Non-Binding Letters of Intent from Potential Customers

Rationale

The non-binding letter of intent is a way for entrepreneurs to gauge commitment from potential clients as well as to prove interest in their product to investors. At a high level, the letter should present what both parties will provide upon product delivery.

Goal

It is important to keep in mind that getting a customer to sign a letter of intent is much like getting the customer to sign a real contract. Even though it's non-binding, they are making a mental commitment to the purchase, so you need to put them through all the steps just like you were closing a real sale. This exercise should also help you better understand your business and your product.

Legal Advice

It is up to the individual if they want to or have the funds to use an attorney to put an LOI together, but because the document is not legally binding, many entrepreneurs draft these emails themselves.

Length

There are lots of examples of LOIs the internet that you should ONLY take basic ideas from. Your letter should not be longer than 1-2 pages. Anything longer becomes too complicated and would need to go through more review by the customer.

Format

It is suggested that your letter of intent follow the format laid out below. It does not have to be in this exact order.

- 1) Introduction to what your business does. Just a brief overview will do.
- 2) How your product/service would benefit the customer. Be specific as to the potential ROI your product delivers.
- 3) Status of your product. What functionality is being developed that is required for the customer and when will it be ready.
- 4) Customer commitment clause. You need some language that states that the customer would be interested in purchasing your product/service once it has been completed and can successfully demonstrate, to their satisfaction, the functionality described above. You might want to include the following two items if possible:
 - a. Timeframe for consideration of purchase. For example, the evaluation period will be for 3 weeks after the date your product is ready. You are setting up a mental commitment of timing. This may also uncover the company's purchasing cycle and when they could even make a purchase decision.
 - b. A summary of the financial terms that the customer would sign the future contract under, i.e. \$1k implementation, \$5 per user month, cost per seat, etc. You'll need to plug in your pricing here.
- 5) Willingness to provide a reference call to a 3rd party of their expectations and commitment. The prospective customer will need to know that you are looking for funding or other resources that their commitment helps you secure.
- 6) You will need something like the following statement to close out the letter right before the signature block "This letter of Intent does not create or constitute any legally binding or enforceable obligations or liabilities between the parties, and may be subject in the future to further amendment or modification"
- 7) Signature block
- 8) Any additional information you can add following the main letter as an Exhibit.

A good example of a general LOI letter format can be found HERE. And further explanation of contents can be found HERE.

Signing

Once complete, you need to get 4-6 signed letters (or as many as you can) to demonstrate real customer commitment. The speed at which you get these also matters because it will help make the argument of how long and the cost of each sales cycle.

