

Business Plan Guide

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YES, you must do a business plan! A business plan has a split personality: it has to be both a pragmatic projection and a sales document. No, you don't write two different documents, one for "hype" to obtain financing and the other for "real." You have to accomplish both purposes in a single document.

A business plan is used for three reasons:

- To test the feasibility of a business.
- As a management tool.
- To raise money.

A business plan is a "living document". It has to be tailored for different audiences and it changes over time. Let's look at some of the factors that make a successful business plan.

- How a Business Plan is Read
- Factors for Business Success
- Audiences
- Five Steps to a Good Business Plan
- Outline of a Business Plan

How a Business Plan is Read

Business plans must be prepared well and they must be thorough. They demand a considerable commitment of your time and effort and you must put it in. There are no short cuts. Nevertheless, most business plans are not read in detail cover-to-cover. Potential investors will initially invest five minutes in reading it.

In order to get a feel for the people, technology, and market, they will do the following during the five minutes:

- Determine the characteristics of your company and industry.
- Determine the terms of the deal.
- Scan the financial projections.
- Determine the caliber of the people in the deal.
- Determine what is different about this deal.
- Give the plan a once-over lightly.

Factors for Business Success

Your business plan must demonstrate that you understand the factors that make a business successful:

Business Concept (You Meet a Need)

- Something new
- Something better
- An underserved or new market
- Increased integration

Understanding the Market

- Market readiness
- Demographics
- Size of market
- Price points

Industry Health

Capable Management

- Experience
- Realism
- Flexibility

Financial Control

Consistent Business Focus

- Mission/Vision/Values
- Strategy

Anticipating Change

- Technological changes
- Sociological changes
- Competitive changes

Audiences

You are writing your business plan first and foremost for yourself. It has to satisfy you and the people involved in your business. You are also writing it for funding sources. They look for different characteristics in a venture:

Entrepreneurs Forum of the Great Northwest

Lenders

- Character
- Cash Flow
- Collateral
- Contribution

Venture Capitalists

- Rates of return of 50% and greater.
- Investments of \$1 million and up.
- Liquidity within a relatively short time.
- The quality of the entrepreneur.
- A functionally balanced team.
- Proprietary characteristics.

Private Investors (Angels)

- Smaller investments (\$50K - \$1M).
- Opportunity for active involvement in company.

Five Steps to a Good Business Plan

1. Lay out your basis business concept.
 2. Gather data on the feasibility and specifics of your concept.
 3. Focus and refine the concept based on the data you compile.
 4. Outline the specifics of your business.
 5. Put your plan in compelling form.
 - the plan must sell itself in five minutes
 - the executive summary, the financials, and the management description must spark
- interest
 - Keep it short. No longer than 35 pages, 20 average.

Outline of a Business Plan

1. Table of Contents
2. Executive Summary

Highlights of the Business Plan on a Section by Section Basis

This includes stating up-front what "the deal" is: what you want and what you are giving.

Let the reader know:

- Your basic business concept makes sense.
- Your business itself has been thoroughly planned.
- The management is capable.
- A clear-cut market exists.
- Your business incorporates significant competitive advantages.
- Your financial projections are realistic.
- Investors or lenders have an excellent chance to get their money back.

Note: This is the most important part of the plan. You must create interest and understanding. Write the executive summary after you have finished the business plan. It should also be able to be used as a separate document.

3. Company Overview

Background

Company name

Legal form of business

Brief company history

Management/leadership (names).

Business location

Development stage (where you are currently at).

Financial status. Distinctive Competencies

Distinctive Competencies

Mission and Management Vision

Mission/Vision/Values

Strategy

Note: Writing this section could be the first real test of your ability to communicate the essence of your business. Lack of a clear description of the key concepts of your company indicates to the reader that you have not clearly defined your business in your own mind. Consequently, you must be certain that this section is clear and concise and accurately describes the substance of your new business.

4. Market Analysis

Market Definition and Opportunity

Description of primary industry

Size and growth rate of industry

Trends

Major customer groups
Sensitivity of economic cycles
Seasonality
Technological change
Regulation/certification
Supply and distribution channels

Market research/target market

- Define your market
- Critical needs (current satisfaction)
- Demographics
- Psychographic description (psychological factors)
- Primary target market size
- Market Penetration (rationale for estimates)
- Pricing/Margin targets
- Media through which target markets can be reached
- Purchasing cycle
- Trends and anticipated changes within target
- Secondary target markets

Competition

- Identification (product/service and segment)

- existing
- potential (window of opportunity)
- direct vs. indirect

- Strengths and weaknesses
- Competitive Position
- Importance of target market to competition
- Market share distribution
- Barriers to entry
- Regulatory environment

Note: Avoid criticizing your competition's products too severely in this section because the natural tendency of a reader will be to empathize with the unrepresented party - your competition.

5. Products and Services

Description of products or services.

- Benefits (needs satisfied)
- Competitive advantages
- Present stage (concept, development, prototype, testing)
- Product Life Cycle
- Copyrights, Patents, Trademarks, Licenses
- R&D Activities (current and future)
- Follow-on products (new products and upgrades)

Note: Do not over describe your technology. Products are more important than technologies and your marketing strategy is as important as your products. Your technology is important in so far as it is proprietary or cutting edge. The engineering details are best left to an attachment or another document.

6. Marketing and Sales Plan

- Overall Marketing Strategy

- Market Penetration (margins vs. market share)

- Growth Strategy

 - Internal

 - Acquisition

 - License

 - Horizontal

 - Vertical

- Distribution Channels

- Marcom

 - Promotion

 - Advertising

 - Collateral

Sales Strategy

- Sales Force (internal vs. external)
- Prospecting
- Sales Activities
- Current Customer
- Target Customers

7. Management and Organization

Management team/principals (describe briefly, leave resumes as attachments)

- Position
- Responsibilities
- Unique skills and experiences
- Planned additions
 - Position and timing
- Board of directors
 - Background and involvement
- Advisors
 - Attorney, CPA, Consultants
- Consultants and other specialists
- Organizational chart
 - Management structure and style
 - Policy and strategy
 - In-house vs. outsource

8. Operation Plan

- Operational Objectives/Milestones
- Facilities
- Product Development
- Technology utilization
- Manufacturing or production
- Supply and distribution
- Order fulfillment and customer service
- Research and development
- Financial Control

Note: Some of the biggest challenges and rewards involved the people in your organization. Building a proper organizational structure in the beginning and planning for its evolution will help to minimize future personnel problems and keep the critical human element of your business in top form.

9. Long-Term Development and Exit Plan

- Goals
- Strategies to meet goals

- Priorities
- Milestones
- Risk evaluation
- Exit plan; how do investors get their money back

10. Structure and Capitalization

- Business structure
 - Legal form
 - Current capitalization table
- Capital requirements
 - Current funding requirements
 - Projected Future Funding
 - Expected Source of Funds

Use of Funds

- Product development

- Sales and marketing

- Working capital

- Capital expenditures

- Acquisitions/Licensing

Impact on Balance Sheet

The deal: (what you want and what you will give)

- Terms of transaction

- Debt or equity

- Type of security

Note: Do not be afraid to be creative in developing financing strategies as long as they are reasonable. Just keep the business objectives of your readers in mind and remember that the details of the funding will probably be worked out later.

11. Financial Plan: 3 to 5 Years and Historical

- Income statements

- Balance Sheet

- Cash Flow

- Assumptions

- Break-even analysis

Note: A break-even analysis is a critical calculation for every small business. Rather than calculating how much your firm would make if it obtained an estimated sales volume, a more meaningful analysis determines at which sales volume your firm will break even. Don't assume a sales volume and determine your profits; do it in reverse; determine the sales volume necessary for your firm to break even.

12. Attachments

- Letters of intent/key contracts

- Endorsements

- Photos/Videos

- Product Demos

- Market research results

- Resumes of key managers

- Technical information

- Manufacturing information

- Marketing material

Note: Keep these to the minimum. Don't let attachments make your plan look too bulky. It will discourage readership.

Mr. Bennet is co-founder and Principal of Bodega Partners, a management consulting firm specializing in strategic and business planning services for software, Internet, and other high technology growth companies. As part of his consulting work, Mr. Bennet has held the positions of President, COO, CFO, and VP of Business Development for several early stage technology ventures. Prior to forming Bodega Partners, his experience included positions in software product marketing and corporate finance. He held the position of product manager at IMS, a database software company. He was Senior Financial Analyst at Digital Microwave Company, a manufacturer of digital microwave radios for cellular telephones and other wireless products. He began his career as a tax consultant with Arthur Andersen.

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Harvard Business School definitions of the stages of investment (1987)

Seed Financing is the earliest stage of funding. A small investment (typically \$25,000 to \$300,000) is made to support an entrepreneur's exploration of an idea. Often there is no business plan, an incomplete management team, and little assurance that the basic technology is feasible. Sometimes, when the product technology is well-established, seed money is raised simply to finance the recruitment of key management and the writing of a business plan, both of which are generally necessary for startup funding. See investors expect to provide basic business advice, and perhaps even office facilities, for their entrepreneurs. Seed investors often apply discount rates of over 80% to the projects in which they invest. [I.e., they expect a return of over 80% over the course of their investment.]

Startup Financing entails the commitment of more significant funds of an organization that is prepared to commence operations. A startup should be able to demonstrate a competitive advantage. Most high-technology firms should have a product in prototype form embodying a proprietary technology. A research-oriented venture, such as a biotechnology firm, might instead exhibit an impressive research staff. Low-technology ventures, such as specialty retailing or entertainment, should have a powerful concept with pre-emption advantages and a superior management. Investors in startup ventures frequently provide assistance to management in recruiting key personnel, establishing sound management practices, and providing access to suppliers, banks, and potential customers. Startup investors apply discount rates of 50% to 70%.

First-Stage Financing is provided to on-going businesses. A first-stage company is generally not profitable, but it normally has an established organization, a working product, and, preferably, some revenues. First-stage funds are usually used to establish a company's first major marketing efforts, and to hire sales and support personnel in anticipation of higher sales volume. Often, funds are also applied to product enhancements or product line expansion. First-stage investors attempt to monitor closely a venture's head count, ensuring that staffing levels correspond to attainable sales levels. They often become more actively involved as problems develop in production or sales, and are prepared to replace key managers as necessary, sometimes filling in key positions themselves while searching for new managers. Discount rates applied to a first-stage venture are generally 40% to 60%.

Second-Stage Financing is typically provided for working capital and fixed asset needs to support the growth of a company with active production, sustainable sales, and, preferably, some profits. Whereas earlier-stage funds were largely dedicated toward proving a venture's viability, second- and later-stage capital is oriented towards the expansion of a tested contender. Since the capital invested in the later stages is more likely to pay for assets rather than operating expenses, it is more readily recoverable in the event of liquidation, thus lowering the overall risk to investors. Second-stage investors do not generally expect to become actively involved in problem-solving as often as first-stage investors. They do monitor performance closely, generally by

comparison to a business plan. Discount rates for second-stage investments range from 30% to 50%.

Bridge Financing is intended to carry a company until its initial public offering (IPO). Although an IPO is not yet appropriate due to market timing or the size and performance of the company, it is generally expected within a year after the bridge. Bridge investors might provide funds to satisfy ongoing capital needs, with an expectation of selling out again in the IPO as part of a secondary offering (an offering of shareholders', as distinct from company, stock). Alternatively, bridge investors might apply some or all of their funds to buy out early-stage investors who are anxious to liquidate their holdings. Such an investor often expects to hold the stock past the IPO date, as a long-term investment. Bridge investors are generally passive investors. They apply discount rates of 20% to 35%.