

# THE NUTS & BOLTS OF GREAT BUSINESS PLANS



*(2011-2012)*

*A resource for Oklahoma State University students, Riata and national business plan competitors, Cowboy Bootcamp participants, EESA Students, Women INSPIRE delegates Disabled Veterans Entrepreneurship Delegates & the Native American Entrepreneurship Academy*

**School of Entrepreneurship  
Spears School of Business  
Oklahoma State University  
<http://entrepreneurship.okstate.edu>**

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## A NOTE ON YOUR OVERALL APPROACH

*~ A business plan is where imagination meets discipline ~*

A business plan is not a checklist, where you address sections one by one. It is a living, breathing document. You are telling a story, and bringing a venture to life. It is about a company, not a product or an idea. It is about how that company can become a viable ongoing entity. Most critically, the sections are **highly interdependent**. They must be internally consistent and “hang together”. As you subsequently make changes to one section, you will find yourself having to go back and make adjustments to a number of other sections.

It is the **discipline** of the plan that will help you see critical flaws in your idea, in your target market, how you plan to price, your cost requirements, your operational approach, your marketing methods, and so forth. And no matter what you think, there are critical flaws. You will have to continually adapt as you learn more about this business and the industry within which it will operate. Using the plan as a framework, it will help you to ‘tweak’ or adjust aspects of what you propose to do in ways that make the venture more viable.

A business plan is also an objective and fact-based document. Address the upside and the downside. Make clear you understand what can go wrong. Be conservative. And importantly, the plan is not written in first person, so be sure to eliminate all use of ‘I’, ‘We’, ‘Our’, and ‘Us’. Use your company name to refer to the business.

- First, attack four key sections: the Industry, the Company/Concept/Products, the Market, and Economics (think of this as **stage one**); These sections will lay out the nature of the opportunity and how you are going to capitalize on it;
- Then, go after the Marketing, Design and Development, Operations, and Management Team sections (**stage two**); These sections really get at the nitty-gritty of how you will make things operational;
- Finally, address the Risks and Assumptions, Timetable, Financials and the Offering or Deal (**stage three**). Here you focus on implementation, what can go wrong, how the business will perform, and how much money is needed.

### **THE PLAN IS WORTHLESS IF YOU DON’T DO THE RESEARCH: Some Helpful Tips**

The best plans are almost always the ones where the teams gather the best information, do the most library and secondary research, do the most extensive field research (talk to prospective competitors, customers, suppliers, and others), and dig as deeply as possible for information. Not only does more information help you to better justify positions, and ensures you have anticipated the real challenges (a reality check), but it is a rich source of creative inspiration---when you see some of the more innovative approaches and techniques being employed by others. Most of the answers you seek are hard to find, do not exist in one place, and must be pieced together. The research for a great plan is truly a “scavenger hunt”.

Remember that a business plan is not a term paper, so references should be used sparingly, but are needed to support claims. A section called ‘**references**’ or ‘**key sources**’ must appear at the back of the plan. Always provide citations for key numbers or research that support your case. When you conduct interviews, cite the date and place of the interview in your ‘references’ section.

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# AN OUTLINE OF YOUR BUSINESS PLAN

## EXECUTIVE SUMMARY

- Opportunity Statement
- Business Concept and Product or Service
- Description of the Target Market
- Competitive Advantage
- Essence of Marketing Approach
- Economics and Breakeven
- Technology and Operational Issues
- The Team
- Financial Highlights
- Financing Needs and How the Team Proposes to Raise the Money

## 1. THE INDUSTRY

- a. Define Industry, Its Size and Growth Rate
- b. Industry Structure
- c. Industry Trends
- d. Key Success Factors

## 2. THE COMPANY, CONCEPT AND PRODUCT(S) OR SERVICE(S)

- a. The Company and the Concept
- b. The Product(s) or Services(s)
- c. Entry and Growth Strategy

## 3. MARKET ANALYSIS

- a. Definition of Your Relevant Market and Customer Overview
- b. Market Size and Trends
- c. Buyer Demographics and Buyer Behavior
- d. Market Segmentation and Targeting
- e. Competition and Competitive Edges
- f. Estimated Market Share and Sales Figures
- g. Ongoing Market Evaluation

## 4. THE ECONOMICS OF THE BUSINESS

- a. Revenue Sources and Gross and Operating Margins
- b. Fixed and Variable Costs
- c. Operating Leverage and its Implications
- d. Start-up Costs
- e. Breakeven Chart and Calculation
- f. Overall Economic Model : Logic of Profit
- g. Profit Potential and Durability

## 5. THE MARKETING PLAN

- a. Overall Marketing Strategy
- b. Pricing
- c. The Selling Cycle
- d. Sales Tactics
- e. Advertising and Sales Promotions
- f. Publicity
- g. Customer Service
- h. Warranty or Guarantee Policies
- i. Distribution

## 6. DESIGN AND DEVELOPMENT PLAN (also called R&D)

- a. Development Status and Tasks
- b. Difficulties and Risks
- c. Product Improvement and New Products
- d. Projected Development Costs
- e. Proprietary Issues/Intellectual Property (patents, licenses, copyrights, brand names)

## 7. OPERATIONS PLAN

- a. Operations Strategy
- b. Operating Model and Cycle (front stage and back stage)
- c. Geographic Location and Physical Location Requirements
- d. Facilities and Improvements
- e. Equipment Requirements
- f. Capacity Levels and Inventory Management
- g. Legal Issues Affecting Operations

## 8. MANAGEMENT TEAM

- a. Key Management Personnel and Responsibilities
- b. Organization Structure
- c. Management Compensation and Ownership
- d. Other Partners and Current Investors
- e. Employment and Other Agreements, Stock Option and Bonus Plans
- f. Board of Directors
- g. Other Shareholders, Rights, and Restrictions
- h. Supporting Professional Advisors and Services

## 9. OVERALL SCHEDULE

## 10. CRITICAL RISKS, PROBLEMS, AND ASSUMPTIONS

## 11. FINANCIAL PLAN (3 - 5 years of statements go in appendix)

- a. Highlights of the Financial Statements
- b. Months to Breakeven and to Positive Cash Flow
- c. Key Financial Assumptions (unless covered in preceding section)
- d. Key Cost Controls
- e. Pro Forma Income Statements
- f. Pro Forma Balance Sheets
- g. Pro Forma Cash Flow Analysis

## 12. PROPOSED COMPANY OFFERING

- a. Desired Financing
- b. Proposed Offering
- c. Capitalization
- d. Use of Funds
- e. Investor's Return

## 13. APPENDICES (including one on key sources used)

## SUGGESTED LENGTH FOR THE SECTIONS OF YOUR PLAN

Below are some general guidelines for the length of the key sections of your business plan after you have done final editing and streamlining:

- Table of Contents (1 page)
- Executive Summary (2-3 pages)
- Industry Description (2-3 pages)
- Company, Concept and Products/Services (2-3 pages)
- Market Analysis (3-5 pages)
- Economics of the Business (2-3 pages)
- Marketing and Communications Strategy (2-4 pages)
- Design and Development (2 pages)
- Operations Plans (2-4 pages)
- Management Team (1-2 pages)
- Risk and Assumptions (1-2 pages)
- Timeline (1-2 pages)
- Financial Projections and Highlights (1-2 pages) (note: financial statements will be placed in appendices)
- Offering (1 page)
- Appendices (no more than 15 pages)

*Please note: As a general rule, plans are much longer with the **first draft**, and then are edited down to a content-rich but streamlined **final version**. Page length is determined by the audience for the plan, but generally ranges from 25-35 pages, excluding appendices. For the Spears Competition the business plan should consist of no more than 60 pages in total (i.e. including all text, exhibits and appendices. For the OSU Riata Business Plan Competition, plans should not exceed 35 pages plus 15 pages of appendices (total of 50 pages).*

### FORMATTING AND USE OF TABLES AND FIGURES

It is generally expected that you will use one inch margins on all sides, and a 12 font. Anything less than an 11 font is not acceptable. Spacing is up to you; single spacing can be used, but plans are typically either double-spaced or 1.5 spaced. You should cite key references in the text using the following notation in parenthesis at the end of the sentence from which the citation is taken: (author, year). Thus you will put (Jones, 2006) if Jones is the author. If there is no author, you will put the source and the date, as in: (U.S. Department of Commerce, 2008). If a direct quote, cite the page number, as in (Jones, 2007, p. 45). There then should be a complete set of references at the end of the plan.

Bring the plan alive. One of the worst things you can do is to write a plan that consists of page after page of unbroken text. Use headings, sub-headings, and sub-sub-heading to break up the text. Just as critically, use tables and figures (exhibits) to break up the text, to illustrate key points, and to bring the plan to life. It is often possible to significantly shorten the text in a given section by using a couple of tables and figures. A picture or diagram can tell a vivid story. Be sure every table and figure is numbered, titled, and referred to in the text.

## BREAKDOWN OF THE MAJOR SECTIONS OF YOUR BUSINESS PLAN

### ***THE EXECUTIVE SUMMARY (2 pages max)***

Although this is the first section of the plan, the Executive Summary is the last section that you write. The Executive Summary concisely summarizes the essence of the business and the **key decisions made by the entrepreneurial team in each area of the plan**. It is not merely an abbreviated business plan. The reader should get a clear, basic picture of the business, and be enticed to want to read more.

Many teams fail to consider adequately their markets, their customers and a business model that will enable them to achieve success. Instead they often get wrapped up in an interesting technology or product, which is not the same thing as an attractive business. The questions below will help you focus on the aspects of your executive summary that are relevant to the business plan. These are some initial considerations that first time readers (venture capitalists, banks, business plan judges, etc.) look at before going on to evaluate the members of the team and the soundness of your financial projections. Make sure that your executive summary provides answers to these questions in addition to giving the reader an overview of the highlights from your business plan for the new venture.

#### **Opportunity Statement:**

- What is the nature of the opportunity or problem? (the underlying need )
- What forces are creating the opportunity?
- Why is the opportunity now? What is the size of the opportunity?

#### **Business Concept and Product or Service:**

- How would you describe the business to a potential investor, team member, or customer if you had only a short elevator ride to share together? Make sure you have a succinct and powerful way to express your business concept.
- What is unique about this venture?
- Develop a brief concept statement for the product or service that can be shown to potential customers.
- How will the product be used? What are some unique features? What existing problem(s) will you solve with your service or product offering? What are the primary benefits to customers? How does your solution improve or replace current offerings?

#### **Competitive Advantage:**

- What special knowledge or technology do you possess and how will you protect it?
- What are the barriers to entry? Who will the competitors be?
- How will your service or product compare to those of your competitors in terms of usefulness, cost, styling, ergonomics, time-to-market, strategic alliances, technological innovations, compatibility with related product, etc?

#### **Description of the Target Market:**

- Briefly define your relevant market.
- What is the current size and expected growth of your target market?
- What segments will you be targeting?
- Who will your first customer(s) be?
- What proof can you offer that your target customers will value your product or service?

#### **Essence of Marketing Approach**

- What do you need to do very well in order to win this market?
- Indicate the key marketing methods used to accomplish sales
- Summarize your pricing position relative to the rest of the industry
- Summary the distribution channel approach

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**Technology and Operational Issues:**

- What technology will you employ?
- Where are you in terms of R&D on the products/services?
- Will production be handled by you or outsourced?
- What is unique about your approach to production or operations?

**The Team:**

- Who are you and why can you do this?
- Briefly summarize your team's qualifications.

**Economics:**

- What are the firm's margins and volumes?
- Is the cost structure more fixed or variable?
- Make clear the model for making money.

**Financial Highlights:**

- When will breakeven be achieved?
- What is the level of potential sales of your product or service?
- What level of profits do you expect to achieve?

**Financial Need:**

- How much money are you requesting?
- From what sources are you looking for money and in exchange for what (e.g., how much equity)?
- What the rate of return investors will receive and when will they receive their return?

***General Note: From here onwards, we cover everything that could go into each section of the plan in a perfect world. As the sections are written to describe any and all types of ventures, some issues may not fit your plan, and others may be more complex given the data and resources you have at hand. Nonetheless, do your best to address all of the issues that apply.***

**SECTION I: THE INDUSTRY**

The "industry" refers to the larger landscape, as in the "computer hardware wholesale industry" or the "card and gift retail industry" or the "architectural services industry". The focus here is on what is happening in, and the relative attractiveness of, the industry as a whole. You are looking at the entire industry in the U.S. or globally. As such, this section does not involve any description of your company or your local market. This section needs to include the following information:

- Summarize the industry in which the proposed business will operate. Give the relevant SIC / NAICS code for the industry. How is the industry constructed/segmented?
- Discuss briefly industry size (in dollars) and annual growth rate (%); Where is the industry in its life cycle---emerging, early growth, rapid growth, early maturity, maturity, decline?
- Discuss the structure of the industry at present. How concentrated or fragmented is the industry? How many players are there, and how many are large versus small? Who are the largest and most important players in the industry? Outline Porter's 5 forces and draw conclusions. Provide a diagram of the value added chain to illustrate the key players in the industry.

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- Highlight key trends in the industry. These can be found in the trade literature. Are costs going down or up? What about prices? Discuss any new products or developments, the rate of new product development, new markets and customers, new selling approaches, new pricing methods, new requirements or regulations, new entrants and exits, new technologies, and any other national or economic trends and factors that could affect the venture's business positively or negatively.
- Determine the key success factors for the industry and draw conclusions. What are the winners able to do consistently that the losers or also-rans to not do?
- Find standard financial ratios for the industry and summarize key ones.

## **SECTION II: THE COMPANY, CONCEPT, AND PRODUCT(S) OR SERVICE(S)**

Now the focus turns to your own venture. First outline the nature of the entity you plan to create and where you are in that process, then capture the essence of your business concept and explain that concept, then detail the products and services you anticipate selling, and then talk about your entry approach and your vision for growth over the next five years.

### **A. The Company and the Concept**

- What form will the company take (e.g., partnership, S-corporation, LLC, etc.), where will it be based, and when will it commence operations?
- Briefly summarize the company history, how the concept was discovered, as well as the current status of the company. Spell out the mission and main objectives of the company:
- Describe specifically the concept behind the business (i.e. your **unique value proposition**...the core benefits you will provide to a user, the need or pain you will address)

### **B. The Product(s) or Service(s) Mix**

- Describe each product or service you will be selling (what it is and isn't – describe the product fully and provide pictures or a brochure in the appendix if you can). Begin to sell your idea here by generating some excitement about your product or service.
- Discuss the application (what it does) of the product or service and describe the primary end use as well as any significant secondary applications (who will use it and why).
- Provide a diagram of the intended depth and breadth of your product/service mix and which products will likely generate the lion's share of the revenue
- Emphasize any unique features of the product or service and how these will create or add significant value; also, highlight any differences between what is currently on the market and what you will offer that will account for your market penetration. Be sure to describe how value will be added and the payback period to the customer. More specifically, discuss how many months it will take for the customer to cover the initial purchase price of the product or service as a result of its time, cost or productivity improvements. Describe the competitive strengths and how it differentiates you from competitors.
- Include a description of any possible drawbacks (including obsolescence or ease of someone else copying the product or service).
- Discuss any head start you might have that would enable you to achieve a favored or entrenched position in the industry e.g. proprietary rights (patents, copyrights, trade secrets or non-compete agreements. Describe the key factors that dictate the success of your product/service. Describe any features of the product or service that give it an "unfair" advantage over the competition e.g. proprietary knowledge or skills.
- Discuss any opportunities for the expansion of the product line or the development of related products or services. Emphasize opportunities and explain how you will take advantage of them.

### **C. Entry and Growth Strategy**

- How and where will you initially enter the market?

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- Share your vision for where the firm will be in five years (geographic scope, markets entered, number of locations, expansion of product mix).
- Summarize how quickly you intend to grow during the first five years and your plans for growth beyond your initial product or service.
- Discuss how you will create barriers to entry in terms of others copying your success.

### **SECTION III: MARKET ANALYSIS (aka 'THE MARKET')**

This section of the business plan is one of the most difficult to prepare, yet it is arguably the most important. Other sections of the business plan depend on the market research and analysis presented here. Because of the importance of market analysis and the critical dependence of other parts of the plan on the information, you are advised to prepare this section of the business plan with great attention to detail. Take enough time to do this section thoroughly and to check alternative sources of market data.

This section should convince the reader or investor that **you truly know your customers**. It should convince the reader that your product or service a) will have a substantial market in a growing industry; and b) can achieve sales in the face of competition. For example, the predicted sales levels directly influence such factors as the size of the manufacturing operation, the marketing plan, and the amount of debt and equity capital you will require. Yet most entrepreneurs seem to have great difficulty preparing and presenting market research and analyses that show that their ventures' sales estimates are sound and attainable. You must talk with prospective customers. Also, consult industry publications, trade associations, and articles in trade magazines to understand how the industry defines, identifies and segments its customers. Then apply yourself creatively by integrating the information in a unique way.

#### **A. Definition of Your Relevant Market and Customer Overview**

- Provide a very specific definition of your relevant market. Where will your specific customers come from? What are the parameters that you are using to define the relevant market?
- Discuss who the customers for the product(s) or service(s) are or will be.
- Provide general demographics for the customer base in your defined market (note: below you will get into segmentation of this market and descriptors of segments).
- Make it clear if you must serve more than one market (e.g., a website that must sell both to advertisers and to users of the site). Include separate discussions of the issues below for each market.

#### **B. Market Size and Trends:**

- For your defined market, estimate market size and potential in dollars and units. You will need to "invent a methodology" for making these estimates based on the kinds of data you are able to find.
- Note the key assumptions that your projections are based upon.
- Estimate the size of the primary and selective demand gaps.
- Describe also the potential annual growth rate for at least three years of the total market for your product(s) or service(s) for each major customer group, region, or country, as appropriate.
- Discuss the major factors affecting market growth (e.g., industry trends, socioeconomic trends, government policy, and population shifts) and review previous trends in the market. Any differences between past and projected annual growth rates need to be explained.

**Buyer Behavior:**

- Here you want to get into who buys, when, why, where, what and how.
- Who is the actual purchase decision-maker? Does anyone else get involved in the buying decision-process?
- How long is the customer's buying process (starting from when they have never heard of your product and ending with a purchase and then a satisfactory consumption experience).
- What are the key stages or steps in the customer's buying process and what happens in each stage? Remember that these developments over the buying process have important marketing implications!
- Who are the major purchasers of the products or services in each market segment? Where are they located?
- Indicate whether this is a high, medium or low involvement purchase and draw implications.
- Indicate whether customers are easily reached through promotions and distribution channels and how receptive they are likely to be (will they resist you because of strong loyalties or high switching costs).
- Describe customers' purchasing processes, including the bases on which they make purchase decisions (e.g., price, quality, timing, delivery, training, service, personal contacts, or political pressures) and why they might change current purchasing decisions.
- Discuss interviews you have had with users of this product or service category.
- List any orders, contracts, or letters of commitment that you have in hand. These are far and away the most powerful data you can provide. List also any potential customers who have expressed an interest in the product(s) or service(s) and indicate why. Also explain what you will do to overcome negative customer reaction. Indicate how quickly you believe your product or service will be accepted in the market.
- Which are the twenty percent of customers likely to account for eighty percent of your revenue? List and describe your five potentially largest customers. What percentage of your sales do they represent?
- In what way are customers dissatisfied with current offerings in the market place or what emerging customer groups are being ignored?

**C. Market Segmentation and Targeting**

- Discuss how your defined market can be broken down into specific market segments. Be creative and insightful in describing the existing segments.
- Note that potential customers need to be classified by relatively homogeneous groups having common identifiable characteristics (they must be homogeneous in terms of needs or buying behavior). What characteristics define your target customers (demographics, psychographics, benefits sought, information sources utilized, product usage rate, etc.).
- Include a table summarizing the various segments.
- Which segments represent the greatest sales potential?
- Indicate which segments you will be prioritizing.

**D. Competition and Competitive Edges**

- Identify direct and indirect (and potential) competitors. **DO NOT INDICATE THAT THERE IS NO COMPETITION.** Make a realistic assessment of their strengths and weaknesses. Discuss the 3 or 4 key competitors and why customers buy from them, and determine why customers might leave them.
- Assess the substitute and/or alternative products/ services and list the companies that supply them, both domestic and foreign, as appropriate.
- Discuss the current advantages and disadvantages of competitor products and the extent to which they are not meeting customer needs.
- Compare competing and substitute products or services on the basis of market share, sales, distribution methods, economies of scale, and production. Review the financial position, resources, costs, and profitability of the competition and their profit trends.
- Compare also important attributes such as quality, price, performance, delivery, timing, service, warranties, and pertinent features of your product/service with those of competitors.
- Compare the fundamental value that is added or created by your product or service, in terms of economic benefits to the customer and to your competitors.

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- Indicate any knowledge of competitors' actions, or lack of action, that could lead you to new or improved products and an advantageous position. Why aren't they doing what you will be doing? Discuss whether competitors are simply sluggish or non-responsive or are asleep at the wheel.
- Indicate who are the service, pricing, performance, cost, and quality leaders. Discuss why any companies have entered or dropped out of the market in recent years.
- From what you know about competitors' operations, explain why they are vulnerable and why you can capture a share of their business. What makes you think it will be possible to compete with them.

#### **E. Estimated Market Share and Sales:**

- Discuss which customers could be key purchasers in the coming years and why.
- Based on the advantages of your product or service, the market size and trends, the competition and their strengths, the trends in industry sales in recent years, and the aggressiveness of your marketing efforts, estimate your sales in units and dollars and the share of the market you will acquire in each of the next three years. Show assumptions used in your calculations. **DO NOT INDICATE THAT IT IS A \$100 MILLION MARKET AND THAT YOU ONLY HAVE TO CAPTURE EIGHT TENTHS OF ONE PERCENT TO BREAK EVEN---AS NO ONE WILL BELIEVE YOU!**
- Show how the growth of the company sales in units and its estimated market share are related to the growth of its industry and customers and the strengths and weaknesses of competitors. Remember, the assumptions used to estimate market share and sales need to be clearly stated.

#### **F. Ongoing Market Evaluation:**

- Explain how you will continue to evaluate your target markets so as to assess customer needs and service requirements and to guide product-improvement and new-product development, plan for expansion of your facilities, and guide pricing decisions. Explain how you make the necessary strategic changes in your plan.

### ***SECTION IV: THE ECONOMICS OF THE BUSINESS***

This section addresses the basic logic of how profits are earned in your business as well as the sales level required to breakeven. . Two companies in the same industry might make profit in very different ways. Will this be a high margin, low volume business with low fixed costs? Will it be a low margin, high volume business where the cost structure is predominantly variable? The relative attractiveness of your economic model is determined. Hence, a business with low volumes, low margins, high fixed costs (operating leverage) and a single revenue driver having fixed pricing is a very unattractive venture. It cannot likely make money. The story begins, however, by identifying your sources of revenue and how much margin you make on each of them.

#### **A. Revenue Drivers and Profit Margins (*contribution margins*):**

- Summarize the major revenue drivers (major products and service categories or lines) of the business and proportionately where you expect to make your money.
- Describe the size of the overall gross margins (i.e., selling price less cost of goods sold or variable costs) and margins the for each of the major revenue drivers in the business. Where you have multiple products in a given revenue driver category, calculate the contribution margin for each product and take an average (or just use the margin for the most typical product that falls within that revenue driver). Then determine the weighted average contribution margins by weighting the individual contribution margins of each revenue driver based on the percentage of total sales expected to come from that revenue driver. Include results of your overall contribution analysis.

#### **B. Fixed and Variable Costs:**

- Provide a detailed summary of fixed and variable costs, in dollars and as a percentage of total costs, for the venture. To get variable costs, you must identify a "unit of analysis". Fixed costs assume a given range of volume or capacity. For analysis purposes, classify semi-variable costs as either fixed or variable.
- Where appropriate, show relevant industry benchmarks for costs.

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### C. Operating Leverage and its Implications

- Characterize whether your cost structure is predominantly fixed or variable and then indicate the implications. For example, if you have a high fixed cost structure, you have high operating leverage which means it takes longer to reach breakeven, but once there, much more of your revenue flows straight to the bottom line. High operating leverage (high fixed costs) suggests a riskier venture, at least initially.

### D. Start Up Costs

Distinguish the one-time start-up costs of the business (put into a table). These are distinct from the ongoing operating costs.

### E. Overall Economic Model

- Put the pieces above together. Indicate how you will make money in terms of the combination of margins, volumes, operating leverage and revenue source flexibility. How attractive is this combination?

### F. Breakeven Chart and Calculation

- Make clear what your unit of analysis is for the purpose of calculating breakeven.
- Calculate breakeven and prepare a chart that shows when breakeven will be reached and any stepwise changes in breakeven that may occur (as fixed costs go up).
- Discuss whether it will be easy or difficult to achieve the breakeven level of sales, the size of gross margins and price sensitivity, and how the break-even point might be lowered in case the venture falls short of sales projections.

### G. Profit Durability:

- Address the issue of how solid or vulnerable the profit stream appears to be. Provide reasons why your profit stream is solid or vulnerable, such as barriers to entry you can create, your technological and market lead time, and so on.

## **SECTION V: THE MARKETING PLAN**

The **Marketing Plan** describes how your projected sales will actually be attained. How will you make sales actually happen? A great idea is meaningless if you cannot find customers. Thus, this section builds on the earlier **Market Section**, where you defined your market and outlined your targeted segments and their buyer behavior. The marketing plan needs to provide detail on the overall marketing strategy that will exploit the opportunity and your competitive advantages. Include a discussion of sales and service policies, pricing, distribution, promotion and advertising strategies, and sales projections. The marketing plan needs to describe what is to be done, how it will be done, when it will be done, and who will do it.

### A. Overall Marketing Strategy:

- Describe the specific marketing philosophy of the company.
- How will your business be positioned in the marketplace?
- How will you differentiate your product/service from your competitors?
- Include a discussion of the kinds of customer groups that have already placed orders, have expressed an interest, or will be targeted for either initial intensive selling efforts. Explain how you will try to position your products or services in the marketplace and in the minds of particular target audiences.
- Make it clear how your marketing strategy reflects the characteristics of the primary market segments you will be targeting.
- Indicate whether the product(s) or service(s) will initially be introduced internationally, nationally, regionally, or locally; explain why, and indicate any plans for extending sales at a later date.
- What is your firm's unique selling proposition---the central theme of all marketing communications?
- From an overall standpoint, make it clear whether marketing efforts will center on personal selling, media advertising, or what (you will get into specifics below).

## B. Pricing:

- Discuss pricing strategy, including the prices to be charged for your product and service, and compare your pricing policy with those of your major competitors, including a brief discussion of payback (in months) *to the customer*.
- Explain how the price you set will enable you (1) to get the product or service accepted, (2) to maintain an increase in your market share in the face of competition, and (3) to produce profits.
- Justify your pricing strategy and differences between your prices and those for competitive or substitute products or services in terms of economic payback to the customer and value added through newness, quality, warranty, timing performance, service, cost savings, efficiency, and the like.
- If your product is to be priced lower than those of the competition, explain how you will do this and maintain profitability (e.g., through greater value added via effectiveness in manufacturing and distribution, lower labor costs, lower material costs, lower overhead, or other component of cost).
- Discuss pricing structure, or how your prices will differ by aspect of the product or service, by customer group, and by time and form of payment (e.g., the discount structure).
- Discuss the use of special price offers, rebates, coupons, and so forth. This can be done under price or under sales promotion.

## C. The Selling Cycle

- In the MARKET section you described the customer's buying process. Now, map out a selling cycle or process that reflects that buying process. How do you plan to move a customer from never having heard of you to being a loyal user? Show the reader how a sale will be accomplished.
- Make it vividly clear how your overall use of personal selling, advertising, and publicity will reflect a blend of tools that moves your target customer through their buying process. So, if you have identified four key stages in the selling process (e.g., create awareness, generate understanding and interest, close the sale, build the relationship) then specify which marketing tools will be used to accomplish each of these stages.

## D. Sales Tactics

- Describe the methods (e.g., own sales force, sales representatives, ready-made manufacturers' sales organizations, direct mail, or distributors) that will be used to make sales and distribute the product or service. Also include both the initial plans and longer-range plans for a sales force. Include a discussion of any special requirements (e.g., refrigeration).
- Describe how distributors or sales representatives, if they are used, will be selected when they will start to represent you, the areas they will cover and the build-up (a head count) of dealers and representatives by month, and the expected sales to be made by each.
- If a direct sales force is to be used, indicate how it will be structured and at what rate (a head count) it will be built up; indicate if it is to replace a dealer or representative organization and, if so, when and how. How will you recruit, train and compensate the sales force?
- Show the sales expected per salesperson per year and what commission, incentive, and/or salary they are slated to receive, and compare these figures to the average for your industry.
- Present a selling schedule and a sales budget that includes all marketing promotion and service costs.
- Discuss any seasonal trends that underlie the cash conversion cycle in the industry and what can be done to promote sales out of season.

## E. Advertising and Sales Promotions *(Note: You should tie this section to Section C above)*

- Describe the media approaches the company will use to bring its product or service to the attention of prospective purchasers. How will you inform your target market about the availability of your product/service and continue to communicate the benefits you are offering to that market
- If direct mail, magazine, newspaper, or other media, telemarketing, or catalog sales are to be used, indicate the specific channels or vehicles, costs (per 1,000), and expected response rates and yield (as percentage) from the various media, and so on, used. Discuss how these will be built up.

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- For original equipment manufacturers and for manufacturers of industrial products, indicate the plans for trade show participation, trade magazine advertisements, direct mailings, the preparation of product sheets and promotional literature, and use of advertising agencies.
- For consumer products, indicate what kind of advertising and promotional campaign is planned to introduce the product. Specify types of media to be employed and what kinds of sales aids will be provided to dealers, what trade shows, and so forth, are required.
- Present a schedule and approximate costs of promotion and advertising (direct mail, telemarketing, banner ads, catalogs, etc.). Determine the total marketing budget required.
- Note any viral or buzz marketing efforts you plan to employ.

#### **F. Publicity**

- What methods will you use to get free publicity for your business?
- What sort of guerrilla publicity tactics will you employ?
- How might you create news?

#### **G. Customer Service** (can be covered here or in the OPERATIONS section)

- How will customer service be defined and measured?
- What system will you have in place to manage customer service and ensure service levels are consistent?

#### **H. Warranty or Guarantee Policies:**

- If your company will offer a product that will require service, warranties, or training, indicate the importance of these to the customers' purchasing decisions and discuss your method of handling service problems.
- Describe the type and terms of any warranties to be offered, whether company service people, agencies, dealers and distributors will handle service, or simply return to the factory.
- Indicate the proposed charge for service calls and whether service will be a profitable or loss operation.
- Compare your service, warranty, and customer training practices to those of principal competitors.

#### **I. Distribution:**

- Describe the methods of distribution you will employ. Why is this best/better?
- Discuss the value chain and the resulting margins to be given to retailers, distributors, wholesalers, and salespeople and any special policies regarding discounts, exclusive distribution rights, and so on, given to distributors or sales representatives and compare these to those given by your competition.
- What distribution channel(s) will be important to your business? How will you gain access to these channels? Note any special issues that need to be resolved, or present potential vulnerabilities.
- Explain any methods to be employed to obtain distributor cooperation and support.
- If international sales are involved, note how these sales will be handled, including distribution, shipping, insurance, credit, and collections.

### **SECTION VI: DESIGN AND DEVELOPMENT PLAN**

This is a very important section for those teams developing a non-existent product, doing research and development, having technical obstacles to overcome, or seeking patent or copyright protection. However, if you are in a business where research and development is not a major issue (e.g., retailing or many consumer services), then you can leave this section out and just address and technologies you plan to employ in the OPERATIONS section.

The nature and extent of any design and development work on your product or service, and the time and money required before the product or service is ready for the market, need to be described in this section. (Note that design and development costs are

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often underestimated). Design and development might be the engineering work necessary to convert a laboratory concept into a workable prototype or a finished product; the writing of software that is critical for your product or service, the testing of the product (e.g., with animals or people), the work of an industrial designer to make a product more attractive and saleable; the design of special tools or equipment used in the business; or the design of a unique logistics or routing system that is central to service delivery. This section also addresses patents, copyrights, or other intellectual property that you have developed.

#### **A. Development Status and Tasks:**

- Define the present state of development of the product or service and explain what remains to be done to make the product fully useable and ready for sale. Provide a list of tasks.
- Indicate how much time & money will be required to fully develop, test, and introduce the product/service.
- If appropriate provide a drawing, or a summary of the functional specifications and photographs of the product, if available.
- Describe briefly the competence or expertise that the venture has or will require to complete development.
- List any customers or end users who are participating in the development, design, and/or testing of the product or service. Indicate results to date or when results are expected.

#### **B. Difficulties and Risks:**

- Identify any major anticipated design and development challenges and approaches to resolving them.
- Discuss the possible effect on the cost of design and development, and on the time to market introduction, of such problems.

#### **C. Product Improvement and New Products:**

- In addition to describing the development of the initial products, discuss any ongoing design and development work that is planned to keep product(s) or service(s) competitive and to develop new related product(s) or service(s) that can be sold to the same group of customers. Discuss customers who have participated in these efforts and their reactions, and include any evidence that you may have.

#### **D. Costs:**

- Discuss the design & development budget, including costs of labor, materials, consulting fees, etc.
- Discuss the impact on cash flow projections of underestimating this budget, including the impact of a 15 to 30 percent contingency.

#### **E. Proprietary Issues (THIS IS WHERE YOU DISCUSS INTELLECTUAL PROPERTY):**

- Describe any patent, trademark, copyright, or intellectual property rights you own or are seeking.
- Do you have any trade secrets?
- Describe any contractual rights or agreements that give you exclusive or proprietary rights.
- Discuss the impact of any unresolved issues or existing or possible actions pending, such as disputed rights of ownership, regulated to proprietary rights on timing and on any competitive edge you have assumed.

### ***SECTION VII: OPERATIONS PLAN***

The operations section is vital, for it outlines how you will actually create value. It is a day in the life of the business---how you do what you do. Operations is concerned with your production process (for products) or service delivery process (for services). It addresses inputs, throughputs and outputs. In addition to how you produce, it includes such factors as location, the type of facilities needed, space requirements, internal processes, capital equipment requirements, and labor force (both full- and part-time) requirements.

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For a manufacturing business, the manufacturing and operations plan needs to include policies on inventory control, purchasing, production control, and which parts of the product will be purchased, which functions will be outsourced, and which operations will be performed by your workforce.

A service business or a retail business may require particular attention to location (proximity to customers is generally a must), the service delivery or merchandising system, minimizing overhead, and obtaining competitive productivity from a labor force. In many cases, up to 80% of your expenses will be for operations, 80% of your employees will be involved in operations and 80% of your time will be spent worrying about operating problems. You will probably have to make trade-offs with your operations ---it is impossible to have the lowest costs, highest quality, best on-time delivery and most flexibility in your industry all at the same time. This is where you have to make trade-off decisions that fit your other plans.

#### **A. Operating Model and Cycle:**

- Outline the operations process for your business. Identify the inputs, operations (key steps or stages) and outputs (present a flow diagram). This is a day in the life of actually producing your product or creating and delivering your service---walk us through the mechanics of doing so.
- If relevant, you may want to distinguish your model for managing 'front stage' vs 'back stage' operations.
- Where are you likely to have bottlenecks in your service delivery or manufacturing process and how will these be anticipated and addressed.
- Describe the lead/lag times that characterize the fundamental operating cycle in your business.
- Explain how any seasonal production loads will be handled without severe dislocation (e.g., by building to inventory using part-time help in peak periods).
- What quality consistency issues exist and how will consistency of quality be ensured? What controls exist, for instance, to ensure every burger is cooked exactly the same?

#### **B. Operations Strategy:**

- Describe the management of the manufacturing processes or service delivery processes – what will you do in-house and what will you purchase (i.e. make versus buy decisions) or outsource?
- Explain the required labor skills and the availability of the necessary labor, as well as any other required capabilities you will need and where these capabilities will come from.
- Discuss who potential subcontractors and suppliers are likely to be and any information about, or any surveys that have been made of, these subcontractors and suppliers. Discuss relationships with them.
- Describe your approach to quality control, production control, inventory control, and explain what quality control and inspection procedures the company will use to minimize service problems and associated customer dissatisfaction. How will you win in the market place on cost, quality, timeliness or flexibility?

#### **C. Geographic Location:**

- Describe the planned geographic location of the business. Include any location analysis, site selection etc. that you have done.
- Discuss any advantages or disadvantages of your location in terms of such factors as labor (including labor available, whether workers are unionized, and wage rate), closeness to customer and/or suppliers, access to transportation, state and local taxes and laws (including zoning regulations), access to utilities, and so forth.

#### **D. Facilities, Equipment and Improvements:**

- Describe the facilities, including plant and office space, storage and land areas, special tooling, machinery, and other equipment needed to conduct business. Discuss any scale economies to be achieved.
- Provide a schematic diagram of the layout of your facility.
- Describe how and when the necessary facilities to start production will be acquired.

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- Discuss whether equipment and space will be leased or acquired (new or used) and indicate costs and timing of such actions and how much of the proposed financing will be devoted to plant/equipment.
- Discuss how and when, in the next three years, office/ retail site/ plant space and equipment will be expanded to the capacities required by future sales projections and any plans to improve or add to existing space or move the facility; indicate the timing and cost of such acquisitions.

#### **E. Capacity Levels and Inventory Management**

- Discuss your capacity (total volume that you can handle in a day or week).
- Explain your approach to inventory levels of key products.
- Present a plan for operations that shows cost/volume information at a typical sales or production level with breakdowns of applicable material, labor, purchased components, and overhead, and that shows the inventory required at these various sales levels.

#### **F. Legal Issues Affecting Operations:**

- Describe any particular legal issues affecting your operations. As examples, in a food service operation, certain permits and venting are required; in a production operation with outsourced production, there are legal issues governing the outsourcing agreement; when selling through a manufacturers rep or a retail channel there are legal issues affecting the distribution agreement; when setting up a franchise system there are legal issues tied to the franchising agreement; when selling something on a university campus there are legal constraints in operating on the campus; when operating in certain countries there may be some legal or regulatory issues that require attention, and so forth. Note that legal issues affecting intellectual property are handled in the 'Design and Development' section.

### ***SECTION VIII: MANAGEMENT TEAM***

This section of the business plan includes a description of the functions that will need to be filled, a description of the key management personnel and their primary duties, an outline of the organizational structure for the venture, a description of the board of directors and key advisors, a description of the ownership position of any other investors, and so forth. You need to present indications of commitment, such as the willingness of team members to initially accept modest salaries, and of the existence of the proper balance of technical, managerial, and business skills and experience in doing what is proposed.

#### **A. Organization:**

- Provide a simple organizational chart for the venture.
- Present the key management roles that must be filled in the company.
- If it is not possible to fill each executive role with a full-time person without adding excessive overhead, indicate how these functions will be performed (e.g., using part-time specialists or consultants to perform some functions), who will perform them, and when they will be replaced by a full-time staff member.
- If any key individuals will not be on board at the start, indicate when they will join the company.
- Discuss any current or past situations where key management people have worked together that could indicate how their skills complement each other and result in an effective management team.

#### **B. Key Management Personnel:**

- For each key person, describe career highlights, particularly relevant know-how, skills, and track record of accomplishments that demonstrate his or her ability to perform the assigned role. Include in your description sales and profitability achievements (budget size, numbers of subordinates, new product introductions, etc.) and other prior entrepreneurial or general management results.
- Describe the exact duties and responsibilities of each of the key members of the management team.

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- Complete resumes for each key management member need to be included in the appendices and need to stress relevant training, experience, any concrete accomplishments, such as profit and sales improvement, labor management success, manufacturing or technical achievements, and meeting of budgets & schedules.

**C. Management Compensation and Ownership:**

- State the salary to be paid, the stock ownership planned, and the amount of their equity investment (if any) of each key member of the management team.

**D. Other Current Investors:**

- Describe here any other investors in your venture, the number and percentage of outstanding shares they own, when they were acquired, and at what price.

**E. Employment and Other Agreements, Stock Options and Bonus Plans:**

- Describe any existing or contemplated employment or other agreements with key members.
- Indicate any restrictions on stock and vesting that affect ownership and disposition of stock.
- Summarize any incentive stock option or other stock ownership plans planned or in effect for key people and employees.

**F. Board of Directors or Board of Advisors:**

- Discuss the company's philosophy about the size and composition of the board.
- Identify any proposed board members and include a one or two sentence statement of the member's background that shows what he or she can bring to the company.

**G. Other Shareholders, Rights, and Restrictions:**

- Indicate any other shareholders in your company and any rights and restrictions or obligations, such as notes or guarantees, associated with these. (If they have all been accounted for above, simply note that there are no others.)

**H. Supporting Professional Advisors and Services:**

- Indicate the names and affiliations of the legal, accounting, advertising, consulting, and banking advisors selected for your venture and the services each will provide.

## **SECTION IX: OVERALL SCHEDULE**

A graphical schedule that shows the timing and interrelationship of the major events necessary to launch the venture and realize its objectives is an essential part of a business plan. The underlying operating cycle of the business will provide key inputs for the schedule. In addition to being a planning aid by showing deadlines critical to a venture's success, a well-presented schedule can be extremely valuable in convincing potential investors that the management team is able to plan for venture growth in a way that recognizes obstacles and minimizes investor risk. Since the time necessary to do things tends to be underestimated in most business plans, it is important to demonstrate that you have correctly estimated these amounts in determining the schedule.

Create your schedule as follows:

Step 1: Prepare a month-by-month schedule that shows the timing of such activities as product development, market planning, sales programs, production, and operations, and that includes sufficient detail to show the timing of the primary tasks required to accomplish an activity.

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Step 2: Show on the schedule the deadlines or milestones critical to the venture's success, such as:

- Incorporation of the venture.
- Completion of design and development.
- Completion of prototypes.
- Rental of facilities.
- Obtaining of sales representatives.
- Obtaining product display at trade shows.
- Hiring of key managers.
- Obtaining critical financing.
- Initiating marketing activities and in what order.
- Signing up of distributors and dealers.
- Ordering of materials in production quantities.
- Starting of production or operation.
- Receipt of first orders.
- Delivery on first sale.
- Receiving the first payment on accounts receivable.

Step 3: Show on the schedule the "ramp up" of the number of management personnel, the number of production and operations personnel, and plant or equipment and their relation to the development of the business.

Step 4: Discuss in a general way the activities most likely to cause a schedule slippage, what steps will be taken to correct such slippages, and the impact of schedule slippages of the venture's operation, especially its potential viability and capital needs.

**Note: You want to be fairly detailed for the first six months to a year, and then just hit key developments or benchmarks beyond that. The time period covered is typically the first 18 months to 2 years.**

## ***SECTION X: CRITICAL RISKS, PROBLEMS AND ASSUMPTIONS***

The development of any business has risks --- and problems always arise. The business plan invariably reflects a set of assumptions that are being made about these issues. You need to include a description of the risks and the consequences of adverse outcomes relating to your industry, your company and its personnel, your product's market appeal, and the timing and financing of your startup. Be sure to discuss assumptions concerning sales projections, customer orders, technology, and so forth. If the venture has anything that could be considered a fatal flaw, make it clear that you recognize the flaw, and why it is not fatal and how you intend to overcome it. The discovery of any unstated negative factors by potential investors can undermine the credibility of the venture and endanger its financing. Be aware that many investors will read the section describing the management team first and then this section. It is therefore recommended that you not omit or discount this section. If you do, the reader will most likely come to one or more of the following conclusions:

1. You think he or she is incredibly naïve or stupid, or both.
2. You hope to pull the wool over his or her eyes.
3. You do not have enough objectivity or smarts to recognize and deal with the assumptions and problems associated with any business.

Identifying and discussing the risks in your venture demonstrate your skills as a manager and increase credibility of you and your venture with a venture capital investor or a private investor. Taking the initiative on the identification and discussion of risks helps you to demonstrate to the investor that you have thought about them and can handle them. Risks then tend not to loom as large black clouds in the investor's thinking about your venture.

1. Discuss assumptions implicit in your plan. Examples of key assumptions might include:

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- Revenue forecasts (price, volumes, discounts, margins).
- Development expenses (number of people, key salaries, sub-contracts)
- Average cost of a unit.
- Cost of goods sold (material, etc.).
- Working capital (accounts receivable, inventory, payables)
- Capital expenditures (major items)
- Ability to obtain key distribution channel.
- Getting a patent licenses or permit.
- Rate of growth in sales.
- Obtaining a particular site or facility that is key to the business.
- Hiring of key staff members with experience in a critical area.
- Approval of critical financing.
- Overcoming key obstacles in product design.

2. Identify and discuss any major problems and other risks, such as:

- Running out of cash before orders are secured.
- Competitor risks e.g. you are pre-empted in the market by a competitor
- Technological risks i.e. cannot make the product work
- Potential price-cutting by competitors.
- Any potential unfavorable industry-wide trends.
- Design or manufacturing costs in excess of estimates.
- Sales projections not achieved.
- Difficulties or long lead times encountered in the procurement of parts or raw materials.
- Difficulties encountered in obtaining needed bank credit.
- Larger-than-expected innovation and development costs.
- Running out of cash after orders pour in.

3. Indicate what assumptions or potential problems and risks are most critical to the success of the venture, and describe your plans for minimizing the impact of unfavorable developments in each case. What is the worst-case scenario and how will you respond? Focus on risks that are important and critical to your business, not the ordinary operating risks faced by any business.

## **SECTION XI: FINANCIAL PLAN**

### **A. Highlights of the Financial Statements:**

In the write up of this section, discuss the highlights of your financial statements. The section lays out a picture of the financial performance of the firm as it is started, stabilizes and grows. The financial plan is basic to the evaluation of an investment opportunity and needs to represent your best estimates of financial requirements. The purpose of the financial plan is to indicate the venture's potential and to present a timetable for financial viability. It also can serve as an operating plan for financial management using financial benchmarks. In preparing the financial plan, look creatively at the venture and think about bootstrapping techniques, especially in the early days.

Highlight the important conclusions, such as what is the maximum amount of cash required is and when it will be required, the amount of debt and equity needed, how fast any debts can be repaid, start up costs, etc. Given the earlier discussed strategies and assumptions, show when the venture will attain a positive cash flow. Show if and when you will run out of cash. Note any significant changes in cash flow that will occur as you grow and add capacity. Given your entry strategy, marketing plan, and

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proposed financing, how long it will take to reach the unit breakeven sales level. How many months to breakeven? Highlight sales and profit performance patterns over time.

To help validate your financials compare critical financial ratios from your plan with those of your industry. Explain and justify significant differences.

Pro forma income statements capture your financial model for the venture and indicate the financial feasibility of the business. Usually the level of profits, particularly during the start-up years of a venture, will not be sufficient to finance operating asset needs, and since actual cash inflows do not always match the actual cash outflows on a short-term basis, a cash flow forecast that will indicate these conditions and enable management to plan cash needs is needed. Further, pro forma balance sheets are used to detail the assets required to support the projected level of operations and through liabilities, to show how these assets are to be financed. The projected balance sheets can indicate if debt-to-equity ratios, working capital, current ratios, inventory turnover and the like are within the acceptable limits required to justify future financing that are projected for the venture.

#### **B. Cost Controls:**

Describe how you will obtain information about and monitor costs and how often, who will be responsible for the control of various cost elements, and how you will take action on budget overruns. Explain any unusual items not identified in the financial statement.

#### **C. Documents to be Developed for this Section (Put Financial Statements in Appendix)**

As part of the financial plan, financial exhibits need to be prepared. Be sure to give the investors the columns and rows that they want to see. The more detail you give them, the more difficult it will be for them to challenge your assumptions. You need to prepare: i) Pro forma income statements (3-5 years, done monthly for at least the first 1-2 years); ii) Pro forma balance sheets (3-5 years), and iii) Pro forma cash flow analysis (3-5 years, done monthly for at least the first 1-2 years). To estimate cash flow needs, use cash-based, rather than an accrual-based, accounting (i.e., use a real-time cash flow analysis of expected receipts and disbursements).

On the appropriate exhibits, or in an attachment, assumptions behind such items as sales levels and growth, collections and payables periods, inventory requirements, cash balances, cost of goods, and so forth, need to be specified. Your analysis of the operating and cash conversion cycle in the business will enable you to identify these critical assumptions.

#### **Pro Forma Income Statements:**

- Using sales forecasts and the accompanying operating costs, prepare pro forma income statements for at least the first three years. Be sure these numbers are consistent with what is being proposed in all the earlier sections of the plan (marketing, operations, management team, etc.)
- Fully discuss assumptions (e.g., the amount allowed for bad debts and discounts, or any assumptions made with respect to sales expenses or general and administrative costs being a fixed percentage of costs or sales) made in preparing the pro forma income statement and document them.
- Draw on Section X of the business plan and highlight any major risks, such as the effect of a 20% reduction in sales from those projected or the adverse impact of having to climb a learning curve on the level of productivity over time, that could prevent the venture's sales and profit goals from being attained, plus the sensitivity of profits to these risks.

#### **Pro Forma Balance Sheets:**

- Prepare pro forma balance sheets semi-annually in the first year and at the end of each of the first three years.

#### **Pro Forma Cash Flow Statements:**

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- Project cash flows monthly for the first year of operation and quarterly for at least the next two years, detailing the amount and timing of expected cash inflows and outflows. Remember that this is based on cash, not accrual, accounting. The cash flow analysis will effectively determine how much money you need. It will also make clear the need for and timing of additional financing and indicate peak requirements for working capital. Discuss assumptions, such as those made on the timing of collection of receivables, trade discounts given, terms of payments to vendors, planned salary and wage increases, anticipated increases in any operating expenses, seasonality characteristics of the business as they affect inventory requirements, inventory turnovers per year, capital equipment purchases, and so forth. Again, these are real time estimates (i.e., cash not accrual).
- Discuss cash flow sensitivity to a variety of assumptions about business factors (e.g., possible changes in such crucial assumptions as an increase in the receivable collection period or a sales level lower than that forecasted).

## **SECTION XII: PROPOSED COMPANY OFFERING**

The purpose of this section is to indicate the amount of any money that is being sought, how much of it is debt versus equity financing, types of loans you anticipate relying upon (e.g., bank term loan, line of credit, SBA loan), the nature and amount of equity offered to the investor, specifics of any loans (collateral required, interest rate, time for repayment, special terms), a brief description of the uses that will be made of the capital received, and a summary of how the investor is expected to achieve the targeted rate of return.

It is important to realize the terms for financing your company that you propose here are only the first step in the negotiation process with those interested in investing, and it is very possible that your financing will involve different kinds of securities than originally proposed.

### **A. Desired Financing:**

- Review the monthly cash flow projections and your estimate of how much money is required over the next three years to carry out the launch and/or expansion of your business as described.
- Determine the amount and timing of cash infusions required to prevent cash balances from going negative. Add a cash safety cushion (~25% as a good “guesstimate”) to the anticipated cash needs to protect against unexpected expenses or delayed income.
- Determine the type of funding that will suit your business: debt, equity or non-traditional financing. Indicate how this capital requirement will be obtained -- from whom and how much will be obtained via loans, lines of credit, equity investments, etc.

### **B. Offering (this is the deal structure – your pitch for money):**

- If you have decided to seek equity capital, then you need to describe the type of security being offered (e.g., common stock, convertible debentures, debt with warrants, debt plus stock), the unit price, and the total amount of securities to be sold in this offering. If securities are not just common stock, indicate by type, interest, maturity, and conversion conditions.
- Show the percentage of the company that the investor in this offering will hold after it is completed or after exercise of any stock conversion or purchase rights in the case of convertible debentures or warrants i.e. what share of your company does the investor get for a specified investment.
- Securities sold through a private placement (and therefore exempt from SEC registration) should include the following statement in this section: “The shares being sold pursuant to this offering are restricted securities and may not be resold readily. The prospective investor should recognize that such securities might be restricted as to resale for indefinite period of time. Each purchaser will be required to execute a Non-Distribution Agreement satisfactory in form to corporate counsel”.
- If you are seeking a loan, then you need to indicate to the potential lender how the loan will be repaid and what the interest rate is. What is the collateral for the loan?

**C. Capitalization:**

- Present in tabular form the current and proposed (post-offering) number of outstanding shares of common stock. Indicate any shares offered by key management people and show the number of shares that they will hold after completion of the proposed financing.
- Indicate how many shares of your company's common stock will remain authorized but un-issued after the offering and how many of these will be reserved for stock options for future key employees.
- Identify any other terms that you are willing to negotiate as part of the deal e.g. right of first refusal, seat on board, voting rights, and other rights and preferences.

**D. Use of Funds:**

- Investors like to know how their money is going to be spent. Provide a brief description of how the capital raised will be used. Summarize as specifically as possible what amount will be used for such things as product design and development, capital equipment, marketing, and general working capital needs. This dictates the level of risk of the investment. Investors generally feel that expenditures for R&D and marketing are riskier than are expenditures for capital acquisitions.

**E. Investors' Return (Their Exit Strategy):**

- What is the value of your company? How did you calculate this value?
- Indicate how your valuation and proposed ownership shares will result in the desired rate of return for the investors you have targeted. What will be the likely harvest or exit mechanism (IPO, outright sale, merger, MBO, operate and grow, etc.)?
- What is the exit strategy for the investors and founders?

## **COVERING YOUR BASES: FORTY ISSUES TO DIE FOR**

**As the Nuts and Bolts booklet makes clear, there is much that goes into a great business plan. Below is a checklist of things you might want to ensure appear somewhere in your plan. While this is not a comprehensive list, it covers the primary issues.**

1. Define the industry and characterize it in terms of size and the life cycle and draw implications. If it has an SIC or NAICS industry code, indicate so.
2. Develop a diagram of the value-added chain and the approximate number of firms at each level, and indicate the proportion that are large firms or chains.
3. Evaluate the attractiveness of the industry in terms of Porter's 5-factor model.
4. Identify at least three ways that companies are differentiating themselves in this industry.
5. Specify other leading trends in the industry (e.g., in costs, prices, marketing approaches, new products or services, use of technology, etc.) and identify the three most critical success factors in this industry.
6. Summarize key industry financial norms for companies in this industry.
7. Identify the principal components of the business concept. Be sure you are defining the concept in terms of customer value and customer benefits. Apply the five key criteria for a good business concept.
8. What is the need that the business exists to satisfy? How well satisfied is that need already? How high are the customer's switching costs from whatever they are currently using or doing?
9. What is the set of forces creating the opportunity? What is the likely window of opportunity?

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10. How is the market defined? What is the size of the market opportunity in dollars, units or both? Distinguish current market size from market potential and estimate the size of the primary and selective demand gaps. What is the growth rate of the market?
11. How are you segmenting the market? Are the key segments homogenous, sizeable, reachable, and responsive? Provide descriptors of the customers who make up the key segments. Which segments will you be targeting (provide a prioritization)? Who will be your early adopters? Are their segments with different price elasticities?
12. Develop a simple model of customer buying behavior for this product or service. How long is the buying process? Who is the decision-maker? Why do they buy? It is a high or low involvement purchase? How loyal are customers to existing vendors/products?
13. What are the key factors affecting sales in the market? Will there be patterns to the company's sales. Is seasonality an issue? Is the business cyclical? Do interest rates have an impact?
14. Who are the direct competitors? Identify the strengths and weaknesses of each. How is each differentiating itself? Who are the indirect competitors? As a group, how much of a threat are they and why?
15. Be sure that you have developed a price list. Do prices adequately reflect: a) overall marketing strategy, b) costs, c) competition, d) customer demand, and e) legal issues?
16. Explain whether the company will be set up as a sole proprietorship, a partnership, an S corporation, a C corporation, or a limited liability company.
17. Describe the economics of the business. What is your average price, average cost per unit and average margin? How much of your cost structure is fixed versus variable? How much operating leverage do you have, and what are the implications of this? Calculate your contribution margin and breakeven levels in dollars and units. Make it clear where you will be making your money (for instance, in a bar, how much of profit will come from drinks versus food, in a copier business how much will come from selling machines versus selling service?)
18. Have you formulated measurable objectives? Are you certain you've established objectives in all the appropriate performance areas?
19. How will you ensure that the company has a strong market-orientation?
20. What will be the principal or core competencies of the company? Is strategy built around these competencies.
21. Separately from the business concept, define the company's product mix. Assess the company's principal offering to customers in terms of the core, tangible and augmented product. Be sure to include such product-related issues as hours, facility layout, parking, etc.
22. How will the company's products be positioned?
23. If it is a service business, develop a diagram of the visible and non-visible aspects of the service delivery system.
24. How will operations be organized? If it is a manufacturing or assembly operation, what is the overall layout. Provide a schematic as well as a diagram of the workflow. If it's a service business, again describe the operational layout, and then how the service will be delivered.
25. Are any product policies needed (warrantees, returns policies)? If so, what will they be?
26. What is the company's unique selling proposition?
27. Have you developed an integrated communications mix that matches your selling process to the customer's buying process. Summarize the company's complete mix of customer communications, including personal selling, advertising, sales promotion and publicity. Explain how they will be coordinated and managed as a mix.
28. What will the distribution channel look like? How much market coverage will this give you? What key approaches will be used to achieve cooperation among channel members?
29. How is customer service to be defined, measured and managed? What are the key components of customer service? Construct a comprehensive list of the points of customer contact involving any personnel, paperwork or facilities of the company.
30. What is the current stage of product development? Is a prototype completed? What further R&D work is needed and by when will it be completed? What's the ongoing plan for R&D?
31. Provide a detailed cash flow statement for each of the first 3-5 years of operation. Provide pro forma income statements and balance sheets for the first three years.

32. Have you identified all of the resources (human, financial, channels, customer base, information) the company will require to start up and achieve success over the first 3 years?
33. Identify the major direct competitors and assess the strengths, weaknesses, strategy and source of differentiation relied upon by each of them.
34. How will the firm's logistical arrangements work (inventory policies, physically getting products to customers, warehousing/storage)? What is the intended order cycle time?
35. Who will be the key members of the management team? Provide a resume of each of these individuals in an appendix. Briefly describe the role of each in the firm and how it fits their background and experience. Also, will there be a board of directors or advisors?
36. What are your staffing needs beyond the management team? What kind of people are you looking for and what is your plan for getting them?
37. Identify the major technology, legal/regulatory, economic and social developments that are likely to impact on this business in the next two years, and indicate the likely impact.
38. How much money are you asking for, from which sources, how will investors earn their return, and when? Will funding come in stages?
39. Identify the five major downside risks or things that could go wrong, and indicate your contingencies for dealing with each of them.
40. Is there internal consistency in your plan? For example, can one see the logical fit and consistency between you target market, the product/service you are selling, your marketing approach, and the budget you have put together?