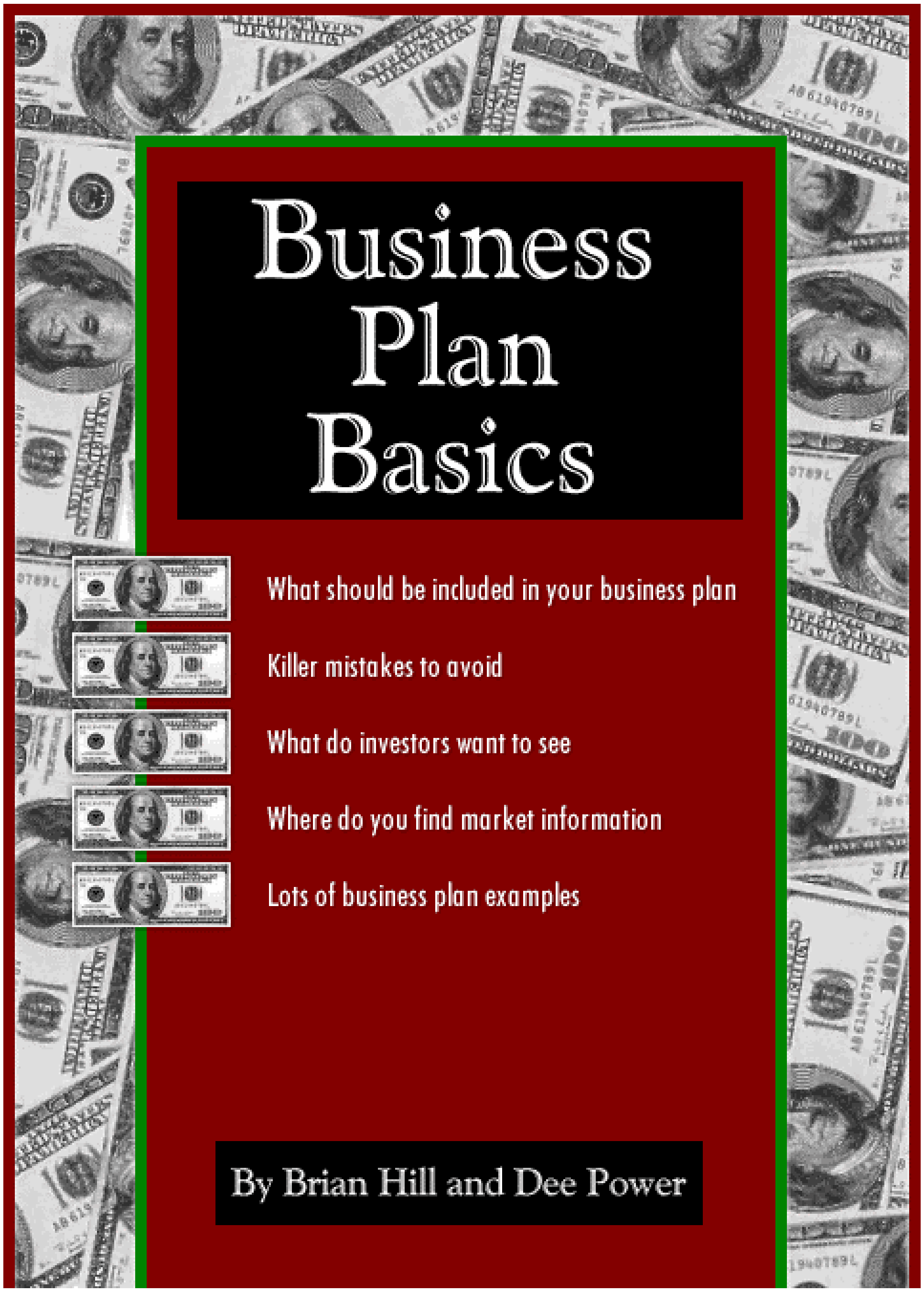
Business
Plan
Basics
What should be included in your business plan
Killer mistakes to avoid
What do investors want to see
Where do you find market information
Lots of business plan examples
By Brian Hill and Dee Power

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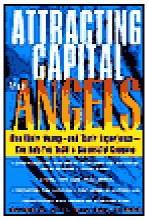

Attracting Capital From Angels: How Their Money and Their Experience Can Help You Build a Successful Company.
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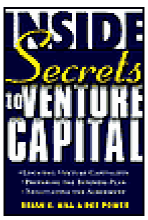

Inside Secrets To Venture Capital
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The Business Plan

Starting a business? Looking for capital? Then you need a business plan. Nearly 800,000 businesses are started each year in the United States and another 1.6 million entrepreneurs consider starting a business. One of the first tasks that needs to be tackled is the sometimes dreaded BUSINESS PLAN.

The business plan document is often the first exposure an investor has to a company seeking financing, often even before talking to the entrepreneur on the phone or having a meeting. Because it makes the critical "first impression" for the company, a poorly prepared plan can be a reason for an investor to decline the investment, and not take the time to ask for more information. While we all hear of stories about deals that were scratched out on the back of an envelope after a brief meeting between a savvy entrepreneur and a multi-millionaire, the truth is: no business plan equals no capital.

A business plan is critical to obtaining either debt or equity capital. Your banker won't say yes, unless you can clearly demonstrate --on paper-- how your business will generate the cash flow necessary to repay the loan. An investor probably won't even talk to you without that magic document called a business plan.

Why Should You Write A Business Plan?

There are several uses for a business plan, and each requires the plan to be written somewhat differently:

1. You Need To Decide Whether To Start A Business Or Buy A Business.
This plan will help you improve your chances for success and avoid making serious mistakes. You may be the only one who reads this plan, although you should have input from a number of other people with business experience. You need to ask yourself the following questions and incorporate the answers in your business plan:

• What does it take to succeed in this type of company?

• Do you have the skills and background necessary?

• Can you afford to take the risk? What effect would the business' failure have on you?

• What is the growth potential for the business? Can it meet your financial expectations and requirements?

• Is there a large enough market for your products/services?

• Will you enjoy owning and managing the business?

2. You Want To Better Organize Your Company or Improve Its Operations.
This is a time and task oriented plan for use internally. It suggests actions that need to be taken and assigns responsibility. Questions that need to be answered:

• How does our company compare to leaders in its industry?

• What are our management weaknesses? How can we make improvements?

• How can we increase sales, serve the customer better, improve manufacturing efficiency, increase the gross margin?

3. You Are Seeking A Bank Loan.
This plan is used to inspire confidence in your banker and convince her/him that your business is a good credit risk. It is written very logically, with an emphasis on the financial projections and presentation of historical financial results. Bankers who make bad loans get fired, so they like to err on the side of caution. A banker is looking for safety and a demonstration that the company can generate sufficient cash flow to pay the interest and the principal. You'll need answers to these questions:

• Will the company's cash flow be stable enough to make the payments on the loan?

• Are the long term prospects of the business favorable?

• Does the company have a reasonably good track record?

4. You Want To Sell Your Business
You must prove to a potential buyer that your company is worth paying a premium for. Sometimes this can be called a marketing presentation, offering memorandum, or valuation. It is not strictly a valuation, as you are trying to establish your sales price for the business, not determine a value. Usually a valuation is completed by an objective third party. You're likely to be asked:

• Is there untapped potential for the business that a new owner could take advantage of?

• If the new owner had more capital, could the business grow more rapidly?

• Are there new markets that could be entered?

• Could costs be reduced and therefore profits increased?

5. You Need An Investor/Partner.
The plan must demonstrate considerable upside potential for the business. The banker was content to get his money back plus 10% interest. The investor may want a return of 30% to 50% or more. This plan must be written in an interesting manner and keep the reader's attention. Your business plan is competing with all the other plans submitted to the investor. Make sure you address the following questions:

• Can the company grow rapidly?

• Are the margins attractive?

• Have you succeeded in other business ventures?

• Is this a market that is emerging, with a large and bright future?

• How much of the company are you willing to give up, both in equity and management control?

Getting Started On Your Business Plan

Getting started on the business plan is often the biggest hurdle in the whole process of business planning. The project can be overwhelming. While the concept of business planning has tremendous merit, the actual implementation of the process can be daunting, even if you have written a business plan before. One of the most effective ways of completing any project, is to break it into smaller more manageable segments.

Business Plan Calendar
Develop a calendar for the target dates for completion of the business plan by segment. 30 days is a reasonable amount of time to complete your plan. Most business plans take between 40 to 120 hours to complete. Allow two weeks for others to review the plan and give you their suggestions for improvements and then an additional week to incorporate those improvements into your business plan, and for a final read through and proofing.

You can work on more than one part of the business plan at the same time. You can research say, competition while you write the Industry section.

Assuming you start the business plan on July 1, your calendar could look something like this:

July 1-- Day1 Start Business Plan and Business Plan Accomplishments Calendar

Day 2 Begin Industry and Economic Review Research

Day 4 Complete Historical Background of the Company Section
You already know most of the information about the historical background of your own company, it should be a matter of consolidating the information, editing it and then polishing. You can probably write this in just a few hours.

Day 6 Complete Industry and Economic Review

Day 7 Begin Competition Analysis Research

Day 9 Complete Management Section
Most entrepreneurs know who their management team will be, or what gaps they have in their management team, so this section is relatively easy.

Day 10 Complete Business Model Section
Again, you should have this pretty well defined just by having determined that you're going to start the company.

Day 11 Begin Research to determine pricing, costs, and processes for the product section

Day 12 Complete Product/Service Segment
The product section is usually one of the easiest for entrepreneurs.

Day 14 Complete Competition Section
This is the first section that may be a bit of a challenge.

You're halfway through the 30 days and you've completed six sections of your business plan.

Day 15 Begin determining the Market and make a first attempt at financial projections.

Day 17 Complete Operations, Production and Facilities Section
This section is pretty cut and dried and shouldn't be difficult to complete.

Day 18 Continue Market determination, start Marketing Strategies

Day 20 Complete the Market Section
Another section that can be a challenge but there's time for revision if necessary.

Day 21 Begin Marketing Strategies and start refining revenue assumptions for financial projections.

Day 22 Complete the Ownership Section
This is one of the easier sections of the plan.

Day 23 Begin seriously working on the expense assumptions for financial projections

Day 24 Complete the first draft of the marketing strategies section.

Day 25 You now should have all the pieces in place to have a realistic first run at financial projections.

Day 26 Complete the Marketing Strategies Section Refine projections

Day 27 Complete the Financial Structure Section Refine projections

Day 28 **Complete Strengths and Weaknesses**, Final proofing of all sections

Day 29 Final Financial Projections

Day 30 Write Executive Summary

July 31 -- Day 30 Completion of Business Plan

August 15 – Day 45 Outside Reviews of Business Plan completed.
August 21 – Day 52 Final Business Plan

What Do Entrepreneurs Think About Business Planning?

- ✓ More than four out of five entrepreneurs have a written Business Plan for their company
- ✓ Entrepreneurs believe that a Business Plan is an important tool for raising capital
- ✓ A majority also use their Business Plan to help them manage and grow their business
- ✓ A Business Plan must be continually updated as the company evolves
- ✓ Entrepreneurs struggle with the financial projections
- ✓ It is difficult for them to decide when the Business Plan is finished

These were the major conclusions from a survey of entrepreneurs conducted by Profit Dynamics Inc., a management consulting firm based in Fountain Hills, Arizona. The survey was done through the firm's web site, www.capital-connection.com. The respondents were both established companies and start-up businesses.

Most Entrepreneurs Have A Business Plan
More than 83% of those surveyed said they had a Business Plan. Of the percentage who did not have a Plan, the most frequently cited reason was that they did not have the time to write it. Only 3% of the respondents said they did not think they needed to have a Business Plan.

The Business Plan is often viewed as a document prepared when seeking venture capital, and the survey confirmed this, with 63% saying they prepared their plan to show investors. But they clearly also viewed the plan as important as a management tool (53%). In fact, more than one-fourth of those surveyed said they prepared their Plan for both reasons. Forty-four percent said they wrote the Plan to help get their business started, while 15% said they prepared it to obtain a bank loan.

Entrepreneurs were enthusiastic about the process of writing the plan (once they were finished). One said, "I wish I had known before its importance in helping me clarify the many elements of one's business." "Writing my Business Plan forced me to look at my business analytically to determine the drivers of my business," added another respondent. "Not only does it allow us to present the idea in a more informed way when raising capital, but it serves as a guide for all upper management to understand the business' direction."

Does Business Plan Software Help?
Nearly 30% of the entrepreneurs who responded used a software program to help them complete portions of the plan. When asked how useful the software was, opinions varied widely from being not helpful at all to being a tremendous help. Overall, the respondents said the software was somewhat useful, the average response being 3.4 on a scale from 1-5 (5 indicating the software was very helpful).

Comments varied widely, too: "Most of the spreadsheet tools were inadequate because they used only one method at a time for projecting revenues and expenses. I have created my own spreadsheets that I can manipulate better as various areas of future growth change."

One entrepreneur was even more emphatic that software is no substitute for thinking. "Software assistance? Most people have become too lazy to write anything; all they want to do is click on a predefined answer. Write it, write it, write it, and think it through each time."

What's The Most Difficult Task When Completing A Business Plan?
When asked what the most difficult part of completing a Plan was, doing the financial projections and deciding when the Plan is finished were the most popular responses. Interestingly, among those who used business plan software, the projections were still cited as the most difficult part of the Plan, even though most of these programs include spreadsheet formats to simplify building the financial models. The software users also said that analyzing their competition was a difficult part of writing a Business Plan; this requires research specific to their industry that cannot be provided in a software program. Whether the entrepreneurs used software or not, the Plan is clearly a challenging document to write. As one put it, "Our business plan took over 120 man hours and an additional 40 hours to do the projections (for the first draft only)." Another said, "I have been working on my business plan for the past 2 years, refining it to reflect the impact of new technology."

One entrepreneur cautioned against taking shortcuts, and advised taking the time to write a thorough Plan. "I received lots of advice that venture capitalists now want only the 'one-page' Business Plan. Don't believe it. You need the full-blown, fully edited version."

Among all respondents, the most difficult parts were:

- 38% Coming up with the projections
- 26% Deciding when it was finished
- 18% Competition analysis
- 17% Marketing strategies
- 16% Just getting it started
- 13% Defining the market

Not knowing when it is finished comes from the nature of emerging businesses: they continually evolve and the Plan must change along with it. "Our market/industry is moving so fast that it is difficult to keep the plan current as a tool for funding and management at the same time," one person said.

Another factor is that some entrepreneurs have a fear of being rejected by investors, so they continually revise their plans in order to make them "perfect" before sending the Plans out.

As one respondent said, "A plan has to be a work in progress, as we move along due to the nature of our medium, the Internet." Another said, "To me it is an evolving process. Our first version was so-so, the second was much better and we are now into the start of our third version."

"Building a business and raising capital at the same time is a magic act," a respondent succinctly put it.

Don't Make These Critical Mistakes in Your Business Plans

Early in 2003, we asked venture capital companies across the United States how they evaluated the business plans presented to them. The survey participants were asked: **What is the worst mistake an entrepreneur can make when completing their company's business plan?**

Six Critical Mistakes

1. 28% of the VCs said that **lack of marketing strategies** or not defining the market was the most frequently occurring mistake. They had trouble determining who would be their customers and how they would communicate to the customer that their product/service was available.

VCs said:

> *"Assuming the existence of a market for their product/service and underestimating the challenge of effectively selling that product/service into the market."*
>
> *"Underestimating the challenge of developing a new market."*
>
> *"One, not having enough substance in their "distribution" model. They really need to think through the most effective ways to get their product/service to market and have a DETAILED plan of attack. Include names of companies/people in each channel. Methods to unseat existing competition in each channel."*
>
> *"Two, properly identifying 'addressable market' . Entrepreneurs usually use broad industry data to quantify the market, but they must take the industry data down to their 'addressable market' using any scientific means they can.*
>
> *"They do not use conservative projections - overstating markets, willingness to adopt new products and they underestimate the time frame needed to get initial adoptions and get to break even."*

Don't fall into the trap that your product or service will sell itself. Find companies with products similar to yours and research their marketing strategies through their websites, promotional materials, and company brochures. Hire a marketing expert to either work with you on your strategies in your business plan or to at least review them and give you additional suggestions. Include a publicity program as well as advertising.

2. In second place, venture capitalists (21%) said that entrepreneurs were **not clear in explaining the opportunity.** Why the business model made sense, why their company would be successful. This lack of clarity kept the investor from being excited enough about the company to proceed to the next stage. The business plan failed to achieve the objective of telling the company's story in a clear fashion.

VCs said:

> *"Inability to clearly articulate the value proposition - making outlandish claims."*

“If you do not generate interest in the initial read, most investors will not read further”

“Assumptions are too generic. Inability to articulate why their business plan will succeed.”

You can avoid this mistake by simply asking several people who aren't familiar with your company to read your business plan. If they don't "get it", it's unlikely an investor will.

3. Tied for second place is a difficult error for entrepreneurs to avoid: **unrealistic financial projections and assumptions** (21%).

VCs said:

“Unrealistic projections.”

“Not building into projections enough cushion (of time and money) to reach profitability.”

“Overstated financial numbers.”

“Unrealistic and or poorly argued assumptions for revenue and sales.”

“If initial assumptions are too ridiculous it will often keep them from getting a first meeting”.

While it's true that the company must produce enough revenue, and therefore income, to be able to generate the 30% to 40% yearly returns that VCs expect, those projections have to be reasonable and achievable. Apply common sense. Justify your assumptions with as much research as possible. You can get an idea of whether your projections are in the ballpark by looking at the annual reports of public companies in your industry.

4. Lack of specificity and or detail was mentioned by 15% of the survey respondents. Entrepreneurs didn’t do their homework in justifying their assumptions,

VCs said:

“Poor understanding of the financial dynamics of their business. It takes longer and requires more capital than they believe.”

“Attention to detail.”

“Not doing their research and being honest.”

“Hyperbole”

"Not being thorough."

Again, have outsiders that you trust review your business plan and come up with a list of issues that they feel weren't adequately covered. Your accountant and attorney can be helpful in this way as well. And, of course, don't lie. While it's important to convey enthusiasm for your company and your product/service don't exaggerate.

5. Many entrepreneurs make the mistake of being **too optimistic** (8%) in their time tables to profitability. Many overestimate their revenues and underestimate their costs.

VCs said:

"Underestimating how long it takes to cross the chasm."

"Overly optimistic."

"Too Optimistic and not enough data to back up claims."

Entrepreneurs are by nature optimistic, they have to be to face the challenges in starting and growing a business. Just keep in mind it always takes longer and takes more money that originally estimated. Make sure you have a reasonable and achievable schedule.

6. The **analysis of competition** in business plans is an area that the venture capitalists believe is weak (7%).

VCs said:

"No understanding of competitors gross margins and probable responses."

"Lack of good competitive analysis."

"Underestimate or miscalculate the competition."

Never say your company or product has no competition. Even if you're a leading edge technology there will still be competition for your customers' dollars from well established companies. Many entrepreneurs do not make the effort, or find it too difficult, to research their competitors. State your competitive advantage in one paragraph, if you can't, or if it takes more than a paragraph, you really don't know what it is.

AND ALWAYS PUT YOUR CONTACT INFORMATION IN YOUR BUSINESS PLAN!

One interesting response was that the entrepreneur failed to provide the name of anyone in the company to contact after finishing reading the plan. He or she must have been in quite a hurry to get the plan in the mail!

Does Geography Make A Difference?

New York Venture Capitalists
When asked what is the most critical mistake entrepreneurs make in their business plan, the VCs in New York responded with unrealistic assumptions/projections. In contrast to the other regions, not understanding the market or poor marketing strategies wasn't mentioned at all. Other mistakes included: not concise, lack of clarity – not explaining the opportunity, not focusing on their company.

The East
The most critical mistake VCs saw in entrepreneurs' business plans was lack of marketing strategies or not understanding the market, followed closely by unrealistic financial projections/assumptions. In third place was not understanding the competition.

Northwest
The most critical mistake seen in business plans, overwhelmingly was a lack of understanding the market or how to reach the market. Unrealistic projections/assumptions were in second place. Lack of clarity and overly optimistic were also mentioned.

Midwest
The most critical mistakes entrepreneurs make in their business plans were unclear marketing strategies -- lack of understanding the market tied with unrealistic financial projections/assumptions. Also mentioned were: too optimistic, not understanding the basic economic model, not clear on amount of capital required or the uses of capital.

California
The most critical mistakes entrepreneurs make in their business plans were lack of competitive overview tied with lack of marketing or weak marketing strategies, followed by unrealistic financial projections/assumptions. Other mistakes mentioned included: undercapitalization, lack of clarity, undefined use of proceeds.

Southwest
The most critical mistakes entrepreneurs make in their business plans are weak marketing strategies followed by unclear competition. Also mentioned were unrealistic financial projections/assumptions, lack of detail on usage of funds and rather disturbingly, lack of honesty.

South
The critical mistakes most often cited by VCs were lack of marketing strategies and overly optimistic. Lack of clarity and lack of detail were mentioned as well

We asked 50 angel investors what they thought was the most critical mistake entrepreneurs make in their business plan.

Mistake	Angel Investors	Entrepreneurs	Venture Capitalist
Unrealistic projections	32%	8%	21%
Weak analysis of market/competition	32%	16%	35%
Unrealistic about challenges too optimistic	24%	27%	8%
Incorrect valuation and exit strategy	12%	10%	
Lacking clarity		16%	21%
Lacking detail			15%
Incomplete		15%	
Other		8%	

Marketing and Competition were combined for venture capitalists and entrepreneurs in this table.

The Angel Investor Perspective
Angel investors view unrealistic financial projections as the most critical mistake (32%), and tied for first place with weak analysis of market/competition Unrealistic financial projections is also cited as one of the most critical mistakes by venture capitalists as well. Entrepreneurs don't see their financial projections as a weakness in their plans, it's one of their lowest rated mistakes. Weak analysis of market/competition is first with VCs and rates a second class ranking by angel investors.

Entrepreneurs don't seem to really know what their major mistakes are. Other than 'unrealistic about the challenges ahead of them' no one category is rated significantly above another. This may explain why entrepreneurs struggle with their business plans, they're unsure of what's expected.

Angel investors also felt that not only were the financial projections unrealistic but that the business plan as a whole did not adequately demonstrate how the management team could successfully develop and implement a successful business model. Interestingly, venture capitalists didn't feel quite as strongly about this mistake. Since venture capitalists are approached by many more entrepreneurs than angels, perhaps they have more exposure to badly written and conceived business plans. Or it could be the VCs are harsher critics of the business plan they receive.

Valuation, often an area of contention between angels and entrepreneurs, has about the same ranking, 4^{th} or 5th for both.

Selected angel investor comments are in quotes below the categories

Unrealistic financial projections:

"Overly optimistic revenue projections and too low expense projections"

"Unrealistic revenue model"

Marketing issues:

"They have the solution, but they don't know what the problem is"

"Not understanding their customer, competition and ability to deliver"

"Too optimistic about timing of benchmarks"

Unrealistic Business Plans:

"Unrealistic capital requirement"

"Unrealistic pace of adoption"

Valuation:
"Too greedy a valuation"

From the Entrepreneur's Point of View
Several hundred entrepreneurs were asked "What do you think is the most critical mistake entrepreneurs make in the business plans that they present to angel investors?" The entrepreneurs who responded to this survey question had, as a group, a remarkably thorough understanding of what can go wrong with a business plan.

1. Unrealistic 27%
The respondents really took their fellow entrepreneurs to task for not presenting a realistic picture of the business opportunity to investors. They told us that nearly all parts of the plan are unrealistic, except perhaps the table of contents and the appendix.

Entrepreneurs said:

"Not being practical & pragmatic"

"Underestimate the time and amount of money needed to develop a product"

"Overestimate potential and underestimate competitive pressure's

"Too much BS and inflated guesses on the numbers"

"Inflating the numbers or expectations, the--'if I sold 1 cup of tea to every person in China syndrome"

2. Lacking in Clarity of the Presentation 16%
The best business plans are those that are concise and to the point. The trend these days is toward shorter business plans. The 100-page magnum opus of the past has given way to a sportier, twenty-five page document.

Entrepreneurs said:

"Unclear and overoptimistic projections of the expected results"

"Too involved in the details and forget to sell the sizzle"

"Too much useless information, too many numbers, not precise about what is being offered"

"Not being able to present their reason for funding in a simple and concise manner"

"Being clear and concise about what they are all about and excess of knowledge about the idea but many difficulties giving a good and easy explanation about the real business"

3. Incomplete 15%
Incompleteness of presentation often stems from a lack of basic homework into the market and the competition. The plan is an ideal venue for the founders of the company to demonstrate their thorough knowledge of the market space they will be entering. Unfortunately, many times the business plan content demonstrates just the opposite**.**

Entrepreneurs said:

"Not showing profit timeline"

"Poor presentation (business plan incomplete)"

"A lack of defined objectives and poorly presented executive summary"

"Insufficient explanation of marketing and sales strategy and approach"

4. Valuation and Exit Strategy 10%
This is a controversial part of a business plan. Is it better to be extremely direct and specific about the proposed deal structure—how much equity can be given up for how much capital? Or be flexible and not state a projected return on investment and exit strategy? The experts and the investors disagree.

Entrepreneurs said:

"Exit strategy is unclear of overly optimistic"

"Do not show how they will generate ROI for investors nor an exit strategy for them

"Weak business plan (i.e. no clear ROI)"

"Lack of return on investment figures"

5. Financial Projections 8%
With financial projections, sometimes less is more. Only 8% of entrepreneurs responded that unrealistic financial projections was the most critical mistake while both angel investors and venture capitalists ranked unrealistic financial projections as the number one most critical mistake.

Entrepreneurs said:

"Too long and involved in financial numbers."

"Presenting vague or ambiguous assumptions regarding their projected cash flow statements"

"Not understanding their business start up costs, possibly due to lack of research"

5. Market Need 8%
For an entrepreneur to succeed in his/her mission of obtaining capital, the venture must be clearly set apart, and show to be superior, to both potential competitors in the market space, but also to other deals that are competing for the investors' attention and dollars. Entrepreneurs tend to overlook the latter type of competition: other entrepreneurs are constantly coming up with good ideas as well.

Entrepreneurs said:

"Inadequate presentation of market need and value proposition"

"Do not identify the size of the market, nor the particular niche they will compete in"

"Failing to explain what is different about the 'solution' that they offer"

5. Competition 8%
It is truly amazing how many business plans contain a statement like the following: "There is no competitor in our market space who is providing the same service/product that we are; therefore we do not see any direct competitors."

Entrepreneurs said:

"Not understanding their competition"

"Not thorough enough analysis of competitive landscape"

"They think they have no competitors"

6. Management Team 4%
It is interesting that relatively few entrepreneurs cited this as the major weakness of a business plan, whereas investors overwhelmingly view this as the critical factor in making the investment decision.

Entrepreneurs said:

"Don't focus enough on their management team and what experience they bring to the new venture"

"Lack of information on management or inexperience in their field"

Business Plan Help Is Available

If you don't have a business plan and are a little overwhelmed by the prospect of completing one from scratch, there is help. There are consulting firms and accounting firms that specialize in assisting companies with their business plans. Fees can range from about $500 to provide an objective review of your business plan to over $30,000 to research and write a business plan from the beginning. The average consulting fee is about $10,000 nationwide

Should you hire someone to write your business plan?
You can do it yourself and do a good job, but writing your plan is time consuming and not easy to do if you've never written one before. Some people simply have difficulty expressing their thoughts on paper. Most entrepreneurs focus on the attributes of their products and ignore their competition. They also assume that customers will come to them with a minimal marketing effort. If money is an issue, you can draft the business plan yourself and then have a professional review your draft and recommend changes and if you wish, polish it up.

How do you find a consultant?

<u>FREE to begin with</u>
Some consulting firms that are also finders or intermediaries will complete your business plan for you at no out-of-pocket cost, or a very minimal charge, if you also hire them to find the capital you need. The fees, sometimes called finders, contingency or success fees, to introduce you to investors, can range from 5% to 15% of the total amount of the capital raised. You only pay the success fee when the funds are available to you. Additionally there are intermediary firms which will give a substantial discount on the business plan preparation fee, defer the majority of the fee until the funding is completed or refund the business plan fee completely from the finders or success fee.

<u>Equity Trade</u>
There are consulting firms which will accept equity in your company for all or part of the business plan fee. However before the business plan is completed it may be difficult to determine the viability of the company or what a fair equity share would be.

<u>You get what you pay for</u>
Most firms that prepare business plans charge fees based upon the complexity of the project, how much research has been done, how much research needs to be completed and how much assistance can be provided by the entrepreneur. This information can usually be obtained in a one hour meeting or telephone call. The fee is based on the number of hours the consultant believes is necessary to complete the project. Most consultants will give the entrepreneurs a firm proposal which includes the total fee, completion date for the draft of the business plan, completion date for the final business plan and schedule of payments.

Don't expect the consultant to prepare the business plan in your absence. Most good consultants insist that the entrepreneur contributes as much as possible to the business plan and knows it backwards and forwards. You, the entrepreneur are writing the business plan with the consultant. After all, the entrepreneur will be responsible for answering the investors or bankers' questions, not the consultant.

Organizations that provide FREE (or almost free) business plan assistance

The SBA (Small Business Administration) has a business plan guideline and workbook available. You can find it at their web site http://www.sbaonline.sba.gov/starting/busplan.txt.

Try your local city's Small Business Programs Office or Small Business Assistance Office.

Your state department of commerce may have an office to assist you or even provide a publication devoted to small business or starting a small business.

SCORE - Service Corps Of Retired Executives (http://www.score.org) can give you locations for offices all over the country, offers free counseling and presents workshops on a regular basis.

Various Chambers of Commerce also offer business plan guidance and review. They also might offer actual assistance in finding financing.

Check your public library as well they may have a regular series of free seminars and often will include business planning.

Your state Small Business Association also has workshops on business planning.

The Small Business Development Centers provide free consulting in the area of business planning, some also have regular workshops and seminars.

What Should Be Included In Your Business Plan

Your Business Plan Is Your Marketing Tool,
Your Re-Quest For Capital

No Business Plan--Equals No Capital

Business plans written with the primary purpose of presenting the company to outsiders differ in format and presentation from a business plan developed as a management tool. While it would benefit the company and management to go through the efforts necessary to establish goals, objectives, strategies and action plans defined near the end of this chapter, outsiders unfamiliar with not only the company, but also possibly the industry and products require a different presentation, with an emphasis on selling the reader on the attributes of the company. A plan for strictly internal use is geared more toward defining specific, measurable performance targets and assigns responsibility for reaching those targets.

Below is an outline of each segment of a business plan developed for presentation to potential investors or lenders. As you can see the length varies from 25 pages to 40 pages, not including the financial projections or the appendix.

EXECUTIVE SUMMARY 2-3 pages

HISTORICAL PERSPECTIVE 2 pages

ECONOMIC AND INDUSTRY ENVIRONMENT 3-4 pages

PROFILE OF THE BUSINESS
Business Model 1-2 pages
The Product 1-2 pages
The Market 3-5 pages
Competitive Environment 3-5 pages
Marketing 4-5 pages
Management, Operations, Production, and Facilities 3-6 pages
Current Ownership 1 page
Strengths, Weaknesses, Risks, and Opportunities 1-2 pages

REQUEST FOR CAPITAL AND
STRUCTURE OF THE TRANSACTION 1 page

FINANCIAL SECTION varies

APPENDIX varies

PLANNING ASSUMPTIONS

We have included examples of most of the different sections right after the relevant section. The examples are fictional companies. Any resemblance between these examples and a real company are strictly coincidental. Please do not use the examples in your business plan. You need to complete the creative thinking process yourself, not just copy what we've done.

EXECUTIVE SUMMARY

The executive summary is not a mini version of the entire business plan. Keep it brief. The purpose of the executive summary is to entice the reader to review, or request to review, the entire business plan. It should be viewed as a marketing tool, a very important marketing tool. While the executive summary is presented first, it is written after the entire plan has been completed. It should not contain any information that cannot be found elsewhere in the business plan. Don't write the executive summary first, with the idea you can always expand it later into a full blown business plan, that just doesn't work. The executive summary could be sent with a personalized cover letter, to potential investors.

A brief two to three page overview of the company with one or two paragraphs under each of the following headings:

Capital Required: Amount, uses and type of the capital requested.

Business Activity: The company's products or services.

Business Profile: A very brief description of when the company was established, by whom, number of employees, any recent changes.

Market Opportunity: Define the company's market base, the customers, where they are located. Number of customers or dollar size of market.

Marketing Strategy: The company's marketing: advertising, promotions, methods of distribution, and sales force.

Competitive Factors: The competitors, their strengths and weaknesses.

Facilities: Buildings, locations, equipment, machinery.

Staffing: Number of employees and divisions.

Management Team: Brief description of senior management.

Ownership: Who are the owners and their percentage and relationship.

Financial Summary: Brief summary of the financial performance of the company for the last three to five years and what is projected for the next three to five years.

Mistakes You Don't Want To Make

Forgetting to include your contact information, name and phone number
Not including the amount of your capital request
Not clearly articulating what business the company is in
Losing the reader in technical jargon
Too short, one page is not adequate
Too long, no more than 3 pages
Forgetting to discuss the accomplishments of the management team
Not clearly stating who the customers (market) are
Not including the marketing strategies
No financial projections

The following is an example of an
Executive Summary for a fictional company:

Executive Summary Entertain Me, LLC

Objective and Capital Requirements
The Company's objective is to reach $18 million in sales within one year of obtaining capital and $100 million by the fourth year; this will result in a projected pretax profit of $5.7 million in Year 1 and $54.6 million by Year 4. Entertain Me, LLC is seeking $3 million from a financial partner to accomplish this objective, in the form of equity.

The capital will principally be used for hiring new employees and support personnel, hardware, custom software, and cost effective targeted marketing and branding.

Business Activity
Entertain Me, LLC (the Company) is an established, profitable distributor of independent films. The Company markets its products directly to consumers through its web site that currently averages more than 100,000 unique visitors per month, and also distributes to other retailers in the US and internationally.

The Company has initiated a rapid expansion phase that will enable it to create, further exploit and expand multiple revenue streams to become the acknowledged leader in Internet marketing in its niche. Entertain Me, LLC intends to be a uniquely innovative "end destination" that customers can rely upon to stay ahead of the curve for news and information for independent films and artists.

Business Profile
The founders of the Company, Dick. A. and Allen. V. saw that independent films were distributed through a fragmented market of mainly smaller retailers that catered to a young, tech-savvy customer base. These customers were seeking better access to information and products, many times unavailable locally, and to link up with others across the US who share their tastes and lifestyles. The decision was

made to integrate the above type products into a community based web site that appealed to this customer niche.

Market Opportunity
The broader market for these products is many times larger than is now reflected in the current total Internet sales for these items. The potential growth is contingent upon more and more of the audience becoming aware that these types of products exist on the web. With some well-placed and inexpensive advertising and promotion, including many upcoming film festivals the Company has undertaken, management conservatively estimates that traffic will increase ten times within a three month period.

Entertain Me, LLC differentiates itself from other entertainment sites in several ways:

- ***Entertain Me, LLC*** is currently one of the few profitable entertainment sites on the Internet.

- ***Entertain Me, LLC's*** web site already attracts the demographic groups that film distribution companies seek to target.

- ***Entertain Me, LLC*** has already established a film industry reputation through organizing film festivals over a period of years and is increasing traffic to the web site mainly through extremely cost effective grass roots marketing and word of mouth promotion.

- ***Entertain Me, LLC*** is building on relationships it already has with well-known film producers while other video sites are attempting to be a shopping mall, offering thousands of mostly unknown video titles and catering to all styles and tastes.

- ***Entertain Me, LLC*** promotes first run independent films enabling it to be a premier site that perfectly fits the tastes of its web site visitors. This encourages both repeat visitors and a higher percentage of visits being converted to sales.

Promotion of First Run Films is a natural extension to the company's businesses and increases perceived and real value to the customer. Entertain Me, LLC ships over 1500 packages a week to retail customers and distributes to over 1000 retail stores across the country and around the world. Entertain Me, LLC is ideally positioned to promote films directly to consumers by placing promotional items, and literature into customer packages and store orders.

Because of Entertain Me, LLC's strong relationship with producers and its effective purchasing system, most items in the Company's product line have a profit margin of over 100%. From this extremely profitable base, the Company is expanding to become an Internet entertainment destination: marketing music CDs, digital downloads, and branded products from well-known artists.

Marketing Strategies
The marketing strategy includes the following key elements:
1) Independent theaters enthusiastically support the company's marketing through wearing and distributing Entertain Me, LLC branded promotional items in their theater
2) Organize and promote film festivals to publicize the Entertain Me, LLC brand
3) Customize promotions to loyal customers by gathering data on their purchase behavior

4) Continuously update product line and web site content to maintain image as most reliable source of information
5) Strategic partnerships with companies who share the company's target audience and complement the services.

The Competition
Although the independent film industry is fragmented into small retailers, the total market is large, estimated to be at least $10 billion annually in retail sales. Competitors are mainly small, and not experienced in Internet marketing.

Management Team
Dick A. has been involved in the film industry for more than a decade, as an associate producer, actor, and organizer of film festivals. He has also developed video programs for several large corporations. His sales and management skills have helped to quickly build the company to an industry leader. He provided initial funding and secured partnerships with film producers that fueled the company's growth.

Allen V. has been in the motion picture business since 1990. He has been a film festival promoter, national television actor, organizer of film festivals, and is currently a web producer/graphic designer producing site content for major corporate clients. Beginning in March 1995, he began developing Entertain Me, LLC. His extensive e-commerce experience is an invaluable asset to the company. He has experience in many different levels of marketing.

Financial Projections ($ in millions)

	2003	2004	2005	2006	2007
Revenues	1.5	18.0	30.0	60.0	100.0
Gross Margin	.27	10.1	22.0	45.0	74.0
Pretax Income	.15	5.7	15.7	33.5	54.6

End of Example

Tips For A Better Executive Summary

You need a stand-alone exciting executive summary. Most investors only want to see a 2 to 3 page executive summary as their introduction to your company. If you can't capture their interest in those 2 to 3 pages, your business plan doesn't stand a chance of being reviewed.

DON'T go over the 3 page limit, your executive summary starts becoming a mini business plan rather than a summary.

DO include every section in your executive summary that's in your business plan, just limit it to a paragraph for each section.

DON'T lie or exaggerate, in your summary or in your business plan. Conveying a sense of excitement is okay, hype is not.

DO keep in mind the objective of the executive summary is to entice the investor to request the business plan. The summary doesn't have to answer every question or address every issue.

DON'T make careless mistakes, math errors, or a sloppy presentation. This is your first, and perhaps the only chance that you get to make a good impression.

DO have someone who is unfamiliar with your company read your executive summary. And make sure they can understand why the company is an outstanding potential investment just from that executive summary.

DON'T send a copy of the executive summary. Print out an original on your letterhead as the first page. That way if for some reason the executive summary gets separated from the cover letter, your company's contact information is still available.

DO send the executive summary with a one page cover letter that is personalized with the name of the investor.

HISTORICAL PERSPECTIVE

General Overview of Your Company
Financial Performance Review

General Overview of Your Company

A brief summary of your firm which includes a description of the business, how it started, what major problems have been surmounted, the major accomplishments, products offered and who the customers are. As the title suggests this section is a brief history of your company.

The easiest way to start is simply by stating, The "Yourcompanyname" was founded in 19XX as a C corporation (or S corp or LLC whatever is appropriate). Then think back, what were the milestones in the first years, how many employees, what were the products in the beginning? How long did it take to get that first product to market? How did you market the product? How many were sold? Who bought them? And so on. As the years passed how did the company grow? Was new management brought on board? Did you add new products? Did you sell your product to a different type of customer? Did you expand your market geographically? Were there set backs? This exercise brings your company to the present day.

The entire Overview shouldn't take more than 2 pages, even if you have a 10 year old company. You don't have to define your product here, or explain its benefits, or go into detail about your market and competition. The overview is meant to give a brief background of the company. If your company is a start-up, use this section to explain how you started the company and why.

Financial Performance Review

This includes a five year trend of revenue and profitability. A comparison of the performance to industry standards and discussion of major asset acquisitions, and substantial changes in inventory, receivables, payables or debt. This financial review is at a summary level and should be no more than a page, include only top level general categories. Obviously if your company is a start-up it has no historical financial performance.

Mistakes You Don't Want To Make

Not including the milestones of the company
Too long
Not explaining any downturns, or trying to ignore any downturns

The following is an example of the Historical Perspective for a fictional company:

The History of AlmostReal.com, Inc.

AlmostReal.com, Inc., based in Big City, Texas, develops and markets PC based Virtual Reality or VR Software used in the plastics manufacturing industries. Marketed for five years, the flagship product, BestVR, has 24,000 seats installed and is translated into nine languages. AlmostReal.com has a total of over 37,000 seats for all its products installed in companies. AlmostReal.com markets one of the fastest, easiest to use VR products on the market and has continued to be an innovator and leader for VR Software in the plastics tool industry.

The company was founded by Mr. Experienced Entrepreneur in 1991. The vision for the original product stemmed from Mr. Experienced Entrepreneur's experience in working with VR systems in large manufacturing companies. The systems at that time were exceedingly difficult to use and extremely expensive--typically $100,000 per seat for both hardware and software at the high end and between $30,000 to $40,000 per seat at the low end--yet were in demand because of the pressure to automate the manufacturing environment and increase productivity and accuracy of design.

The customer base for BestVR has traditionally been small manufacturing firms and job shops of less than one hundred employees, who until very recent years have relied on manual programming rather than computer aided programming. Small job shops use BestVR to translate design specifications into a manufactured part. These small shops are constantly looking for new products to manufacture. The curved surfaces, irregular or "exotic" shapes of so many of today's products demand that software be used in the design and manufacturing process. These curved surfaces cannot be manufactured without computers running sophisticated manufacturing software. BestVR has a retail price that appeals to the mainstream marketplace, at an average of $3,000.

A History of Constant Product Development and Improvement

In 1994, with the explosion of the PC market, AlmostReal.com entered a growth phase and moved into its current facilities in Big City. During this period, the Company designed VRIII, which was a completely integrated VR manufacturing system using a graphical user interface. This product was revolutionary because of the product's unique system of integration. AlmostReal.com quickly established a reputation for producing one of the fastest, easiest to use VR products on the market and continues to be an innovator and leader for VR applications in the plastics tool industry.

In 2000, the Company began a rapid international expansion, adding distributors in most major markets, including Europe, Asia and the Pacific Rim during a twelve-month period. AlmostReal.com now has a worldwide sales, training and support network in over 50 countries. Translations are available in Spanish, German, French, Italian, Japanese and Chinese.

As the Company has grown, a complete organization for research and development, marketing, documentation and customer support has been developed. In early 2002, the Company had 44 employees in its headquarters, as follows: Sales, Marketing & Support 19; Administration 4; Research & Development 21. Much of the Company's success can be attributed to the creativity, loyalty and commitment to excellence of its employees, many of whom have been with the Company for a number of years.

The Company's Original VR Market Matures

The stumbling block to growth for any company in the VR arena today is to add new distributors for the existing product. Many of the functions and features of competitor's products are similar and the price points are similar. Companies are chasing the same customer base, and the competition for distributors is intense.

The domestic market is essentially flat at the present time. International revenues have been growing faster then domestic. Important contributors to the international sales include: Korea, Spain, Australia, the United Kingdom, France, Sweden, Norway, Finland and Italy. In five years, international sales have gone from 10-12% of the total to 40-50%. Best VR is in a mature market. The Company is facing price pressure from competitors.

AlmostReal.com has been constrained by lack of capital. Funded completely through internally generated cash flow, the Company has been historically able to fund the R&D effort for product enhancements, or the marketing of the new products, but not both. Despite the Company's record of growth and profitability, competitors would characterize the Company as having inconsistent marketing efforts. Capital constraints have often made the Company choose between funding either great products without an adequate marketing budget or an average product with good marketing thrust.

AlmostReal.com's Research and Development Strength

Most of AlmostReal.com's new products are developed by the in-house Research & Development group. This design team is committed to providing the highest quality product possible to AlmostReal.com's customers. The Company's developers maintain daily contact with users and machinery manufacturers. This philosophy of listening to the industry enables AlmostReal.com to identify enhancements needed by its customers, and an aggressive development schedule allows its customers to have the opportunity of keeping up with the latest advancements in technology. AlmostReal.com's ongoing, systematic dialogue with customers and distributors is an important source of ideas for new products and enhancements. An experienced team of engineers and programmers assures continual enhancements to the VRsystem that take advantage of advancements in technology and meet the requirements of the plastic tool industry.

The Internet is The Engine For AlmostReal.com's Future Growth

Establishing a web based VR modeling system will thrust AlmostReal.com into the leadership position and eliminate the problems of recruiting new distributorships at the same time differentiating AlmostReal.com from its competitors.

End of Example

ECONOMIC AND INDUSTRY ENVIRONMENT

The purpose of gathering information about your industry and the national or local economy is so that you may develop reasonable ballpark projections for the short and long range. The objective of the economic analysis is to find economic variables that relate to your business. Forecasts of these economic variables can then serve as the basis for forecasting revenues or income for your company.

This section of your business plan should include:

Economic Environment
Industry Analysis

Economic Environment: An overview of the major economic forces and how they affect your firm, its products and its customers. Also included is a forecast of the relevant economic factors.

How will the performance of the national or local economy affect the operating results of your business in the upcoming year? What economic variables, such as inflation, consumer spending, Gross National Product, etc. affect your business and your customers? What's the outlook for these variables? Is your business only affected by regional economics?

If the economy's performance differs from your expectations, either positively or negatively, what would be the impact on your company?

Can any regression analysis be done between economic variables and the performance of your company? How confident are you of your economic forecasts?

Economic forecasting is extremely difficult, and each year the "experts" disagree widely about what they expect the economy to do. The key thing to remember is that no one really knows for certain how good, or how bad, the economic situation will be in the future. You need to be aware of economic trends, but you shouldn't depend on any one forecast coming true.

You can find:

<u>General Economic Information</u>
Stock Brokerage Firms
Major Accounting Firms
Federal Reserve Bank Publications
Newsweek Magazine, Wall Street Journal, USA Today

<u>Regional Economic Information</u>
Banking organizations
Marketing and Consulting Firms
University Departments
State Office of Planning and Development

<u>Local Economic Information</u>
Business and Professional Associations

City Office of Planning and Development
Chamber of Commerce
County Planning Offices
Local business oriented newspapers, like the *Business Journal* (www.bizjournals.com)

Industry Environment: a summary of your industry's performance and outlook.
The outlook for your industry is just as important as the economic outlook. Compare your company's performance with that of the industry as a whole. Is your business doing better or worse?

Where you can find:

<u>Industry Information</u>
Local and national industry organizations and associations
Industry publications
Trade Journals
Consulting Firms that specialize in your industry
Databases and research companies.

Mistakes You Don't Want To Make

Either too narrowly or too broadly defining the industry
Making general statements rather than statements that are pertinent to your company
Not making it clear you understand your industry and where it's headed
Omitting the section entirely

The following is an example of the Industry Analysis for a fictional company

The Music Industry

DataCo Research has published the following estimates regarding the total size of the music market in the US:

2002	$12.4 billion
2003	$13.3
2004	$15.4

The industry could be characterized as healthy and growing, although there is discontent between artists and major record distribution companies because of what the artists perceive as the unfairness of the current revenue sharing system. The consumer perception that the cost of CDs is high has led consumers to seek new ways of acquiring music, the Internet Music market being a key beneficiary of this trend.

Internet Music

The traditional distribution channel-- artist, record producer or "label", distributor, retailer-- is changing and giving way to new models, particularly

Artist, Internet music distributor, customer
and
Artist, record producer, Internet music distributor, customer

The Internet will change the way music is purchased and listened to, allowing CD quality sound to be delivered in digital form on a chip or card.   These are called music downloads or digital downloads.

Internet technology--particularly broadband or high-speed Internet services and downloadable audio and video software has created the possibility to deliver digitally encoded music files directly to users' hard drives. Consumers can now download individual songs for sampling, or entire albums for purchase. They can listen to songs right at their PC through streaming audio format or download songs for later enjoyment.

Several technologies allow audio files to be compressed and downloaded. The one currently in the most widespread use is MP3. MP3 allows users to download music tracks and save them onto a PC hard drive or a portable MP3 player. The sound quality of MP3 is comparable to that of CDs. A drawback to MP3 from the standpoint of content distributors is that it affords no copy protection.   Microsoft has also developed an audio download platform, Windows Media Technologies 4.0. This system makes the songs almost impossible to copy.

Since the introduction of these and other technologies, digital music downloads from the Internet have become very popular. Media Matters estimated that in June 2002, four million people in the US downloaded digital music--MP3 files and other format--compared to just several hundred thousand one year ago. These consumers have been described as a "hip, tech-savvy group of people."

Company A, which uses the MP3 format, has more than 70 million unique users, the company says, of its device for audio and video delivery. Microsoft has its own Windows Media Audio (WMA) format, although it supports MP3 as well. Its streaming media portal, WindowsMedia.com has access to more than 600 radio stations, and 1,000 content providers.

Internet music sites have proliferated, their business models varying widely. Some sites offer free downloads and sell advertising as the primary revenue stream, some sell CDs and other products. The types of artists vary widely, also, from sites where completely unknown artists can register their music and offer it, to those that emphasize artists already selling CDs or having recording contracts. Many sites cater to a fairly wide variety of musical styles and tastes, resembling the large brick and mortar music chain stores in terms of product lines.

Even with this growth, the users of digital music represent only a fraction of the total online population at the present time. Several factors have limited the market in terms of sales of Internet downloads. Consumers must purchase a hand-held sized device to store and play the music away from the PC. These devices have not hit a wave of consumer acceptance yet. Jupiter Communication's senior analyst

Mark Mooradian said, "Significant acceleration of playback device penetration and digitally distributed music sales will not begin until 2003-2004."

Company B, one of the major Internet music companies, allows visitors to its web site to download more than 100,000 songs <u>for free</u>. At the present time, these companies remain small. Company B had second quarter 2002 revenues of $1.9 million, up from $247,000 in the same quarter last year.

The large record companies have been slow to get involved in marketing downloadable music. A challenge has been to develop "secure distribution standards" to prevent unauthorized copying and distribution. The music industry establishment is not offering downloads of its star artists; the new music sites offer mostly unknowns or "up and coming" bands.

However, this will undoubtedly change as the record labels see the potential of Internet music and the potential for losing market share if they are not a part of the industry. They will likely evolve into companies that focus on the talent discovery and development side of the business. They will no longer be able to command such high margins by duplicating records and CDs, maintaining large inventories and supplying retail stores.

<u>Internet Distribution of Music in CD form</u>

A more immediately viable market for Internet music companies, before the digital download market takes off, is the marketing of CDs through e-commerce. The consumer perception that CD prices are inflated, and the limited amount of shelf space available in brick and mortar music retailers are forces driving this market.

One successful approach for the e-tailer and the artist has been to set up the artist as his or her own brand. Company C has 44 mainstream rock acts under its umbrella using this model. These sites distribute CDs, concert tickets, digital downloads, and related products such as clothing. This direct sale by the artist to the fans enables the artist and the e-commerce company to capture retail profits that now are going to Tower Records and other large music retailers. An ancillary benefit to this site development has been to create valuable databases of data on a specific band's fans for targeted marketing in the future.

Consumers have embraced this new distribution system because it allows them greater choice than in many retail stores, the opportunity to listen to sample tracks in advance of purchase, and substantially lower CD prices than in retail stores, even discount chains. One online music retailer, Company D, was the sixth-largest web shopping site in July 2002, according to Media Matters. Offering free Internet downloads of individual song tracks is proving to be an excellent marketing device to sell the full CD.

Rock Communications believes that the online sales of CDs, tapes and records will become a major competitive threat to traditional retail stores, building to 14 percent of the total US retail market by 2003. DataCo Research estimates that sales of music on the Internet, CDs and downloads, will account for nearly one-half of total US music sales by 2003.

This new distribution channel has also been readily embraced by artists not represented by the 5 large record companies, or those bands in the early stages of market exposure. They simply have to convert one or more of their songs to MP3 format and post them to an Internet music site. Besides the potential of direct sales of their songs in the form of downloads, or CDs, they can also attract the attention of concert promoters.

The Internet Growing In Popularity As An Entertainment Medium
Listening to music on the Internet is part of the larger convergence of media on the Internet, and the transformation from broadcasting (large TV and radio networks) to narrowcasting (content targeted to much more specific interests). Broadband access has enabled pay-per-view movies delivered on demand through the PC to be a reality very soon. Arbitron has reported that online radio listenership among all Americans has risen dramatically in the past six months from 6% to 13%. US radio stations are developing their own Internet broadcast sites, and web-only radio stations are popping up also. AOL and Yahoo, both large Internet portals, signed a distribution agreement with Emusic.com, a digital music download company. Yahoo! Digital (digital.yahoo.com) has unveiled a multimedia site where consumers can watch and listen to Internet broadcasts, preview and download tracks or purchase music, view on-demand videos and pay-per-view events, and interact with artists in chat formats. The site will include eight channels of video content.

Companies such as Company E deliver pay-per-view movies over the Internet. Company E markets books, fiction and non-fiction, and magazines and newspapers through the Internet and sells their own digital player.

Technology is developing for narrowcasting on an inexpensive basis versus capital-intensive broadcasting. Company F offers what amounts to an Internet TV station in a box. Broadcasters can create specialized channels with the look of cable, but with less capital investment and without the broadcast licensing geographic limitations.

The music portion of the market will continue to benefit from consumers getting more and more used to the idea of the PC as an entertainment delivery medium.

Examples of Internet Music Sites:

Among the sites offering free digital downloads of music are: ABC.com, RP.com, Company H, Company I, and Company J, .

ABC.com has an enormous inventory of free music downloads and sells mail-order CDs by 11,000 mostly newer or less recognizable artists. ABC is using advertising sales as the major revenue generator for the site. Music sales are secondary.

RP.com reported that in August 2002 it had reached 4 million registered users, up from 1.1 million on March 31. This site offers such content as music videos and digital downloads and the opportunity for listeners to become closer to their favorite artist and discover new music, and serves as a marketing vehicle for record labels, artists, advertisers and merchants.

Company H offers over 22,000 tracks for purchase. Albums are sold for $8.99 and individual songs for 99 cents each. The site offers few free tracks. Company H has relationships with quite a few artists and, the company reports, licensing agreements with over 90 independent record labels.

Company I offers in excess of 5,000 encrypted tracks from artists that could be described as both independent and mainstream.

Company J provides users a monthly subscription fee of $4.99 as a revenue generator. Their members may chose from more than 1,000 MP3 tracks.

Company K obtains content from its print publication partners. They review relatively new or unknown artists.

Company L markets downloadable tracks from independent or less established artists ranging in price from 40 cents to 99 cents per track. The site spans many genres including pop, rock, electronic, trance and techno. They say they are seeking to build a community of both music fans and musicians. The artists may offer downloadable songs and merchandise, with Company L keeping 15% of revenue collected (prices are set by the artists), a generous percentage from the artists' point of view. This well capitalized company was launched in June 2001. The site currently does not have much informational content, however.

End of Example

PROFILE OF THE BUSINESS

Looking at the past performance of the economy and how your business reacted is a start on reviewing the overall past performance of your company and its competition. Reviewing the past five years and what's happened, starts the process of focusing on the current year. Deciding what factors are important enough to be included, helps show you what factors need to be considered for the future.

The Profile of the Business is the heart of the business plan and should include:

Business Model

Product and Services
- Product Definition and Characteristics
- Manufacturing Process and Costs
- Pricing
- Competitive Advantages

The Market
- Market Definition
- Company's Selected Market Niche

Competitive Environment
- General Discussion of the Competition
- Sustainable Competitive Advantage
- Barriers to Entry
- Direct Competitors' Analysis

Marketing
- Objectives
- Image
- Distribution
- Promotion

Management, Operations, Production, and Facilities

Current Ownership

Strengths, Weaknesses, Risks and Opportunities

The Business Model

Defining the business you will be in, over the course of the business plan period, is a critical function of the business plan. To determine your business model, keep in mind:

What value could my company provide to its customers? Or, what customers needs could be satisfied?

AND

How can my company productively and profitably serve these needs?

The essence of defining your business model is finding a match between the answers to those two questions. Make a list of the potential needs of the customers that your company could serve. Then select the ones that are potentially the most profitable for your company. Then narrow the list further by selecting those needs your company has a strong ability to serve.

The Business Model can be approached on a problem solution basis. State the problem that the market faces and then the solution your company offers and briefly explain why your solution is best. You should also include how your company will generate revenues and be profitable

Mistakes You Don't Want To Make
Failing to indicate which revenue streams are the most important
Not showing the reader what elements of the business will create high profitability

The Product/Service

Define the product or service offered by the company. If the product has changed or is projected to change significantly, an explanation should be included. Think of the needs of your customer and how your product will provide benefits to your customer, specify those benefits.

Product Definition and Characteristics
Manufacturing Process and Costs
Pricing
Competitive Advantages

Product/Service Definition and Characteristics

Describe your product in terms that a reasonably intelligent person could understand. Don't get bogged down in technical jargon or engineering. If you need to include a drawing or photo of the product to help clarify it then do so. Any proprietary characteristics, patents, trademarks, or technological advances should also be included.

If your product is still in the research and development stage you need to describe how far it's come and what steps remain to get to first a product prototype and then to a product that is ready for market.

If your product is web based, then explain the characteristics of the web site.

Specify what problem your product/service solves for customers, focus on the benefits not on the attributes of your product. What are the key elements that will make your service/product a success. Prioritize those elements and limit them to 3 or 4.

Manufacturing Process And Costs

How much will your product cost to manufacture? Are there any vendor or supply problems, any Environmental Protection Agency Barriers (EPA)? Any special required licensing? Will special molds or equipment have to be built to manufacture your product? The more researched and documented your cost factors the better.

You can break the costs into three segments:

Direct Materials Costs--or what are the raw materials/components of your product and how much do they cost on a per unit basis?

Direct Labor Costs--how much time will it take for your employee to assemble the unit and how much will your employee have earned for that time, including benefits. For example if it takes 10 minutes to assemble the unit, place it in its packaging and put it on a shelf and your employee earns $12.00 per hour, then the Direct Labor Costs are $2.00 per unit.

Indirect or Overhead Costs—These are a little more difficult. They include the cost of the manufacturing facility itself, ie. rent, electricity, water, and the cost of supervision divided by the number of units produced. In other words if your facility produces 100,000 units in a month and the facility cost plus the cost of supervision is $500,000 then the Indirect cost would be $5.00 per unit.

The total cost to manufacture the product is the total of Direct Materials Cost, plus Direct Labor Cost, plus Indirect costs.

Describe the manufacturing process in general terms, but don't overwhelm in minute detail.

If the product is a web site you can include web hosting, maintenance, search engine placement, development, updating and such costs.

These costs will be used in your financial projections as well. You can either use the per unit cost, or you can use something called the gross margin, which is simply the total cost to produce the unit divided by the sales price per unit, expressed as a percentage. If the materials cost per unit is $.64, the labor charge – both direct and indirect is $6.20 then the total manufacturing cost per unit would be $6.84. But we also need to add in packaging costs for the product, which in this case were $1.00. The total cost of goods sold is then $7.84. If the sales price was $20.00 per unit, the gross margin would be 60.8%. Which simply means that for every $100,000 in sales, $39,200 would be necessary to pay for the units sold and there would be $60,800 left to pay for sales, advertising, general and administrative, all other expenses and of course profits.

Pricing

Pricing your product can be based on several methods.

<u>Markup on cost,</u> a percentage increase over the Total Costs is one method. A standard in retail is to use a 100% or keyhole markup. The wholesale price is then double the Total Cost. The Retailer then doubles that price again to arrive at the price the end consumer or customer pays. So a unit that costs $2.50 to manufacture would wholesale at $5.00 and sell to the customer retail for $10.00.

<u>What the market will bear</u> method of pricing is simply to see what customers will pay. Of course there has to be enough of a difference between what the customer will pay and what it costs you to offer the product to generate a profit for the company. If the product has little competition and is in demand, the price can be 50 to 100 times the cost of the product. Computer software, music and game CDs are examples of products that are priced substantially above what the actual CD and packaging costs.

Once you've established your price per unit, you will be using that information in your spreadsheet projection.

Competitive Advantages

A comparison of the company's product with the competition's and the product's advantages and disadvantages is helpful. Why is your product better, what solutions does it offer that your competition doesn't? What's your strategy on pricing related to competition? The competition will be more fully covered in its own section of your business plan.

Mistakes You Don't Want To Make
Forgetting to include the tangible benefit to the customer, such as saving 2 hours per day, or costing 50% less
Using technical jargon or "buzz" words rather than simple explanations
Failure to establish a clear superiority to competitive products
Not including examples of how the customer actually uses the product
Too long, too involved
Not demonstrating how the product is unique, patented or legally protected.
Not including cost of the product

The following is an example of the Product/Services segment:

THE CLEAN AND GO SYSTEM PRODUCT

Description
The Clean and Go System is a durable waterproof brush that attaches to a tile shower wall and grips a soapy terry wash cloth. The brush provides resistance to the pressure of the user's foot and allows the wash cloth to provide a scrubbing action. When the user is finished washing their foot, the wash cloth is quickly and easily removed. A clean fresh cloth is used by each bather. The Clean and Go will be a light neutral color such as cream or off white.

The Clean and Go System will be offered in two versions: the Basic which will consist of just the Clean and Go unit itself; and the Premium System which will also include a special exfoliating wash cloth, 8 oz. foot scrub and 8 oz. foot cleanser.

Benefits
Clean and Go eliminates the need for bathers to physically and uncomfortably contort the body in an effort to wash their feet.

Since a fresh wash cloth is used by each bather, sanitation is maintained, unlike the brush or loofah on a stick, which can be used by all bathers in a household day after day. Rinsing the brush or loofah does not eliminate bacteria.

The Clean and Go can be moved easily to accommodate people of different heights or from one bathroom to another.

Clean and Go allows a bather who is physically limited, either on a temporary basis, such as from sore or sprained muscles, or on a more permanent basis, such as from having arthritis, to access and clean all parts of their foot.

The Clean and Go can even be used to dry the foot if a dry cloth, rather than wet is used, or to apply topical medicated creams or regular body lotions.

Durable construction of the Clean and Go System results in a long lasting easy to clean product.

Price
The Basic Clean and Go System will retail for $18.99, while the Premium System will retail for $44.99.

The Basic Clean and Go will include the Clean and Go, 2 oz. samples of the Clean and Go Foot cleanser and Foot scrub, an order card for the cleanser and scrub, and an order card for the Premium Clean and Go System. The Clean and Go basic price of $18.99 price allows for sufficient margin for the TV advertising and markup by the retail stores. The price is midway between standard bathing accessories like the brush on a stick, and the mechanized shower massagers.

The Premium System will originally only be available to customers who call as a result of the direct response TV advertisement, or order through the coupon. When customers call, they will be offered the opportunity to purchase the Premium System in addition to, or in place of, the Basic System.

The formulas for the cleanser and scrub are being exclusively developed for EZApply Manufacturing and will not be available elsewhere. The consistency of these products will allow the cleanser and scrub to adhere more easily to the wash cloth while at the same time rinsing cleanly and completely from the bather. The scents will appeal to both men and women. The packaging is designed to be elegant but not feminine. The retail price on the cleanser and scrub will be $12.95 each, or if both are ordered by the customer at the same time, both for $17.95. The $12.95 price point was recently used by Hydron Inc. for their hydrating body lotion on both a short form commercial and on QVC home shopping quite successfully. The foot cleanser, and foot scrub can be reordered separately. It is conservatively projected about 5% of those who order either the Basic System or the Premium System will reorder the foot cleanser and foot scrub.

Patent and Protections
The Clean and Go is patented. While several other inventions use one or more of the ideas of Clean and Go, Clean and Go is the only one to use the suction cups to attach to the wall, and silicon grippers to hold the wash cloth and no special covering or custom cloth.

The patent does provide some protection to the marketing and sales of the product and is a definite barrier to entry. The individual inventor would be deterred to learn a patent has been granted for a product already on the market.

Several products that have been marketed through Direct Response TV have been challenged by knockoffs. One, The Purebred Pet Mitt, has aggressively and successfully defended interlopers. On occasion, a company will manufacture its own knockoff, on the theory that the market is only large enough to accommodate two of like products and consequently a third would be discouraged from entering the market. Additionally, being the original product as opposed to a "wanna be" has definite merits with customers.

End of Example

The Market

Who are your customers? If you don't know who they are, how can you figure out how to sell your product to them? Can you segment them by lifestyle, geography, age, gender, income level, education? Are they consumers or businesses? If a business, what industry, how big are they, how old? The more you know about who your customers are, the more effective your marketing programs can be.

Sections of the Market Section include:

Market Definition

(Your company's selected) **Market Niche**

Market Definition

In addition to discussing the market as it is now, the market should be projected for the future and these projections supported by research, documentation or experience. DO NOT just say the market is at $10 billion annually, all the company needs is to get a 1% market share to be successful. That 1% share has to be substantiated. If different products have different markets, each distinct market should be addressed. The objective is to demonstrate that the market is large enough to support substantial sales growth or that the market is not currently being satisfactorily served by competitors.

How can you get information about your market? There are a number of sources including:

Trade Publications, virtually every trade has some sort of trade publication, sometimes on both a regional and national level. You can often call the editor of the trade publication and get sources of information. A list of most trade magazines can be found in Standard Rate & Data Services at your library. Bacon's Directory of Magazines Tel: 1-800-753-6675 www.baconsinfo.com

Trade Associations, yes these are your competitors, but trade associations will pool their individual member's knowledge and publish it as a consolidation. Members are often willing to share proprietary company information and market information, for the good of the trade in general.

Major Suppliers or Vendors. The secondary suppliers of a market, the people you buy your supplies from, and your competitors buy their supplies from, can be helpful.

Trade Shows, look for the most popular booths, this may be an indication of where the industry is going. Talk to the trade show promoters. Has attendance increased, decreased or changed? Who has attended these shows in the past and who is attending them now? Talk to the exhibitors. Occasionally you can get a list of exhibitors and attendees.

Public Companies that are or would be your competitors. Ask for their annual report, 10K, or 10Q reports. There will be a discussion of the market and where that particular company thinks the market is going. Ask for the investor's relations person or the company's public relation department.

Stock Brokerage Firms have industry analysts that provide research on publicly owned companies. You might be able to convince a stockbroker friend to provide that industry research report to you.

Initial Public Offering Documents are available online at several web sites. Try www.IPO.com. Look for companies that serve a similar market like yours. In the offering document there should be a discussion of where the company thinks the market is going.

Your Library has a wealth of information. Personally we like the city library better than the university library, it's much more user friendly. However sometimes certain publications are only available through a university library. Start with your friendly librarian, there are digests of newspaper articles and publications that are indexed by industry. There are computerized databases. Try resources like Robert Morris Associates and www.dnb.com Dun and Bradstreet.

Publications (Hard Copy and Web Based)
Business 2.0
Wired
Inc.com
Entrepreneur Magazine
Fast Company

Other sources to try

Universities and colleges
Local chambers of commerce
State Department of Commerce/trade/development
Business publications like the Business Journal
Business Editors of local publications.

Market Research Firms
The following companies provide extensive marketing research information. You do have to be a client to receive their reports or consulting services, but most of them either provide some free research at their sites, reports or have a temporary membership available at no cost.

Aberdeen Group www.aberdeen.com
Founded in 1988, Aberdeen Group provides IT consulting and market strategy advice to the IT supplier community. Steeped in technology and armed with end-user field research, Aberdeen focuses on answering clients' critical business and technology questions in the context of the Internet economy and across the product life cycle. Headquartered in Boston, Massachusetts, Aberdeen Group has offices in Palo Alto, California and Amsterdam, The Netherlands.

For information technology users, Aberdeen comprehensively assesses information systems needs within the context of each client's specific business policies and competitive marketplace, recognizing that every organization's strategy, tactics, and objectives differ. Assignments include developing and reviewing enterprise-wide information architectures of hardware, software, and communications; providing objective, outside guidance for creating time-phased, business strategy-directed, information systems road maps; furnishing specific supplier analysis within the context of users' requirements; and evaluating the benefits and shortcomings of emerging technologies for production applications.

Forrester Research www.forrester.com
Forrester Research is the leading independent Internet research firm, analyzing technology change and its impact on business, consumers, and society. Forrester's "Whole View" of the Internet economy enables clients to weave together Internet commerce initiatives with eBusiness technology to satisfy customers' changing needs. Clients receive continuous research and analysis through Forrester eResearch (TM) Reports, an array of advisory services, unique Web-based bit products, and topical events. Established in 1983, Forrester is headquartered in Cambridge, Mass. Forrester's European Research Center is located in Amsterdam, Netherlands, and its UK Research Centre is located in London.

Gartner Group www.gartner.com
Gartner is the world leader in providing business technology research, consumer and market intelligence, consulting, conferences and decision-making tools. Gartner helps you discover, create and implement breakthrough IT and business strategies to achieve a competitive advantage.

Jupiter Research www.jup.com
Established in 1986, Jupiter Communications is based in New York City, with operations in London, San Francisco, Stockholm, Sydney and Tokyo. Jupiter Communications, the worldwide authority on Internet commerce, provides strategic analysis and insight to give businesses a competitive advantage in a complex and rapidly changing Internet economy. Jupiter provides its business-to-business and business-to-consumer clients with comprehensive views of industry trends, accurate forecasts and today's best practices, all backed by proprietary data. Jupiter's research and advisory services, offered on a continuous subscription basis, provide written analysis, supportive data and access to expert analysts.

Meta Group www.metagroup.com
META Group helps companies make better information technology (IT) decisions by providing research and unlimited analyst consultation relevant to their specific business needs. Offering advisory services, strategic consulting, and research/interactive reports that span the full spectrum of IT, META Group addresses the latest technologies, industry trends, and business challenges. With more than 2,000 client companies worldwide, META Group differentiates itself from other information providers through its commitment to highly personal service (enabling "analysis in context"), bottom-line answers, and objectivity. To support this promise, META Group reinvests almost 50% of its revenue back into research and client services.

Yankee Group www.yankeegroup.com
The Yankee Group is an internationally recognized leader in technology research and strategic consulting, whose broad-reaching analysis encompasses all areas essential to e-business success: the Internet, electronic commerce, communications, wireless/mobile, computing, and enterprise applications. The Yankee Group specializes in assisting companies with their e-business, enterprise networking, and Internet technology and electronic market initiatives while maintaining synergy with their overall business strategies. The Yankee Group continues to distinguish itself by providing personalized one-to-one analysis and planning assistance to its customers.

And of course there's always:

- Newsgroups
- Discussion Lists
- Forums
- Government web sites
- Industry association web sites
- University web sites

Your Market Niche

While the total market may be --and should be-- huge to attract investors, it is not feasible for your company, especially if it is a start-up, to target the total market at once. How will you determine which niche or target within the total market to attack first? Is that niche easily defined? Is it easily approached? Does your company have certain advantages or benefits that would be preferred by certain niches of your total market?

You can segment the total market by demographics which can include age, gender, nationality, education, income, occupation, physical location and lifestyles. If your market is business to business, you can select based on whether the company is a: manufacturing, service related, or distribution company, size of business by revenues or number of employees, geographic location.

If your company is web based, does your web site appeal to selected niches more than others? Or can one niche be more cost effectively reached than another.

Once you've determined what the size of your potential market niche is, you need to determine how many of those potential customers you can reach on a monthly basis, or that you can entice to visit your web site. This number is used in your projections.

Market Trends

What are the developing trends or changes in the market that you can take advantage of? Are new markets opening? Being aware of what's happening to your market allows you a competitive edge. You can develop a first-to-market advantage. Or you can establish a best-of-class solution. Timing is a critical factor. Of course a growing market of substantial size increases the attractiveness of your business model.

Documenting the market trends are important. Use market research, quote accredited sources such as journalists, experts, and major respected publications.

When you have determined where you believe the market is going, make sure that the growth rate you have decided to use is reasonable. Shortfalls in projected revenues can result from an unrealistic growth rate.

Mistakes You Don't Want To Make

The NUMBER ONE Fatal error: Using the "If the market is $10 billion and our company captures only 1% we'll be wildly successful" logic

No segmentation of the target market with defined characteristics
Describing the market in too broad of terms
Guessing who the target market will be without supportive documentation and research
Including more than one major target market without details as to how the company will be able to address both.

The following is an example of The Market for a fictional company:

The Market

(Distance Learning Company)

Demographic trends, changes in the global economy, and technological advances are transforming education and creating enormous opportunities within the $660 billion education market (nearly 9% of US GDP). A significant amount of private investment capital has recently gone into education-related companies, as the professional investment community has recognized that this market should offer excellent growth opportunities for at least the next decade.

Among the most important trends are:

- Colleges and universities are not producing enough graduates in some professions to meet demand.
- Technology also has created the opportunity for education to be delivered to consumers in their homes at any time of the day or night, serving a previously unmet need: those people who want to make education a continual, lifelong activity. Technology based education is emerging as an increasingly important component of higher education.
- The cost of attending a traditional university has continued to escalate, making it less and less affordable for a large segment of the population, at the same time the United States needs a better-educated, better trained workforce.
- Many traditional brick and mortar schools are experiencing financial problems because of their cost structure.
- The working adult population does not typically have the time nor the inclination for education in the traditional university classroom setting and is increasingly relying on distance learning.

As a result of these trends, the demand for higher education and the student population continue to grow. More than 50% of the world's population is less than 20 years of age. It has been estimated that a new university is needed every seven days to meet the worldwide demand for higher education.

Despite the favorable demand factors in the education industry, not all schools have positioned themselves well for profitability--or even survival. More than 100 schools went out of business in the

1980`s. More than 200 closed their doors in the 1990`s. Projections are that at least that many will go out of business in the first decade of this century.

The demand for higher education with fewer schools can be solved in large part by an educational delivery system that will allow fewer professors to teach a greater number of students using less physical plant: Distance Learning (DL) is one such, powerful solution.

SOLUTIONS FOR SCHOOLS

By interconnecting multiple campuses, schools can service more students with fewer professors than is possible in traditional classrooms; networked classes can be held in a 1000 seat auditorium where the on screen professor appears larger than life. Additionally, DL by its very nature introduces physical plant efficiencies not possible otherwise. As increasing numbers of students attend class at home the physical plant requirements are reduced.

SOLUTIONS FOR THE STUDENT

Because of the high-tech nature of so much of today's business and industry and the need to keep pace, many employees have now become life-long learners. For financial reasons, more and more college students are electing to work full or part time. Many are continuing their education at an older age when they have already started families. They place a premium on their free time. For them, the choice in education is distance education or no education at all.

Schools are increasingly turning to DL. Five years ago there were 100 DL schools. Today there are more than 1000. In 1997 there were one million students taking DL courses. The Year 2000 saw that number grow to 3 million. And DL is not only for the traditional "college" student. More often than not, the DL student is 25+ years old, is employed full time, and is going to school to further his or her career. Today's employee recognizes the need to compete in the workplace through higher education. DL offers that convenience and flexibility.

Although it has been around for several years the DL business is just beginning to receive serious attention from schools and students. Schools have always understood the need to reach more students at a lower cost. They now see DL as a solution to that need by reaching thousands of at home students with one excellent professor, and requiring very little costly physical plant. That is why so many schools have recently embraced DL and why accrediting agencies are now accepting DL.

The Marketplace Is Seeking A Superior Approach to DL

DL schools range from international publicly owned universities to small not for profits. Fifty percent of all DL schools have less than 200 DL students. For all its promise, DL generally is not yet profitable. For every school making money with DL, dozens are barely breaking even or losing money. This is because the schools hurriedly added DL with little thought given to DL specific requirements; i.e. course creation, number of courses offered, and distribution or marketing.

To date there is no one standard for DL. Programs are offered via two-way video, one-way video, the Internet, videotapes, and even traditional correspondence courses. Interactivity is accomplished using many different technologies including the telephone, Internet chat rooms, e-mail, return satellite audio, and One Touch technology.

Although all schools are familiar with DL and approximately one third of the colleges and universities in the U.S. offer some type of DL, those that do not cite the following main reasons:

1.Program Development Costs
2 Limited technology to support DL
3.Equipment failures and system maintenance problems

Program development, whatever the cost, is a *renewable asset*. A course can be developed, produced for television, and recorded for future use. Given a five-year life, program development costs become almost insignificant.

Technology exists today to transmit televised DL programs privately to schools, businesses, and directly to homes. It is called satellite television, a technology that has been around for more than thirty years and is generally maintenance free to the user.

THE MARKET NICHE

The Education Institutions will be the first and Primary Market Approached.

THE COMPANY has identified and tested several off the shelf Interactive DL elements, and again, most of them (telephone, pagers and the Internet) have been around for years and are also maintenance free. Some newer entries such as WebTV, and One Touch, work equally well.

THE COMPANY will actively go into the market and demonstrate these facts to the educators. For schools looking to enter the DL market and for those looking to improve and/or expand their DL programs, THE COMPANY offers a very specialized, well-proven expertise which can be applied to a school's DL program as a variable, expense. Unlike the school's in-house DL program which requires a salaried administrator, there are no fixed administrative expenses. The charge to the school from THE COMPANY will vary based on the number of students using the service.

The first year's objective is to enroll 50 educational institutions in THE COMPANY's program with a total of 500,000 students.

The founders of THE COMPANY have clearly seen that an innovative approach to DL must be found to service the rising DL population. Traditional methods are burdensome and not cost effective.

End of Example

Competitive Environment

Every product or company has competitors. DO NOT state that your company or product has no competitors. Even if your product is groundbreaking, there is always competition for the dollars spent by your customers with your competitors. Not knowing who your competition is, or stating you have no competition is a common and critical mistake. Every product has competition. These competitors need to be specifically named and described.

The Competitive Environment of your business plan should include:

General Discussion of the Competition
Sustainable Competitive Advantage
Barriers to Entry
Direct Competitors' Analysis

General Discussion of the Competition

How has your company compared to the competition? What is the outlook for any changes? What are the competitive advantages your company has, the resources and strengths that allow your firm to better serve those markets? What does your company have that the competitors don't?

Sustainable Competitive Advantage

What is your sustainable competitive advantage, those characteristics that will allow your company to succeed? Define this advantage in one paragraph. If you can't define your company's sustainable competitive advantage in one paragraph then you don't know what it is.

Barriers to Entry

What barriers to entry are there? How difficult will it be for new competitors to enter your market?

Is the market dominated by 2 or 3 major companies, think soft drinks, Coke and Pepsi? A few major competitors and then hundreds of smaller companies, think Salsa, there's Ortega and then lots of regional brands? Or very fragmented with no one company dominating, like the dry cleaning industry?

Barriers to entry can include first to market advantage, uniqueness of your product, licensing requirements, patents, or intellectual property.

Where do you find out about your competition?

Thomas Registry www.thomasregistry.com of American Manufacturers is sort of a huge national yellow pages for businesses. It is not a comprehensive listing of every company that provides a product or service. To be included requires an advertising fee, but it does give you a good idea of the general competitive level in your product category.

Ward's Million Dollar company lists companies with a minimum of $1 million in revenues by SIC code and then by state.

Directory of Corporate Affiliations lists both parent companies and their subsidiaries.

Standard & Poor's Register of Corporations

If your competitors are public companies check their annual reports.

Market research firms will do an extensive amount of competitive analysis but of course you have to pay them.

Publications: trade publications, industry publications*, The Wall Street Journal, Newsweek, Businessweek, Entrepreneur,, Inc.* magazines, local business papers will all profile the major players in an industry or in a geographic location in the case of a local paper. People love to talk about their company and will often divulge sensitive information to reporters.

And again try the world wide web and search engines.

And try the Market Research Companies that are mentioned in the previous Market section.

Direct Competitors

It's helpful to actually list your competitors and then include the list as part of your business plan.

For each competitor include:

Name
Address
Web site Address
Product or Service
Price
Marketing Strategy
Position in the Market (leader, top ranked, in the middle, not highly ranked)
Strengths
Weaknesses

Mistakes You Don't Want To Make

Fatal Mistake NUMBER ONE: Assuming you have no competition.
Underestimating the number, or strengths of your competitors
Not showing how the company fits into the competitive environment
Not including how the company
Not including specific competitors

The following is an example of The Competition for a fictional company:

Competitive Analysis
DSL TechLines
A DSL And Internet Service Provider Company

Competing Technologies

DSL Compared to ISDN

ISDN arrived with great expectations, but has failed to achieve significant market share. It has proven to be very costly to upgrade central offices to terminate the service. Companies usually offered the system on an expensive, per-minute use basis. Customer support by the local exchange carrier was often unsatisfactory. DSL, in contrast, is a plug-and-play technology, easily installed at end user's site. DSL does not require complex central office upgrades, and is priced on a flat-rate per month basis

DSL Compared to T1 Circuits

The cost of T1 lines has made them prohibitively expensive except for larger business customers. DSL is the first high-speed Internet access technology that can be deployed on a mass market basis. T1 lines have typically been priced at $600 to $2,000 per month.

Competition By Type of Company

The market convergence and the merger activity that is taking place in the telecom industry, combined with the host of new entrants to the market, means that a company that was an ISP competitor yesterday could be a competitor in the long-distance service market today. From one perspective, DSL TechLines competes against a number of other companies, many of whom are better capitalized and have large customer bases.

From another perspective, however, no company is offering the unique package of services and content at the price point that DSL TechLines will be. And because deregulation has brought down monopolistic barriers, the companies that will prosper in the years ahead will be those with lower infrastructure cost models in the delivery of services, such as DSL TechLines.

The major classes of competitors are:

Cable TV companies
Incumbent Local Exchange Companies
DSL Companies
Internet service providers

Cable TV Companies

Cable modems can be used for the transmission of high-speed data. Some industry forecasters believe that cable companies will be the leading providers of residential broadband services. This is clearly not the case at the present time, however. Data Corp. estimated that the number of cable modems installed (for high speed Internet access, not TV) at the end of 2002 to be only one million. It will be many years before this technology replaces the 700 million copper telephone lines in the world. The cost to upgrade coaxial cable systems with the additional fiber to support two-way Internet access is generally high. IDC estimates the cost of upgrading the United State's cable systems for high speed Internet access to be $100 billion or more. Besides being expensive, the re-working of cable systems to operate on a two-way basis has proven thus far to be a slow process, giving DSL companies sufficient time to enter the market and gain a foothold.

Cable companies do have the advantage of already having lines in many areas and having constant access to market to their customer base. A cable modem can be purchased for roughly $250, and the service itself is $30-$60 per month.

For the Cable TV company to give consumers the high-speed Internet connection that DSL offers, the installer has to come to each home and make a pole to pole connection. DSL is installed through the phone line that is already hooked up in each residence. DSL service is much more convenient.

DSL also allows for VOIP technology to be used. The consumer can make an Internet phone call while still connected to the Internet. The phone call is charged to the customers regular phone bill, but is substantially lower because of the "bypass" of the long-distance company's toll charge. A typical long-distance (domestic) call might be 3 cents per minute.

Security is a large issue with cable service for phone and data transmission. The cable circuit is easily tapped into by hackers. The DSL line is the customer's own dedicated phone line. Cable companies as yet do not have answers to these security issues, and are using a level of technology that is not completely secure because of the need to get into the high speed Internet access market as soon as possible.

The billing with the cable system is also more cumbersome for the consumer. The phone charges would be billed to a credit card or the customer would have to obtain a phone card or use a prepaid debit card.

With cable lines, when usage is high there is a degradation of service that does not occur with the DSL line. If a household were doing multiple tasks through the cable line, the reception could be poor for a movie, for example, as the packets of data would interfere with one another.

Deregulation occurred because cable companies wanted to be able to provide phone service and compete with established phone companies. Now, with DSL, telecom companies can provide Internet data transmission and also deliver entertainment and pay-per-view to the home. With the advent of streaming video and video on demand delivered through the Internet, cable companies will not be vital to the consumer except to improve reception of local TV stations. The customer will always need a phone line, but may not need a cable line anymore.

Cable cannot really grow in speed and capacity to keep up with DSL and an anticipated enhancement to DSL, called VDSL.

Not everyone has cable yet, especially in rural areas. But phone service is nearly universal. Cable companies also have a very low market penetration in industrial and business areas.

From a competitive standpoint, the cable companies have their hands full trying to maintain their market share in the TV broadcasting market against the threat posed by satellite TV systems. Cable TV companies technical support staff have little or no experience with two-way systems.

Because of the rapid expansion of cable over the last 20 years, especially in high growth regions of the US, cable TV companies face high debt service from the installations they have completed, and would have to raise substantial additional capital to upgrade to provide Internet access.

Incumbent Local Exchange Carriers (ILEC)

It would appear that the ILECs would be ideally positioned to capture a large share of the DSL market. They already have long-standing relationships with the majority of residential and commercial customers, and they have the cash resources and access to the public capital markets necessary to fund deployment of new technologies. Although ILEC DSL services are starting to pop up around the US, the market penetration thus far has been limited. The problem they face is that they must reconfigure the equipment in each and every one of their central offices (CO) in order to offer the service. It is much more expensive to change over aging equipment that could be 25 years old in some cases, than it is to start with state-of-the-art equipment as DSL TechLines is. The cash outlays required on the part of the ILECs are enormous. Their existing customer accounts in some ways serve as somewhat of a disadvantage, because they cannot aggressively offer the service until they have their entire market area reconfigured. Because of the appetite for increased bandwidth, customers would become extremely dissatisfied if they tried to sign up for the service from their ILEC and found it was not yet available in their local area. This is why the promotion and advertising of DSL services by the ILECs has for the most part been minimal.

DSL Companies

DSL companies have met with a very favorable reception on Wall Street, a clear indicator of the capital markets' recognition that DSL is the going to be the most popular high-speed Internet access technology over the next 3-5 years. Three companies in particular have been able to raise significant capital, Large Signal, Basic Netsystem and National Tech. Although their strong capitalization gives them an advantage over DSL TechLines at the present time, over the longer range DSL TechLines will be able to narrow the gap, management believes, because these companies are not fully taking advantage of the trend toward convergent services.

Internet Service Providers

DSL TechLines intends to use the popularity of DSL as a means of attracting customers initially, rather than trying to compete head to head with the large ISPs such as America Online. By offering content and entertainment, DSL TechLines will serve to enhance customer loyalty, however, and insulate the Company from losing customers to the large ISPs or having to compete with them on a price basis. The smaller ISPs are not viewed as a significant competitive threat, and indeed a number of those that are not following the ISP/CLEC model may go out of business in the future.

Barriers to entry

CLEC regulatory barriers. CLECs must be licensed by the state Public Utilities Commission. The process takes 3-4 months, and the applicants must show financial capability and they must have secured an operational switch.

First to market advantage. As with any emerging, popular technology such as DSL, getting to market first and achieving 1 to 2 year head start is extremely valuable. This first-mover advantage, and building the leading, most popular brand, is key to obtaining a competitive advantage, in rapidly developing markets.

Price barrier. The Company is offering rates on DSL that are lower than several key competitors. No one can undercut the whole package or services that DSL TechLines is offering. The rates offered by the Company are competitive for each single element, too. Although the cost of acquiring Internet customers rises over time, bundling services creates a whole new perceived type of service--especially with the improved speed and
more interesting, localized content.

DSL TechLines seeks to maintain the competitive advantage by offering the best new technologies to customers as they become available, through strategic alliances with technology companies, rather than by owning or developing the technologies themselves. By offering lower cost solution, exiting content, and new interactive Internet-based services, before competitors are able to supplying content that is locally based and therefore of the most value to the user, the advantage of the first mover can be maintained.

End of Example

The following is an example of Direct Competitors for a fictional company:

My Messages, Co.
Messaging Service Competitors

Firm 1 began offering integrated communications services in September 2001. They charge a fee of $9.95 per month, plus roughly 4-7 cents for long distance calls. The company says it has around 65,000 voice-over IP users at the end of 2001.

VoIP service providers including **Firm 2** and **Firm 3** are working on providing integrated communications services.

Even a large incumbent carrier such as **Firm 4** is delivering unified messaging services over its IP network; it sells the services through other providers and does not yet offer a follow-me, find-me feature. ISPs are expected to be a major market for Firm 4.

Firm 5
When signing up for Firm 5, you are required to give them your telephone number and your billing information you have on file with your local phone company. You are authorizing Firm 5 to contact your local phone company to forward your number to them. It takes Firm 5 3-5 days to set up the service. My Messages, Co. is immediately active, easier and faster to set up. My Messages, Co. gives the customer full control and does not involve the phone company.

Firm 5 sells audio advertising that they play to customers when they check their voice mail via telephone. The ads are 10-15 seconds in duration. When they check their voice mail via the Internet, they are presented with banner advertising.

Firm 6 introduced a service called Firm 6 Mail in late 2000. The service reads e-mail messages back to the user over the phone. The service is offered free (except for long-distance calls) and is paid for by sponsors; the company collects demographic data on users during the sign up process. This service clearly does not save time if the user has a large number of e-mail messages each day.

Firm 7 This service began Spring 2000. Partnership agreement with S. Service in area codes, 415, 650, 408, 510. The company generates revenue through advertising placed on its web pages and also by selling products displayed on its pages. The president of Firm 7 projects the service will have 4 million users within a year.

Firm 8 is a startup from Calif. The service began June 1999, the company securing $20 million in financing, with another $50 million raised in January 2000.

The system issues users a 4 digit extension. They offer free voice mail/email/fax. Users must have a web browser and Internet connection to use the service.

The system is offered for free, marketed through partner Web sites. Firm 8 generates revenue through advertising and revenue-sharing deals with partner sites. They say they have reduced the cost per customer to single digits through proprietary technology. This cost formerly was $35 per subscriber. They state the next generation of their service will involve letting users set up their own messaging service online.

End of Example

Example of Competitive Advantage for a Fictional Company

Offering the freshest, most interesting, most complete product line through proprietary relationships with large brand-name food producers and manufacturers is key to the COMPANY's competitive advantage. Once that happens, other food producers and manufacturers will follow quickly because they do not want to be shut out of a major new distribution channel. It is important to note that to the consumer, the brand name is the key. That is why The COMPANY can become more popular than the site from the food manufacturers themselves. This is also why it will be of such benefit for the food manufacturers to distribute through the COMPANY's site.

Repeat business. The cost of serving the repeat customer is less by the amount that must be spent on marketing to bring a new customer to the site. Rewarding their loyalty by customized discounts and bonus points is important also, as is making sure the content is entertaining to navigate--not a hard sell on every page. The news and information on the site must be fun, entertaining to read in and of itself. Consumers will quickly sort out which sites are merely mass homogenized sites and those that take the time to get to know them as individuals.

Not first to market, but first to the largest market. Other companies in the market have spent many millions of dollars in capital on marketing expenses aimed at proving the viability of Internet groceries. The COMPANY sees its mission as being the first to deliver the breadth and quality the consumer wants, the first to satisfy the mass market.

Capturing the Impulse Buy From the Retail Stores. It is easier for customers to browse the COMPANY's Internet store and order for next day delivery than get in the car, drive to the store, walk up and down the aisles, and then finally find what they are looking for.

A higher payout for food producers. The COMPANY will match the industry standard markup or even make it higher for the first year.

Fresh distribution channel for food providers. The COMPANY offers its content partners a different source of revenue, new exposure for their products, the potential for incremental sales they might not have otherwise.

Proprietary technology. The Company has a license on a proprietary rapid order processing system reassuring customers that their groceries are as fresh as possible. The COMPANY will be seeking to patent the system. The biggest project from a technical standpoint will be developing the network of warehousing.

End of Example

Marketing

If a business plan is the battle plan to get you investors, then the marketing section is a minefield for most entrepreneurs. Marketing matters and its importance can't be overstated. Entrepreneurs have a tendency to fall in love with their product/service and just assume that everyone else will feel that same attraction. Too often all the company funds have been expended by the time the product is ready for market under the logic that very little marketing will be required once customers realize the product is available.

"Build it and they will come" works in the movies not in the business world. Venture capitalists cite the marketing section, or really lack of marketing, as a critical error and a very common error of entrepreneurs.

The Marketing Strategies Section consists of

Marketing Objectives
Image Definition
Distribution
Promotion

Marketing Objectives
This is the nitty gritty of the marketing section. The objectives should be expressed as either units sold, or revenues achieved, within a time period. Justify the objectives based on the size of the market, market trend, target market, and your marketing strategies.

Image
When customers think of your company and its products/services what will come to mind? Will your image emphasize high quality and exclusiveness, or perhaps friendly, and value oriented. Fast response, high tech, or customer service oriented. Young and on the edge or traditional and well established? The image you define for your company is then carried through in your marketing materials.

Distribution or how will you get your product to market?
What channels of distribution will you use? Will you sell directly to the end user or wholesale the product? Will you use outside sales representatives or an in-house sales force? Commissioned or non-commissioned? Will you license the product and have someone else market the product for you? If a web site will you develop an affiliate program, partnerships and links with other web sites?

Promotion or how will you tell your customers your product is available?
Word of mouth? Referrals? Advertising through print, TV, newspaper, radio, direct mail, web sites, brochures, coupon, or co-op? Trade shows? How will you use publicity?

Advertising Program
You should develop a month by month advertising program which includes what advertising media you will use and the costs. Potential advertising media includes Television, Radio, Direct mail, Direct TV,

Personal contacts or referrals, Trade associations, Newspaper, Magazines, Yellow Pages, Billboard. You also need to determine whether you will have in house staff, or retain an advertising agency or both.

Promotional Programs
Develop your strategy and include your costs for brochures, coupons, newsletters, or web site, again by month and by type of promotion would be preferred. Also included in Promotional Programs can be attendance or exhibiting at trade shows and conventions. List the trade shows, their benefits and their costs. Will your company be hosting or sponsoring any events such as conferences, contests, or award programs?

Public Relations
Will you be hiring a public relations agency or have in-house staff. Develop a press release calendar, press kit, and media events by month for the entire first year.

Web Site Promotion
Web sites can be the entire business or only part of a company's promotional program. There are promotions unique to web sites. Advertising in e-mail based newsletters, opt-in mailing, linkage programs with other web sites, advertising on other web sites, affiliate programs and search engines.

The costs of these marketing strategies will be incorporated into your projected Profit And Loss Statement, month by month.

Mistakes You Don't Want To Make

Talking in generalities
Not including specific details such as the mediums you will use to advertise
Plugging an arbitrary dollar amount for advertising with no justification
No discussion of how the selling process will work
Not including the distribution channels
Assuming that hiring an advertising agency will eliminate the need for any other marketing strategies

The following is an example of Marketing Strategies for a fictional company:

The marketing strategies will have these major objectives:
Fashion Fun
(Retail Clothing Chain Store for both men and women)

Building a "Fashion is Fun" Image
Rapid ramp up of traffic to the stores
Developing customer loyalty and repeat business

Fashion Fun Image
Each customer experience must be a pleasant one in order to insure repeat visits. The customer will see frequent reinforcement of the Company's major advertising theme-- "Fashion is Fun". The benefits of the Company will be reinforced, because even if the customer doesn't find exactly what they want that

day, if they know this is the premier store for the latest in popular clothing fashion at discount prices, they will come back.

The shopping experience will be personalized; the customer will know the people behind the counters in the stores and what the company's goal is: to bring the best fashions to the customer, anytime, anywhere. The design and content will establish a unique "personality" for Fashion Fun.

The store will be informative, providing information that helps the customer as well as promoting the retail clothing and accessory products. Saving the customer time is critical, too. The Company will continuously update product line and store content to maintain image as most reliable source of information. The stores will present an image that the customer is being invited inside the fashion industry.

Involve Customers in the Stores Interactively
Consumers enjoy feeling part of a store, being asked their opinion. Fashion Fun stores will have bulletin boards where they can post their fashion "reviews", opinions on clothing designers and fashion industry trends. Fashion Fun will use incentives to bring people back. Coupons, fashion news, contests to win a new wardrobe, or accessories will be used to reward loyalty and frequency of use. A Fashion Fun Shopper's Club for frequent users will offer discounts as well as encourage the customer to buy matching shoes to a new outfit. There will be on-line coupons they can earn as incentives for customers to recommend the store. Word of mouth marketing will be an important part of the Company's efforts. Customers will be able to purchase gift certificates that the Company will e-mail to the recipient with a personalized reference ID they could use to expedite their purchase.

Devote maximum attention to customer service.
This is accomplished partially through store design and layout, but also through creating a company-wide philosophy of attention to the hundreds of small details that lead to customer satisfaction. Communication with the customer is key, as is a high degree of personal interaction with the customer. The customer will be steered towards products and fashions that fit their personal preferences

Make the brand name vivid, memorable. We believe Fashion Fun clearly depicts the image we want to present and the products we will be offering.

Promotion

Use multiple media outlets to publicize the new stores.. The Company will initially use print and television marketing like Amazon.com; we anticipate a fairly large advertising budget to elevate the brand name above the hundreds of tiny clothing stores that are popping up. Most of these competitors have such low budgets no one knows they are there.

Direct mail, broadcast ads, print advertising, banner ads, links--will all be used. The Company will retain an advertising firm that specializes in e-commerce brand building. The Company will also utilize banner exchanges to barter ad space with other sites with related customer groups (www.linkexchange.com).

Divert customers from potential competitors by creating the image of being one of few companies to offer hot fashions first, almost like exclusives. Draw traffic for people who want that item. Having the reputation of being the place where fashions debut is important.

Trade shows, the Spring and Fall Designer fashion shows and events such as the Academy awards, and the Cannes Festival will be regularly attended, and the new clothing lines, and accessories will be immediately available at the Fashion Fun stores.

The Company will have ongoing, systematic market research through discussion groups and bulletin boards, in order to find out what competitors are doing right and wrong.

Create a Fashion "event" to generate immediate publicity for the Company. On option is to offer a "worst dressed" contest with free makeovers and other promotions to make sure a large proportion of people who see the Company's ads end up visiting the stores.

End of Example

Management, Operations, Production, and Facilities

Management is one of the key factors investors consider in their decision to invest. The Management team should be experienced in the field and already have demonstrated a measure of success. A brief resume of each senior member of management and their function and areas of responsibility within the company should be completed in addition to an organization chart and a brief description of the company's staffing and labor as it is now and as in the future. Emphasize what was accomplished in the resumes rather than just a job description.

Advisory Board
If you are a small company, consider putting together an advisory board to complement your management strengths. You can also hire a strong accounting firm and law firm. Professional firms have to replace clients that leave. If you can show that while your company may be small now, it will be a major client in the future generating substantial fees, professional firms may accept you as a client on a very reduced retainer basis. This does not mean free, you will still have to pay a retainer between $2500 to $5000. But you will get your money's worth, a good accountant and attorney can save you many times their fees.

Operations and Production
Any changes in operations, reorganizations or efficiencies should be described and projected benefits explained.
A general overview of the production process of the company helps an outsider understand how the product or service is produced. Any licensing, laws or regulations should be mentioned and explained.

Facilities
The facilities, including headquarters, offsite locations, branch offices and manufacturing plants should be described in general terms.

Mistakes You Don't Want To Make
Resume type of recitation of management rather than focusing on accomplishments
No realization that gaps in management exist.
Too short, or not including all team members
No clear indication of how your management team is uniquely qualified to be successful
Omitting the manufacturing or production section
Ignoring the additional staffing that will be necessary

Current Ownership

The structure of current and projected ownership should be explained, including a summary of major stockholders, percentage ownership, and functions, if any, of these owners within the company.

Mistakes You Don't Want To Make
Omitting current ownership completely
Failing to establish a structure for ownership

Strength, Weaknesses, Risks, Opportunities
Every company has risks and weaknesses. It's better that these topics are covered and addressed in the business plan than to leave it blank and have the potential investor bring them up. Just acknowledging their existence can offset some of the weaknesses. And it shows you've considered the down side.

Mistakes You Don't Want To Make

Tendency to overstate the strengths and opportunities and ignore the weaknesses and risks
Reluctance to disclose weaknesses honestly
Not including how the company will react to risks

REQUEST FOR CAPITAL AND STRUCTURE OF THE INVESTMENT

If the plan is being prepared for presentation to potential investors, a summary of the amount and uses of the capital desired is necessary. The structure of the investment and rate of return under different scenarios and structures can be presented. While it may be important to have a structure offered, flexibility is more important.

Be careful about breaching securities laws, don't offer a fixed dollar amount per share as that might be considered as offering securities for sale without being properly registered. Now it's doubtful that the SEC or your local state corporation commission will come after you (although that does get to be more of an option these days) for offering unregistered securities to the general public. The real problem is that your investors can use the situation of you offering improperly registered securities, as a reason for getting their entire investment back if they decide they don't like what you're doing.

An exit scenario (or how does the investor/lender get their money back) should be prepared as well. STAY FLEXIBLE.

NONE of the above is intended to be legal advice. For that matter nothing anywhere in this book is intended to be legal advice. We are not now, nor have we ever been, or wanna be attorneys (not that there's anything wrong with being one).

Capital Request

How much capital do you need?
As much as I can get! This would be the answer readily shouted out by most entrepreneurs. The fact is though, both over and underestimating the amount of capital needed to fund a business can have serious negative consequences.

Underestimating what you need can cause problems ranging from having to go through the whole time consuming fund raising process again, to having to shut down the company because funds have run dry. Having to go back to the original investors and ask for more money often undermines the entrepreneur's credibility with the investors and can cause a significant dilution in the founder's ownership.

Obtaining more than enough capital may seem like a blessing at first, but it can breed a lax attitude toward expense control. "If you have it, spend it," is not an advisable motto for a new company. If the investment takes the form of equity, raising too much money means that the founder's share of the business was reduced more than was necessary--and this violates one of the maxims of entrepreneurship: hold on to those equity points!

Typical advice given to entrepreneurs is to do a cash flow projection, or cash budget, and then add 10%, 20% or even 50% to this amount, for "contingencies." These contingencies are all the things that can go wrong in a start-up venture, all the unfavorable events that can negatively affect results.

Contingency planning is a skill that does not come easily to all entrepreneurs--even those with a finance background. How do you get the cockeyed optimist (what you absolutely must be to even conceive of the idea of the starting a company), who expects the best, to plan for the worst?

To stimulate contingency planning, it helps to look at the reasons why entrepreneurs so consistently run out of money; among these are:

- ❖ Not realizing how expensive it is to introduce a new product, especially consumer products, on a national basis.
- ❖ Not realizing how long it takes to introduce a new product, or for the market to truly accept the product.
- ❖ Assuming that production costs will inevitably fall as sales volume rises.
- ❖ Delays in regulatory approval, municipal zoning, or patent approval.
- ❖ Assuming that a small start-up company will get the same forbearance on payments and favorable terms that a large one will.

An entrepreneur with an early stage company must be prepared for one or more of these situations to occur. Contingency planning doesn't mean simply adding a percentage or dollar "cushion' to the amount of capital being sought from investor or lenders. It is a way of thinking--a recognition that the entrepreneurial road is always rocky. Envisioning what might go wrong does not equate to entrepreneurs losing faith in their product or their company; it means they accept these difficulties as steps on the path to prosperity.

Determining The Amount Of Capital

The least difficult way of determining how much capital your company requires to complete the revenue and operating expense projections. If a major advertising campaign is necessary, or other promotional programs required, make sure they are included. If further research and development is necessary those expenses should be included.

There will most likely be a shortfall or cash deficit for the first 6 to 12 months of operations.

Determine what equipment, software, fixtures, prepaids, deposits and long term asset acquisitions are necessary to begin operations. Then add the two totals together, that should be the minimum amount of capital necessary.

Mistakes You Don't Want To Make

Overstating the amount of capital required
Understating the amount of capital required
Begin rigid in the terms and structure
Including per share prices
Not including an exit strategy
Assuming an IPO is the only exit strategy

FINANCIAL SECTION

Historical Review
A more detailed discussion of the financial performance of the company over the last three to five years and the reasons behind that performance. The balance sheet and cash flow should be discussed, as well as revenues, expenses and income. The actual financial statements themselves can be presented in summary level. If audited statements are available, provide them in the appendix or state they are available in the discussion. Obviously if your company is a start-up it has no historical financial performance.

Projected Performance

Overview: A condensed concise summary that describes what is going to happen during the next three to five years and why.

Revenue Assumptions: A bullet point explanation of the factors that drive sales by product or market segment.

Expense Assumptions: A bullet point explanation of expenses.

Capital Request: Each asset acquisition and expenditure is described. Additionally any shortfall from the first 6 to 12 months of operations should be included.

Profit And Loss Statements Summary level, but specific detail should be available in the appendix section.

Balance Sheet and Cash Flow: If your company is a start up, it's not critical to project a balance sheet. Until you receive funding and know whether the investment will be in the form of debt or equity, and know the terms of the investment, you really can't project a realistic Balance Sheet. It would be a good idea to project a cash forecast. Most startup companies that don't have a lot of accounts receivables and could use the net income --or loss as the cash projections. EBIDAT or Earnings before Interest, Depreciation, Amortization and Taxes is sometimes used as the equivaence of cash.

Balance Sheet and Cash Flow Assumptions: Bullet point explanation of relevant assumptions for receivables, sales, average days outstanding, inventory levels, debt levels, assets, reserves and amortization schedules.

Balance Sheet Proforma: Summary level balance sheet.

Cash Flow Forecast: Summary level with a brief description of how excess cash will be invested and how a deficit will be funded.

REVENUE PROJECTIONS

Established Company

Projecting your company's revenues, if you are an established company can be handled several ways.

This approach is one of building a sales forecast using what you've done historically as a base, and adding or subtracting increments due to the economy, the industry, the competition, and your goals for the company. Each product group or market segment should be forecasted individually.

To begin with, make a spread sheet by year for the last three (3) years, which breaks your sales down by product and/or market segment. This should be done by dollar volume and unit volume. Calculate the percentage change from year to year for each product and/or market segment by dollar and unit volume. Also calculate the percentage of each product/market segment to the total sales.

What you're trying to do is separate real improvements from inflationary changes and unit volume changes from price changes, as well as changes in your market segment. It gives you a baseline of sales that you have achieved in the past and that should be achievable in future periods if all other factors remain constant. An effective way to begin the sales planning process is to graph previous periods' sales, for several years.

Your graph can show you whether the sales trend has been smooth, or cyclical. Major swings indicate a need for conservatism in the forecast.

Sales or Revenue Assumptions

After you've determined the level of sales you believe can be achieved without major changes, you've established your sales or revenue baseline. You are now going to increase or decrease that baseline by factors based on the economy, the industry performance, your competition and your own efforts.

Review your Economic, Industry and Competitive Environment section of your business plan. It should include a forecast or outlook for the general economy and industry. Perhaps you could even mention a specific inflationary factor and historical correlation's between sales and economic indicators. List those factors, correlation's or forecasts under a category called simply Economic and Industry Sales Assumptions.

Review your competition and list any items that will impact sales. Any new competitors or removal of present competition. These factors are included under Competitive Influences.

Now look at your marketing penetration, additional market segments, development of new products, or price changes that you've discussed in the Marketing Segment of your business plan.

Now that you have your assumptions by the different categories you need to consolidate them into a projection. Assign factors of plus or minus to each bullet point. Some, like the inflationary factors, or an increase in your product price are pretty self explanatory. Others such as an increase in advertising by a competitor are more difficult.

Talk to your sales force for their input. Each sales person might generate a forecast for their territory, and these could be consolidated into a company forecast. Sales people tend to be very optimistic in their estimates, and therefore you must be careful when using their projections. The advantage of using your sales people is that they are close to the marketplace and should be able to spot shifts in patterns of demand.

Also interview your customers. This may give you a measure of confidence. The problems are that the customers don't always share their true intentions, and they may not be able to predict their purchasing behavior very far in advance.

Additionally talk to competitors or any professional association you belong to. The more input you receive on your sales forecast the stronger it will be. In any case, be conservative about the pluses and pessimistic about the minuses.

Overstating revenues is a prime cause of failure to meet the planned levels of operating income. Revenue shortfalls leave you with excess inventory, overstaffing, underutilized facilities and possibly a debt overload.

After assigning factors net them for the overall impact and increase or decrease your baseline sales by that factor. Each product group should be addressed. This example is for only one product.

For Example:

Sales Baseline
****
Sales should increase 3% in each year from the 2000 level of $1,000,000

Economic and Industry Assumptions
****
Inflation should be 4% in each year.

The industry is facing an oversupply of the product with no concurrent increase in demand.

Tax legislation has been enacted which increases the tax on the product.

Competitive Influences
****
Two new competitors will be coming on-line.

The Company's major competitor has decreased its advertising budget.

Sales Assumptions
****
One new product will be introduced each year.

Market share will be increased 4% each year.

EXAMPLE

Sales Baseline	+3%
Inflation	+4%
Oversupply	-5%
Tax increase	-2%
2 new competitors	-0-
Competitor decreases advertising	+1%
One new product	+10%
Market share increase	+5%
TOTAL IMPACT	16%

Increase in Sales $1,000,000 x 16% = $160,000 projected sales increase
Total Sales = $1,160,000.

Revenue Projections for A Start-up Company

The task is a bit more difficult for a start-up company, there aren't any historical sales to use as a baseline. There may be no comparable products and it might even be a new industry as well.

Product or Serviced Based Internet Companies
If your Internet company is selling a product or service to visitors of your web site. You need to project by month how many visitors can be expected to visit your web site and, how many of those visitors will buy your product.

To project how many visitors, you need to go back and review your "Market Section" and your Market Niche. Keep in mind who your potential customers are, then make a list of web sites that serve your potential customer. Those web sites can be direct competitors, offer a complimentary product, have an affiliate program, or be in a completely different industry but serve your potential customer.

Visit those web sites, read the press releases or "about us" sections. Press releases will often contain announcements of milestone achievements, such as the millionth visitor, or how well the web site is doing. The "about us" section usually contains corporate background and why the web site was established.

If the web site accepts advertising, find the advertising rate card, or contact the advertising department and request the ad rate card. Similar to hard copy publications, very often the rate card will tell you not only the demographics of the visitors, but how much traffic goes to their site. That traffic rate will give you a benchmark of what the traffic rate could be at your web site after it's been up for awhile.

You can also find advertising agencies and marketing firms, that provide marketing services to web based companies. They usually provide references. You can contact the references to ask what the traffic level was before and after utilizing the marketing company.

Or you can ask the marketing company directly how they could assist you in promoting your web site and what level of results you can expect.

A word of caution here, don't abuse the marketing firm or advertising agency by requesting all sorts of information when you have absolutely no intention of even considering retaining them for their services.

It's valuable if you can find this type of information for several web sites, it then validates your own projections.

Determining the level of sales is a matter of projecting what percentage of your visitors will purchase your product, this is sometimes called a "conversion rate".

Affiliate programs will give this information to encourage new affiliates to sign up. So research those affiliate programs that offer similar products or complimentary products.

You can also base your conversion rate on what historically, or currently, is the sales rate given your customer base and your industry.

Advertising Based Internet Companies
These are web sites that are driven by advertising rather than by sales of the company's own services or products. Visitors come to a web site for content or a service which is free. Sites such as Yahoo.com are probably the most recognizable.

Advertising revenues are based on a time period, click-throughs or impressions, all of which are based on the traffic levels of the web site. The price per click-through is based on how many visitors click on the advertiser's banner. The price for impressions is based on how many visitors are exposed to the advertiser's banner, regardless of whether they click through on it or even "see it". The time period is not used too much but is based on the time period the banner is on the site.

One of the best ways to determine your own advertising revenue program is to visit web sites that are advertising supported (or those that accept advertising plus sell their own products) and see what their rates are. You can then use those rates as a base for your own rates.

Expenses

After the revenue projection it's necessary to think about costs or expense projections.
Many of your costs will be determined by your "product costs", your "marketing strategies" and your "staffing level" sections of your business plan.

The following might help you in determining the remaining costs or expenses.

Fixed Costs are those costs necessary to keep the doors open, the minimum stay-in-business expense level. They include facility rent, utilities, taxes and licenses. contractual obligations, leases, equipment lease or depreciation, insurance, interest and principal payments. These can be an actual monthly amount or an estimated amount.

Discretionary Costs
The next level is discretionary costs. It includes sales staffing and costs, advertising and marketing expenses, inventory levels, research and development, postage, printing, dues, travel. They're not really fixed costs because they're not mandatory to stay in business. They're not variable because they're not dependent or tied to the sales volume.

Variable Costs
Variable costs are tied to sales volumes and consist of direct costs and indirect. Direct costs can be identified with a unit of the product such as raw materials, hourly production labor and material used to convert the raw materials into a finished product. Indirect costs can't be directly identified with a unit of the product but are related to the production of the product. Supervisory labor and plant management, utilities to run the production, and warehousing, are examples of indirect variable costs.

Balance Sheet

While a necessary part of a business plan for an established company, the balance sheet can be a little confusing for someone unfamiliar with financial statements to understand let alone compile. It might be worth $200 or $300 to have an accountant prepare the balance sheet and cash flow statement for you when you've finished the entire business plan and Profit And Loss Projections.

A Balance sheet has the following items

Assets: Everything that the business owns or is legally due.

Current Assets

Cash or near cash such as savings bonds, Treasury bonds, certificates of deposit

Stocks and Bonds that can be easily converted to cash.

Accounts receivable-The amounts due from customers in payment for merchandise or services.

Inventory-Includes raw materials on hand, work in progress and all finished goods, either manufactured or purchased for resale.

Prepaid expenses-Goods, benefits or services a business buys or rents in advance.

Long-term Investments

Also called long-term assets, these are holdings the business intends to keep for at least a year and that typically yield interest or dividends. Included are stocks, bonds and savings accounts earmarked for special purchases.

Fixed Assets (less depreciation)

Land-List original purchase price without allowances for market value.

Buildings
Improvements
Equipment
Furniture
Automobile/vehicles

Liabilities

Current Liabilities

Portion of long term debt that is due within 12 months.
Accounts payable-Amounts owed to suppliers for goods and services purchased.
Notes payable-The balance of principal due within 12 months.
Interest payable-Any accrued fees
Taxes payable
Payroll accrual-Salaries and wages currently owed.

Long-term Liabilities
Notes payable-List notes, debt or mortgage principal payments owed not including the amount that would be owed during the 12 month period

Net worth: Also called owner's equity, the difference between total assets and the total liabilities.

Total Liabilities and Net Worth – always matches Total Assets

Cash Flow Statement

For most entrepreneurs completing a business plan a simplistic definition of a cash flow statement can be used. It is the difference between what the company will generate in revenues and accounts receivables or cash inflow --less the amount of cash the company will expend. Most cash flow statements are projected by month. The negative cash flow will need to be funded and is usually part of the amount required to be invested.

Below is an example of an operating statement projection for the first six months of a new company that is Internet based and generates sales from its web site. It can generalized for any type of company.
.

The numbers in blue are generated from the assumptions. The revenues are derived from the revenue model below.

"THE COMPANY" — Proforma Operating Statement — Year 1

	Month 1	2	3	4	5	6
TOTAL REVENUES	15,150	30,300	45,450	60,600	75,750	75,750
COST OF GOODS SOLD	3,788	7,575	11,363	15,150	18,938	18,938
GROSS MARGIN	11,363	22,725	34,088	45,450	56,813	56,813
EXPENSES						
Salaries (Per Schedule)	130,000	130,000	130,000	130,000	130,000	130,000
Benefits	26,000	26,000	26,000	26,000	26,000	26,000
Total Personnel	156,000	156,000	156,000	156,000	156,000	156,000
Marketing						
Advertising	100,000	100,000	100,000	100,000	100,000	100,000
Travel	10,000	10,000	10,000	10,000	10,000	10,000
Trade Shows, Promotion	5,000	5,000	5,000	5,000	5,000	5,000
Internet System Costs						
Programming	3,500	3,500	3,500	3,500	3,500	3,500
System	5,500	5,500	5,500	5,500	5,500	5,500
Operations						
Facilities	10,000	10,000	10,000	10,000	10,000	10,000
Utilities	2,000	2,000	2,000	2,000	2,000	2,000
Supplies	1,000	1,000	1,000	1,000	1,000	1,000
Equipment	6,000	6,000	6,000	6,000	6,000	6,000
Training	1,000	1,000	1,000	1,000	1,000	1,000
Insurance	500	500	500	500	500	500
Legal	2,500	2,500	2,500	2,500	2,500	2,500
Telephone	1,250	1,250	1,250	1,250	1,250	1,250
Professional Service	1,500	1,500	1,500	1,500	1,500	1,500
Other	500	500	500	500	500	500
TOTAL EXPENSES	306,250	306,250	306,250	306,250	306,250	306,250
EBIDAT	**(294,888)**	**(283,525)**	**(272,163)**	**(260,800)**	**(249,438)**	**(249,438)**

"THE COMPANY" REVENUE MODEL

	Month 1	2	3	4	5	6
Web Site Visitors	10,000	20,000	30,000	40,000	50,000	50,000
Revenue Product/Service 1	$500	$1,000	$1,500	$2,000	$2,500	$2,500
Conversion Rate	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Units Sold	100	200	300	400	500	500
Price/Unit	$5.00	$5.00	$5.00	$5.00	$5.00	$5.00
Revenue Product / Service 2	$2,000	$4,000	$6,000	$8,000	$10,000	$10,000
Conversion Rate	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Units Sold	200	400	600	800	1000	1000
Price/Unit	$10.00	$10.00	$10.00	$10.00	$10.00	$10.00
Revenue Product/Service 3	$4,500	$9,000	$13,500	$18,000	$22,500	$22,500
Conversion Rate	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Units Sold	300	600	900	1200	1500	1500
Price/Unit	$15.00	$15.00	$15.00	$15.00	$15.00	$15.00
Revenue Product/Service 4	$8,000	$16,000	$24,000	$32,000	$40,000	$40,000
Conversion Rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Units Sold	400	800	1200	1600	2000	2000
Price/Unit	$20.00	$20.00	$20.00	$20.00	$20.00	$20.00
Advertising	$150	$300	$450	$600	$750	$750
% of Visitors Click Through	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Click Throughs	1,000	2,000	3,000	4,000	5,000	5,000
Cost Per Click Through	$0.15	$0.15	$0.15	$0.15	$0.15	$0.15
TOTAL REVENUES	**$15,150**	**$30,300**	**$45,450**	**$60,600**	**$75,750**	**$75,750**

"THE COMPANY" Proforma Operating Statement **Assumptions**

The Financial Model is Keyed Off Of Web Site Visitors, the first assumption you must make

Revenue:	Conversion Rate means, What percentage of visitors to the site end up buying a product?	
Product 1:	(Discuss how you chose assumptions in REVENUE MODEL above, and how the assumptions might change during the year)	
Product 2		
Product 3		
Product 4		
Advertising		
Cost of Goods Sold:	25.00%	Fill In A Percentage in the Column to the left
Expenses:		
Benefits	The PROFORMA OPERATING STATEMENT uses 20% of salaries	
Advertising	Media chosen, frequency, cost	
Travel	# of trips per month, average cost	
Trade Shows, Promotion	Type and number of shows, average cost; description of promotional activities	
<u>Internet System Costs</u>		
Programming	Fees for building or maintaining system	
System	Access, bandwidth, or other recurring fees	
<u>Operations</u>		
Facilities	Square Feet Required, Cost Per Square Foot	
Utilities	Power, water, facility maintenance	
Supplies	Often expressed as a % of revenues	
Equipment	Lease cost of equipment	
Training	Seminars, training media, etc.	
Insurance	Property, Liability, Life insurance on key principals	
Legal	Cost of setting up corporation, legal documentation of financing	
Telephone	Monthly charges, plus long distance	
Professional Service	Consultants, public relations experts, Internet marketing consultant,	
Other		

PERSONNEL MODEL

Year 1

Category	Num.	Annual Salary	Month 1	2	3	4	5	6
CEO	1	150000	12,500	12,500	12,500	12,500	12,500	12,500
COO	1	120000	10,000	10,000	10,000	10,000	10,000	10,000
CFO	1	100000	8,333	8,333	8,333	8,333	8,333	8,333
VP MKT	1	80000	6,667	6,667	6,667	6,667	6,667	6,667
VP-Technical	1	70000	5,833	5,833	5,833	5,833	5,833	5,833
Customer Svs.	3	30000	7,500	7,500	7,500	7,500	7,500	7,500
Web Design.	3	65000	16,250	16,250	16,250	16,250	16,250	16,250
Paralegal	1	55000	4,583	4,583	4,583	4,583	4,583	4,583
Mkt. Staff	4	40000	13,333	13,333	13,333	13,333	13,333	13,333
System Analyst	5	60000	25,000	25,000	25,000	25,000	25,000	25,000
Admin Asst.	2	35000	5,833	5,833	5,833	5,833	5,833	5,833
Programmers	2	85000	14,167	14,167	14,167	14,167	14,167	14,167
Total	25		130,000	130,000	130,000	130,000	130,000	130,000

The number in column B should be how many employees you have at the end of the year.
If you phase in certain categories of employees during the year, change the formula in
the appropriate cells in columns D through O

An Example of a Profit And Loss Statement
For Three Years

	Year 1	Year 2	Year 3
Revenues			
Unit Sales	292500	914250	1737000
Revenues	$1,389,375	$4,114,125	$6,948,000
Cumulative Customers	1500	3525	5925
Total Revenues	$1,389,375	$4,114,125	$6,948,000
Cost of Product	$511,875	$1,599,938	$2,605,500
Cost of Goods Sold	$511,875	$1,599,938	$2,605,500
Gross Margin	$877,500	$2,514,188	$4,342,500
Total Expenses	$595,125	$1,178,525	$1,786,450
EBIDAT	$282,375	$1,335,663	$2,556,050

APPENDIX

All information that adds creditability to your business plan. Copies of competitors' promotional materials, your company's promotional materials, specific detail for new product developments, surveys, maps, industry publications and support for your projections.

A Few Matters Of Style

A business plan is in essence a creative writing project. You want the plan to be an interesting read, not a long pedantic discussion. You have to put on your marketing hat and make your company's future sound exciting.

<u>Write your plan in a style that fits your industry and your management team.</u>
The business plan for a sports bar company would sound much different than a plan for a bank. Make your plan sound like you; put some of your personality and philosophy in the plan, so after reading the plan an investor or lender would feel as though he/she knows you.

<u>Be enthusiastic.</u>
When you talk to entrepreneurs about their company, they usually get so enthusiastic that they almost wear you out. Then you get their business plan and it reads like the operations manual that came with your VCR. The purpose of the business plan is to create excitement in the minds of the investors, in other words to activate the area of their brains devoted to greed.

<u>Avoid getting mired in technical jargon.</u>
Internet companies, medical companies and computer companies all tend to dwell on minute details about their technology and don't adequately develop the business reasons why they are going to make money for themselves and the investors.

<u>A CD-ROM can't replace a mind.</u>
More and more entrepreneurs are relying on business plan writing software. These products are sometimes helpful in formatting the plan and creating the financial schedules, but they can't formulate your strategies for you. The heart of the business plan is explaining how you are going to sell more of your product or service than your competitors, and operate your business at high enough profit margins to generate a superior rate of return for investors.

The CD-ROM you might purchase has no idea how to do any of this. It's spent nearly all of its life on a shelf, in a box.

A Solid Presentation

Does the business plan include a title page with your company name, a person’s name and the address and phone numbers? Don’t just clip a business card to the front page, it could get separated.

Has your business plan been proofed and spell checked? And by a real person, not just your word processor?

Did you check all abbreviations or acronyms to make sure the first time they’re used they’re explained, ie., World Wide Web (www)?

Have you gone through the business plan to make sure all technical terms are explained?

Are the pages numbered?

Do the page numbers for the index match the actual page numbers?

Have you edited the business plan to see what you can include in the Appendix rather than in the body of the business plan?

Has someone unfamiliar with your company read the business plan and understood it?

Has your attorney reviewed your business plan?

Is your executive summary limited to no more than 3 pages?

Have you had someone unfamiliar with your company read just the executive summary and understand your company?

Are your margins at least one inch wide on each side, top and bottom?

Is your font size at least 11, preferably 12?

If you are using a word processing system which allows color graphics, have you changed the color graphics to grayscale for printing? Or will you be printing the business plan in color?

Have you checked to make sure you didn't use too many fonts and font sizes?

Have you taken advantage of bullet points, shading, indents, and borders to add visual interest to your business plan? (Just don't go overboard.)

Is the use of your page titles and headings consistent in format throughout the business plan?

You can print your business plan on both sides of the paper, just make sure it's printed on quality paper so that the printing doesn't bleed through to the other side.

If you are using duplicating or copying services to print your business plans, is the quality nearly perfect?

Good Luck with your business plan!

Bonus Booklet: 50 TIPS FOR A BETTER BUSINESS PLAN

50 Indispensable Ideas To Save You Time and
Help You Write A Plan You'll Be Proud Of

Part I Business Plan Writing Made Easier

Getting Started
On the Right Track
Financial Projections
Mistakes You Don't Want to Make
Almost There
Now What?

Part II The Checklist

Make Certain You Have Answered All Of These Questions in Your Business Plan.

Part I Business Plan Writing Made Easier

Getting Started

1) Rome Wasn't Planned, Funded, and Built in One Day
The process of putting together a coherent Business Plan will probably take longer that you estimate. If you think you can do it in a month, it will probably take two--or more. And that is precisely why the process is valuable. Along the way you will probably stop and say, "you know, we haven't really thought our strategies out very well, have we?" or "we don't really know our competition as well as we thought we did," and you will take the time to hone your strategies and get up to speed on the competition before you finish the plan and present it.

In other words, you will have a Planned Business as well as a Business Plan.

2) Smaller Bites Are More Digestible
Start the plan with an outline. By breaking the large task down into smaller components, the task will not seem as daunting. A Business Plan can be viewed simply as the answers to a series of questions. Try answering a few at a time. Writing a little bit of the plan at a time is less difficult than trying to lock yourself up in a room for a week and do the whole thing. If you do use this latter approach, please be sure the place you lock yourself up has a shower.

3) Style Points Count, Too.
The visual aspects of the document should not be overlooked. Color charts, tables of data to break up the text, paragraph headings, varying the typestyles--all of these contribute to making the plan easier to read, and to more clearly explain the business opportunity.

4) To Write A Plan, Read A Plan
People who write novels are generally those who have read many, many, stories. The learn their craft by studying the works of their favorite authors. You need to do the same thing. Look at examples of Business Plans to get in your mind the writing style, the sequence in which the ideas are presented, and the parts to a plan. After reading several plans, you will have a feel for how a Business Plan flows and how it is organized. By putting that pattern in your mind, it will be much easier for you to begin writing with confidence. Sample plans are available on the Internet at sites devoted to assisting entrepreneurs.

5) Pick A Section, Any Section
If you have never written a Business Plan before, you may have difficulty getting the project started. It will seem as though you have an awful lot of blank pages staring back at you.

To get the Plan moving, start with the section that is easiest for you, or of most interest. If you are enthused about the technical superiority of your product, write the product attributes section first. If marketing is your forte, then work on strategies. Many people like to start by writing the history of the company, or how they got the original vision to start the business (possibly because most people enjoy talking about themselves). When you begin to see words on the page, you will get a feeling of making progress, and then you can proceed to the more difficult parts of the plan with less trepidation.

6) Spend Quality Time With Your Plan
People often underestimate the effort and energy it takes to write a Business Plan. They try to write it at night or when everything else at work is finished, in other words, when they are mentally and sometimes physically exhausted. A better approach is to write the plan when you have energy available to put into it: go in early and think and write for an hour before the phones start ringing.

7) First Drafts Are Always A Laugh
The first draft of your plan will undoubtedly resemble incoherent ramblings--jumbled stream-of-semi-consciousness ideas that look nothing like what you had hoped it would. Don't be disappointed or frustrated. Just put the draft away for a few days, come back to it fresh, and begin revising and rewriting. Magically, after several more revisions, the ideas will all come together and the language of the plan will flow.

On the Right Track

8) FYI: CYA (Whenever Possible)
In the opening few pages of the plan you need to have a disclaimer section that protects you from certain types of legal liability and as well as protects the confidentiality of your ideas. Your attorney needs to draft this page for you, but the general themes to include are: Disclosure of risk (you are not responsible for the achievement of results forecast in the plan); Confidentiality (protection against unauthorized copying and distribution of the document to third parties, and requirement that the information in the plan not be disclosed to third parties except by permission); Securities laws compliance (notification that the document is not intended to be a securities offering).

9) The Plan Is Your Baby--It Needs To Look Like You.
The business plan should reflect the personality of your management team, and the type of company you want to create. As the reader goes through it, he Should get to know the people involved in the

company, their vision, their objectives, and their enthusiasm for the company and the industry. Tell the story of your company in your own voice. A plan for a music production company would look much different than a plan for a medical device manufacturer.

10) Not Everyone Has A Flair For Fiction

Business Plans are essentially works of fiction--documents that talk about what you imagine or hope may occur in the future, not what has already occurred. This type of writing is difficult for everyone. You've heard of "writer's block". The problems you are having keeping the words flowing are precisely the ones faced by the great writers, except many of them have to keep going because the publisher has given them a unreachable deadline and they've already spent their advance, but you of course, having read Rome Wasn't Planned, Funded, and Built in One Day have allowed plenty of time to finish the Business Plan--so there's no reason to feel pressured. Right?

If you feel blocked, don't worry. It's all part of the process. The key is not to quit. Put a few words down on the paper, then a few more. Jot down concepts rather than trying to do complete sentences.

11) Management, Management, and More Management

The crux of the matter in writing a Business Plan is to prove to the reader that the people involved in the business have the skill and experience to create a successful enterprise.

Investors put money behind people, not simply behind cool products and interesting technologies. There are many wonderful, patented inventions that never see the fluorescent light of day at Wal-Mart because no one could figure out how to profitably manufacture and sell the product. You must tell the reader about what you have accomplished in your business career, not just tell about the positions you have held or what mighty corporations you have worked for. What have you done that can inspire confidence in your ability to execute the business strategy in the plan? Write in active terms: I increased revenues 100% in two years. I cut divisional costs by 45%. I
supervised 100 people in 8 states.

One of the most striking, and succinct statements I have ever read in the Management Section was: "In our last venture, I earned the investors a 2,500% return." Most of us would take a chance on backing that guy.

12) Be Enthusiastic, But Don't Sound Like A Carnival Barker

The Business Plan is a selling document: it is supposed to attract people to the financial opportunity presented by your company. But a sophisticated investor can quickly spot exaggerated claims about management capability, or projections that are completely out of line with reality. You have to strike a delicate balance between not sounding like a dry technical manual and not sounding like a high-pressure salesman from some telemarketing boiler room. The more excited you sound about the prospects for your business, the more likely the reader will be too. The other extreme, however, is like someone who told us he uses the plan to get the investor's "greed glands" pumping. Making promises you cannot deliver on can later arouse the investor's "anger glands" and even his "litigation glands."

13) Know Your Audience

(If you are a venture capitalist you can go ahead and skip ahead to the next section).

When a client asks us to review their business plan and tell them if it is "ready to go," one of the things I often tell them is: The Venture Capitalist Is Not As Smart As You Think He Is.

How can this be, you say? The VC has three college degrees, and not one of them from community college. The VC often has Roman numerals behind his last name. And he is very difficult to get on the phone, a sure sign of an Important Smart Person.

Maybe. Maybe not.

Don't assume he will immediately understand why your product is clearly superior. Don't assume he will be able to grasp the way your technology works. He may or may not know how large your market or industry is.

Think about who will be reading the plan before you begin to write it, and tailor your message to the reader's level of understanding or experience. Many investors decline to pursue discussions with companies not because the business does not have merits, but because they simply "didn't get it" when they read the plan.

14) Once Upon A Time.....
A good mental exercise to use when writing the Plan is to imagine that you are telling the story of your company to a good friend. Don't get too wrapped up in the formality of the language, or the seriousness of the project, or the need to impress an investor. Just talk. Express your hopes and dreams for the business. Why it is important to you personally to succeed.

15) The Internet is Open 24 Hours A Day--Take Advantage of It
When doing the background research on the industry and the market for the company's products or services, don't overlook the Internet as data source. It is surprising, really, how much information is out there on almost every industry. Much of it is free! Some web sites allow you access to the information for a fee, but it could well be worth it based on the time it may save you. Trade publications usually have web sites with back issues of the magazine, too. Looking this information up on the Internet will have the added benefit of showing you ways to stay up with trends in your industry, that you can use on an on-going basis after the plan is finished.

16) It's Time For Reality.Com
Because of the fascination with Internet stocks on Wall Street, entrepreneurs are creating e-commerce companies by the thousands, in order to get a piece of this seemingly large, rich pie for themselves. The result of this rush to market has been in many cases a lot of hastily conceived, sloppily planned ventures that have little or no competitive advantage are not going to grow very fast, if at all. Even when the surfing is great, you still have to have skill and experience to ride the waves. They say it hurts to get hit in the head with one of those heavy boards.

The fundamentals of business success have not changed whatsoever; greed is simply warping people's perceptions of what it takes to succeed.

It's funny, but computer software comes with spell check and grammar check, but never with reality check. Hey, Microsoft, get working on it.

17) Highlight the Positive, But Don't Ignore the Negative
While it is of course important to talk about what a great opportunity the company represents for a potential investor, don't forget to discuss the risks inherent in the venture also. These are sometimes painful for an entrepreneur to include--sitting down and thinking about what could go wrong and what could cause them to fail--but they are important for several reasons. It demonstrates your willingness to make a full disclosure to investors. It shows your ability to think ahead and anticipate what might happen--the heart of planning itself. And it leads to a discussion of how you might react to these negative events to mitigate their consequences. Highly paid management consultants call this Contingency Planning, but you could also just call it being prepared. Which means that the boy Scouts were the first contingency planners.

Venture capitalists accept and expect large risks: that's why they make you give them such a big chunk of your company. Painting too rosy a picture can be interpreted as an attempt to mislead the investor.

You don't need to go overboard, such as those prospectuses prepared for public offerings, where they have three pages on the company and the management and about twenty pages of "risk factors" written by lawyers. The risk factors are the lawyers' favorite parts of the Plan, because if nothing goes wrong in a business, we don't need to hire them.

18) Yes, But Can You Actually Sell This Product?
It's amazing how many people put a statement like the following in their plan: "The total market for our product is projected to be $1 billion in five years. If we only get 10% of it, we will be a $100 million company in five years." Well, the market doesn't just give you 10% of itself because you're nice and there's room for everybody in a growing market. Your competitors' goal is to make sure you don't even get .005% of the market away from them. And then there's the small matter of distributing and marketing the product. How are you going to go about getting mass numbers of consumers to want your product? How are you going to make it available to them when and where they want to purchase it?

Market size is important to investors because it is easier to build a large enterprise in a large and growing market than in a smaller niche market or a stagnant one. But market size is not specifically an indicator of the likelihood of success. You still have to get the customer to buy.

Financial Projections

19) Don't make the assumption that the reader can understand your assumptions.
By the time you are finished with your projections, you will be very familiar with the assumptions you used to construct your financial models. A first time reader of your plan will not. Are you certain that you made it easy to follow your logic?

20) The best projections are well-rounded ones.
Telling the investor that his projected return is 52.444% is not any More impressive than saying you project a return of roughly 50%. Many entrepreneurs come down with a bad case of spurious exactitude when doing projections. This seems to be a highly contagious disease.

21) Hold the Scenarios

Many people think that the more complex their financial models are, and the more "what if" scenarios they concoct, the higher their chances of being funded. A variation of this is the plan that has projections seemingly for decades. Fifty pages of imaginary numbers are not better than five. Particularly in this age when technology is evolving so quickly, it is impossible to accurately forecast 3 years out, let alone 7. Concentrate instead on answering these questions: How fast are we going to use the investor's money, when does the company's cash flow turn positive, and what margins can this company earn?

Mistakes You Don't Want to Make

22) The Plan Is One Management Task That Cannot Be Delegated
Investors do not like to hear "I have consultant writing the plan," or the ever-popular "My accountant is doing the projections for me." These specialists can be invaluable in assisting you with the project, not in taking it over and making the project their own. Far be it from us to not recommend hiring a consultant to help you. You don't not want to get into a situation where you cannot explain part of the plan to an investor because you were not involved in writing it.

23) The Hard Truth About Software
There are a number of business plan software packages that sell thousands and thousands of copies. Software can be very helpful in developing financial models and preparing projections. But they are not going to write the narrative sections of the plan for you, so you may be disappointed in the results you get from using a computer program in building your plan. How can the programmers of "Super Duper Hot Business Plan Whizzo" or whatever the software is called, possibly know how your plan should look since they have never met you and do not know anything about your company?

Incidentally, for the average cost of these software packages, you can take a family of four out to dinner, and at least two of them can order dessert.

24) Plans Written By Committee Seldom Look Pretty
It is always a good idea to obtain input on the plan from the other key members of your management team--your marketing expert, your finance guru, the guy who brings the bagels in the morning--but it is not a good idea for each of these people to go off and work on their own independent drafts of the Plan, to somehow be assembled into one document later. What you will end up with is, well, a mess. A better method is to work off one draft, upon which each person is allowed to suggest comments or make edits. Some word processing software even lets you track each person's changes in different colors, so you can tell which person commented that your brilliant marketing strategies were "lame".

25) "Made Fresh While You Wait" Works Better in Dining than In Planning
A trend today is to send an Executive Summary of a plan to potential investors before sending out the full document. Besides saving printing and postage costs, this allows the entrepreneur to determine if the investor is at all interested before revealing too much about the company. And you can sometimes get more timely responses from investors if you ask them to read 3 pages rather than 50. Entrepreneurs anxious to get financing, though, are just writing the summary, and then finishing the plan only when the investors express interest. How do you write a summary of something that doesn't yet exist? The Executive Summary is supposed to highlight the key aspects of your plan. It reads better if you actually have some aspects that can be summarized.

26) Don't Tell People You Have Little or No Competition
This is a Fatal Flaw seen in many business plans. Everyone likes to think that their product or service is so unique that no one else can successfully compete against it. In rare instances, a new technology may come on stream that truly is a new and better solution to a problem, but even then the advantage may be only temporary before other people offering similar technology enter the market. In reality, every type of product or service faces competition of some kind, because you still have to convince someone to purchase from you rather than spend the money on something else. And if you really believe you have no competition, how do you know there's a market for your product?

Perhaps no one is offering it because no one wants to buy it. Perhaps others have tried and failed.

Investors reading a Business Plan in which the company states it has no competition, usually conclude the management group has not adequately researched the competition, and may be seriously underestimating the strength of competitors.

Almost There

27) How Do I Know When It's Done?
I've seen various methods employed to determine when the Business Plan is actually finished. Sometimes people weigh their plan as they go, and when they reach 2 pounds of paper they stop. Some people drop the document on the floor and see if it makes an authoritative sound. Others write until they reach 50 pages, because, by golly, that's what the nifty book on Business Planning said was the right length of the plan. Some entrepreneurs just keep writing forever, and don't ever actually finish. After all, if you never finish, you never have to worry about the investor turning you down. Fear of presentation--and rejection-- begins to set in, a completely natural human reaction. Once you recognize your fear, you can deal with it.

We might suggest this method:

28) Take the plan "Off Broadway" and wait for the reviews to come in.
Have some people whose business knowledge you trust, read the plan and ask them: Would you invest in this company, based on the information in the plan? If not, what questions do you have about the business that we did not adequately answer?

You are so close to the plan that you will have a difficult time deciding whether it is ready to send out. Two problems occur: spending time making needless revisions when the plan is finished, or not recognizing shortcomings or omissions you may have made, or things that are unclear.

29) Nobody's Perfect--But You Have To Be Darn Close
In a document as long as a Business Plan, with the stress of time constraints and the number of revisions that are typically made, it is understandable that there may be a few errors in grammar, or some clumsily worded sections, or even a few math mistakes in the spreadsheets.

But there is a distinction between clumsy wording and not making the slightest bit of sense. There are grammar errors, and there is sounding ignorant. Math errors should only involve rounding, not flubs to the power of 3.

One time I was going to lunch to with a venture capitalist (note to reader: always make them buy) and when I met him at his office he was just finishing reading a plan and had a strange look on his face. "What's the matter," I inquired. "Yuck, this Plan has cooties!" was his reply.

Proofreading is a boring, nitty-gritty task, but it should never be overlooked.

Now What?

30) Stand By Your Plan
Before you meet and discuss your Plan with potential financial partners, it is a good idea to prepare for the questions they may ask. You need to inspire confidence right from the initial meeting. Know the plan by heart. Know how it is organized so you can quickly find statistics you wish to quote. Know the formulas used to generate the projections. Invite some advisors or associates over to have a role playing session where they portray the venture capitalist and ask you questions about the business. Be prepared to defend the assumptions you make in the plan; venture capitalists see so many companies and review so many plans each year--about 1,100 per year for the average VC firm--that they are highly skilled in poking holes in flimsy logic. You will likely be surprised at the depth of questions they are able to ask. Be ready for them!

Special Bonus Tip
Don't just say what you're going to do, explain how. The detailed, concrete steps involved in executing your business strategy are really the heart of planning itself, and will differentiate your plan from all the others the investors get in the mail that sound like wishful thinking.

Part II The Checklist

Make Certain You Have Answered All Of These Questions in Your Business Plan.

If not, seek professional help immediately. (A consultant, not a psychiatrist: entrepreneurs are generally way beyond the reach of psychiatric help)

31) Why did you decide to enter this business? What was attractive about The opportunity?

32) What market need did you see that you wanted to exploit?

33) What have you accomplished so far? What stage of development is your company at right now? What milestones have you reached?

34) What kind of company do you want to build? What brand image are you seeking to establish?

35) What is the long range objective? For example, "To build revenues to $50 million within 5 years."

36) What are your products/services? Can you explain the technology involved? When will they be ready for introduction? What benefits do your products/services provide that are clearly superior to the competition?

37) What are the proprietary aspects of your products/services? What is your sustainable competitive advantage?

38) What is the size of your market? How is the market changing and evolving? What is the driving force behind market growth?

39) Who are your competitors? What are their strengths and weaknesses?

40) How do you think the competitive environment will change in the next 3-5 years?

41) What are the barriers to entry in your industry?

42) Who will your targeted customers be?

43) How are you going to reach those markets? Specifically, how will you distribute and promote the products/services? How much will it cost to reach these markets?

44) Who are the key individuals in your management team and what have they accomplished in their careers? Who owns the company today?

45) What prior experience does the management team have that will lead to success in this venture?

46) How will the product be manufactured? What type of facilities and equipment do you need? Where will your office(s) be located?

47) What risk factors could keep you from achieving your forecast results?

48) How much capital do you need and what will it be used for?

49) What exit strategies are available to you and your financial partners?

50) What is the company's financial history? What are the projected revenues, expenses and profits?

You're Finished! Now That Wasn't So Hard........

****

About the Authors

Brian Hill
Brian has had a twenty-year business career, specializing in finance and corporate planning, the first ten years with large national companies, where he worked hard and waited patiently to be downsized so he could start his own company, which he did with Dee Power in 1987.

This company, Profit Dynamics Inc., assists small and mid-sized businesses with strategic planning and finding capital. He also became proficient in writing business plans--interesting works of fiction approximately 30 pages in length. What does he enjoy most about management consulting? The immense satisfaction of watching a client's business grow and prosper over the years, and the greater satisfaction of finding that a client's check actually cleared the bank. He also likes the challenge of helping a small company find venture capital, which is a lot like going on a scavenger hunt in a very ritzy neighborhood.

Brian also is a published author, having written articles on sports and business topics for nearly twenty years. Some of the publications he has written for are still in business today.

His hobbies include enjoying football season, and wishing football season would get here. He tends to wear the colors green and gold in the fall. Golfing on the many beautiful resort courses in Phoenix is another of his favorite activities, particularly in the summer when the temperature is above 100 and the green fees are below it. Brian also enjoys cooking and is considering writing a cookbook, the project is proceeding slowly because it's not easy to learn how to cook and write a book at the same time.

He has an MBA from Arizona State, a wonderful party school when he went there, but an institution that unfortunately now takes itself way too seriously. You can e-mail Brian at business@capital-connection.com, just put Brian Hill in the Subject so he knows the mail is for him, otherwise Dee has to answer everything.

Dee Power
Dee is a founding partner of Profit Dynamics. She has been engaged to do consulting projects for a myriad of different companies, and realizes that when her career is over her brain will be filled with meaningless data about almost every industry, talk about needing to dump the cache files!

Always the innovator, Dee has readily embraced the new Internet technology, which allows her to tell people all over the world how to run their business, not just merely in the US. She has a love/hate relationship with the computer, however, because of the technical glitches that so frequently occur when she is using it (she suspects this happens because the computer is jealous of her IQ).

Other aspects of management consulting she enjoys include raising her hourly rates, and those rare and refreshing instances when a client actually listens to and implements her advice. Her favorite clients are high-tech companies, or those that have mid-six figure bank balances.

Because Dee works 20 hours per day, she doesn't have much time for hobbies, but does like gardening, probably because the average vegetable grows faster than most small businesses. She also is a terrific chef; she cooks with a lot of spices, which may be why she's a seasoned professional.

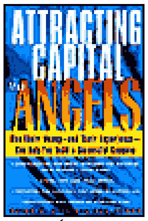
She has written articles that have appeared in local publications, and the guidebooks *Looking For Capital in All The Right Places*, and *Selling Your Business Without A Business Broker.* She is editor of the *Capital Connection*

Newsletter. Dee has given seminars on writing business plans, raising capital and working with investors, at venues such as the Arizona Small Business Association, Small Business Development Centers, and Thunderbird International Graduate School. She is also available to perform at weddings and company picnics, for the right price.

Additional talents of Dee's include organizing (sometimes referred to as bossing) and keeping the others in the group focused (setting unreasonable deadlines).

She returned to Arizona State to obtain her MBA after being out in the business world for several years, and was chagrined to find that the professors seemed to know less than they did when she was an undergrad. Quite puzzling.

You can reach Dee and Brian at business@capital-connection.com



"Attracting Capital From Angels," 2002 John Wiley & Sons

"Attracting Capital From Angels" offers all the information entrepreneurs need for finding elusive angel investors. Comprehensive, eminently readable, and based on the authors' years of experience dealing with venture capital firms, angels, and entrepreneurs, this book covers all the angles on angels:

- ✓ What are angels and what do they want?
- ✓ Different types of angels
- ✓ Pitching and preparing for angels
- ✓ Finding angels
- ✓ Working with angels
- ✓ The future of angel investing

Selected Reviews

"Attracting Capital From Angels" is the ultimate guide to finding the money your business needs to get on its feet–and make a run at success. "I plan to recommend Attracting Capital from Angels to every entrepreneur I run into in the future who asks for mentoring sources. Great job!" (Bob Bozeman, General Partner, Angel Investors, LP)

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"*Brian and Dee have done a remarkable job of gathering fresh information through direct interviews, original essays and new surveys. The result is a truly enlightening, useful and very readable work which should become The Bible for anyone thinking of starting a business, financing an existing one, or investing as an angel themselves."* Bob Geras, President, LaSalle Investments Incorporated

*****

"Dee and Brian have diligently researched and compiled a manual for all entrepreneurs seeking Angel funding and advice. While most books on Angels and venture capital focus on abstract concepts and financial theory, this one is directly relevant to real situations and contains invaluable tips to successfully secure funding for many ventures in a difficult environment." Frank A. McGrew IV, Memphis Angels

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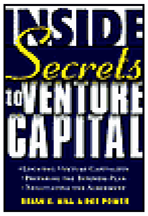

"Inside Secrets To Venture Capital" 2001 John Wiley & Sons

When it comes to finding capital—and the right investors for your business—entrepreneurs need all the help they can get. Brian Hill and Dee Power spent three years surveying 250 venture capital firms to find out what venture capitalists look for when putting their money in young businesses. Their results will give you all the tools you need to make smart decisions and avoid pitfalls and unnecessary risks, including:

- ✓ How to create and present a business plan to investors
- ✓ Profiles of venture capitalists in action
- ✓ Enlightening true tales in venture capital
- ✓ How to organize a quality management team to attract investors
- ✓ The truth about referrals
- ✓ Tips on valuing your company realistically
- ✓ Doing due diligence: scams, vultures, and bottom feeders
- ✓ Negotiating the best terms for you and your business

"Inside Secrets to Venture Capital" will show you what it takes to attract the investors and the money you need to grow. It's everything you need to know to play the venture capital game—and win .

Selected Reviews

"Pragmatic, real life advice from the people on the front lines of one of the world's most rapidly moving businesses. Required reading for anyone venturing forth into the arena!" Gerry Langeler, Partner OVP Partners
*****

" The no-nonsense, interview style of the book provides the story "right from the horses mouth", and provides the reader with a road map as to how to (and how not to) navigate the maze of fund raising. The advice provided on realistic valuation of the company and preparing a business plan can be invaluable. Must read for anyone who is serious about raising venture capital" Michael A. Lechter Esq. Rich Dad Poor Dad Advisor and author
*****

"Entrepreneurs can learn from book on venture capitalists. Oil and vinegar do not easily mix, nor do entrepreneurs and venture capitalists. Brian E. Hill and Dee Power explore how VCs and Es differ in their premises, expectations and frustrations in their book Inside Secrets to Venture Capital. Those differences are so deep that the 300-page book could easily have been titled 'Venture Capitalists are From Mars; Entrepreneurs are from Venus.' Joe Vanacore Staff Writer Sacramento Business Journal

*****

"The book is well organized and easy to digest, yet sophisticated as well. The authors address questions the would-be entrepreneur might feel are just too simple to ask. For example: What is venture capital? Why do venture capitalists say no? Will a no ever become a yes? Do you really need a referral? If you just absolutely cannot find a referral, then what? What is intellectual property? What is quality management?
"Every chapter has blunt, verbatim advice and insight from a VC or, at times, an entrepreneur -- and their wisdom covers everything from negotiating to due diligence to sample disclaimers for a business plan." After The Gold Rush, BusinessWeek Online, Theresa Forsman

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Following is a set of formatted Business Plan Worksheets
you can use as a guide for your own business plan.

Title Page of your Business Plan

Your Company Name

Person to Contact
Address of company
Phone number   Fax Number
Web site url if relevant

Date of Business Plan

NOTES TO THE READERS OF THE PLAN

The information contained in this Business Plan is proprietary and confidential. Any reproduction of this Business Plan, in whole or in part, without the prior written consent of (Your Company Name) is prohibited. The recipient of the Business Plan shall not directly or indirectly disclose any of the information contained in the Business Plan to any third party.

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The information contained in the Business Plan is believed by the Company to be reliable. The reader must recognize, however, that projections about the Company's future performance are inherently subject to a high degree of uncertainty, and no warranty of such projections is expressed or implied hereby. It is the responsibility of any prospective investor, joint venture partner, or lender to independently evaluate the feasibility and risk of entering into a business combination with the Company.

The reader of this Business Plan document agrees to keep the information in the document confidential, and to use it solely to determine whether the reader's organization has an interest in entering into discussions regarding a possible business combination with the Company. Should the reader's organization decline to participate, all materials presented to the reader regarding the Company shall be promptly returned to the Company.

This Business Plan does <u>not</u> constitute an offer to sell any securities. Any such solicitation will be undertaken only under appropriate documents and pursuant to all applicable securities laws.

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