

The following business plan outline is presented to assist clients in developing written business descriptions and continual status reviews. If you answer the given questions, and include the sections as outlined, you will be well on your way to a useful and presentable format written plan.

## Business Plan Format

### *Business Plan Preparation*

There is no precise road map for preparing a business plan. The length of the plan and areas of focus will depend on the industry, the stage of the company's development, the complexity of its business, and the intended audience.

Business plans are never evergreen. They are constantly evolving with the identification of new market opportunities, new technical breakthroughs, and the shifting sands of the competitive landscape. Despite the variations between businesses, most plans can fit within a fairly standard outline: Below is a brief table of contents

- Executive Summary
- Business History
- Product and/or Service
- Market
- Competition
- Marketing and Sales
- Manufacturing and Operations
- Management
- Significant Risks
- Exit Alternatives
- Financial Projections

We generally recommend that the core of the plan be 20 to 25 pages long, plus financial statements. If certain sections require further amplification, we encourage the preparation of appendixes that provide more detail. The appendixes may be included with the plan or made available when more information is requested.

A business plan has a dual purpose. On one hand, it should demonstrate the potential of the business and stimulate the interest of investors so they seriously consider the opportunity. Thus, it serves as a sales document to sell the potential of your firm. On the other hand, once you've convinced the investors that the plan is achievable it serves as a guide to assess the performance of management. As a result, the document also serves as blueprint for the execution of your strategy. Because of this dual purpose we strongly recommend that the principal authors of the plan also have significant responsibility for its execution.

The plan should cover the expected horizon of the investor, which is usually five years. The investor is interested in knowing how you will build the value of the company and create an opportunity for eventual liquidity, whether through the sale of the company or an initial public offering of the company's stock.

## ***Executive Summary***

The Executive Summary is the most important section in the plan and should be written last. In two to five pages, the plan must provide a compelling story about the large opportunity in the marketplace, why it is not presently being served adequately, your company's unique capabilities and product, and its unfair competitive advantage that will enable it to generate superior growth and margins. Provide an explanation of how you will efficiently reach the customer through your marketing and sales program. Define the required management skills and describe the qualifications of the existing key managers. State the amount of capital that is required to implement the plan, indicate the timing of your capital requirements, and project the financial results.

## ***Business History***

Naturally, the Business History should include the date the business was founded and the form of the etc.). Any material investments into the company or changes in ownership or business focus should be discussed. The current breakdown of ownership should be provided. In addition, the Business History should tell the story of why the company came into being. What was the chance discovery, the unique perspective or ideal combination of experiences that enabled the company to identify the superior solutions to the market's problems rather than someone else? The Business History should provide insight into why the founders were in the right place at the right time with the right skill sets to seize the opportunity. Include an explanation of any existing or pending litigation.

## ***The Product and/or Service***

This section should provide a detailed description of current products (or services) and products that are under development. Most investors consider a broad range of opportunities and many do not have a technical background. These factors may prevent them from having an intimate understanding of the status of technical developments in your industry. As a result, avoid a highly technical description filled with undefined industry jargon, especially in an industry niche that isn't widely known or understood. At this point, investors are more interested in understanding the following:

- What are the proprietary features of the products?
- What are the economic or other benefits to customers that will drive their demand (is it better, faster, cheaper, more versatile, etc.)?
- How important are the benefits to the customers relative to other important purchase criteria?
- Are there patents or other forms of intellectual property protection that will make these features unique and the advantage sustainable?
- Is there any regulatory approval required before the product can be marketed or independent certifications or endorsements that are required before the customers will purchase the product? If so, where is the company? in that process? If not completed, how long will it take, how much will it cost, and what is the degree of uncertainty in the process.
- Have environmental impacts been assessed?

## ***The Market***

This section should provide a broad overview of the market sector and the specific niche being targeted. Discuss the overall market size and growth, significant industry trends, and major opportunities and constraints presently facing the industry. Ideally, this information should be supported by reference to

trade journal articles, industry studies, industry experts, and government sources that published the supporting historical data and industry forecasts. A more detailed description of the company's specific niche is required. It should cover factors such as:

- Who are the customers (industry, institutions, government, consumers, etc.)? What are the characteristics of the primary targets?
- What are the historic and forecasted sales and rate of growth (five years in each direction)?
- Is there a geographic target?
- Who makes the purchase decision for the customers (title of decision-makers)? Who influences the decision?
- What is the purchase process and product loyalty? Is each sale a separate decision, or does it involve a long term commitment?
- What are the critical product characteristics that are considered (performance, reliability, durability, availability, Price, service, conformance to industry standards, other)? Are the buyers more interested in making the optimal choice or avoiding the wrong selection?
- Is the industry seasonal or cyclical?
- What is the switching costs? Does the customer have to change a process or need to be educated to utilize the company's product?

### ***The Competition***

All too often business plans fail to acknowledge the presence and potential of all forms of competition. Identify the existing competitors in the market with a discussion of their particular strengths and weaknesses. Provide an estimate of their market share and information about their financial performance and resources, if available. Specifically discuss the products that you will be directly and indirectly competing against. Discuss the relative price, performance and other characteristics of these products from a customer's perspective. Discuss the trends in their price/performance trade off. Include a matrix or table that provides a summary comparison of each product on each important attribute. Who are the key rivals and why are they of particular concern?

The section should also discuss competitive responses to your product offerings, both those that have occurred and those that are anticipated. Provide a rationale for the expected responses from the competitors, both current and long term.

In addition to existing competitors, the section should discuss possible new competitors that may emerge. What are the barriers to entry for new competition? Also discuss potential substitutes, (which includes not buying and maintaining the status quo) for your product or service with a particular focus on those that have a superior price/performance trade off.

### ***Marketing and Sales***

The key components of a comprehensive marketing plan include:

- Promotion: What are your advertising, promotional, and public relations plans? Provide a detailed breakdown of which mediums you will select to communicate with your customer and why it is the optimal medium. How many prospects do you expect to reach, how often and at what cost? What is the expected response? If the product is consumable or a service and the first purchase is a trial purchase, how many will become regular customers?

- Sales: What is your sales strategy? What kind of sales organization will you use (employees, exclusive distributors, manufacturers reps, etc.) and why? How will they be compensated? What are the required qualifications? Discuss the sales cycle.
- Distribution: What are your channels of distribution? Are they intensive, selective, or exclusive? How are they compensated?
- Price: What is your pricing strategy? If you are charging a premium, are you skimming the cream and sacrificing market share? Why are customers willing to pay a premium? If you are undercutting the competition, are you a low cost producer that can withstand competitive response? What are typical industry terms? What are your terms?
- Service: What are the service and support requirements? Is this a source of revenues and profits or an added expense?

### ***Manufacturing and Operations***

What are the manufacturing, assembly, and shipping requirements? Discuss the current facilities and manufacturing capacity.

Are there any new investments in capacity required? If it is an early stage company with a new product,

What are the critical issues and risks in scaling up the manufacturing process? If subcontractors are used, discuss how they are selected and the reliance on their performance for success. If there is a sole source of any critical input that impacts the price and performance of your product, provide an understanding of the risk of that input becoming unavailable or unreasonably expensive and how those risks are mitigated.

### ***Management***

The single most important criteria in the selection of an investment opportunity is Management. Provide a complete resume of each of the senior managers (including all relevant work experience, education, patents and technical publications, and professional certifications) and an organization chart.

Early stage companies typically have incomplete teams. In these cases, investors want to understand the particular strengths of the current team. Equally important is a recognition and an understanding of the qualifications required to complete the team. Describe how you expect the roles of the present team to evolve and provide a recruitment schedule to fill key positions as the organization grows and the team is completed.

Also include full and complete background information on any Board members, shareholders, or advisors that provide added expertise and credibility for the company. Include a description of how active they are within the organization and any expected changes in their roles.

### ***Significant Risks***

Venture capital investments are inherently high risk investments. Many of the risks are the ordinary risks faced by every new business (such as no proven market for the products and a lack of liquidity for the investors). Investors are already familiar with these risks. Your attorney will insist on disclosing these risks if you draft the document as a private placement offering, but it is not necessary

to state the obvious in a business plan. Investors are primarily interested in your perception of two kinds of risk: internal risk and external risk.

Internal risk includes all risk factors associated with the company's ability to execute its plan and achieve its objectives. These include:

- Is there any uncertainty about the technical feasibility of products in development?
- Are there key milestones that must be achieved to be successful? What could prevent you from achieving them?
- Are there any key resources (materials, equipment, people, or capital) that you may have difficulty obtaining?
- Product or equipment obsolescence

The external risks are those that may undermine your ability to be successful even if you flawlessly execute your plans. They include:

- Is there the possibility of a market response (by customers or competitors) that could close the window of opportunity?
- Is your plan particularly susceptible to possible changes in economic conditions?

Discuss the steps you are taking to mitigate significant risks.

### ***Exit Alternatives***

Venture capital investors typically expect to be shareholders in your company for three to seven years. They are patient, long term investors, but eventually need liquidity to return capital to their investors. Briefly discuss how you expect to create liquidity for your investors.

### ***Financial Projections***

Historical and projected financial information is required to enable investors to understand the use of capital, assess the current and potential value of the company, and to evaluate the trade off between risk and return for the investment. The business plan authors have to find the balance between the optimistic outlook that conveys the potential of the opportunity and the conservative forecast that makes the numbers achievable so that investor's expectations can be met and enable the company to have continued access to financing.

At a minimum, this section should include:

- Annual income statement and balance sheet for the last five years (or since inception if the company is less than five years old), year to date income statement and a current balance sheet.
- Projected income statement, balance sheet and cash flow on an accrual basis for the next five years. First year projections should provide a monthly breakdown (and annual totals) with enough detail to provide investors information on head counts and compensation levels. Year two should provide monthly, or at least quarterly detail. Years three through five only require annual projections and do not require the same level of line item detail.

- Provide unit sales, product margins, terms, etc.
- Provide a summary of all critical assumptions that were used in developing the forecast.
- Provide a detailed breakdown of how the invested cash will be used. Discuss your ability to accept a staged funding.
- Identify the key milestones that will be achieved with the funding and how they will translate into growth in investor value.

### ***Appendixes***

Include any product brochures and trade industry articles that discuss the market opportunity or provide a description or review of the company's product. If appropriate, include any other supporting material that provides more detail to any of the earlier sections and which aids the reader in understanding the product or market opportunity.

### ***Additional Tips***

- Provide a table of contents and tabs that make it easier for the reader to quickly refer to sections of interest. Include charts, graphs, diagrams, pictures, or other visual aids to make the plan easier to read and comprehend.
- If it is absolutely necessary to withhold important aspects of the plan to maintain confidentiality or intellectual property protection, make certain that you provide enough of a non confidential description of the opportunity and details on the fundamental economic opportunity to whet the appetite of investors. Be prepared to provide a confidentiality agreement that would allow the disclosure of the confidential details.
- Although it sounds obvious, our experience suggests this reminder: place the company's address, phone number, fax number, and contact person's name on the cover page.
- Prepare a binder of all relevant journal articles, industry studies, analyst reports, competitive brochures and financial reports. Also, prepare reference contacts for customers, prospects, suppliers, industry analysts, technical experts, trade associations, service providers, current shareholders, and personal and professional references for the senior management team.