Essential Business Plan Handbook

Growthink, Inc.

Preface

Growthink's Essential Business Plan Handbook is a must-have tool to assist you on the journey of the creation of your business plan. This informative compilation of over forty Growthink articles will prove invaluable for the business planning process, from identifying and assessing opportunities, to expertly completing your business plan, to raising capital. The handbook leverages Growthink's experience in assisting over 250 clients in the business planning and capital raising processes over the past six years.

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Table of Contents

Creating New Ventures

Judging Entrepreneurial Ideas 1
Goals and New Venture Creation 2
Four Steps to Entrepreneurship 3
Critical Entrepreneurial Skills 4
Entrepreneurial Vision 5
Entrepreneurial Leadership 6
Keys to Entrepreneurial Success 8
Challenges for College Students and First-Time Entrepreneurs 9
An Entrepreneur's Biggest Cost 11

Fundamentals of Business Plan Development

The Ideal Length of Your Business Plan 12
Two Types of Business Plan Executive Summaries 13
How to Size an Emerging Market in Your Business Plan 15
Analyzing Customers in Your Business Plan 17
In Business Planning, Competition is Good 19
The Marketing Plan and the Four P's 20
Effectively Completing the Operations Plan Section of Your Business Plan 22
The Management Team Section of the Business Plan – Don't Just Include Resumes 24
Developing Realistic Financial Assumptions in Your Business Plan 25
"Why You, Why Now" - A Critical Component of a Winning Business Plan 26
Perfecting the Elevator Pitch 27
Realism vs. Optimism in the Business Plan 28
How to Use Graphs and Charts in Your Business Plan 29

Documenting Partnerships in Your Business Plan 31
Documenting the Exit Strategy in Your Business Plan 32
Incorporating Investor Feedback into Your Business Plan 33
Updating Your Business Plan 34
Small Business vs. Venture Capital Business Plans 35
Raising Capital for Your Business – How Long Does it Take? 36
Venture Capital Financing: Is It Within Your Reach? 38
Identifying the Right Venture Capital Firm Partner 39
Describing Intellectual Property in Your Business Plan 40

The Capital-Raising Process

The Term Sheet's Role in Raising Venture Capital 42
Finding a Venture Capital Firm 43
Angel Investors: Who They Are & When Are They Appropriate 44
Alternative Venture Finance: Federal Grants and Loans 45
Alternative Venture Finance: Shell Corporations 46
Venture Capital Negotiating Issues 47
Pre-Money vs. Post-Money Valuation 49
The Use of Common Stock in Venture Capital Transactions 50
Issuing Warrants to Investors 51

Business Plan Software

Business Plan Software 52

1.

Judging Entrepreneurial Ideas

Most entrepreneurs constantly come up with new ideas. Whether they are working on another project, driving, or lying in bed, their minds are constantly churning out new products, services and ways of doing things. For these entrepreneurs, the startup challenge shifts from coming up with ideas to choosing which idea to execute.

There are three initial factors that entrepreneurs must consider when judging their ideas. These factors include the following:

1**. Size of opportunity:** A good first question for entrepreneurs to answer is whether the opportunity is big enough for them to get an appropriate return on their investment of time, energy, money, etc. If the opportunity is too small, it's probably not worth pursuing.

2. **Complexity of opportunity:** A second question to ask is how complex the opportunity is. Specifically, how difficult will it be to execute on the opportunity? Will it require the cooperation of other people or companies who may or may not buy on? Will it require several "moving parts" to function in perfect harmony? If the opportunity is too complex and/or seemingly too difficult to execute, in most cases a different opportunity should be sought.

3. **Amount of funding and resources required:** An opportunity must be judged with regards to how many resources are required to execute it. Clearly, if the amount of resources is too much, the entrepreneur may not be able to accumulate the resources and/or the return on investment will be reduced.

For example, an idea for a new-and-improved theme park may be a great idea, but the hundreds of millions of dollars and thousands of employees needed to execute it typically exceeds the resource potential of an entrepreneur or small company. Such ideas often can only be implemented by large pubic companies.

Constantly coming up with exciting ideas is the hallmark of most entrepreneurs. Choosing the right one takes careful consideration, and is critical in that it greatly influences whether the ensuing venture is successful or not.

2.

Goals and New Venture Creation

More and more corporate workers are leaving their jobs to start new ventures. When taking this leap, it is important that the goals of these entrepreneurs are solid, as these goals may ultimately determine the success of the new venture.

Unfortunately, many new entrepreneurs have motivations that don't naturally lead to long-term success. Some of these motivations include:

- Being sick and tired of the same old corporate routine,
- Being dissatisfied with the way their corporation is run (think bureaucracy)
- Feeling they are underpaid or under appreciated in their current jobs.

While these goals will be fulfilled when launching a new venture, they should not be the core reason to start one. Core goals should be deeply engrained ambitions that will drive you to succeed in the face of adversity. For instance, the goal of building a company that will truly make a difference in the people's lives that it serves can motivate not only the founder, but employees in both the short and long-term. However, the core goal need not be so ambitious or wholesome.

Having goals such as:

- Doing things better than they are currently done
- Proving that you have what it takes to launch a new business
- Becoming wealthy

Are all goals that will motivate you in the long-term to succeed. Moreover, it is this extra motivation that often is a determining factor between success and failure.

When considering leaving a corporate position to launch a new venture, it is important to review your personal goals and make sure they merit taking the leap to entrepreneurship. If your goals are not worthy, you might find yourself in a position down the road where your needs are not fulfilled and your venture is faltering. However, if your goals are such that they are fully engrained within your body, soul and mind, you will find yourself highly motivated and willing to do what it takes to launch and grow your new venture in the face of any adversities that comes your way.

3.

Four Steps to Entrepreneurship

As more and more people start or consider starting their own business, it is important that they understand the core steps that are required to launch successful ventures. These steps include spotting, assessing, selecting and executing upon opportunities.

Spotting Opportunities

The first step to entrepreneurship is identifying opportunities. The entrepreneur must be able to spot an unmet need. Oftentimes this need is seen through an inefficiency in the market – something that doesn't work quite the way the entrepreneur would like it to. As a result, the entrepreneur figures out a potential solution and the opportunity is born.

Assessing Opportunities

Many entrepreneurs keep a journal that details the myriad of opportunities they come across each day. While it takes a creative skill set to identify opportunities, it takes an analytical skill set to assess them. Each opportunity should be assessed to, among others, determine its likelihood of success and the financial and human resources required to execute upon it.

Selecting Opportunities

One of the biggest risks in selecting the wrong opportunity is opportunity cost; that is, the cost of having to forego another opportunity that may have been wildly successful. Entrepreneurs should assess their potential opportunities and come to a firm decision regarding which one to execute upon. Once selected, the entrepreneurs cannot second-guess themselves. To do so would lessen their focus and drive towards the selected opportunity, both of which are critical in achieving success.

Executing Upon Opportunities

Execution, or the ability to generate the most value out of an opportunity, requires a unique combination of creativity, passion, persistence, focus, responsibility, intelligence, planning and energy. The entrepreneur needs to know what tasks must be accomplished and be the main driver in seeing that these tasks are completed in an appropriate manner.

Understanding the four steps to entrepreneurship enables entrepreneurs to better understand the path that they are embarking upon. It is a path filled with potential pitfalls, but also filled with tremendous excitement, satisfaction and potential to build enormous value.

4.

Critical Entrepreneurial Skills

To succeed, entrepreneurs must have many skills that allow them to conceive, launch and grow new products, services and/or companies. This article describes some of the most critical skills that an entrepreneur must possess.

Focus: Entrepreneurs must focus. They must focus on goals to ensure that they are reached, customers to ensure that they are satisfied, and employees to make sure they are motivated.

Vision: Entrepreneurs must have a vision of where they want their company to be in the future. In addition, the entrepreneur must be able to communicate this vision in an exciting manner to employees and investors, so that they share the vision and are motivated to help achieve it.

Leadership: Rarely can entrepreneurs make a company succeed by themselves. This is much like the fact that the greatest athlete doesn't ensure that their team will win if the other players cannot perform. As such, entrepreneurs need to be able to identify staffing needs, expertly fill them, and lead the team to success.

Persistence & Passion: An entrepreneur must be passionate about what they are trying to accomplish. Likewise, they must be willing to commit whatever is needed of them. They must persist through trying times, since there are always bad times, and fight as much as needed to achieve the goals they have set.

Technical skills: While entrepreneurs may not need to have the greatest technical skill sets in their organizations; they need to be savvy enough to lead the technical team. They need to understand the technical team's language and have a general understanding of the challenges they face in order to effectively lead them.

Flexibility: Successful entrepreneurs understand that the world and the environment in which they operate are constantly changing. While they must focus on the end game, they must adapt their strategies and offerings to meet changing market conditions.

There has often been debate regarding whether entrepreneurship can be taught. For instance, can you really teach persistence or passion? Even if you can't, by understanding the importance of skills such as these, entrepreneurs can focus on these skills and bring to the table what is needed to succeed in their entrepreneurial endeavors.

5.

Entrepreneurial Vision

Entrepreneurs must have a vision of where they want their company to be in the future. In addition, the entrepreneur must be able to communicate this vision in an exciting manner to employees and investors, so that they share the vision and are motivated to help achieve it.

Unlike a business plan, a vision doesn't provide a specific roadmap for a business. Rather, a vision paints a picture of what the organization strives to become in the future. A leader with a strong vision motivates the team to achieve this picture, regardless of the action plan that will be employed.

Vision provides motivation to both the leader and employees. It gives employees something that they can believe in and rally around. While it doesn't tell the employees what to do to achieve it, having vision instilled in them helps positively mold their decision-making when problems must be solved that don't have clear answers.

A strong vision combined with a strong business plan is critical to the success of a growing venture. The vision motivates everyone to achieve success, while the plan guides them to where they need to go. In addition, the plan is significant in that it documents the vision. By "cementing" the vision on paper, the team gains more confidence that the vision will not be easily changed and that the organization is truly committed to achieving it.

6.

Entrepreneurial Leadership

Rarely can entrepreneurs make a company succeed by themselves. This is much like the fact that the greatest athlete doesn't ensure that their team will win if the other players cannot perform. As such, entrepreneurs need to be able to identify staffing needs, expertly fill them, and lead the team to success.

Leadership is the process through which an entrepreneur is able to influence employees to achieve the objectives of the organization. To be an effective leader, an entrepreneur must

- Build trust and confidence among employees
- Communicate effectively with them

Leaders can build trust in many ways. They can achieve it by working hard, maintaining a constant message and/or being available to solve employees' problems among others. By showing employees that they are fully committed to achieving the vision, entrepreneurial leaders build trust and confidence in employees. This in turn yields high employee satisfaction and commitment.

Effective communication is equally critical to successful leadership. If employees are unclear about the company's vision, and/or receive mixed messages over time, they will be unable to focus all of their efforts on achieving the company's goals. Conversely, by delineating the company's vision and goals, and reinforcing them over time with the same message, the company's goals become engrained in its employees.

In addition to building trust and effective communications, other keys to entrepreneurial leadership include the following:

Seeking self-improvement: a great leader always seeks to become even better.

Possessing technical skills: While the leader may not need to have the greatest technical skills in their organizations, they need to be savvy enough to lead the team.

Accepting responsibility for actions: Leaders and companies always make mistakes. Great leaders don't place blame on others.

Making decisions: Good leaders must make good and timely decisions.

Being a role model: A leader must set an example to employees and guide them to excel.

The ability to effectively lead is a crucial factor in the success, or lack thereof, in entrepreneurial ventures. By understanding and embodying what it takes to lead effectively, entrepreneurs can maximize their chances of success.

7.

Keys to Entrepreneurial Success

Over the past several years, Growthink has had the opportunity to assess the successes and failures of numerous entrepreneurs. In doing so, several lessons have become apparent that can often make the difference between success and failure in entrepreneurial ventures. Here is a review of the top four lessons.

1. **Focus, focus, focus, focus, focus.** The word “focus” simply cannot be said enough. When launching and growing a venture, tons of opportunities and obstacles arise. Entrepreneurs that succeed are typically the ones that see the forest from the trees. They remain focused on the prize. They consider new opportunities, but also note that pursuing them often takes them away from accomplishing what they set out to do.

2. **Hire smart.** Companies succeed based on the people that comprise them. Virtually all people in a small, growing entrepreneurial company make key decisions and take actions that can significantly impact the success of the venture. As such, the people that are hired must be hired with care. They must be intelligent, responsible, and equally importantly, have the enthusiasm to succeed and the ability to work in a fast-paced, rapidly changing entrepreneurial environment.

3. **Communicate.** So, you’ve followed the first two lessons. You have set company goals and remain focused on achieving them. You have hired great people. Now, it is important to effectively communicate. The laser-sharp focus and goals must be communicated to the great team. Management must share information, instill company values and vision, discuss each employee’s performance with them, and make employees feel that they are the company and that the company is them.

4. **Win.** Entrepreneurship, like basketball or football, is a game. There are winners and losers. There are narrow victories and landslides. There are Davids and Goliaths. Competition should be hard work, but it should also be fun. The company should be instilled with competitive spirit and be committed to winning. Winning may take many forms, such as hitting sales goals or turning a profit by a set date. Regardless of how winning is defined, it should be clearly articulated and everyone in the company should have a competitive, winner spirit instilled within them.

The above four lessons can help entrepreneurial ventures edge out their competition and enjoy the financial and emotional success that such ventures are capable of generating.

8.

Challenges for College Students and First-Time Entrepreneurs

More and more students, both in undergraduate and graduate institutions, are deciding to launch their own ventures upon graduation rather than taking the traditional route of working for another firm. Likewise, more and more individuals are leaving their jobs to fulfill their entrepreneurial dreams.

While these ventures may ultimately be very successful (e.g., Google and Microsoft were both launched by students), they face certain challenges in their business plans and capital raising processes. The foremost challenge is overcoming the lack of experience of the management team. A classic chicken-and-egg problem presents itself – the management team has no past company successes to point to, and can't prove itself unless given the opportunity to launch the business. While this problem is nearly always the case for graduating students, it also presents itself to many entrepreneurs, particularly those who are launching their first ventures.

To overcome this challenge, these ventures must represent themselves as having a great team by attracting a stellar management team and/or advisors. By attracting a quality management team, even if the team will not start until after financing, it gives investors that confidence that the plan will be properly executed. It also proves that the entrepreneurs have the ability to "sell" others on their vision. The management team need not be complete before seeking capital, since additional members will most likely be added after capital is raised. For instance, shortly after Google raised capital from Sequoia Capital and Kleiner Perkins Caufield & Byers, Omid Kordestani left Netscape to accept a position as vice president of business development and sales, and Urs Hölzle was hired away from UC Santa Barbara as vice president of engineering.

Attracting high-quality advisors builds great credibility since if respected individuals are willing to risk their reputations by taking an advisory position, the venture must have some merit. Advisors can also help with the execution of the business and sometimes will also provide the needed capital. In Google's case, when no major portal was interested in partnering with or funding the company, Larry Page and Sergey Brin were able to convince Andy Bechtolsheim, one of the founders of Sun Microsystems, to become an advisor and investor. Bechtolsheim contributed the initial $100,000 to the company.

Even if the venture is able to attract quality management teams and advisors, it will always be at a disadvantage versus other ventures headed by entrepreneurs who have "been there, done that" successfully in the past. To compensate for this, these ventures must really know their customers, know their market and know their competition. By possessing an in depth knowledge of the external factors that will effect the company's success, the entrepreneurs can both create a solid business strategy and convince investors that an opportunity really exists. If the opportunity truly exists, then investors know that even if the venture is initially mismanaged, then they can hire additional managers later to put it back on course.

In summary, when students or first time entrepreneurs, begin developing their business strategies and plans, they must compensate for the management deficiencies they possess versus established entrepreneurs. By doing this and showing a comprehensive knowledge of their market, these ventures can level the capital raising playing field. Fortunately, these ventures can point to a long list of other successful companies that were launched by students and/or first time entrepreneurs, most notably Google and Microsoft.

9.

An Entrepreneur’s Biggest Cost

When launching a new product or company, an entrepreneur must consider their biggest cost - the opportunity cost. Opportunity cost is an economic term that is defined as the cost of passing up the next best alternative when making a decision. For instance, if an asset such as capital is used for one purpose, the opportunity cost is the value of the next best purpose for which the asset could have been used. In the entrepreneur’s case, this asset typically includes the entrepreneur’s time and money.

For an individual currently working in a corporate position, the opportunity cost of launching their own venture is typically the financial security that their corporate position affords. Fortunately, this security could be mitigated by attaining funding for the venture and setting the same salary as the prior position. However, if the venture fails, the individual may have lost the opportunity to return to the corporate position and/or does not realize the steps up the corporate ladder that they may have made had they stayed in their prior position. Likewise, if they chose to pursue one entrepreneurial opportunity rather than another, the individual may have lost the opportunity to try to launch the other opportunity.

Opportunity cost is related to the risk/reward tradeoff that is implied in entrepreneurship. The risk/reward tradeoff implies that the higher the risk, the higher the potential reward. Opportunity cost comprises a large part of the “risk” in the risk/reward tradeoff, although it doesn’t include many intangible factors such as potential embarrassment caused by taking capital from friends and family and having the venture fail.

Each entrepreneur has a different opportunity cost such as the amount of their salary should they currently be employed elsewhere. Likewise, companies have different opportunity costs when determining whether to launch new products, services, etc. Identifying the opportunity costs, analyzing them, and then making the optimum decisions is a critical process for entrepreneurs and small and large companies alike, and can be a critical factor in the long-term success of a venture.

10.

The Ideal Length of Your Business Plan

How long should a business plan be? A business plan needs to be whatever length is required to excite the investor, prove that management truly understands the market, and detail the execution strategy. From surveys of investor needs, Growthink has found that 15 to 25 pages of text is the optimum length in which to accomplish this. Any more and the time-constrained investor will be forced to skim certain sections of the plan, even if they are generally interested, which could lead them to miss essential elements. Any less and the investor will think that the business has not been fully thought through, or will simply not have enough information to make an investment decision.

Many management teams feel that their company is too complex to describe in 15 to 25 pages. While this is sometimes true, the business plan is not meant to tell the whole story. Rather, the company must be “boiled down” into its essential elements. If the investor is interested, there will be plenty of additional time to tell the whole story.

Business plans, like other marketing communications documents, should be visually appealing and easy-to-read. This can be accomplished by using charts and graphics and by formatting the plan for readability. Effectively using these techniques will enable the investor to more quickly and easily understand the company’s value proposition within fewer pages.

While the body of the business plan should be 15 to 25 pages, the Appendix can be used for supplemental information. The Appendix should include a full set of financial projections, and as appropriate, technical and/or operational drawings, partnership and/or customer agreements, expanded competitor reviews, and lists of key customers among others.

If the Appendix is long, a divider should be used to separate it from the body of the plan, or a separate Appendix document should be prepared. These techniques ensure that the investor is not handed a thick business plan, which will make them queasy before even opening it up.

To summarize, the goal of the business plan is to create interest – not to have an investor write you a check. In creating interest, the full story of your company need not be told. Rather, the plan should include the essential elements regarding why an investor should invest and spend more time examining the business opportunity. The shorter length does not mean that your business plan should take less time to prepare. Rather, it will take more time. As Mark Twain once said, “If I had more time, I would write a shorter story.” Likewise, condensing your business plan to a concise, compelling document is challenging and time consuming. Fortunately the rewards are significant.

11.

Two Types of Business Plan Executive Summaries

Companies seeking capital often ask how long the Executive Summary of their business plan should be. The answer depends upon the use of the summary, mainly determining if

1. It precedes the full business plan

2. It will be used as a stand-alone document

When the Executive Summary precedes the business plan, its length should be short, typically only one to two pages and certainly no longer than three pages. This is because the Executive Summary is not meant to tell the whole story of the business opportunity. Rather, the summary must simply stimulate and motivate the investor to learn more about the company in the body of the plan.

The second type of Executive Summary is a stand-alone document. That is, it is given, by itself, to investors for their initial review. If interested, the investor will then request the full business plan. A stand-alone Executive Summary is often used to limit the flow of information. That is, if an investor is not interested in the general opportunity that your summary presents, you don't want to reveal to them intimate details of your plan.

Regardless of which type of Executive Summary you are developing, the summary must included the following critical elements:

1. A concise explanation of the business

2. A description of the market size and market need for the business

3. A discussion of how the company is uniquely qualified to fulfill this need

In addition, a stand-alone Executive Summary should include summaries of each essential elements of the business plan. This includes paragraphs addressing each of the following:

Customer Analysis: What specific customer segments the company is targeting and their demographic profiles

Competition: Whom the company's direct competitors are and the company's key competitive advantages

Marketing Plan: How the company will effectively penetrate its target market

Financial Plan: A summary of the financial projections of the company

Management Team: Biographies of key management team and Board members

The Executive Summary is the most critical element of the business plan. If it does not grab the investor's attention, the investor will neither read nor request the full business plan. As such, spend time developing the best possible summary; create two versions (e.g., stand-alone and full plan predecessor) as appropriate, and work to get it in the hands of the right investors.

12.

How to Size an Emerging Market in Your Business Plan

In developing their business plans, companies of all sizes face the challenge of determining the size of their markets. To begin, companies must present the size of their "relevant market" in their plans. The relevant market equals the company's sales if it were to capture 100% of its specific niche of the market. Conversely, stating that you were competing in the $1 trillion U.S. healthcare market, for example, is a telltale sign of a poorly reasoned business plan, as there is no company that could reap $1 trillion in healthcare sales. Defining and communicating a credible relevant market size is far more powerful than presenting generic industry figures.

The challenge that many firms face is their inability to size their relevant markets, particularly if they are competing in new or rapidly evolving markets. On one hand, the fact that the markets are new or evolving is the reason why there may be a large opportunity to establish them and become the market leader. Conversely, investors, shareholders and senior management are often skeptical to invest resources because, since the markets do not yet exist, the markets may be too small, or not really exist at all.

Growthink has encountered the challenge of sizing emerging markets numerous times and has developed a proprietary methodology to solve the problem. To begin, it is critical to understand why traditional market sizing methodologies are ill equipped to size emerging markets. To illustrate, if a research firm were to use traditional methods to size a mature market such as the coffee market in the United States, it would consider demographic trends (e.g., aging baby boomers), psycho graphic trends (e.g., increased health consciousness), past sales trends and consumption rates, price movements, competitor brand shares and new product development, and channels/retailers among others. However, conducting such an analysis for emerging markets presents a challenge as several of these factors (e.g., past sales, demographics of the customer when there are no current customers) don't exist because the markets are presently untapped.

The methodology required to size these new markets requires two approaches. Each approach will yield a different approximation of the potential market size, and often the figures will work together to provide a solid foundation for the market's potential. Growthink calls the first approach "peeling back the onion." In this approach, we start with the generic market (e.g., the coffee market) that that company is trying to penetrate, and remove pieces of that market that it will not target. For instance, if the company created an ultra high-speed coffee maker that retailed for $600, it would initially reduce the market size by factors such as retail channels (e.g., mass marketers would not carry the product), demographic factors (lower income customers would not purchase the product), etc. By peeling back the generic market, you eventually will be left with only the relevant portion of it.

The second methodology requires assessing the market from several angles to approximate the potential market share, answering questions including:

Competitors: who is competing for the customer that you will be serving; what is in their product pipeline; once you release a product/service, how long will it take them to enter the market, who else may enter the market, etc.

Customers: what are the demographics and psychographics of the customers you will be targeting; what products are they currently using to fulfill a similar need (substitute products); how are they currently purchasing these products; what is their degree of loyalty to current providers, etc.

Market factors: what other factors exist that will influence the market size – government regulations; market consolidation in related markets, price changes for raw materials, etc.

Case Studies: what other markets have experienced with similar transformations and what were the customer adoption rates in those markets, etc.

While these methodologies are often more painstaking than traditional market research techniques, they can be the difference in determining whether your company has the next iPod or the next Edsel.

13.

Analyzing Customers in Your Business Plan

The Customer Analysis section of the business plan assesses the customer segments that the company serves. In it, the company must

1. Identify its target customers
2. Convey the needs of these customers
3. Show how its products and services satisfy these needs

The first step of the Customer Analysis is to define exactly which customers the company is serving. This requires specificity. It is not adequate to say the company is targeting small businesses, for example, because there are several million of these types of customers. Rather, the plan must identify precisely the customers it is serving, such as small businesses with 10 to 50 employees based in large metropolitan cities on the West Coast.

Once the plan has clearly identified and defined the company's target customers, it is necessary to explain the demographics of these customers. Questions to be answered include:

1. How many potential customers fit the given definition and is this customer base growing or decreasing?
2. What is the average revenues/income of these customers?
3. Where are these customers geographically based?

After explaining customer demographics, the plan must detail the needs of these customers. Conveying customer needs could take the form of past actions (X% have purchased a similar product in the past), future projections (when interviewed, X% said that they would purchase product/service Y) and/or implications (because X% use a product/service which our product/service enhances/replaces, then X% need our product/service).

The business plan must also detail the drivers of customer decision-making. Sample questions to answer include:

1. Do customers find price to be more important than the quality of the product or service?
2. Are customers looking for the highest level of reliability, or will they have their own support and just seek a basic level of service?

There is one last critical step in the Customer Analysis -- showing an understanding of the actual decision-making process. Examples of questions to be answered here include:

1. Will the customer consult others in their organization/family before making a decision?
2. Will the customer seek multiple bids?
3. Will the product/service require significant operational changes (e.g., will the customer have to invest time to learn new technologies and will the product/service cause other members within the organization to lose their jobs? etc.)

It is essential to truly understand customers to develop a successful business and marketing strategy. As such, sophisticated investors require comprehensive profiles of a company's target customers. By spending the time to research and analyze your target customers, you will develop both enhance your business strategy and funding success.

14.

In Business Planning, Competition is Good

When developing the competition section of your business plan, companies must define competition correctly, select the appropriate competitors to analyze, and explain its competitive advantages.

To start, companies must align their definition of competition with investors. Investors define competition as any service or product that a customer can use to fulfill the same need(s) as the company fulfills. This includes firms that offer similar products, substitute products and other customer options (such as performing the service or building the product themselves). Under this broad definition, any business plan that claims there are no competitors greatly undermines the credibility of the management team.

In identifying competitors, companies often find themselves in a difficult position. On one hand, they want to show that they are unique (even under the investors' broad definition) and list no or few competitors. However, this has a negative connotation. If no or few companies are in a market space, it implies that there may not be a large enough customer need to support the company's products and/or services.

Business plans must detail *direct* and, when applicable, *indirect* competitors. Direct competitors are those that serve the *same* target market with *similar* products and services. Indirect competitors are those that serve the *same* target market with *different* products and services, or a *different* target market with *similar* products and services.

After identifying competitors, the business plan must describe them. In doing so, the plan must also objectively analyze each competitor's strengths and weaknesses and the key drivers of competitive differentiation in the marketplace.

Perhaps most importantly, the competition section must describe the company's competitive advantages over the other firms, and ideally how the company's business model creates barriers to entry. "Barriers to entry" are reasons why customers will not leave once acquired.

In summary, too many business plans want to show how unique their venture is and, as such, list no or few competitors. However, this often has a negative connotation. If no or few companies are in a market space, it implies that there may not be a large enough customer need to support the venture's products and/or services. In fact, when positioned properly, including successful and/or public companies in a competitive space can be a positive sign since it implies that the market size is big. It also gives investors the assurance that if management executes well, the venture has substantial profit and liquidity potential.

15.

The Marketing Plan and the Four P's

The Marketing Plan section of the business plan demonstrates how a company will penetrate the market with its products and services. The Marketing Plan should include "the four P's" – Product, Promotions, Price, and Place.

Products and/or Services

The first "P" stands for Product, but includes all products and services that the company offers. This section of the business plan should detail all the features of the products and services, how they work, their unique/proprietary attributes, etc. For products that are patented and/or technical in nature, drawings and backup materials should be presented in the Appendix.

Most growing companies offer certain products and services today but expect to offer more in the future. It is important to mention both current and future products/services here, but to focus primarily on the short-to-intermediate term horizon.

Promotions

Promotions include each of the activities that induce a customer to buy the company's products and services. Promotional activities could include advertising, public relations (PR), free samples, discounts, direct mail, telemarketing, partnerships, etc.

This section of the business plan discusses which promotions will be used and how they will be used. For instance, if partnerships will be used to secure new customers, the plan must explain which companies are partners, how they will be able to provide new customers, how the partnership will work (from operational/ financial standpoints), etc.

This section must be as specific as possible, particularly as it relates to discussing future promotions. To say that a company is going to generate PR in trade magazines is simply too vague. Rather, the plan must explain the type of article/feature that may be written about the firm and why, which specific trade journals that will be targeted and/or the projected publication dates.

In discussing how the company will promote itself, it is important to discuss how the company will position itself. This positioning statement details the attributes that customers will assign to the company, its products and services. The choice of promotional activities must support this positioning. For example, discounts might not be consistent with a desire to be considered an upscale brand.

Price

This section of the plan should detail the price point(s) at which the company's products and services will be sold. If the products/ services are sold as bundles, these should be detailed in this section. Rationale for the pricing should be given when applicable (e.g., why the company has chosen an initiation fee plus monthly membership fees versus a one-time lifetime membership fee).

Place

The final "P" refers to "Place" or "Distribution" and explains how a company's products and/or services will be delivered to customers. This section is crucial because if customers cannot access products and services, they cannot purchase them.

This section is especially critical for high-growth, capital-constrained companies. Attaining profit-effective distribution channels is often the most vexing challenge for these businesses. Examples of distribution methods include retail locations, website, distributors, wholesalers, direct mail catalogs, etc.

Many companies have multiple distribution methods to deliver their products and services to customers and each should be detailed here.

Detailing the "the four P's" in the marketing plan is critical in proving to investors that your company will be able to efficiently and effectively penetrate its market.

16.

Effectively Completing the Operations Plan Section of Your Business Plan

The Operations Plan is a critical component of any business plan as it presents the Company's action plan for executing its vision. The Operations Plan must detail

1. The processes that are performed to serve customers every day (short-term processes) and

2. The overall business milestones that the company must attain to be successful (long-term processes).

Everyday Processes (Short-Term Processes)

Every company has processes to provide its customers with products and services. For instance, Wal-Mart has a unique distribution system to effectively move products from its warehouses to its stores, and finally to its customers' homes. Technology products manufacturers have processes to convert raw materials into finished products. And service-oriented businesses have processes to identify new areas of customer interest, to continually update service features, etc.

The processes that a company uses to serve its customers are what transform a business plan from concept to reality. Anyone can have a concept. And more importantly, investors do not invest in concepts -- they invest in reality. Reality is **proving** that the management team can execute the concept better than anyone else, and the Operations Plan is where the plan proves this by detailing key operational processes.

Business Milestones (Long-Term Processes)

The second piece of the Operations Plan is proving that the team will execute the long-term company vision. This is best presented as a chart. On the left side, there should be a list of the key milestones that the Company must reach, and on the right, the target date for achieving them. Sample milestones include expected dates when:

- New products and services will be introduced to the marketplace
- Revenue milestones will be attained (e.g., date when sales will surpass million dollar mark)
- Key partnerships will be executed
- Key customer contracts will be secured
- Key financial events will occur (future funding rounds, IPO, etc.)
- Key employees will be hired

Additional text should be used, where necessary, to support the projections laid out in the chart.

The milestone projections presented in the Operations Plan must be consistent with the projections in the Financial Plan. In both areas, it is important to be aggressive but credible. Presenting a plan in which the company grows too quickly will show the naiveté of the management team, while presenting too conservative a growth plan will often fail to excite the potential investor who will require a high rate of return over a relatively short time period.

- New products and services will be introduced to the marketplace
- Revenue milestones will be attained (e.g., date when sales will surpass million dollar mark)
- Key partnerships will be executed
- Key customer contracts will be secured
- Key financial events will occur (future funding rounds, IPO, etc.)
- Key employees will be hired

17.

The Management Team Section of the Business Plan – Don’t Just Include Resumes

Even the best new concept or existing plan will fail if executed poorly. The Management Team section of the business plan must prove to the investor why the key company personnel are "eminently qualified" to execute on the business model.

The Management Team section should include biographies of key team members and detail their responsibilities. It is important that these biographies are not merely resumes that include the educational backgrounds and previous job titles and responsibilities of the team members. Rather, biographies should highlight the most relevant past positions that the individuals have held and specific successes in each. These successes could include launching and growing new businesses or managing divisions of established companies.

Team member biographies should be tailored to the company's growth stage. For instance, a start-up company should emphasize its management's success launching and growing companies. A more mature company should emphasize how team members have successfully operated within the framework of larger enterprises.

Depending upon the stage of the company, key functional areas may be missing from the team. This is acceptable provided that the plan clearly defines the roles that these individuals will play and identifies the key characteristics of the individuals that will be hired. However, it is generally not favorable if personnel are missing for ultra-critical roles. For example, a plan that is fundamentally a marketing play should not seek financing without a stellar marketing team.

The Management Team section should also include biographies of the company's Advisory Board and/or Board of Directors. While having well-known advisors/board members adds credibility to the business plan, it is highly effective to explain how these advisors will directly impact the company through strategic advice and/or providing conduits to key clients, partners, suppliers, etc.

In summary, the Management Team section of the business plan is an opportunity to prove to investors that your company has the necessary talent to succeed. Rather than waste this opportunity by merely showing employee resumes, which could be included in the Appendix, the section should be used to explain precisely how the team is uniquely qualified to execute the venture in its present state.

18.

Developing Realistic Financial Assumptions in Your Business Plan

Many investors skip straight to the financial section of the business plan. It is critical that the assumptions and projections in this section be realistic. Plans that show penetration, operating margin and revenues per employee figures that are poorly reasoned; internally inconsistent or simply unrealistic greatly damage the credibility of the entire business plan. In contrast, sober, well-reasoned financial assumptions and projections communicate operational maturity and credibility.

For instance, if the company is categorized as a networking infrastructure firm, and the business plan projects 80% operating margins, investors will raise a red flag. This is because investors can readily access the operating margins of publicly-traded networking infrastructure firms and find that none have operating margins this high.

As much as possible, the financial assumptions should be based on actual results from your or other firms. As the example above indicates, it is fairly easy to look at a public company's operating margins and use these margins to approximate your own. Likewise, the business plan should base revenue growth on other firms. Many firms find this impossible, since they believe they have a break-through product in their market, and no other company compares. In such a case, base revenue growth on companies in other industries that have had break-through products. If you expect to grow even faster than they did (maybe because of new technologies that those firms weren't able to employ), you can include more aggressive assumptions in your business plan as long as you explain them in the text.

The financials can either enhance or significantly harm your business plan's chances of assisting you in the capital-raising process. By doing the research to develop realistic assumptions, based on actual results of your or other companies, the financials can bolster your firm's chances of winning investors. As importantly, the more realistic financials will also provide a better roadmap for your company's success.

19.

“Why You, Why Now” - A Critical Component of a Winning Business Plan

Business plans continue to be an essential element of the capital-raising process. They must convince investors to take notice - investors that are shrewder today due to the ups-and-downs they have experienced over the past few years.

Adding to the financing challenge is the plethora of high-quality companies, both public and private, in which investors can choose to invest. In this environment, more and more investors are asking companies seeking capital the question "Why You, Why Now"?

The question seems simple at first, but has many complexities. The management team must clearly delineate what it is about the business opportunity that makes it such a good investment now. Should this investment have been made a year ago to cement a market leadership position? Or, is the venture before its time - will slow market adoption cause slow sales over the next few years, and as such, should the investment wait. Questions like these, based on investment failures from the past few years, continue to surface and must be addressed by the management team in their business plans.

Likewise the team must address what it is that makes them uniquely qualified to succeed. Does the team have proprietary (and protectable) technology, management talent and experience that competitors do not, long-term strategic partners? According to Growthink president, Dave Lavinsky, "Management teams must prove to investors why they are unique and why they will succeed. They can't just state how wonderful they are - they need to prove it through detailing past successes and unique qualifications."

A business plan that fails to address the "Why You, Why Now" question, is most likely a business plan that will remain in the stack of "not now" business plans. Business plans must present a compelling argument as to why the investor should invest and in our fast-paced world with unbelievable opportunities and opportunity costs, why investors should invest now.

20.

Perfecting the Elevator Pitch

Last week I had the opportunity to attend a trade show. Unfortunately, at many booths, particularly those of startup companies, I left without a full understanding of what the exhibiting company really did.

The experience reminded me of the challenges of putting together a good elevator pitch. An elevator pitch is a brief description of a business idea. It is termed as such since it usually must be delivered within the time that you spend with an investor in an elevator, or just a few minutes. Much like an entrepreneur seeking capital, the exhibitors at the trade show were challenged with giving an elevator pitch that would get their target audience to write them a check.

Most of the new ventures that exhibited did not have concise pitches. They used lots of words, but never clearly explained what they offered. Conversely, several new ventures had pitches that were interesting and encouraged prospects to learn more. Each of these ventures' elevator pitches shared the following three characteristics; characteristics that entrepreneurs should incorporate in their pitches when seeking capital, partners and/or employees:

1. Offering a concise definition of the **benefits** of the company's products and/or services. No one really cares about how good a widget is; rather they care what the benefits of the widget are to them.

2. Using examples of other companies. New companies, particularly those offering new products or new ways of doing things, often have a difficult time explaining what they do since they focus too much on details of how they do what they do. Rather than describe these details, companies should start by mentioning a well-known company that the investor/customer/other individual knows. They should then explain the positive differences between the well-known company and their organization. This allows the prospect to quickly grasp what the company does, the benefits it offers, and its advantages over others.

3. Stressing competitive differentiation. A new company exists to fulfill an unmet need. That unmet need is the result of competitors not providing an adequate product or service to customers. In their elevator pitch, companies should stress how they differ from competitors and how this allows them to fulfill the unmet needs. Similarly, companies can discuss similarities between competitors, since rarely are competitors all bad.

The elevator pitch is crucial for companies who seek capital, customers, partners or employees. Perfecting the elevator pitch can thus have a significant impact on the success of a new venture.

21.

Realism vs. Optimism in the Business Plan

The most important function of a business plan is to create interest among investors so that they write a check. In achieving this goal, business plan writers are often challenged by determining the proper level of optimism in their plan. That is, they must create a compelling story to investors while maintaining credibility.

Optimism shows investors that a company is confident about the market opportunity, its ability to execute on the opportunity, etc. Over-optimism, however, leads investors to believe that the management team does not fully understand the opportunity or the tough road ahead. As such, business plans must be sure to limit over-optimism and show investors they are realistic and credible.

Realism, the opposite of over-optimism, should be used in business plans to portray sobriety and credibility to investors. Realism should manifest itself in management team bios that tell the actual accomplishments of managers, rather than fluff. It should manifest itself in credible market forecasts and sober assumptions of the company's growth.

While business plans must excite investors so they take action, if they are too optimistic, investors will discount their merit. Conversely, if they are too sober, investors may not feel they will get an adequate return on their investment. As such, business plans should present a compelling, optimistic picture, but continuously refer to hard facts and realistic assumptions to build credibility and genuine excitement.

22.

How to Use Graphs and Charts in Your Business Plan

Many people ask how many graphs or charts they should have in their business plans. As with most other business planning questions, the answer is "it depends." This article discusses the key factors influencing the number of graphs and charts to include in your business plan.

To begin, the key point to consider in developing your business plan is the time restraints of your audience. If your audience is a retired angel investor, he may have few obligations and can spend an hour reviewing your business plan. However, the more likely scenario is that a venture capitalist, corporate investor or loan officer will review your plan while sitting at a desk topped with fifty other business plans. As such, it is critical that your plan conveys its key points quickly and easily – this is where graphs or charts come in.

In determining whether to use a graph or chart, consider the old adage, "a picture is worth a thousand words." The point here is that the picture should save a thousand words. That is, the graph or chart should supplement the text; it should not be explained ad naseum in the text, or that defeats its purpose. Likewise, the graph or chart must be relevant and support the text, rather than detract from it.

In addition to respecting the time constraints of the audience, the business plan must respect the audience's energy level. That is, after reading seven business plans, an investor is likely to skip a page with 400 words of straight text. Even if no charts are applicable to support the page, Growthink suggests using appropriate spacing and/or callout boxes (e.g., key text phrases highlighted in boxes) to make the page more readable.

Clearly, technical drawings and operational designs need to be visually presented in the business plan. Without them, huge volumes of text are often needed to explain relatively simple processes. Importantly, when the text references these charts, the charts should be easily accessible. That is, the chart should be on the same page as the text, rather than forcing the audience to continually turn to an appendix. If the chart is referenced on numerous pages, each page should show the piece of the chart that reflects the text, with the full chart appearing only once in the plan.

Finally, if the business plan is being presented to one or few investors, the amount of graphs and charts should reflect the wants, needs and sophistication of those few readers. For instance, if the plan is being presented only to strategic investors who understand the market, more graphs may be appropriate to convey information for which these investors already have background knowledge.

Conversely, always keep in mind that the plan is not a slide presentation, and too many graphs and charts may position the company as one that is too lazy to complete the process of developing a formal business plan.

To summarize, the amount of charts and graphs used in the business plan must reflect the audience for the plan; an audience that is usually time and energy constrained. The charts and graphs must complement the text, enable the audience to quickly and easily digest the information, and as always, interest the audience in taking the next step (e.g., scheduling an in-person meeting) in the investment process.

23.

Documenting Partnerships in Your Business Plan

Forging partnerships to improve market penetration has become commonplace, particularly for "new economy" businesses. And, most companies proudly mention their many partnerships in their business plans.

The fact is that, regardless of whom the partnership is with, partnerships by themselves are meaningless. What are meaningful are the terms of the partnership. For instance, while it sounds great to have a partnership with a Fortune 500 company, the details of the partnership are what investors find important. For instance, investors will look poorly upon a partnership in which the Fortune 500 Company earns 90% commissions on customers it refers. On the other hand, investors would look favorably upon a more equitable partnership.

As such, be sure to detail the specifics of the partnerships. This includes factors such as how the partnership will work, payment terms, contract length, minimum and/or maximum guarantees, the type of customer leads expected from each partner, timing of payments, etc. In addition, if partnerships are a key part of the business plan, expect prudent investors to interview the partners and scrutinize partnership contracts.

Partnerships can be a major factor in the success of growing companies, providing leads, sales, capital and/or other critical benefits. However, ventures should be careful not to place too much emphasis on any one partner in their business plan. Partnership agreements, like other legal agreements, can be breached, and if the venture positions any one partner as critical to its success, this will become a risk factor to investors.

Overall, partners can provide a great boost to growing ventures. Business plans should not only discuss who the partners are, but detail the terms of the partnerships and how they will benefit the company. Finally, the business plan must not place too much emphasis on any one partner in order to convince investors that the business is capable of success even without it.

24.

Documenting the Exit Strategy in Your Business Plan

All investors greatly desire and are motivated by a clear picture of a company's exit strategy, or the timing and method through which they can "cash in" on their investment. This picture best comes into focus when the key valuation and liquidity drivers of the company are clearly delineated. An excellent method to accomplish this is through descriptions of comparable firms that have had successful liquidity events, either through acquisition, merger, of initial public offerings (IPOs).

It is helpful to show other companies in your market, or similar companies in other markets, who have successfully exited, and how and why these companies were successful. For instance, were they successful since they acquired a large customer base? Or were they successful since they accomplished fast growth or high profit margins? It is also important to tie their success to their exit price. Was the exit price based on earnings or the number of customers the firm had at the time? The business plan should tie these metrics (e.g., exit price of $X per customer) to the business to determine its future price.

The most common exit strategies in business plans are IPOs or acquisitions. While the method of exit is not always crucial, the investor often wants to see the decision to better understand the management team's motivation and commitment to building long-term value. If acquisition is the selected exit path, then the business plan should detail potential companies that might want to acquire the firm in the future and why. Likewise, if an IPO is expected in the future, the business plan should document the financial metrics of the company that make it ripe for this type of exit.

In most cases, investors only make money when the business reaches a successful exit event. As such, it is critical that business plans explain the expected exit, detail why this exit was chosen and validate a realistic exit price.

25.

Incorporating Investor Feedback into Your Business Plan

Investors, like the rest of us, have different tastes. One investor may love a concept and/or business plan while the next may hate both. It is important to understand this as business plans are working documents and are always undergoing iterations.

Management teams must not rush to incorporate each potential investor's comments. Instead, have several investors, partners and other business colleagues review the plan and provide feedback. Then incorporate common concerns and probe other comments to determine if they are valid.

Always try to understand the rationale behind an investor's comments. For instance, an investor may poke holes in a business plan if it doesn't have enough funds to fully fund the opportunity. In this case, the investor's criticism is solely for them to save face.

However, if you are hearing the same feedback from multiple investors, it is probably valid. In such cases, be humble. Tell investors that you appreciate their feedback and modify your strategy and plan appropriately. You may then be able to re-approach these investors with great success.

Many investors have significant operating and investing experience and can quickly and expertly find potential flaws in a business plan. Seek out investors who have such experience, and be open to their suggestions. Just don't take one point of feedback and blindly follow their advice. It is also important to note that even the most successful and largest public companies have Boards that provide similar feedback and advice, so don't take criticism and feedback as a sign that something is wrong with your venture. Rather, use it as a launching pad for an even stronger business.

26.

Updating Your Business Plan

Business plans are not static documents. Rather, they are dynamic documents that change often. Keeping your business plan up-to-date can be a critical factor in both your ability to raise capital and your ability to execute on the opportunity at hand.

There are many parts of a business plan that need periodic updates. Sections that most commonly need to be modified include the milestones, competition, management team and financials sections.

Milestones: What milestones has your business achieved since the last version of the business plan was prepared? Showing investors that your company continues to execute on the opportunity and meet milestones is a key way to gain an investment.

Competition: Particularly in emerging markets, the competitive landscape changes rapidly. It is common for new ventures to enter the market and established companies to extend business lines into it. Updating the competitive section of the business plan is critical to letting management and investors understand the new landscape and adapt accordingly.

Management team: As companies add management team members, it is important to update the plan with their bios. A fuller management team is a positive sign to investors that the company is poised for success.

Financials: Business plan financials often have a plethora of assumptions such as customer penetration rates, prices, margins, etc. As a company begins to execute on its opportunity, it is able to replace the assumptions with real figures. Making these substitutions in the financial model is critical in understanding the cash flow needs of the venture. Misunderstanding financial needs is a key reason why some companies fail.

Strong management teams know the importance of their business plan and update their plans constantly to make sure their focus and action plan is always crystal clear. Likewise, they recognize the importance of sharing their updated plans with investors and management team members to keep everyone in synch.

27.

Small Business vs. Venture Capital Business Plans

What is the primary difference between a venture capital business plan and a small business or other business plan? The answer is typically risk. Venture capital business plans have much more risk than other plans, and as a result, the potential rewards from success are much higher.

When preparing a plan for venture capitalists, it is critical to try to mitigate the risks inherent in the venture. To mitigate the risks, the plan should stress areas in which the venture excels. This will give the investors validation that their chance of success is highest. To accomplish this, the plan must, among others, stress the qualifications of the management team, prove that the size of opportunity is formidable, show competitive advantage, and detail the operations plan that will allow the venture to effectively and efficiently go “from here to there.”

When venture capitalists read a business plan, they constantly ask “what if.” By giving them the confidence that the team, the opportunity, and the strategy are all sound, answering the “what if” questions positively becomes easier. This in turn pushes them to the next step, which is typically to meet with the management team and assess whether it is the right team to execute the venture.

When developing a venture capital business plan it is also critical that the plan be properly edited. Most venture capitalists have advanced degrees and have spent many, many years in school. As a result, they naturally spot typos and other inconsistencies, which cast a negative light on the venture. Likewise, since venture capitalists must review so many plans per week, making them visually appealing enhances their impact.

In summary, venture capitalists are a sophisticated group on investors that “swing for the fences.” To attract their funds, companies must prepare grammatically sound, visually and verbally appealing business plans that highlight their strengths and mitigate risks.

28.

Raising Capital for Your Business – How Long Does it Take?

Most companies vastly underestimate the time commitment necessary to successfully complete a financing. In actuality, a company seeking financing needs to budget between 500 to 1000 work-hours to the capital-raising process, spread out over a 6-9 month time period.

The key processes in the capital-raising process include:

1. Perfecting the business plan, offering memorandum, and other company due diligence materials
2. Developing a comprehensive, targeted prospective investor list
3. Contacting this list and responding to investor due diligence requests
4. Negotiating the transaction

Completing the business plan typically requires at least 200 hours of work. This time is dedicated to conducting the market research to validate the opportunity, developing a comprehensive financial model, determining the most effective way to lay out the business strategy, and actually writing and proofing the business plan.

The next step, developing a comprehensive, targeted prospective investor list is also very time consuming. There are thousands of potential investors, each of which has very different tastes regarding the types of ventures that interest them. Some invest by market sector (e.g., healthcare vs. telecommunications), stage (seed stage vs. later stage), geography, or a combination of these. Many hours must be dedicated to determine which investors are the right fit for your venture. This process involves creating a master investor list, visiting each investor's website to view investment criteria and past investments, and determining who is the right contact at the firm.

To see how easily the time adds up, consider that only about 25% of prospective investors who show an initial interest in a transaction actually progress to detailed company due diligence. Only about 10% of this 25% actually progress to a bonafide offer of funds, of which only 25% of these actually result in an investment transaction. So completing a financing transaction requires, on average, contacting approximately 160 pre-qualified prospective investors.

The due diligence process, where investors scrutinize the investment, can also be very time consuming for the company. Investors often request many documents, some of which can be easily retrieved from files (e.g., prior tax returns), while others may take more time to prepare (e.g., additional market analysis, customer lists with past purchases, contact information, etc.). Finally, negotiating a transaction can take a significant amount of time depending upon the complexity of the transaction and number of parties involved.

Too many companies fail to raise capital since they are unaware of the significant time requirements to do so. Those firms who understand these requirements and budget accordingly are the ones most likely to persevere and end up with the capital they need.

29.

Venture Capital Financing: Is It Within Your Reach?

Many firms dream of the day that a venture capital financing occurs. This is the day when they are handed a check for millions of dollars and told to go fulfill their entrepreneurial dreams. Unfortunately, for most this remains a dream. But this doesn't necessarily have to be the case. Securing a venture capital financing can be a reality under the right conditions.

Perhaps the most important condition is that the firm develops a winning business plan. The business plan is the initial piece of information that venture capitalists review, and if it doesn't compel them to take action, the journey towards venture capital financing ends abruptly.

Assuming that the business plan is flawless, what else is required of the management team seeking venture financing? The answer varies from firm to firm, but most venture capital firms want to see proprietary intellectual property, a large market size, management team members with expertise and experience, and a current valuation that allows for a good return on investment.

A final challenge in securing a venture capital financing is identifying the right venture capital firm. Venture capital firms typically have preferences that revolve around their location, sector preferences, stage preferences, partner backgrounds, other portfolio companies, and total assets held by the firm. Ventures seeking capital should make sure to find venture capitalists whose preferences match what they have to offer.

Raising venture capital is challenging, but fortunately, the results can far outweigh the hardship of overcoming the challenge. For firms that properly plan for and methodically approach venture capital financing, results are often within their reach.

30.

Identifying the Right Venture Capital Firm Partner

Venture capital firms are comprised of individual partners. These partners make investment decisions and typically take a seat on each portfolio company's Board. Partners tend to invest in what they know, so finding a partner that has past work experience in your industry is very helpful. This relevant experience allows them to more fully understand your venture's value proposition and gives them confidence that they can add value, thus encouraging them to invest.

Fortunately, most venture capital firm websites list their partners with great pride. Each partner typically has a bio that includes their educational credentials, business accomplishments and investments that they have made. In identifying the right venture capital partner to contact for your company, try to find the partner that, from their background, will truly grasp the opportunity and can really add value.

Once you have identified the most appropriate venture capital partner, it is important to figure out how to contact them. As partners are often inundated with business plans, having a personal connection and/or introduction is often the difference between getting heard and not getting heard. For instance, if you attended the same university or worked at a company that they did, call or email them and use this as the introduction. If not, it is important to network. Call people that may have been associated with the partner and ask for an introduction.

Getting the partner's attention is the first key hurdle in raising venture capital. The second hurdle is getting them to believe in the opportunity, and finally, giving them the enthusiasm and information needed to convince other partners in their firm that investing in your venture represents a sound investment.

31.

Describing Intellectual Property in Your Business Plan

Most companies that are worthy of raising venture capital have proprietary Intellectual Property (IP). In fact, the quality of the IP and the management team are often the two most important aspects of a venture capitalist's investment decision. The challenge that many ventures face, however, is that most investors will not sign non-disclosure agreements (NDAs), and NDAs are critical to maintaining the proprietary nature of the IP. This article details the appropriate strategy for addressing proprietary IP in your business plan in order to attract investor attention while retaining the confidentiality of your inventions.

Focus on the Benefits of and Applications of the IP: The business plan should not discuss the confidential aspects of the IP. Rather, the plan should discuss the benefits of the IP. Remember that even the most amazing of technologies will not excite investors unless it has tangible benefits to customers.

The business plan first needs to discuss the products and services into which the IP will be integrated. It then must detail the benefits that these products and services have to customers and differentiate them from competitive products. When applicable, it is helpful to include non-confidential drawings and backup materials of the products and services in the Appendix.

Focus on Customer Needs and the Relevant Market Size: The business plan must also discuss how the benefits of the IP fulfill a large customer need. To accomplish this, the plan needs to detail customer wants and needs and prove that the company's offerings specifically meet these needs.

Secondly, the plan needs to discuss the marketplace in which the IP is offered and the size of this marketplace. Critical to this analysis is determining the relevant market size. The relevant market size equals a company's sales if it were to capture 100% of its specific niche of the market. For example, a medical device's market size would not be the trillion dollar healthcare market, but rather the sales of all competing medical devices.

Focus on Competition and Competitive Differentiation: Your business plan must also prove that your IP is better than competitive inventions. In identifying competitors, note that listing no or few competitors have a negative connotation. It implies that there may not be a large enough customer need to support the company's products and/or services. On the other hand, should there be too many competitors, then the market may be too saturated to support the profitability of a new entrant. The answer -- any company that also serves the customer needs that you serve should be considered a competitor.

The business plan should detail both the positive and negative aspects of competitors' IP and products/services and validate that your offerings are either superior in general, or are superior in serving a specific customer niche.

Prove that you can Execute on the Opportunity: As importantly as proving the quality of the IP and that a vast market exists for its applications, the business plan most prove that the company can successfully execute on the opportunity.

The plan should detail the company's past accomplishments, including descriptions and dates when prior funding rounds were received, products and services were launched, revenue milestones were reached, key partnerships were executed, etc.

When a company is a complete start-up, and no milestones have been accomplished, the plan should focus on past accomplishments of the management team as an indicator of the company's ability to execute successfully.

Results: Getting Investors to Sign the NDA: If you are able to convince the prospective investor that the IP is integrated into a product/service which yields real customer benefits in a large market, then the investor will take the quality of the invention for granted when reviewing the plan. Later, during the due diligence process, the investor will review the actual technology. At this point, a discussion regarding signing an NDA would be appropriate.

32.

The Term Sheet’s Role in Raising Venture Capital

Entrepreneurs and companies who are seeking venture capital often negotiate with one or more venture capital firms on a number of important issues. These issues include the amount of capital to be raised, the investment terms, etc. The document, which summarizes these terms, is known as a "term sheet."

The term sheet is similar to a letter of intent, that is, it is a nonbinding summary of the key points of the transaction. These points are later covered in detail in the Stock Purchase Agreement and related agreements signed at the time of execution of the transaction.

The value of the abbreviated term sheet format is that it speeds up the process of consummating a transaction. Specifically, it allows the parties to agree on the general terms of the transaction rather than having to debate less important details. In addition, because it is not binding, it allows the parties to take their discussions to the next level without the danger of committing too much. Note, however, that some parts of a term sheet may be binding. Typically the binding aspects only refer to confidentiality and disclosure issues.

Venture capital firms, and not the companies seeking capital, typically prepare the term sheet to include the terms under which they are willing to invest their capital. Alternatively, when seeking capital from angel investors, firms typically create their own term sheets for the angels to review. This fact tells a bit about the balance of power in an investment transaction. Venture capital firms are often more sophisticated and have more power than the companies seeking capital. Alternatively, angel investors are typically less sophisticated and have less power, and are more prone to consider the investment terms as laid out by the company seeking capital.

Getting to a term sheet is a key milestone in the capital raising process. Although not all term sheets result in a transaction, the term sheet shows that both parties are legitimately interested in executing a transaction. It is then up to the investor and company to agree upon the details.

33.

Finding a Venture Capital Firm

Many ventures are faced with the challenging task of raising venture capital. The first part of this process is finding the right venture capital firm (VC). While this may seem simple, it isn't. There are thousands of venture capital firms in the United States alone, and going after the wrong ones is one of the most common reasons why companies fail to raise the capital they need.

When seeking a venture capital firm, there are six key variables to consider: location, sector preference, stage preference, partners, portfolio and assets.

Location: most venture capital firms only invest within 100 miles of their office(s). By investing close to home, the firms are able to more actively get involved with and add value to their portfolio companies.

Sector preference: many venture capital firms focus on specific sectors such as healthcare, information technology (IT), wireless technologies, etc. In most cases, even if you have a great company, if you fall outside of the VC's sector preference, they'll pass on the opportunity.

Stage preference: VCs tend to focus on different stages of ventures. For instance, some VCs prefer early stage ventures where the risk is great, but so are the potential returns. Conversely, some VCs focus on providing capital to firms to bridge capital gaps before they go public.

Partners: Venture capital firms are comprised of individual partners. These partners make investment decisions and typically take a seat on each portfolio company's Board. Partners tend to invest in what they know, so finding a partner that has past work experience in your industry is very helpful. This relevant experience allows them to more fully understand your venture's value proposition and gives them confidence that they can add value, thus encouraging them to invest.

Portfolio: Just as you should seek venture capital firms whose partners have experience in your industry, the ideal venture capital firm has portfolio companies in your field as well. Portfolio company management, since they are industry experts, often advises VCs as to whether the company in question is worthwhile. In addition, if your venture has potential synergies with a portfolio company, this significantly enhances the VCs interest in your firm.

Assets: Most companies seeking venture capital for the first time will require subsequent rounds of capital. As such, it is helpful if the VC has "deep pockets," that is, enough cash to participate in follow-on rounds. This will save the company significant time and effort in maintaining an adequate cash balance.

Finding the right venture capital firm is absolutely critical to companies seeking venture capital. Success results in the capital required and significant assistance in growing your venture. Conversely, failing to find the right firm often results in raising no capital at all and being unable to grow the venture.

34.

Angel Investors: Who They Are & When Are They Appropriate

Angel investors are individuals who invest in emerging business ventures. Angels typically provide both capital and know-how to companies who are in either their start-up or expansion phases. To reflect the increased risk of investing in such firms, angels seek a higher rate of return versus traditional public stock investments.

Angel investors fulfill the financing need that exists between capital provided by friends and family and capital provided by venture capitalists. Individual angel investors often write checks from $25,000 to $100,000. Recently, angel investing has become more organized, and angel groups often invest from $250,000 to $500,000 at a time to deserving ventures.

Angel investors often have similar financing criteria as venture capitalists. They want to see proprietary intellectual property, a large market size, management team members with expertise and experience, and a current valuation that allows for a good return on investment.

In identifying and attracting an angel investor, companies should seek angel groups that are located in their region. For instance, the Tech Coast Angels have funded over 85 Southern California-based companies since 1997. When seeking individual angel investors, it is critical to network in order to create a personal connection between yourself and the angel. Also, ideally the individual has experience within your specific field so he/she can provide industry contacts and operational expertise in addition to capital.

35.

Alternative Venture Finance: Federal Grants and Loans

While most companies seeking venture capital initially think about angel investors and venture capitalists, a large alternative source of financing is federal grants and loans. The two largest federal grant programs are run by the Small Business Administration (SBA), and by Small Business Investment Companies (SBICs).

An SBA loan, regardless of whether it is a direct loan from the SBA, or, as is more common, a bank loan guaranteed by the SBA, is essentially a bank loan. The benefit of it versus a traditional bank loan is the rate. SBA rates are typically much less than traditional business loan rates.

In most cases, in a guaranteed SBA bank loan, the SBA guarantees 90 percent of the loan will be repaid to the bank. As such, banks are at much less risk than in most other loans, and are a bit more flexible with regards to who they offer these loans. However, the SBA usually requires the founders of the company to personally guarantee the loans, which makes them risky should the venture collapse.

Alternatively, Small Business Investment Companies (SBICs) are privately organized corporations that are licensed and regulated by the SBA. Small or emerging businesses, which qualify for assistance from the SBIC program, can receive equity capital and/or long-term loans from these companies. Essentially, these companies provide their own capital, which is supplemented by federal funds, to the companies they fund.

Interestingly, U.S. taxpayers benefit from the SBIC program as tax revenues generated from successful SBIC investments have more than covered the cost of the program. Likewise the program has created hundreds of thousands of jobs.

In summary, SBA and SBIC financing are viable alternatives to financing from angel investors and venture capitalists and should be considered in the capital raising process. Similarly to angel and VC financing, companies seeking SBA and SBIC financing need a strong management team and value proposition, and a highly professional and compelling business plan in order to raise the capital they need.

36.

Alternative Venture Finance: Shell Corporations

A shell corporation is a company that is incorporated but has no significant assets or operations. These corporations may be formed as an alternative venture financing mechanism.

Shell company financing works in two ways. In many cases, the shell corporation is created from scratch. The purpose of these shells is to raise money and to get a number of shares outstanding into the public's hands. In most cases, the shares are sold in units. That is, the shares are sold as one share of common stuck plus warrants at the current offering price.

The "empty" shell is then merged with the operating company. The merged companies begin to report operating results and when the results are good, existing stockholders exercise their warrants and provide needed capital into the company.

A second type of shell corporation is formed when the company seeking capital identifies an existing shell or inactive public company (IPC) as a candidate for a reverse acquisition. This typically occurs after a public company emerges from bankruptcy. At this time it may be void of assets other than cash. In fact, the principal asset of the IPC is often its public registration and a roster of shareholders from which new capital may be raised.

Shell corporations are a quick and cost effective way of taking a company public and raising public capital. However, typically bridge capital is required to finance the process and take the company to a point where investors are interested in exercising their options.

37.

Venture Capital Negotiating Issues

When companies enter into negotiations with venture capital firms, there are several issues that need to be defined and agreed upon. This article describes the key issues.

Valuation. Valuation is the most prominent negotiating issues. Valuation is the price of the company in which the venture capitalist invests. Valuation determines what percent of the company the investor is buying for their capital.

Timing of the Investment. Many investors will commit a large amount of capital, but will contribute that capital to the companies in installments. Often, these installments are only made when pre-designated milestones are met.

Vesting of Founders' Stock. Like capital, investors often prefer that stock is given to company founders and key employees in installments. This is known as vesting.

Modifying the Management Team. Some investors insist that additional or substitute management employees be hired subsequent to their investment. This gives investors additional security that the company will execute on its business model. An important issue to negotiate with regards to modifying the management team is the amount of stock or options that will be issued to new management team members, as this will dilute the holdings of the founders.

Employment Agreements with Key Founders. Venture capitalists typically do not want companies to have employment agreements that limit the circumstances under which employees can be fired and/or set compensation and benefits levels that are too high. Other key employment agreement issues to be negotiated with venture capitalists include restrictions on post-employment activities and employee severance payments on termination.

Company Proprietary Rights. If the company has an important product with intellectual property (IP), investors will want to ensure that the company, and not a company employee, owns the IP. In addition, investors will want to ensure that new inventions be assigned to the company. To this end, investors may negotiate that all employees must sign Confidentiality and Inventions Assignment Agreements.

Exit Strategy. Investors are very focused on how they will “cash out” of their investment. In this regard, they will negotiate regarding registration rights (both demand and piggyback); rights to participate in any sale of stock by the founders (co-sale rights); and possibly a right to force the company to redeem their stock under certain conditions.

Lock-Up Rights. Venture capitalists may require a lock-up period at the term sheet stage. The “lock-up period” is typically a 30-60 day period where the investors have the exclusive right, but not the obligation, to make the investment. Investors typically conduct due diligence during this time without fear that other investors will pre-empt their opportunity to invest in the company.

Each of these issues are critical when raising venture capital, since the outcome can significantly impact the success of the venture and the wealth potential of the company founders and management team. Because venture capitalists are very knowledgeable regarding these issues, and have great skill in negotiating on them, companies who are raising venture capital should seek advisors who also have this experience and expertise.

38.

Pre-Money vs. Post-Money Valuation

When a company decides that it must raise capital, a key question that must be answered is how much the company is worth. For example, if the business needs $500,000 to get started and/or grow, how much of the equity in that company should $500,000 command? Once this question is answered, the company will go out and try to find investors. When doing so, a key question often arises as to whether the valuation is "pre-money" or "post-money."

"Before the money" or "pre-money" and "after the money" or "post-money" denote simple concepts. However, these simple concepts can even confuse even the most sophisticated analysts at times. If a company is valued at $1 million on Day 1, then 25 percent of the company is worth $250,000. However, there may be an ambiguity. Suppose the company and the investor agree on two terms: (1) a $1 million valuation, and (2) a $250,000 equity investment. In this case, the company may offer the investor 250 shares for $250,000. Immediately there can be a disagreement. The investor may have thought that equity in the company was worth $1,000 per percentage point, in which case $250,000 gets 250 out of 1,000 shares or a 25% equity position. Conversely, the company may have believed that the investor was contributing to the enterprise that was already worth $1 million. Under this rationale, the $250,000 would give the investor 250 shares out of 1,250 shares or a 20% equity position.

The critical issue was whether the agreed value of $1 million to be assigned to the company was prior to or after the investor's contribution of cash (pre-money) or post-money.

In the above case, a pre-money valuation of $1 million and a post-money valuation of $1.25 million were equivalent. Because mixing up the terms could significantly increase the cost of capital raised, companies must be sure to understand the two metrics and agree with investors to the metric that raises them the capital at the appropriate price.

39.

The Use of Common Stock in Venture Capital Transactions

When raising capital for a business venture, a company can either raise debt capital, equity capital or a combination of the two. Debt capital is money loaned to the company at an agreed interest rate for a fixed time period. Conversely, equity capital is money invested by owners (shareholders) for use in business operations that need not be repaid. Combinations include convertible securities which may be debt that can be converted into equity at some point in the future.

The simplest form of equity capital is common stock. Common stock has many distinguishing factors as follows:

• Common stock is not convertible into another type of security

• Each share enjoys one vote

• Dividends are payable without limit but only when declared by the board of directors

• In liquidation, common stock holders are the last priority to which to distribute assets

In venture capital transactions, there may be two types of common stock that are issued. The first is Class A common stock, which is like preferred stock without the special voting rights, which some statutes require in shares labeled "preferred." A second type of common stock is junior common stock. While this type of stock is not used very frequently, it allows companies to get cheap stock into the hands of key employees at minimal tax cost.

Determining what type of capital to raise and how to structure the financing transaction is of critical importance to growing ventures. As such, it is crucial to understand the key terms and consult the appropriate legal and business advisors when embarking on the capital-raising process.

40.

Issuing Warrants to Investors

When raising capital for a business venture, warrants are a common form of equity that is given to investors. A warrant is like an option – it gives the holder the right to buy a security at a fixed or formulaic price, which is known as the "exercise" or "strike" price.

Warrants are often confused with options. Options, as used in the venture capital space, are typically long term (up to 10 years). They are also typically issued to employees versus investors. Conversely, warrants act like short-term options and, unlike employee options, can be traded as an independent security.

In general, neither the issuance of warrants nor their exercise (at least by non-employees) is a taxable event. In fact, in 1984, Congress reversed the earlier position of the IRS that the expiration of a warrant is a taxable event for the issuer. However, whenever a debt security with warrants attached is issued as a package, original issue discount problems are invited.

One type of warrant that once popular as a financing mechanism for emerging ventures is contingent warrants. These warrants become exercisable if and when the holder does something for the issuer, for example buys a certain level of product. Contingent warrants are no longer used often since the SEC ruled in favor of current and periodic recognition of expense to the issuer.

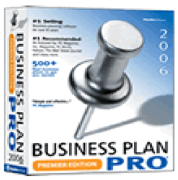
Like an option, a warrant is considered a "common-stock equivalent" for accounting purposes. And, if the warrant has been "in the money" (i.e., the exercise price is below the market price) for three consecutive months, it is deemed to impact earnings per share under the so-called treasury-stock method. That is, the warrants are considered exercised, new stock is issued at the exercise price, and the proceeds to the issuer are used to buy in stock at the market price.

Warrants are a common financing mechanism and companies seeking venture capital should consider and become knowledgeable about this type of equity device.

41.

Business Plan Software

Business Plan Software can greatly assist in streamlining/accelerating the strategic business plan development process. Growthink recommends Palo Alto Software's Business Plan Pro Premier 2006, the best-selling strategic business planning software program in the world.



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