confused.
Done all the simple calculations?	Perform the obvious calculations such as additions and totals, and double check to ensure accuracy.
Given charts and graphs captions or titles that tell what they show?	Don't leave the reader wondering what your visuals mean. And keep those visual effects simple and clear. A line graph may not be as exciting as a distorted three-dimensional bar graph, but which one communicates your sales figures more clearly?

Proposal Visuals Checklist

For a closer look at some sample illustrations, see the *Graphic Guidelines Tool* in the Appendix.

Type	Best Uses
Tables	Tables are usually good for grouping numerical data, especially for comparing two or more variables (e.g. financial projections of your sales over the next five years).
Flow Charts	Flow charts will help the investor see the relationship between entities, especially for representing hierarchies or outlining complex procedures (e.g. organization charts).
Time Charts	Time charts (a version of the flow chart) identify time relationships between tasks; time lines can also be used to pinpoint milestones.
Drawings and Photographs	Drawings and photographs are useful when you want to focus on a particular feature, or when you need to emphasize details (e.g. highlight a new handle on a car door).
Bar Graphs	Bar graphs are often used for comparing quantities, especially magnitudes of change (e.g. when there's a wide range in the data or sudden change in quantity).
Circle or Pie Graphs	Circle or pie graphs are often used to represent percentages (e.g. market share or distribution of resources).

Line Graphs	Line graphs are often used to compare trends for more than one variable over the same period of time (e.g. sales volume has been going up and employee absenteeism has been going down during the same time period). Line graphs can also be combined with bar graphs on the same axes — one variable is charted on the line graph, the other variable on a bar graph.
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1.6 Capabilities Check

The first impression is the lasting one, and typically, your initial contact with the investor is the investment proposal. Are your writing skills ready to demonstrate your competence and confidence to the potential investor?

Writing Capabilities Check

A = Highly Capable B = Need Some Assistance C = Need Expert Help

Can You...	Rate Yourself
• Anticipate the investor's needs and interests?	
• Select the facts and information that will appeal to the investor?	
• Organize key points to make it easy for readers to follow?	
• Write simply and clearly, so the message comes across right away?	
• Recognize which technical words need to be explained?	
• Write using concise words, sentences and paragraphs?	
• Support your main points with strong evidence?	
• Provide an appropriate level of detailed documentation?	
• Ensure your proposal is completely free of errors in grammar and spelling?	
• Write persuasively, without sounding like you're making a hard sell?	
• Use layout techniques to attract the reader's eye and attention?	
• Develop and prepare attractive graphics and visual aids?	

Appendix

Graphic Guidelines (see section 1.5)

This document contains information on various graphics that you might consider including in your investment proposal. For each type of graphic, the following information will be presented:

- When To Use It?
- Sample
- Tips for Building

The different types of graphics are:

- Tables
- Flow Charts
- Bar Graphs
- Circle or Pie Graphs
- Line Graphs and Combination Graphs

Tables

When do you use a table?

Use a table if you want to present detailed, very specific data. Tables make it easy to zero in on a particular number. (For example, what is the product sales forecast for 1999? In this case we can quickly find \$5,600.)

(Amounts in \$000s)			
	Actual 2001	Forecast 2002	Forecast 2003
Product sales	\$ 3,000	\$ 20	\$ 4,800
Gross margin	\$ 4,000	\$ (260)	\$ 1,344
EBITDA	\$ 4,800	\$ (25)	\$ 226
Net earnings	\$ 750	\$ (231)	\$ 70
Depreciation & amortization	\$ 1,080	\$ 50	\$ 75
Capital expenditures	\$ 25	\$ 400	\$ 100

Tips on constructing tables

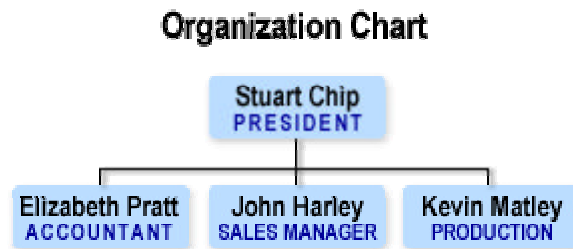
- Give the table a title that clearly describes the content and subject of the graphic.
- In a given column, present the information in a consistent form (e.g., don't mix numbers and words).
- If your numbers are in thousands or millions, leave out the zeros. Make sure you note thousands or millions in the column heading.

- If you don't have the data for a particular item, use a dash (-). Otherwise it will look like you forgot to include the information.
- If your table is really wide (has a lot of columns), then make sure the paper is landscape-oriented so that you can better fit the columns on one page.
- Use footnotes to provide extra information (e.g., "Does not include southeast region").

Flow Charts

When do you use a flow chart?

Use flow charts to show hierarchies (as in the organizational chart example shown here) or to help someone follow complex procedures and instructions. Flow charts are useful when you want to show dependencies or the relationship between steps that form a solution.



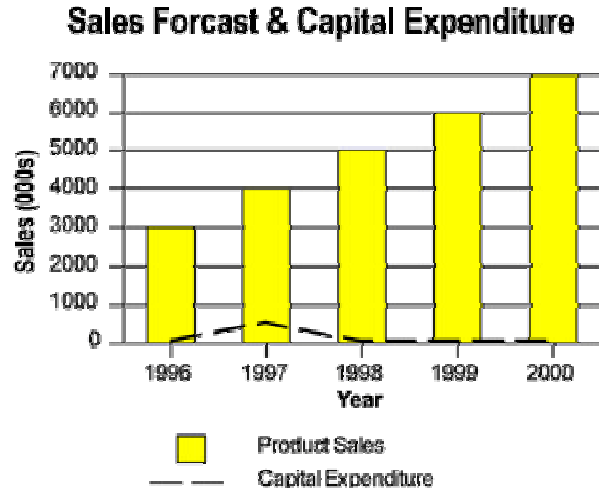
Tips on constructing organization charts

- Label the chart clearly so the subject of the chart is obvious.
- Represent people with the same level of authority at the same level on the graph (e.g., all vice-presidents reporting to the president should be at the same level).
- If several people have the same position (e.g., there are two finance managers), then you do not have to represent each person individually on the chart: use one box with the position as the name (i.e., finance manager).
- Use footnotes to provide extra information.

Bar Graphs

When do you use a bar graph?

When you want to compare quantities, especially significant magnitudes of change, a bar graph can be very descriptive. In this example, we compare the amount of financing required for the different areas requiring money. The bar graph shows very nicely that the new product line is going to require the most funding and additional working capital will be greatly needed.



Tips on constructing bar graphs

- Clearly label your axes so that there is no confusion about what you are measuring
- Write captions as close to the bars as possible and use a legend where necessary (for more complicated graphs).
- Choose a scale that clearly emphasizes the differences in magnitude but does not exaggerate a difference where none exists.
- All bars should be the same width.
- When you want to make a comparison rank, the bars in ascending or descending order.
- Be aware of possible distortion depending on the orientation of your graph, especially with three-dimensional graphs.

Circle or Pie Graphs

When do you use a circle graph?

Can be used to compare quantitative information, but mostly proportions or percentages. The circle represents 100% of the factor (e.g., total financing). The pieces or wedges of the pie represent a percentage of the total.



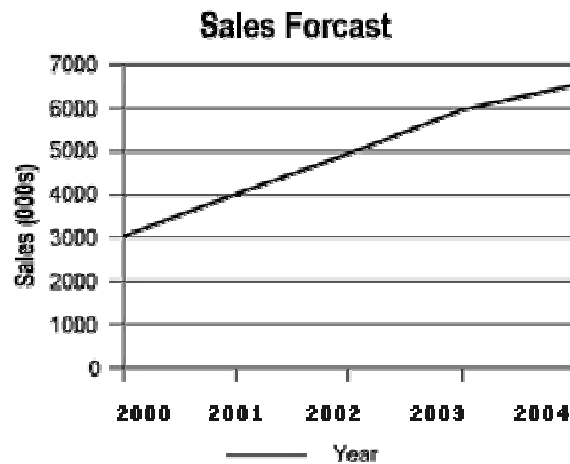
Tips for creating circle graphs

- Each circle represents one category (e.g., area requiring financing) and its subdivisions.
- Maximum number of wedges is eight for best readability.
- Identify each segment of the chart with a label that is inside the segment (if you have a few large wedges) or outside the circle with a line connecting each segment with its label.
- Additional notes (footnotes) can be placed immediately under the chart

Line Graphs and Combination Graphs

When do you use a line graph?

Line graphs represent trends very well. For example, you might want to compare your sales volume over time.



Or combine two variables on the same graph: sales forecast and capital expenditure over the next four years. Combination graphs plot two unrelated variables on the same axes so you can simultaneously compare data collected from different variables and look for correlations.

Tips for creating line graphs

- If you are including more than one line, make sure that the variables are related.
- Represent different lines by making one dotted or dashed to indicate that more than one item is being measured.
- Try to choose a scale so that the steepness of your line actually represents the trend in your data. You will notice that the combination graph above does not illustrate the steepness of the trend effectively because the definition of the line can not be seen.

