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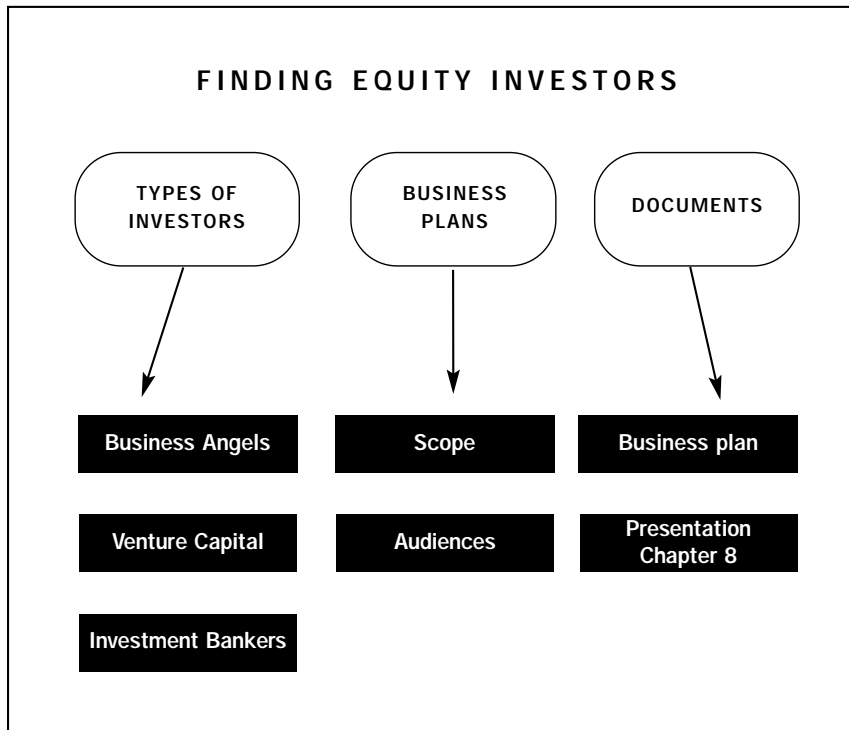
SUMMARY

Advanced Organizer

In Chapter 2 we offered a general roadmap to financing and discussed the relative size of different equity markets. In this chapter we provide more detailed information about how to find and approach various types of equity investors, whether they be business angels, institutional venture capital firms, or investment bankers. We also provide information on how to develop an appropriate business plan. Regardless of which form of equity financing you choose to pursue, you will still need a good business plan. Many documents are called “business plans,” but most fit the bill in name only. The basic plan, with which we conclude this chapter, has been used with over 400 small businesses. Business plans developed using this methodology are frequently rated in the top 20% of business plans seen by investors.

Please note that the outline for a business plan included in this chapter is intended for use in the post-ATP-award period ONLY. Please be sure to consult ATP’s proposal preparation guidelines if you are preparing a business plan to include with the ATP proposal.

FIGURE 7 - 1: ADVANCED ORGANIZER FOR EQUITY



This chapter is intended to expand and enhance the preliminary plan developed as part of the ATP proposal into a robust operating plan which can be used for both internal and external applications.

Finding Your Wings: How to Locate Private Investors to Fund Your Venture, by Gerald A. Benjamin and Joel Margulis. John Wiley and Sons: (800) 225-5945.

Business angels invest their own money and tend to shield themselves from the barrage of needy companies. Intermediaries are frequently used as a filter.

Business Angels

Who Should Approach Business Angels?

As we mentioned in an earlier chapter, there are three types of entrepreneurial companies: the life-style firm, the foundation company, and the high-potential venture. Any of these entities could benefit from approaching a business angel. A life-style company might approach an angel for a loan, whereas a foundation company or high-potential venture might approach an angel for an early-stage equity investment. If relatively small amounts of money are needed (defined as amounts under \$500,000), an entrepreneur might be best served by approaching a business angel.

How Do You Find a Business Angel?

Unlike banks or venture capital firms, business angels do not publish their addresses and phone numbers. Investing is not the primary activity of business angels, but something they do on the side. Angels will either seek investment opportunities on their own or work through intermediaries that serve as both buffers and filters. According to a study conducted by William Wetzel in 1984, the most common sources of referrals are friends, business associates, or active personal searches. Other, less-used sources include investment bankers, business brokers, commercial bankers, attorneys, and accountants.

How do you find an angel? Look close to home—within a 50-mile radius. Network with your colleagues. Ask your accountant, lawyer, doctor, or other successful entrepreneurs in the community who they think might invest in start-ups. Visit or call these potential investors—and take your business plan with you. You might also become a member of a computer matching service, and attend venture capital club meetings.

The Technology Capital Network at MIT

The Technology Capital Network at MIT is a database that acts as an intermediary between entrepreneurs and investors. Information on venture capitalists and other funding sources are entered into a database, along with data on entrepreneurs, for a subscription period of at least one year. Each time a new subscriber arrives, whether investor or entrepreneur, a run is made through the entire database to find matches between entrepreneurs seeking funding and investors seeking viable alternatives. Prior matches are screened out to avoid duplicate matchmaking.

Matches are made against a profile of each entrant. A questionnaire is used for both investors and entrepreneurs. Entrepreneurs must also provide a copy of the

Executive Summary from their business plans, and one-page financials.

When a match is found, general material describing the entrepreneur and the opportunity is mailed to the matching capital sources. When the capital source(s) indicate(s) further interest, the name of each party is supplied to the other, and they are left to arrange meetings and follow up. One popular matching service is ACE-Net.

The Technology Capital Network has been at MIT since 1990. In essence, it is a transplanted version of the Venture Capital Network of the Center for Venture Research at the University of New Hampshire. The database currently contains approximately 250 names, with a ratio of two entrepreneurs for each investor. Funding of this network is accomplished through fees and sponsors. The fees are \$300 per year for entrepreneurs, \$350 per year for private investors, and \$700 a year for professional investors (both companies and venture capital funds). Sponsors include the Digital Equipment Corporation (the primary sponsor) and the Commonwealth of Massachusetts.

Venture Capital Clubs

The business angel community is quite different in other parts of the country. In New York State, for example, one can find out about meetings of the informal venture capital community by contacting any local Chamber of Commerce. Other states lack formal relationships with the angel community, however, so other approaches are required there.

To find out if there are venture capital clubs in your area, contact the National Venture Capital Association. Venture capital clubs tend to meet on a monthly basis and invite two to four entrepreneurs who are interested in raising money to come and make a 15-minute presentation to a group over breakfast. The audience will often include many service providers, but enough business angels should be present for you to begin the process of networking locally.

How Do Angels Make Money?

Investment is not a full-time endeavor for business angels, so the angel market tends to be less sophisticated than the professional venture capital (VC) market. Nevertheless, business angels look for a Return on Investment (ROI) in a similar fashion to the VC community. Angels' terms and conditions are often more lenient than those of institutional venture capitalists.

National Venture Capital Association (NASBIC)
(703) 351-5267.

Be selective when contacting institutional investors. Contact those venture capital firms which invest in your:

- ▶ **geographic region**
- ▶ **industry**
- ▶ **stage of development**

Pratt's Guide to Venture Capital, edited by Daniel Bokser, Securities Data Publishing, (800) 455-5844.

Venture Capital Resource Library
<http://www.vfinance.com>

Institutional Venture Capital Community

There are approximately 1,000 institutional investment companies in the U.S. Some of these are partnerships, others are affiliated with large corporations, and still others are affiliated with the government (SBIC—Small Business Investment Corporations, and MSBIC—Minority Small Business Investment Corporations). Such funds are usually staffed by professional money managers who make decisions regarding the investment of other people's money in businesses that have a high promise of return. The funds they invest typically come from pension funds, corporations, and insurance companies. It is for this reason that most professional venture capital funds prefer to enter at the level of Second Stage Financing, and not before.

How to Find Out About the Venture Capital Community

Venture capitalists are full-time professionals and make their whereabouts well-known. Rather than approaching venture capitalists cold, however, it is best to have a personal introduction; also, make sure you have a solid business plan that's ready to distribute. A primary source for locating venture capitalists is *Pratt's Guide to Venture Capital*. This source is updated annually, and is found in the reference section of most libraries. *Pratt's Guide* lists investors by technology, service areas of interest, and geographic location. You will find the name, address, fax, and phone number of appropriate contacts, plus information regarding the level of investment that they make, the kinds of financials that they wish to see, and whether they are currently making any investments.

Processes and documents

Venture capitalists see hundreds of business plans in any given week. Most of the plans don't make it past a cursory review. According to *Pratt's Guide*, 60% are rejected after a 20-30 minute scanning, and 25% are discarded after a lengthier review. The remaining 15% are looked at in more detail, and of these, 10% are dismissed due to disqualifying flaws in the management team or the business plan. Only 5% are considered to be viable investment opportunities and 3% result in successful financing.

Again, your firm must have a management team before it seeks out institutional venture capital, since sole proprietorships are NOT of interest to the VC community. Your management team must have an appropriate balance of experience and authority, such that it can cover all of the following: marketing and sales, research and development, operations, and finance and administration.

If you get to first base with a venture capital investor and follow due diligence, you will need to draft a number of documents as part of the follow-through process:

- ▶ Letters of Intent
- ▶ Financing Agreements
- ▶ Operating Covenants

Investment Bankers

The Private Placement

High-potential ventures and foundation companies may find private placements to be a good financing option. Private Placements and Initial Public Offerings (IPOs) involve the SEC, a quasi-judicial administrative agency of the Federal government—as well as the SEC's counterpart organizations in each state. SEC-regulated financing methods are complex, and so are best avoided by life-style firms. For an excellent discussion of this topic, you may wish to pick up a copy of *The Entrepreneur's Guide to Going Public*, by James B. Arkebauer.

To understand private placements, one needs to understand some of the legislative background of the SEC. The Securities and Exchange Commission was formed in 1934 pursuant to the **Securities Exchange Act of 1933**. The purpose of this Act was to form an entity that would guard against fraudulent sales practices, supervise the registration of securities, and regulate the over-the-counter and securities markets. The New York Stock Exchange (NYSE), American Stock Exchange (AMEX), the National Association of Securities Dealers Automated Quotation System (NASDAQ)—as well as the Over-The-Counter (OTC) markets—are all regulated by the SEC and its regional offices. The SEC and the Act of '33 require that when securities are sold, information be fairly and fully disclosed to the public. Companies comply in many ways, including an elaborate and expensive registration process, the preparation of a document referred to as a prospectus, and by heeding limitations on other information it may divulge once an underwriter has been signed.

Due to the inability of many small companies to participate in the costly IPO process, new legislation—the Small Business Investment Incentive Act—was passed in 1980. One of the results of the law was that in 1982, the SEC implemented an exemption referred to as **Regulation D**, or **Reg D** for short. It had positive implications for small business that are described in Arkebauer's book. In 1988, still other revisions were implemented, making it easier still for small businesses to engage in equity fund-raising.

An important caveat to mention here is that every state has its own laws, referred to as "blue-sky" laws, which also affect the sale of securities. Be mindful that there are both state and federal regulations, as well as registration processes, for each. You are advised to consult a corporate attorney who specializes in SEC issues to guide you through this process.

Regulation D clarifies exemptions to the SEC regulations as articulated in the Act of '33, and provides the basis for Private Placements. There are six rules that constitute Regulation D:

- | | |
|----------|---|
| Rule 501 | definitions and terms |
| Rule 502 | conditions, limitations, and information requirements |
| Rule 503 | SEC notification requirements |
| Rule 504 | raising money through securities sales up to \$1 million |
| Rule 505 | raising money through securities sales of between \$1 and \$5 million |
| Rule 506 | raising money through securities sales over \$5 million |

For detailed descriptions of each of these rules, you may wish to read Arkebauer's book and contact a regional or state SEC office for information on the registration process for Private Placements (Regulation D) and other SEC exemptions. You might also request a copy of a small brochure called **Q&A: Small Business and the SEC**, from your regional SEC office. Contact information for the 12 regional offices is listed below:

<p>Securities & Exchange Commission Northeast Regional Office 7 World Trade Center, 13th Floor New York, NY 10048 (212) 748-8000 e-mail: newyork@sec.gov</p>	<p>Securities & Exchange Commission Southeast Regional Office 1401 Brickell Avenue, Suite 200 Miami, FL 33131 (305) 536-4700 e-mail: miami@sec.gov</p>
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<p>Securities & Exchange Commission Boston District Office 73 Tremont Street, Suite 600 Boston, MA 02108-3912 (617) 424-5900 e-mail: boston@sec.gov</p>	<p>Securities & Exchange Commission Atlanta District Office 3475 Lenox Road, N.E., Suite 1000 Atlanta, GA 30326-1232 e-mail: atlanta@sec.gov</p>
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<p>Securities & Exchange Commission Philadelphia District Office The Curtis Center, Suite 1120 East 601 Walnut Street Philadelphia, PA 19106-3322 (215) 597-3100 e-mail: philadelphia@sec.gov</p>	<p>Securities & Exchange Commission Midwest Regional Office Citicorp Center 500 West Madison Street, Suite 1400 Chicago, IL 60661-2511 (312) 353-7390 e-mail: chicago@sec.gov</p>
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**Securities & Exchange Commission
Central Regional Office**

1801 California Street, Suite 4800
Denver, CO 80202-2648
(303) 844-1000
e-mail: denver@sec.gov

**Securities & Exchange Commission
Fort Worth District Office**

801 Cherry Street, Suite 1900
Fort Worth, TX 76102
(817) 978-3821
e-mail: dfw@sec.gov

**Securities & Exchange Commission
Salt Lake District Office**

500 Key Bank Tower
50 South Main Street, Suite 500,
Box 79
Salt Lake City, UT 84144-0402
(801) 524-5796
e-mail: saltlake@sec.gov

**Securities & Exchange Commission
Pacific Regional Office**

5670 Wilshire Boulevard, 11th Floor
Los Angeles, CA 90036-3648
(213) 965-3998
e-mail: losangeles@sec.gov

**Securities & Exchange Commission
San Francisco District Office**

44 Montgomery Street, Suite 1100
San Francisco, CA 94104
(415) 705-2500
e-mail: sanfrancisco@sec.gov

In addition, be sure to contact the appropriate organization to determine filing fees and regulations that your state has for Private Placements. A source you can consult for such information is **The National Directory of Addresses and Telephone Numbers**, which you can find in most libraries at the reserve desk. It lists the telephone numbers for many state agencies.

A contact list for a few selected states follows here.

Arizona

Arizona Corporation Commission
1300 W. Washington
Phoenix, AZ 85007
(602) 542-4242

Massachusetts

Massachusetts Securities Division
Room 1701
One Ashburton Place
Boston, MA 02108

California

Department of Corporation
3700 Wilshire Blvd., 6th Floor
Los Angeles, CA 90010
(213) 736-3015

Ohio

Ohio Division of Securities
77 S. High St., 22nd Floor
Columbus, OH 43266-0548
(614) 644-7381

Colorado

Colorado Division of Securities
1580 Lincoln, Suite 420
Denver, Colorado 80203
(303) 894-2320

Initial Public Offerings

When a firm conducts an Initial Public Offering (IPO) or *Goes Public*, the life of that firm will never be the same. From that day forward, the company will have many owners, all of whom need information about every aspect of the business and all of whom will have a say in the future of the company. Management teams that are unwilling to share control of their business—as well as its risks and rewards—are not good candidates for an IPO. On the other hand, the rewards of going public are many. It is a means for recapitalizing a firm, and for appreciating a company's stock value. Going public brings prestige and glamour to a company. It is a good strategy to use if positioning for an acquisition or a merger. It is also the primary vehicle used by the venture capital community for "cashing out." The downside, as mentioned previously, includes loss of control, strict disclosure requirements, and cost—of both initiating the IPO and operating as a public company afterwards.

"Technology-driven companies, especially start-ups need more capital at a much faster rate than their low-tech counterparts. The reason is straightforward....they have a narrow window of opportunity in an environment that sees new technologies daily."

Technology & Jobs Agenda
<http://www.ilcoalition.org/sec1.htm>

The costs associated with IPOs fall into four categories:

- ▶ Underwriter costs
- ▶ Professional costs
- ▶ Up-front costs
- ▶ Hidden and future costs

An underwriter is an investment banker or a broker/dealer who serves as an intermediary between a) the company offering securities for sale, and b) the investing public that purchases them. The **underwriter's fee**, sometimes referred to as a **commission or underwriter's discount**, is a percentage of the value of the stock sold. For smaller offerings, the current standard is approximately 10%. In addition, the underwriter receives an expense allowance ranging from 1 to 4% of the amounts raised in the IPO. Thus, if your IPO were for \$10 million, the underwriter's discount at 10% would be \$1 million. The expense allowance of the IPO, say 2%, would be an additional \$200,000. So in this case, the total underwriter's cost would be \$1.2 million.

A few additional notes on IPO fees and documentation:

Professional fees include the cost of attorneys and accountants, and can vary widely—between \$20,000 and \$200,000, depending on the size of the issue. Professional expenses are in large part determined by the amount of corporate cleanup resulting from previous arrangements, poor record-keeping and related complexities.

Up-front fees include costs for printing the Registration statement, the document referred to as a **red herring**, and the definitive prospectus. The total printing costs can vary between \$10,000 and \$40,000. There are also filing fees with the SEC, the state, the National Association of Securities Dealers, and other entities. Many of these fees are expressed as a percentage of the total amount of the offering.

After the IPO, the company will have the continued obligation to prepare and print a variety of disclosure documents, including a **Form SR: Application of Proceeds; Form 8-K: Current Reports; Form 10-K: Annual Report; Form 10-Q: Quarterly Report**. As a result, a publicly traded company needs to add staff or contract with a financial public relations firm to produce such documentation throughout the life of the public company. The role of management also shifts, to assure that good relationships are maintained with the shareholders.

Arkebauer calculates that, for smaller offerings, total costs and expenses can reach 24% to 39% of the offering. Choosing a private placement rather than an IPO can obviate the need for many of these expenses, restrictions, and reporting requirements.

Tools to use with Equity Investors

The following section contains a description of and the outlines for various tools that you will need to interest equity investors, or to assist in your negotiations with them.

The Business Plan

To be useful, a business plan must be very specific, for only in the presence of detailed information can one ascertain customer needs and develop strategies, costs, and realistic financial goals. This need for specificity means that you should limit the scope of your business plan, however. For example, suppose you have developed a rich technology platform that has diverse applications in the automotive, computer, and chemical industries. Furthermore, suppose you wish to pursue different commercialization strategies with each application—licensing to the automotive industry, equity financing to manufacture a component for use in the computer industry, and a joint venture with a large firm in the chemical industry. The question is whether you should develop one business plan or three. In order to make the business planning process productive and manageable, the answer is three: one plan around each of the three different applications. If you tried to tackle all three concurrently, the information would be kept at the macro level, resulting in a superficial, misleading treatment of the opportunities. Technology-rich companies are best served by developing plans around a) lines of business, b) strategic business units, or c) product lines aimed at similar markets.

Scope also refers to time. Business plans have a five-year horizon. In other words, they reflect a course charted for a five-year period. The operational plans for the first year are usually expressed in great detail, and in a more general fashion for years two through five. Business plans should be revisited annually (if not more frequently), and adjustments made in light of new information acquired during the realization of the first year's goals and objectives.

A business plan is the result of a rigorous planning process. As in science, the document produced is only as good as the research that precedes it. To merely package the information that you currently have without first testing your hypotheses and assumptions would be tantamount to writing a conclusive technical paper based on the hypotheses and assumptions that precede rigorous scientific inquiry. Detailed guidelines for conducting the business research which precedes the development of an excellent business plan can be found in *Business Planning for Scientists and Engineers* (Servo, 1999). Section 3 of this ATP guide includes activities to help the entrepreneur develop a more detailed picture of his or her business opportunity.

Commercialization Plans vs. Business Plans

Companies often confuse *business plans* with *commercialization plans*. The two are not the same, even though they do have a direct bearing on one another. A commercialization plan is a strategic statement of how you will bring one or more technologies to market. It is a strategic overview that often includes an analysis of which applications and which markets are likely to mature first. By contrast, a business plan is detailed and charts a clear, specific path to realizing financial reward around well-defined opportunities. Each business plan will tie back to the commercialization plan. In summary, a commercialization plan is macro, the business plan is micro; a commercialization plan is global, a business plan is specific; and a commercialization plan encompasses a whole technology, while a business plan is tied to lines of business.

The Prospectus vs. The Business Plan

Confusion often arises between a business plan and a **prospectus**. A prospectus is a stylized, public, disclosure document developed in accordance with the guidelines of the Securities and Exchange Commission. It is developed specifically for an external audience of unqualified and qualified investors—investment bankers place much emphasis on this document. “Buyer beware” is the message that the prospectus must portray. The focus of the document is full disclosure of financials, money requested and how it will be used, risk, and the management team. The prospectus does not address the market, customers, or operational plans in the fashion described in the business plan. Nevertheless, a business plan is an important document for companies wishing to go public. It is a necessary document for gaining the interest and involvement of viable underwriters.

Who Should Develop a Business Plan?

The founder of a small company is often overextended, and often looks to others to draft a business plan for the company. When money is readily available, a founder usually hires a consultant. When funds are tight, however, a founder often tries to involve someone else in developing the plan “on-spec”—that is, to invest his/her time working on the plans in exchange for a job or an equity position in the firm. If you are the founder, develop your business plan yourself—no matter how appealing these other options may seem. As the leader of your firm, you must be directly and intimately involved. Business planning is a transformational process, and if you are not involved, you will fail to grow with your business. If you are serious about developing a good business plan, you must begin by setting aside time on a weekly

This outline is to be used in the post-ATP-award period ONLY. Please consult ATP's proposal preparation guidelines if you are preparing a business plan to submit as part of an ATP proposal.

No matter how appealing it may be to have someone else develop a business plan for your company, you must do it yourself.

basis to complete various tasks associated with the business planning process.

At the same time, being involved does not mean that you should proceed without help. Quite the contrary. In order to be able to add this activity to an already busy schedule, you must look for ways to leverage your time—by finding an appropriate way of involving others.

What Format Do I Follow?

We have included two versions of a business plan outline on the following pages to familiarize you with what the end product should look like. When reviewing these outlines, keep in mind that any business plan is only as good as the research that precedes it. If you merely package the hypotheses and assumptions that you currently have, you will have missed the point. Once again: a good business plan requires good business planning.

Why two business plan outlines? The first provides you with an overall look at the structure of the document. When used as a selling tool, the purpose of this general business plan is to create a logical case for investment. Section 2 of the plan states who you are and what you have. Sections 3 to 5 constitute the market assessment. The purpose of the market assessment is to demonstrate that you have first-hand experience with your customers and that there are enough of them who are ready, willing, and able to buy your product, technology, or service. Sections 7 to 10 indicate how your company will realize this opportunity, and consist of a set of operational plans for each functional area. Section 11, the contingencies section, indicates that you have thought through responses to various impediments that may arise, and that you recognize that any business is fallible. Section 12, the financials section, builds on everything that has gone before. Revenue streams are identified, and costs are clarified for each functional area. This section is a numerical presentation—the one that articulates how you will grow the company and provide a return on investment (ROI) for you and your investors.

The second plan outline provides the elements of a good business case in more detail. The items in italics are topics to be addressed in whatever sequence seems most appropriate.

BUSINESS PLAN OUTLINE (GENERAL)

1. Executive Summary
2. Company & Technology
3. Customers
4. Market
5. Industry Analysis
6. Competitors
7. Marketing/Sales Plan
8. R&D Plan
9. Manufacturing/Engineering Plan
10. Human Resource Plan
11. Contingencies
12. Financials
13. Appendices
14. References

BUSINESS PLAN OUTLINE (DETAILED)

Cover Page

Table of Contents

1. EXECUTIVE SUMMARY

2. COMPANY & TECHNOLOGY

2.1 Brief company introduction

- ▶ *Mission*
- ▶ *Location, size, history*
- ▶ *Overview of company capabilities*
- ▶ *Customers & past performance*

2.2 Product or technology description

- ▶ *Brief description*
- ▶ *Present state of development*
- 2.2.1 Intellectual property status

2.3 Commercialization strategy

3. CUSTOMERS

3.1 Customers & end-users

- ▶ *Description and geographic distribution*
- ▶ *How need is currently filled*

3.2 Buying behavior

- ▶ *Decision makers*
- ▶ *Influencers*
- ▶ *Basis for purchase decisions*
- ▶ *Frequency of purchase decisions*

4. MARKET

4.1. Market definition

- 4.1.1. Primary market
- 4.1.2. Secondary markets

4.2. Market size and trends - Primary market

- ▶ *Current total and served-available markets*
- ▶ *Predicted annual growth rate*

5. INDUSTRY ANALYSIS

5.1. Industry definition and description

- ▶ *Relevant SIC*
- ▶ *Current industry status*
 - New products and developments within the industry*

5.2. Legislation and policies driving the industry

- ▶ *Future and historical trends*

6. COMPETITORS

6.1. Indirect competitors

6.2. Direct competitors

- ▶ *Who are they?*
- ▶ *Strengths and weaknesses*
- ▶ *Market share of competitors*

7. MARKETING/SALES PLAN

7.1. Marketing & sales objectives

7.2. Current customers (if appropriate)

7.3. Potential customers

- ▶ *Customers targeted for intensive selling efforts*
- ▶ *How other customers will be identified and qualified*
- ▶ *Product features emphasized and contrasted with competitors*

7.4. Analysis of potential teaming partners

- ▶ *Who are they?*
- ▶ *Basis for selection: strengths, weaknesses, and synergies*

7.5. Pricing

- ▶ *Basis for targeted price point*
- ▶ *Margins & levels of profitability at various levels of production and sales*

7.6. Sales Plan

- ▶ *Sales force analysis (reps, distributors, direct)*
- ▶ *Sales expectations for each salesperson and each distribution channel*
- ▶ *Margins given to intermediaries*
- ▶ *Service and warranties*

- ▶ *Organizational chart for sales/marketing staff, indicating planned growth for 3 - 5 years*

7.7. Advertising

- ▶ *Year 1: Detailed Marketing Communications plan*
- ▶ *Year 2 - 5 (general)*

7.8. Sales/Marketing Budget*

- ▶ *Assumptions*

8. R&D PLAN

8.1. R&D Objectives

8.2. Milestones and current status

- ▶ *What remains to be done to make the product marketable?*

8.3. Difficulties and risks

8.4. Staffing

8.5. R&D Budget*

- ▶ *Assumptions*

9. MANUFACTURING/ENGINEERING PLAN

9.1. Objectives

9.2. Use of Subcontractors

9.3. Quality control

9.4. Staffing

9.5. Manufacturing/Engineering budget*

- ▶ *Assumptions*

10. HUMAN RESOURCE PLAN

10.1. Staffing Objectives

10.2. Organizational structure - over 3-5 years

- ▶ *Introduction of management team*
- ▶ *Key individuals to be recruited and plans for recruiting*
- ▶ *Board of Directors, Advisory Board*
- ▶ *Incentives for commitment*

10.3. Human Resource Budget*

- ▶ *Assumptions*

11. CONTINGENCIES

11.1. Potential Risks

- ▶ *Impact and responses*

12. FINANCIALS

12.1. Financial Objectives

- ▶ *Commercialization strategy*
- ▶ *Use of fund*
- ▶ *Terms & conditions of any previous financing arrangements*

12.2. Pro Forma Profit & Loss statements

12.3. Pro Forma Cash Flow projections

12.4. Pro Forma Balance Sheet

12.5. Alternative return scenarios

- ▶ *Exit scenarios*

Appendices

References

* In the initial draft of the business plan, include the budget for each functional area at the end of each section as indicated. In the final draft you may prefer to remove these individual budgets and weave them into the financials, in Section 12.

Executive Summary

Investors often start by reading **ONLY** your executive summary and financials—then they make a decision as to whether they should read the rest of the plan. Because the executive summary is so important, we include a suggested outline of one below. The summary should be no longer than three pages in length, and may include figures and tables.

Company & Background

- company location and mission statement, sustainable competitive advantage
- background on core technology
- commercialization strategy

The Market Opportunity

- market need
- market size and trends

Management Team

- key players and relevant background
- highlights and accomplishments

Investment Highlights

- what level of financing you seek
- how funds will be used
- what type of partner/investor you seek
- why this is a good opportunity

Get Feedback on the Plan

Once you have your first draft of the plan, do **NOT** give it directly to a potential investor to read. It will be too long and cumbersome. Give it to others—including members of your team and board members for feedback. Tell them that you know it is too long, but that you would like to know their reaction to the content—with specific attention to all of the action plans that you have mapped out for the company. Gather their feedback, and use it to re-evaluate your course of action.

Revising the Plan

The next draft of the business plan should be the one you prepare for distribution. This is the point at which you must pay attention to page limits. The way to reduce the length of your plan is to use graphics, tables, and charts wherever you can and relegate some information to appendices. In this final iteration, form becomes vital. As you work on the final draft, you should keep in mind an old Marshall McLuhan cliché: “The medium is the message.” In other words, you should remember that the appearance of the document, i.e., the form in which the business plan is presented, tells the potential investor something about you. Furthermore, it affects the attitude with which he or she will read your document. It determines whether your plan stands out among the hundreds of others the investor has to review. The messages you want to leave with the investor are that you: 1) have a technology that is of value; 2) are an excellent technologist; 3) are also a business person, and are sensitive to market issues, design, engineering, and production costs; 4) have an opportunity for him or her to consider; and 5) have a good firm with which to work.

Some general guidelines are listed below:

- ▶ Adopt a style that you will use throughout.
- ▶ Use a type font and point size that are easy to read.
- ▶ Whenever possible, represent market data by use of pie charts, tables, and other figures.
- ▶ Represent development time lines with Gantt and PERT charts.
- ▶ If you have too much data for some sections of the plan, place them in the Appendices. The document should read smoothly and not appear to go off on many tangents.
- ▶ Make sure the document photocopied well.
- ▶ Consider the use of color.

Due to their proprietary nature, we could not include in this Guide a copy of any of the business plans we have helped to develop. Nevertheless, we hope our guidelines will give you a sense of what is required.

Guidelines for Business Plan Revisions

Listed below are some general guidelines regarding page lengths.

1. Executive summary	2 - 3 pages
2. Company & Technology	3 pages
3. Customers	2 - 3 pages
4. Market	2 - 3 pages
5. Industry analysis	1 page
6. Competitors	2 - 3 pages
7. Marketing/sales plan	3 - 4 pages
8. R & D plan	2 - 3 pages
9. Manufacturing/Engineering plan	2 - 3 pages
10. Human resource plan	2 - 3 pages
11. Contingencies	1 page
12. Financials	3 - 4 pages

How to Use Your Business Plan

Do not "overshop" your business plan. In other words, do NOT send it out to every venture capitalist in your geographic area. Be selective. Your opportunity should generate excitement and be something which only the appropriate audience sees.

Your business plan has both internal and external value. Since the external value is the primary purpose, we will discuss the external application first. Your business plan should be valid for approximately one year. (At the end of that period, you should reassess the situation and revise the plan as necessary.) During the course of the year, your business plan will serve as a very important selling document. You should distribute it with great care, however, as it contains very complete information on your business. Listed below are some general guidelines for distribution.

Distribution protocols

- (1) Distribute your plan only to those who have demonstrated a sincere interest in your technology/product. Gauge their sincerity by the confidence and trust they engender.
- (2) Keep track of all your business plan copies by number, recording their distribution in a log. Request their return within 30 days. Extend on an exception basis only.
- (3) Clearly mark each business plan copy in the following manner:
Proprietary, Confidential, Not to be Duplicated.
- (4) Ask any person to whom you are considering giving the plan to sign a confidentiality agreement. If the individual has any problem doing so, you can remove the more sensitive sections of your plan.

How to Create Opportunities for Distributing Your Plan

During the development of your plan, you will have taken several steps “to get close to the customer.” This should be an ongoing activity. In the process, it is likely that you will find potential teaming partners. If you are particularly impressed with a potential customer, explore whether the customer has any interest in developing a relationship (research and development partnership, licensing, or other teaming arrangements). At this point, you are looking to create a sponsor. If there appears to be interest, ask the potential sponsor to sign a confidentiality agreement. Although some companies are reluctant, they do sign confidentiality agreements if the prospects look promising. Once the agreement has been signed, share your business plan with the company following the protocols outlined above.

If a potential sponsor is reluctant to sign a confidentiality agreement, you could provide him with an abbreviated copy of your Executive Summary to whet his appetite. Be sure that the summary provided on this basis contains no proprietary information. Once a confidentiality agreement has been signed, some companies provide only the abbreviated financials in the financials section of the plan, placing the complete set in an appendix.

How Do You Know If You Are Making Progress?

The following steps indicate increasing interest on the part of a potential sponsor:

- (1) Potential sponsor signs a confidentiality agreement
- (2) Site visits—needs are clarified
- (3) “Due diligence”—the potential sponsor does some probing at his own expense, usually into the markets.
- (4) Another site visit
- (5) Negotiations begin

During this process, pay particularly close attention to the objections and concerns raised by the potential sponsor. Try to formulate ways in which these can be addressed, whether by research and development activities or by other means. The negotiations that ensue involve clarification and give-and-take by both parties. Stay in contact and be responsive. If the negotiations end with the investor saying, “Get back to me when you have addressed issue X,” be sure to do so! This type of statement is typically a “buying signal.” Your response should be, “If we can solve this problem, would you be interested in X?” Don’t feel that because an objection was raised the door has been closed forever. Remember that the potential sponsor has already invested time and money in the evaluation of the opportunity. If you address the concerns and are persistent, you will present yourself as a responsive potential partner.

Internal Value of the Plan

The biggest mistake a company can make is to put its business plan on the shelf once it has attempted to obtain funds. A well-developed business plan should act as your guide and as a rallying point for your staff. In quarterly reviews with your management team, see how the company is tracking relative to goals and objectives articulated in the plan. Use the business plan as a screen to decide whether unforeseen events are opportunities or diversions. Also use it to remind yourself of your priorities.

As conditions change—and as you continue to learn about your market and how your company is perceived—your plan will change. Just as a ship's captain adjusts course when the winds change direction, so will you. It is, therefore, important to re-work your plan annually. This re-working will seldom require as much work as the original draft, because you will have considerable data in hand, will understand the business planning process, and will know how to go about looking for opportunities.

Summary

Take great care in the drafting and distributing of your business plan. It should communicate effectively with the intended audience, whether internal or external. Keep the document alive. Use it to guide your behavior, benchmark your progress, effectively communicate with your management, and seek investors and strategic allies.

By the time you have created a solid business plan, it will contain a considerable amount of in-depth information about your firm and the business opportunity you seek to exploit. For this reason, it is best to pre-qualify potential partners and investors before sharing your plan with them. This pre-qualification can often be accomplished within the context of a non-proprietary oral presentation that highlights the salient aspects of the business case. The next chapter includes a sample presentation.