STEP 4

A Framework to Develop and Write a Business Plan.

As has been discussed, the framework here follows the order of presentation of the table of contents shown in Exhibit 8.2. While preparing your own plan, you will most likely want to consider sections in a different order from the one presented in this exhibit. (Also, when you integrate your sections into your final plan, you may choose to present material somewhat differently.)

Cover

The cover page includes the name of the company, its address, its telephone number, the date, and the securities offered. Usually the name, address, telephone number, and the date are centered at the top of the page and the securities offered are listed at the bottom. Also suggested on the cover page at the bottom is the following text:

> This business plan has been submitted on a confidential basis solely for the benefit of selected, highly qualified investors in connection with the private placement of the above securities and is not for use by any other persons. Neither may it be reproduced, stored, or copied in any form. By accepting delivery of this plan, the recipient agrees to return this copy to the corporation at the address listed above if the recipient does not undertake to subscribe to the offering. Do not copy, fax, reproduce, or distribute without permission.

Table of Contents

Included in the table of contents is a list of the sections, subsections, and any appendixes, and the pages on which they can be found. (See Exhibit 8.2.)

I. Executive Summary The first section in the body of the business plan is usually an executive summary. The summary is usually short and concise (one or two pages). The summary articulates what the opportunity conditions are and why they exist, who will execute the opportunity and why they are capable of doing so, and how the firm will gain entry and market penetration—it answers the questions we asked in Chapter 5: "For *what* reason does this venture exist and for *whom?*"

Essentially the summary for your venture needs to mirror the criteria shown in Exhibit 5.8 and the Venture Opportunity Screening Exercises in Chapter 6. This is your chance to clearly articulate how your business is durable and timely, and how it will create or add value to the buyer or end user.

The summary is usually prepared after the other sections of the business plan are completed. As the other sections are drafted, it is helpful to note one or two key sentences and some key facts and numbers from each.

The summary is important for those ventures trying to raise or borrow money. Many investors, bankers, managers, and other readers use the summary to determine quickly whether they find the venture of interest. Therefore, unless the summary is appealing and compelling, it may be the only section read, and you may never get the chance to make a presentation or discuss your business in person.

Leave plenty of time to prepare the summary. (Successful public speakers have been known to spend an hour of preparation for each minute of their speech.)

The executive summary usually contains a paragraph or two covering each of the following:

A. *Description of the business concept and the business.* Describe the business concept for the business you are or will be in. Be sure the description of your concept explains how your product or service will fundamentally change the way customers currently do certain things. For example, Arthur Rock, the lead investor in Apple Computer and Intel, has stated that he focuses on concepts that will change the way people live and/or work. You need to identify when the company was formed, what it will do, what is special or proprietary about its product, service, or technology, and so forth. Include summary information about any proprietary technology, trade secrets, or unique capabilities that give you an edge in the marketplace. If the company has existed for a few years, a brief summary of its size and progress is in order. Try to make your description use 25 or fewer words, and briefly describe the specific product or service.

B. *The opportunity and strategy.* Summarize what the opportunity is, why it is compelling, and the entry strategy planned to exploit it. Clearly state the main point or benefit you are addressing. This information may be presented as an outline of the key facts, conditions, competitors' vulnerabilities ("sleepiness," sluggishness, poor service, etc.), industry trends (is it fragmented or emerging?), and other evidence and logic that define the opportunity. Note plans for growth and expansion beyond the entry products or services and into other market segments (such as international markets) as appropriate.

C. *The target market and projections.* Identify and briefly explain the industry and market, who the primary customer groups are, how the product(s) or service(s) will be positioned, and how you plan to reach and service these groups. Include information about the structure of the market, the size and growth rate for the market segments or niches you are seeking, your unit and dollar sales estimates, your anticipated market share, the payback period for your customers, and your pricing strategy (including price versus performance/value/benefits considerations).

D. *The competitive advantages.* Indicate the significant competitive edges you enjoy or can create as a result of your innovative product, service, and strategy; advantages in lead time or barriers to entry; competitors' weaknesses and vulnerabilities; and other industry conditions.

E. *The team.* Summarize the relevant knowledge, experience, know-how, and skills of the lead entrepreneur and any team members, noting previous accomplishments, especially those involving profit and loss responsibility and general management and people management experience. Include significant information, such as the size of a division, project, or prior business with which the lead entrepreneur or a team member was the driving force.

F. *The offering*. Briefly indicate the dollar amount of equity and/or debt financing needed, how much of the company you are prepared to offer for that financing, what principal use will be made of the capital, and how the investor, lender, or strategic partner will achieve its desired rate of return. Remember, your targeted resource provider has a well-defined appetite, and you must understand the "Circle of Venture Capital Ecstasy" (Exhibit 5.1).

II. The Industry and the Company and Its Product(s) or Service(s) A major area of consideration is the company, its concept for its product(s) and service(s), and its interface with the industry in which it will be competing. This is the context into which the marketing information, for example, fits. Information needs to include a description of the industry, a description of the concept, a description of your company, and a description of the product(s) or service(s) you will offer, the proprietary position of these product(s) or service(s), their potential advantages, and entry and growth strategy for the product(s) or service(s).

A. *The industry*.

- Present the current status and prospects for the industry in which the proposed business will operate. Be sure to consider industry structure.
- Discuss briefly market size, growth trends, and competitors.
- Discuss any new products or developments, new markets and customers, new requirements, new entrants and exits, and any other national or economic trends and factors that could affect the venture's business positively or negatively.
- Discuss the environmental profile of the industry. Consider energy requirements, supply chain factors, waste generation, and recycling capabilities. Outline any new green technologies or trends that may have an impact on this opportunity.

B. *The company and the concept*.

- Describe generally the concept of the business, what business your company is in or intends to enter, what product(s) or service(s) it will offer, and who are or will be its principal customers.
- By way of background, give the date your venture was incorporated and describe the identification and development of its products and the involvement of the company's principals in that development.
- If your company has been in business for several years and is seeking expansion financing, review its history and cite its prior sales and profit performance. If your company has had setbacks or losses in prior years, discuss these and emphasize current and future efforts to prevent a recurrence of these difficulties and to improve your company's performance.

C. *The product(s) or service(s)*.

- Describe in some detail each product or service to be sold.
- Discuss the application of the product or service and describe the primary end use as well as any significant secondary applications. Articulate how you will solve a problem, relieve pain, or provide a benefit or needed service.
- Describe the service or product delivery system.
- Emphasize any unique features of the product or service and how these will create or add significant value; also, highlight any differences between what is currently on the market and what you will offer that will account for your market penetration. Be sure to describe how value will be added and the payback period to the customer—that is, discuss how many months it will take for the customer to cover the initial purchase price of the product or service as a result of its time, cost, or productivity improvements.
- Include a description of any possible drawbacks (including problems with obsolescence) of the product or service.
- Define the present state of development of the product or service and how much time and money will be required to fully develop, test, and introduce the product or service. Provide a summary of the functional specifications and photographs, if available, of the product.
- Discuss any head start you might have that would enable you to achieve a favored or entrenched position in the industry.
- Describe any features of the product or service that give it an "unfair" advantage over the competition. Describe any patents, trade secrets, or other proprietary features of the product or service.
- Discuss any opportunities for the expansion of the product line or the development of related products or services. (Emphasize opportunities and explain how you will take advantage of them.)

D. *Entry and growth strategy*.

- Indicate key success variables in your marketing plan (e.g., an innovative product, timing advantage, or marketing approach) and your pricing, channel(s) of distribution, advertising, and promotion plans.
- Summarize how fast you intend to grow and to what size during the first five years and your plans for growth beyond your initial product or service.
- Show how the entry and growth strategy is derived from the opportunity and value-added or other