

2002

Business Plan Guide

growththink | **RESEARCH**

Growththink's 2002 Business Plan Guide

| Table of Contents |

Prologue: Why Business Plans Fail.....	1
Introduction	4
Unique Challenges in 2002.....	4
Business Plans in 2002	4
Executive Summary.....	7
Concise Explanation of the Business.....	7
Market Size and Market Need	7
Company's Unique Qualifications	7
Company Analysis.....	9
Company Profile	9
Past Accomplishments	9
Unique Qualifications.....	9
Industry Analysis	10
Market Size.....	10
Trends	10
Customers & Competition.....	11
Data Sources.....	11
Multiple Industries.....	11
Customer Analysis	12
Customer Identification/Definition	12
Customer Demographics, Needs Assessment and Decision-Making.....	12
Multiple Customer Targets & Partners.....	13
The Customers' Customer.....	13
Competitive Analysis.....	14
Defining Competition	14
The Competition Dilemma	14
Solving the Dilemma.....	14
Which Competitors to Include in The Analysis.....	15
Describing Competitors and Showing Competitive Advantages	15

**Table of Contents
(continued)**

Marketing Plan 16

 Products and/or Services..... 16

 Promotions 16

 Price 17

 Place..... 17

 Customer Retention..... 17

 Partnerships 18

Operations Plan 19

 Everyday Processes (Short-Term Processes) 19

 Business Milestones (Long-Term Processes) 19

Management Team 21

 Description of Key Team Members..... 21

 Management Team Gaps 21

 Description of Board Members 21

Financial Plan 22

 Detailed Revenue Streams 22

 The Pro-Forma Financial Statements..... 22

 Validating Assumptions and Projections..... 23

 Sources and Uses of Funds 23

 Exit Strategy 23

Business Plan Appendix..... 24

Other Key Business Plan Issues 25

 NDAs 25

 Outsourcing the Business Plan Development..... 25

 Plan Length 26

 Plan Formatting, Charts and Graphics..... 26

 Incorporating Investor Feedback 26

About Growththink..... 27

Prologue: Why Business Plans Fail

Since the venture capital boom of 2000, investors have become shrewder and are far more discerning in selecting only ventures with attainable revenue models, real competitive barriers to entry, and strong management teams. Growththink surveyed venture capitalists, corporate investors and angel investors regarding what they are looking to fund and why in 2002. From these interviews, we identified the ten most common reasons why business plans fail to raise financing.

A fuller description of these 10 pitfalls and complete information regarding what **should** be included in your 2002 business plan can be found in *Growththink's 2002 Business Plan Guide*.

Pitfall #10: Excluding Successful Companies in the Competitive Analysis

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, according to Joel Balbien, partner at **Smart Technology Ventures**, 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.

Pitfall #9: Over Emphasizing Partnerships with Well-Known Companies

Forging partnerships to improve market penetration and/or operations has become commonplace, particularly for "new economy" businesses. The fact is that, regardless of whom the partnership is with, partnerships by themselves have limited value. Rather, what are meaningful are the partnership *terms*. For instance, while it sounds great to have a partnership with Microsoft, Cisco or Yahoo, it is the details of these partnerships that investors find important. The business plan must explain the partnership's equitable terms, the extent to which each partner will improve operations and/or sales, and the structure of the partnership.

Pitfall #8: Focusing Too Much on the Future

Investments and valuations for growth companies are based on a firm's projected future performance. However, the best indicator of future performance is past performance, or a venture's past track record. Business plans must show what milestones/accomplishments a venture has achieved. Past success in achieving goals gives investors the confidence that the team will execute in the future.

Pitfall #7: Not Tailoring Management Team Biographies to the Venture's Development Phase

The Management Team section should include biographies of key team members and detail their responsibilities. These biographies should be tailored to the venture's growth stage since different skill sets are needed to launch, grow and/or maintain a venture. A start-up venture should emphasize its management's success launching and growing ventures. On the other hand, a more mature venture should emphasize how team members have successfully operated within the framework of larger enterprises.

Pitfall #6: Asking Investors to Sign an NDA

Most investors will not sign NDAs (Nondisclosure Agreements). This is because a business’ *strategy* and/or *concept* are typically not confidential. It is possible that a key partnership is confidential, for example, but for the most part the *execution* of the strategy and concept is what will make the company successful. States Dave Blivin, Managing Director of **Southeast Interactive Technology Funds**, “As for non-disclosure agreements, we never sign them. A business plan should not be proprietary.”

If the concept and/or strategy must remain confidential, this often implies that there are no barriers to competitive entry. If a competitor or host of competitors can quickly copy the concept, then the business model is probably not sustainable.

On the other hand, proprietary *technology* is confidential. The business plan should **not** discuss the confidential aspects of the technology but should discuss the **benefits** of the technology and how these benefits fulfill a large customer need. A serious investor will review the actual technology during the due diligence process. A discussion regarding signing an NDA would be appropriate at this point.

Pitfall #5: Indiscriminately Incorporating Investor Feedback into the Business Plan

Investors, like the rest of us, have different tastes. One investor may love a business 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. Incorporate common concerns and probe other comments to determine if they are valid.

Pitfall #4: Stressing First Mover Advantage

Simply claiming a first mover advantage is not compelling in today’s funding environment. Jeffrey Starr, a partner at **Mission Ventures**, wants to see a strong “unfair” competitive advantage that yields long-term barriers to entry. A business plan must include strategies that demonstrate the venture can and will build these long-term barriers around its customers.

The methods through which the venture will retain customers should be detailed in the business plan. Such methods could include implementing customer relationship management (CRM) tools, building network externalities (e.g., the more people that use the product or service the harder it is for a competitor to penetrate the market), ongoing value-added services, etc.

Pitfall #3: Focusing Too Much on the Venture’s Proprietary Technology

While proprietary technology is a significant factor in investment decisions, it is much more important to show how this technology satisfies a large, unfulfilled customer need.

Many unsuccessful ventures fail because they do not understand the needs of their customers. Understanding true customer wants and needs, identifying which target markets most exemplify

these needs, and outlining a plan to penetrate these markets are critical to funding and execution success.

Pitfall #2: Presenting Large, Generic Market Sizes

Defining the market size for a venture too broadly provides little to no value for the investor. For example, mentioning the trillion dollar U.S. healthcare or B2B markets are generally extraneous since no venture could reap \$1 trillion in sales in either market. Rather, a more meaningful metric is the *relevant market size*, which equals the venture’s sales if it were to capture 100% of its specific niche of the market.

According to Bridget Karlin, partner at venture capital firm **Redleaf Group**, “every business is going after a multibillion-dollar market. Be *realistic* and *specific* about your addressable share of the total market opportunity.” Defining and communicating a credible relevant market size, and a plan to capture a significant share within this market is far more powerful and believable to investors.

Pitfall #1: Making Financial Projections Too Aggressive

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. “A credible financial forecast is a critical component in our investment decision,” says Dan Bassett, Partner at **InnoCal Venture Capital**.

By accessing and basing projections on the financial performance of public companies in their marketplace, ventures can prove that their assumptions and projections are attainable.

A fuller description of these 10 pitfalls and complete information regarding what should be included in your 2002 business plan can be found in *Growththink's 2002 Business Plan Guide*.

Introduction

Unique Challenges in 2002

The year 2000 was the most prolific year in the history of venture capital, with \$150 billion invested in privately held ventures¹. In 2001, we saw venture capital decline dramatically to \$45 billion². While this still represented a sizable amount of funding (in fact, 2001 was the third highest year ever in venture capital funding), the decline reflects a shift in the mindset and demands of investors.

Specifically, this shift is that investors will only fund ventures with a unique grasp of their markets, attainable revenue models, real competitive barriers to entry, and strong management teams. With more ventures competing for less venture dollars in 2002, it is more critical than ever for a business plan to communicate these attributes in a clear and compelling way.

Business Plans in 2002

A business plan is a roadmap for a growing venture. It also serves to communicate the venture's value proposition to employees, advisors, partners, customers and investors. Business plans are the vehicle by which ventures "get in the door," and are the documents most heavily scrutinized by investors, particularly in today's environment.

Today's business plans can no longer overestimate market sizes, underestimate competition, or project results over-aggressively. Rather, they must present realistic game plans for achieving success, including:

- *Highlighting past accomplishments:* The best indicator of future success is a venture's past track record. The business plans of previously funded ventures must show what milestones they have achieved with those funds. New ventures must show how the past successes of the management team will enable the venture to overcome expected challenges.

¹ Growthink Research, March 2001.

² Growthink Research, March 2002.

- *Understanding and defining the “relevant market”*: Improper sizing of a venture’s target market is a telltale sign of a poorly reasoned business plan. For example, though the U.S. healthcare market is a trillion dollar market, there is no venture that could reap \$1 trillion in healthcare sales. Rather, a more meaningful metric is the *relevant market size*, which equals the venture’s sales if it were to capture 100% of its specific niche of the market. Defining and communicating a credible relevant market size is far more powerful than presenting generic industry figures.
- *Understanding and catering to customer needs*: Investors in 2002 have a laser sharp focus on the relationship between a venture and its customers. In its business plan, a venture must clearly communicate how its products and services meet specific customers wants and needs, and identify which target markets most exemplify these needs. The business plan must also outline an easy to follow and credible roadmap of how the company plans to penetrate its customers.
- *Proving barriers to entry*: A business plan must include strategies that demonstrate that the venture can and will build long-term barriers around its customers. Claiming a first mover advantage is simply not compelling in today’s funding environment.
- *Developing realistic financial assumptions*: 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.

Growthink's 2002 Business Plan Guide details the key elements required by today's sophisticated investors. It is organized by ten key business plan sections as follows:

1. Executive Summary
2. Company Analysis
3. Industry Analysis
4. Customer Analysis
5. Competitive Analysis
6. Marketing Plan
7. Operations Plan
8. Management Team
9. Financial Plan
10. Appendix

In 2002, it is more crucial than ever to present investors with a realistic, credible and compelling business plan. Such a business plan distinguishes a venture from the tens of thousands of other ventures seeking to raise capital in 2002, and signals to investors that the venture is well thought-out and poised for success.

Executive Summary

Most investors are inundated with business plans, and often give them no more than a cursory review. Accordingly, it is critical that the first page of the Executive Summary stimulates and motivates the investor to learn more about the venture.

The first page of the Executive Summary must include the following:

- A concise explanation of the business
- A description of the market size and market need for the business
- A discussion of how the company is uniquely qualified to fulfill this need

Concise Explanation of the Business

Believe it or not, after reading the first page of most business plans, investors often do not understand the business in which the company is operating! This is particularly true when a company is involved in a complex, highly technical business. It may seem obvious, but it is critical to remember that investors cannot invest in what they do not understand. The Executive Summary must simplify the definition of the business to develop interest and promote a clear understanding. The rest of the plan can tell the full, complex story.

Clearly defining a business often requires simplification. For instance, an “online book seller” could also be presented as “a firm involved in the procurement and distribution of written materials across a wide geographic spectrum.” Obviously the former description is more effective in setting the stage for the investor to learn what is unique about the venture.

Market Size and Market Need

It is critical to show investors that the venture is positioned in a large and growing market and that there is a clear and compelling need for the product or service. As such, it is important to define the market by referencing credible sources as to its size and projected growth. In 2002, it is especially critical that the plan prove the customers’ ability and willingness to pay for this need.

Company's Unique Qualifications

Once the investor understands the business and agrees there is a need for the venture's products and services, the final step is demonstrating that the venture has an "unfair competitive advantage" in the market. Examples of unfair advantages could include a world-class management team, proprietary technology, proven operational systems, key partnerships, long-term contracts with major customers, as well as other successes-to-date. The plan must document and detail these compelling advantages.

Investors have varied opinions regarding the best length of an Executive Summary. Some prefer a one-page summary, while others feel that a three to four page summary is more appropriate. Including these critical elements in the **first page** of the business plan satisfies the needs of virtually all investors. After reading this page, investors can finish reading the Executive Summary or jump straight to the other sections.

Growthink believes that an Executive Summary should include one to three additional pages that boil down the essential elements of the business plan. This includes paragraphs addressing each of the following:

- *Customer Analysis:* What specific customer segments the venture is targeting and their demographic profiles
- *Competition:* Who the venture's direct competitors are and the venture's key competitive advantages
- *Marketing Plan:* How the venture will effectively penetrate its target market
- *Financial Plan:* Summarizing the financial projections of the venture
- *Management Team:* Biographies of key management team and Board members

Company Analysis

The Executive Summary entices the investor to learn more about the venture. The Company Analysis in turn educates the reader regarding the venture's history.

Company Profile

This section should start with a detailed profile of the venture including its:

- Date of formation
- Legal structure (LLC vs. C-Corp., etc.)
- Office location(s)
- Business stage (start-up vs. undergoing R&D vs. serving customers, etc.)

Past Accomplishments

The next section of the Company Analysis should include a chart of the venture's past accomplishments, including descriptions and dates when:

- Prior funding rounds were received
- Products and services were launched
- Revenue milestones were reached (e.g., date when sales surpassed the million dollar mark)
- Key partnerships were executed
- Key customer contracts were secured
- Key employees were hired

This information is critical to investors as it indicates the venture's ability to execute upon a previous game plan. Attaining milestones is an excellent indicator for potential investors that their money will be used to create value and lead to a liquidity event.

Unique Qualifications

Finally, the Company Analysis should detail why the venture is uniquely qualified to succeed. This is often referred to as the venture's "unfair competitive advantage." This advantage could include a world-class management team, proprietary technology, proven operational systems, key partnerships, long-term contracts with major customers, as well as other successes-to-date.

Industry Analysis

The Industry Analysis describes the landscape in which a venture is/will be operating. It serves to prove to the reader that there is a genuine need in the market for the company's products and services, that the market is large enough to support substantial sales by the company, and that the industry parameters support the company's strategy.

Market Size

A good starting point is to discuss the marketplace in which the venture's products and services are offered and the size of this marketplace. Critical to this analysis is determining the *relevant market size*. The relevant market size equals a venture's sales if it were to capture 100% of its specific niche of the market.

For instance, if a company develops Internet appliances for doctors, the relevant market size clearly is not the trillion dollar healthcare market. Rather it is the size (in units and dollars) of computer and Internet appliance sales to doctors, since it is these products against which the venture competes. Arriving at the relevant market size is rarely easy, and often requires peeling many layers off a huge total industry size.

Trends

Once the plan has defined the relevant market size, it should discuss industry trends and how those trends relate to the venture. Questions to answer include:

- How has the relevant market size changed over the past one to five years?
- What is the projected growth of the relevant market?
- What factors will affect this growth? General economic factors? Changing regulatory conditions? Changing consumer needs? Etc.

It is important to remember that the Industry Analysis is not merely a research report – each fact, figure and projection should support the venture's prospects for success. For example, consider an online market research firm that relies exclusively on opt-in (i.e., the consumer chooses to participate) responses. This venture's business plan would not only explain new and proposed Internet privacy regulations, but how this supports the venture's long-term competitive position. In addition, the plan should explain how the venture would overcome trends that do not support the venture. For

example, showing how the venture will succeed in an uncertain economic climate relieves investor concern and will enhance the success of the business plan.

While the facts and figures in the Industry Analysis should be presented to support the venture, it is critical that the data presented be believable and verifiable as investors (if interested in proceeding) will conduct extensive due diligence on the business plan.

Customers & Competition

Even though the business plan includes specific sections for Customer and Competitive Analysis, an overview of these two parameters should also be included in the Industry Analysis.

Regarding customers, the Industry Analysis should discuss who the key customer groups are and the size of each. The specific needs, wants and demographic profiles of the customers in which the venture will target will be detailed in the Customer Analysis.

Regarding competition, the Industry Analysis should discuss the key categories of competitors and the general competitive landscape. The Competitive Analysis section will detail the key competitors.

Data Sources

The Industry Analysis contains many facts, figures and future projections. For this data to be credible, it should be sourced through an independent research firm whenever possible. The opinions of the venture's management are simply inadequate to convince a sophisticated investor, and reliance on "anecdotal" data can greatly detract from the overall credibility of the plan.

For general market sizes and trends, Growththink suggests citing **at least two** independent research firms.

Multiple Industries

Most ventures compete in multiple industries. The company that manufactures and markets Internet appliances for doctors, as mentioned above, competes within the healthcare industry, the Internet appliance industry and the Internet connectivity industry (includes computer manufacturers, ISPs, etc.). In addition to focusing on defining and assessing the relevant market as detailed above, the Industry Analysis should include descriptions of all of the markets in which the venture competes.

Customer Analysis

The Customer Analysis assesses the customer segment(s) that the venture serves. In this section, the venture must convey the *needs* of its target customers. It must then show how its products and services satisfy these needs to an extent that the customer will pay for them.

Customer Identification/Definition

The first step of the Customer Analysis is to define exactly which customers the venture is serving. This requires specificity. It is not adequate to say the venture 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.

Customer Demographics, Needs Assessment and Decision-Making

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

- How many potential customers fit the given definition? Is this customer base growing or decreasing?
- What is the average revenues/income of these customers?
- Where are these customers geographically based?

After explaining the customers' demographics, the plan must then 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, then X% need our product/service).

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

- Do customers find price to be more important than the quality of the product or service?
- 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:

- Will the customer consult others in their organization before making a decision?
- Will the customer seek multiple bids?
- Will the product/service require significant operational changes (e.g., will the client have to invest time to learn new technologies? 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 marketing strategy. As such, sophisticated investors require comprehensive profiles of a venture's target customers.

Multiple Customer Targets & Partners

Most businesses target multiple customer types or segments. Each customer segment that is critical to the business model must be detailed in this section. In addition, if partners are critical to the venture's marketing success, the plan must detail the specific partners the venture seeks, the wants and needs of these partners, and how the partners' decision-making process works.

The Customers' Customer

Many ventures must include an assessment of their customers' customer in their business plan. Consider web development companies that primarily served online retailers. When end-customers did not purchase the projected amounts from these online retailers, some went out of business. As a result, the web development businesses lost customers and inherited significant financial difficulties.

In cases like these, it is important to show an understanding of the end-customers who ultimately drive the business' success. While a comprehensive needs assessment of end-customers is not critical, the plan must show how a business' customers are well positioned to meet their customers' needs now and in the future.

Competitive Analysis

Defining Competition

The Competitive Analysis section is the most misunderstood section of the business plan, mainly because companies and investors often define the term “competitor” differently. Companies frequently define “competitors” as firms offering similar products and services. Since every product or service is unique in some ways, many companies convey in their business plans that they have few or no competitors.

Investors use a far more discerning definition of competition, defining it 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.

The Competition Dilemma

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. 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.

Solving the Dilemma

Solving the competition dilemma is relatively simple if the Customer Analysis is completed properly. That section reveals the customer wants and needs that the venture is fulfilling. Any company (or self-action) that also serves these needs is a competitor.

There are typically categories of competitors that compete in varying degrees with a venture’s product/service offerings. As such, the competition section should include sections for *direct* and *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.

Which Competitors to Include in the Analysis

As mentioned above, sophisticated investors will conduct substantial due diligence, including conducting their own competitive analysis, before infusing capital into a venture. As such, it is critical not to omit or downplay a competitor simply because it may reflect poorly on the venture’s opportunity.

There are often few direct competitors and many indirect competitors. As such, as a general rule, the plan should describe each direct competitor and sub-categorize the indirect competitors (and describe the sub-category as a whole).

A final point to keep in mind in listing competitors is that listing public companies in a competitive space is often a good sign. A public company implies that the market size is big and also gives the investor the assurance that if management executes well, the venture has substantial profit and liquidity potential.

Describing Competitors and Showing Competitive Advantages

The next step is to describe competitors, particularly direct competitors. In doing so, it is important not to simply mention information about the competitor and its customers, products and/or services. Rather, the plan must also explain each competitor’s strengths and weaknesses and the key drivers of competitive differentiation in the marketplace.

In explaining competitors’ weaknesses, be sure to use objective information. Growthink has reviewed business plans that assert that the competition “does not know what it is doing” or “is not as smart as us.” This obviously positions the venture’s management as immature and naïve, particularly if the competitors have strong track records. On the other hand, it is incredibly powerful to offer market research results that prove the competition fails to satisfy customer needs.

Note that serving a customer need or segment that the competition is not is often a valid area of competitive differentiation. If this is the case, the Customer Analysis section must thoroughly detail these needs and segments.

Finally, in describing competitive advantages, it is important to demonstrate how the venture’s business model creates barriers to entry. “Barriers to entry” are reasons why customers will not leave once acquired.

Marketing Plan

The Marketing Plan demonstrates how a venture 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 ventures 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 venture'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 ventures. Attaining profit-effective distribution channels is often the most vexing challenge for these businesses.

Examples of distribution methods include:

- Retail location
- Website
- Another website host (e.g., products/services sold through/hosted by another website -- application service provider/private label model)
- Another retail location (e.g., products/services sold through a third-party's retail location)
- Another website location (e.g., products/services sold through another website)
- Direct mail catalogs

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

Customer Retention

The four P's mostly discuss attracting customers. Marketing departments must also develop long-term, revenue-generating relationships with customers. The methods through which the marketing department plans to retain customers should also be detailed in the Marketing Plan. Such methods could include implementing customer relationship management (CRM) tools, building network externalities (e.g., the more people that use the

product or service the harder it is for a competitor to penetrate the market), ongoing value-added services, etc.

Partnerships

Forging partnerships to improve market penetration has become commonplace, particularly for “new economy” businesses. And, most new economy ventures 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 major search engine, the details of the partnership are what investors find important. For instance, investors will look poorly upon a partnership in which the search engine earns 40% commissions on customers it refers. On the other hand, investors would look favorably upon a more equitable partnership.

As such, if partnerships are a key part of the marketing plan, be sure to detail the specifics of the partnerships. This includes how the partnership will work, the type of customer leads expected from each partner, etc.

The next section, the Operations Plan, details the resources needed, the processes employed, and the milestones for executing the Marketing Plan.

Operations Plan

Up until this point, the business plan has defined and scoped the company's vision, described the company's history, assessed the industry, customers and competition and mapped out a marketing plan to attract customers. The Operations Plan presents the Company's action plan for executing this vision.

The Operations Plan details 1) the processes that must be 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 venture 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.

While the Marketing Plan lays out the plan for *attracting* customers, the Operations Plan should lay out the key operational processes for *servicing* them. Charts supplemented with text are often the best way to explain the key relationships between the parties involved in ultimately serving the customers. These parties could include departments within an organization, partners, suppliers, distributors/resellers, etc.

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, list the key milestones that the Company must reach and on the right, the target date for achieving them. Like the chart in the Company Analysis (detailing past

accomplishments) these new milestones should 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 venture 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).

Management Team

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.

Description of Key Team Members

The Management Team section should include biographies of key team members and detail their responsibilities. Biographies should include the 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. Biographies should also include educational backgrounds and other pertinent information.

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

Management Team Gaps

Depending upon the stage of the venture, 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.

Description of Board Members

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

Financial Plan

The Financial Plan explains how the execution of the venture's vision will reap great financial rewards for the investor. As such, it is the section that investors often spend the most time scrutinizing.

Detailed Revenue Streams

The Financial Plan should verbally present the revenue model of the company including each area in which the company derives revenue. These revenue streams could include, among others:

- Sales of products/services
- Referral revenues
- Advertising sales
- Licensing/royalty/commission fees
- Data sales

The relative importance and timeliness of each revenue stream should be noted to help investors better judge the venture. For instance, the investor may not believe in the venture's ability to immediately generate significant sales of its data. This would be a problem if this were the venture's core revenue stream. However, by noting in the plan that data sales will only comprise 2% of total revenue and will not commence until Year 3, the investor's concerns would be alleviated.

The Pro-Forma Financial Statements

The Financial Plan must numerically detail the revenue model through past (if applicable) and pro-forma (projected) Income Statements, Balance Sheets and Cash Flow Statements. It is critical that the figures used in these statement flow from the analyses in **every other section of the business plan**. For instance, the relevant market size (Industry Analysis) should be reflected, as should competitors' operating margins (Competitive Analysis), customer acquisition costs (Marketing Plan), employee requirements (Operations Plan), etc.

A **summary** of the financial projections should be presented in the text portion of the plan, while full projections should appear in the Appendix. For existing ventures, the Financial Plan should note any significant deviations (e.g., increases in margins) between past and projected results.

Validating Assumptions and Projections

The Financial Plan must also detail the key assumptions such as penetration rates, operating margins, headcount, etc. It is critical that these assumptions are feasible. 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 mentioned in the Competitive Analysis section, while every venture is unique, each bears similarities to other ventures. Accessing and basing financial projections on those of similar firms will greatly validate the realism and maturity of the financial projections.

Sources and Uses of Funds

The Financial Plan should detail the sources and uses of funds. The sources of funds primarily include outside investments (e.g., equity investments, bank loans, etc.) and operating revenues. Uses of funds could include expenses involved with marketing, staffing, technology development, office space, etc.

Exit Strategy

All investors greatly desire and are motivated by a clear picture of the venture'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 venture 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 or public offerings.

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.

Appendix

The Appendix is used to support the rest of the business plan. Every business plan should have a full set of financial projections in the Appendix, with the summary of these financials in the Executive Summary and the Financial Plan.

Other documentation that could appear in the Appendix include:

- Technology: Technical drawings, patent information, etc.
- Partnership and/or Customer Letters: Letters from partners and/or customers stating their interest in working with the venture can add enormous credibility and validation.
- Expanded Competitor Reviews: Most ventures have several direct and/or indirect competitors. While the Competitive Analysis section of the plan reviews the most direct competitors, adding a more thorough list and description in the Appendix shows that management truly understands the players in the market.
- Customer Lists: Including a list of key customers that the venture is serving in addition to their status and/or type or quantity of product/service being offered.

Other Key Business Plan Issues

Five topics which are often discussed in the business plan development and capital raising process are 1) Nondisclosure Agreements (NDAs) and/or Confidentiality Agreements, 2) outsourcing the business plan development, 3) the length of the business plan, 4) plan formatting, charts and graphics and 5) how to incorporate investor feedback.

NDAs

Most investors will not sign NDAs. This is because a business' *strategy* and/or *concept* are typically not confidential. It is possible that a key partnership is confidential, for example, but for the most part the *execution* of the strategy and concept is what will make the company successful.

In addition, if the concept and/or strategy are confidential, this often implies that there are no barriers to competitive entry. If after launch, a competitor or host of competitors can quickly copy the concept, then the business model is probably not sustainable.

On the other hand, *proprietary technology* is confidential. However, the business plan should **not** discuss the confidential aspects of the technology. Rather, the business plan should discuss the **benefits** of the technology and how these benefits fulfill a large customer need. An interested investor will review the actual technology during the due diligence process. At this point, a discussion regarding signing an NDA would be appropriate.

Outsourcing the Business Plan Development

The business plan is a very "personal" document in that it explains the intimate details of a business. On one hand, because it is so "personal" many companies prefer to complete the business plan themselves. On the other hand, because it is so "personal" most companies fail to present the company in a way that outsiders can understand. This is because the management team is so "close" to the venture that they have trouble explaining it in terms that outsiders can quickly grasp.

An independent business plan development team serves the same purpose as an outside PR or advertising agency typically does – it expertly determines the venture's value proposition and conveys it most concisely and compellingly to the target audience. An independent business plan development team also provides advantages including:

- Allowing the management team to focus on growing the business rather than spending the hundreds of hours it takes to develop an investor-quality business plan.
- Providing a “reality check” regarding how investors might respond.
- Making sure the business plan includes all of the key elements the investor seeks.
- Improving the market research and strategy development presented in the business plan.

Plan Length

How long should the 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 details the execution strategy. Growththink has found that 15 to 25 pages of text are sufficient 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 venture 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 venture 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.

Plan Formatting, Charts and Graphics

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. These techniques will enable the investor to more quickly and easily understand the venture’s value proposition.

Incorporating Investor Feedback

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.

About Growththink

Since 1999, Growththink has assisted hundreds of companies with the capital raising process through our three practices:

Growththink Research (www.growththinkresearch.com): Growththink Research publishes venture capital reports on a quarterly and annual basis. Growththink Research's reports are recognized as the most comprehensive source of venture funding news. Tony Nash, Director, of Red Herring Research, called our reports the "most comprehensive and professional sources of venture funding information I've read." Growththink Research also performs client-specific research projects. Clients include venture capital firms, angel investors, investment banks, emerging ventures/entrepreneurs and related service providers.

Growththink Consulting (www.growththink.com): Growththink Consulting is a strategic business planning consultancy focused on growing ventures of all sizes. Since August 1999, we have completed over 125 strategic business plan development projects, researched and assessed over 200 markets and micro-markets, developed over 75 financial models, and enhanced over 100 marketing, operational and business strategies.

Growththink Securities (www.growththinksecurities.com): Growththink Securities is an investment bank that specializes in raising capital for growing ventures. We focus on ventures seeking between \$2 million and \$15 million in equity financing across a wide range of industries. Sectors in which we have worked include software, infrastructure, healthcare, and networking and communications.