

# **Black Sea Venture Capital**

## Investment Guidelines



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## **Introduction**

**“The Best Market to look for is a market that already exists, that is already being served, but being served in a marginal fashion.”**

In today’s environment investing in advanced technology demands many things from a venture capitalist. No longer can he or she just sit back and wait for business plans to flow into his or her hands. Investing now requires a venture capitalist to be more proactive and to find many ways to add value to a potential portfolio investment. When dealing with such an environment found in the Black Sea Region more is required of a venture capitalists and adding value becomes more of an issue.

In order to provide potential investors and the entrepreneurs of potential portfolio investments with a clearer picture of the information it will require in order to consider investing in an opportunity BSVC has put together some guidelines that will take an investor and/or entrepreneur through the start-up process and business plan requirements. It should be noted that the process outlined and the requirements specified are not by any means the way things happen or strict rules that need to be followed in order to receive funding from BSVC. These are guidelines for those unfamiliar with the start-up process and what BSVC is generally looking for from a business plan or project proposal.

### **Starting a New Company or Project**

Starting a new company could be one of the most exciting and rewarding things that you will ever experience. But, it will also prove to be extremely demanding. Thus, it is essential that you weigh the risks carefully against the rewards – being aware that the risks can be minimized if the new business is built on a sound, well-planned foundation and it is appropriately financed.

Therefore, as an entrepreneur or scientist, it is essential that you understand the process of forming a successful company. This includes preparing a business plan and, in addition, obtaining the money to make it possible. No company can expect to articulate its goals or to secure financing without a well-conceived and well-presented business plan. Without a convincing business plan, no one will seriously consider your business idea.

## The Start-up Process

**Stage 1: Getting the Idea.** In stage 1, the founder with an idea should focus on this: Secure a vision for the company. The heart and soul of the new company is born at this time. Without sufficient belief in the vision, the new idea for a business usually ends up just a discarded dream. This vision becomes especially important later, in the formation of the company culture. And it shapes the sustainable advantage. Help needed at this stage is in the area of emotions. Stage 1 is a profound decision point, equivalent to deciding whether to have a first child or not, and why, and when, and at what cost; it has the same importance as deciding to become a parent. As with having children, it is essential to seek out the advice of those who have had children or started their own business.

**Stage 2: Meeting Around the Kitchen Table.** Now the excitement starts to rise. The founder thinks she or he has a good idea and must take the vision to the next step. Stage 2 is the first testing ground and involves a brief, intense burst of private activity. The main focus should be to solidify a dream. This is the time to start refining the vision into the stuff that successful new enterprises are made of. It takes dedicated blocks of time to do it and requires openly sharing the vision with a few trusted friends or potential partners, in familiar circumstances – around the kitchen table. Stage 2 requires help in maintaining confidentiality and getting good business judgement. The only way to have confidentiality is through personal trust and discipline. Good business judgement comes from the quality of professionals and veterans that the founders talked to.

**Stage 3: Getting the Founders' Commitments.** Stage 3 is next, and the excitement grows. This is a delicate phase in the life of the start-up, one that begins to separate the doers from the dreamers. In stage 3, the successful start-up CEOs should focus on this: Get firm commitments from key people. That sounds easy, but it can turn out to be very hard. This is the problem: when the pressure rises, the core team quits. A sense of reality is crucial. It is better to find trusted friends dropping out at this early stage than seeing them quit later, when keeping the core team intact affects raising money. Such last-minute dropouts can kill a company before it is funded. The original founders will need help from additional founders, especially one to three other people. It is really a team effort at this point.

**Stage 4: Pullout from Employer.** Now the test of nerves begins as pressures mount. It is time for the founders to break away from current employers and begin working full-time on the new enterprise. Here is where a lot of different approaches to start-ups happen. Either leave your current employer before you write your business plan or leave it later on in the life of a start up, in order to continue earning wages until that last possible minute. Here you must be very careful in weighing the risks of leaving with that of staying and being put in a potential conflict of interest as you work on your own business plan. Founders should be getting legal help at this stage. This reflects the need and growing importance of creating and protecting companies intellectual property.

**Step 5: Creating the Business Plan.** Stage 5 is the time when the founder's vision goes on paper in the form of a business plan. This is where hard decisions are made, ideas discarded, and fresh breakthrough strategies documented. It is hard work. The focus at this stage is on writing a well-conceived business plan. It is more than words or a financial forecast that show yet another \$100 million dollar start-up in five years. Rather, it is a written plan that tells how the founders plan to turn their vision into a sustainable competitive advantage. The most help the founders (with experience at writing a business plan) will need at this stage will be in the strategic thinking area, principally in marketing and financing. A typical business plan should include, but not be limited to the following:

- I. Executive Summary
- II. Company Description
- III. The Industry Analysis
- IV. The Target Market
- V. The Competition
- VI. Marketing and Sales Strategy
- VII. Operations
- VIII. Management and Organization
- IX. Development and Exit Plans
- X. The Financials
- XI. Appendix

**Step 6: Filling the Management Team.** By this stage there is a business plan in which the founders have confidence. There is also a set of projections showing the headcounts needed to set the new company in motion. Now comes the task of filling out the rest of the team, particularly key managers. The focus at Stage 6 is this: Attract the right talent. Some investors will be almost solely on the people leading a start-up. They argue that if all else goes wrong, top people can recover and at least make something of what otherwise would be a disaster. The key to success here is understanding what the right talent is and how to obtain it and motivate it. Help at this stage is essentially a matter of making wise judgements. It is worth more than gold. Also needed is a thorough compensation plan, prepared in advance of actual recruiting.

**Step 7: Raising Seed and/or Start-up Venture Capital.** The founders must have a strategy for attracting investors. They must decide which potential investors to contact, how to get ahead of all the other hungry business plans on investor's desks, and how to demonstrate convincingly that they have an unfair advantage. Here the focus is: Get a firm commitment from a strong investor. Once the lead investor provides backing, other investors will follow. Help needed at this stage will be in three main areas: Who to contact in terms of potential investors; coaching on presentations; and valuation, dilution, and deal pricing judgement.

**Step 8: Incorporation and Cash in the Bank.** This is the stage at which the founders must select an attorney to close the deal with the funding sources and to incorporate the company. A commercial bank must be selected so that the funding sources' money can be deposited. An accounting firm is selected to provide transparency and financial auditing for investors. When the stage is complete, money is finally available to do the work that until now had been just a powerful vision. Help, most of all at this stage, is that the founders will need good negotiating skills, street-smart tactics, and strategy.

**Stage 9: Finding a Home.** Now there is money in the bank! The time has come to spend some of it and get a place to work, other than around the founder's kitchen table. In Stage 9, the focus is simple: Get Appropriate Working Quarters. It is important to find a good location, with a nice appearance and the right size. A real estate broker experienced in the special needs of start-ups is very helpful, especially one who knows about lots of tricks to save capital and cashflow. These include complex terms and conditions in the lease with respect to flexibility in future moves to other quarters.

**Stage 10: Starting Up.** With a home of its own, the new company is now ready to officially get started. The main focus at this stage is to hire the necessary people, get started building the first product or service offering. Most companies succeed at this stage because of excellent execution of their business plan. The best help is prior start-up experience. So, it essential to have someone on the management team who has this experience.

**Stage 11: Raising Secondary Rounds of Capital.** The joys of operating a new company last for a brief moment, until the reality sinks in that there is no way for the founders to complete the first product and get sales started with the cash that remains in the bank. In Stage 11, the main focus should be to raise enough cash and leverage precious equity. About 25 percent of the CEO's time and 20 percent of those reporting directly to the CEO will be consumed just by raising need capital during the next one to five years. A major regret of first-timers was that they did not realize this problem of start-up companies. Help needed here will be from the lead intermediary or lead investor. Yet, it is important to never count on anyone except the CEO to be responsible for raising the money. Time is a major cost at this stage. You run the risks of running out of money, losing focus on the business and, of course, bankruptcy. Therefore, it is essential to always be aware of the importance of raising additional capital for the company.

**Stage 12: Launching the First Product.** By now the CEO and managers have built up a head of steam and are racing to meet deadlines. The cash is burning rapidly, and the first product is nearing its test milestones. Here the most important activity is focus, focus, and focus. It is a mistake to spread out into other products, technologies, or customer segments. The important thing is to uncover the big market opportunity and stick to the original business plan in order to exploit that opening and be the best at doing it. A close number two priority is to find customers. Customers spell relief and hope. Most of all, they spell cash inflow. To find good customers, one needs good products, starting with the first one. Some start-ups never get more than once chance to try with other than their first product. Therefore, it must be the company's people know how to make, consistent with what the targeted customers say they want. Help needed at this stage is marketing muscle. You will need wisdom in positioning the company and its first product, consistent with the founder's plan for sustaining the company's competitive, unfair advantage.

**Stage 13: Raising Working Capital.** The founder/CEO might think that by now all the capital-raising days are over. But, in fact, they never end. Like teenage boys at dinner, start-ups are amazing in how much cash they can consume. A Company may grow twice as fast as it predicted and, as a result, require double the originally predicted capital base per dollar of revenue. Success breeds its own brand of capital problems. During this phase of life the CEO and CFO should be continuously involved in raising working capital. Banking savvy and experience will be required. Debt is a lot cheaper than equity and can be worth millions in value to the founders because it does not further dilute equity. The main risk is that the loans may have to be repaid at the worst time—that is, when the company is waiting for large collections from customers but is short of cash for the next payroll.

**Stage 14. Initial Public Offering (IPO).** At last the day has arrived to raise capital from the public stock markets: The founders have decided to go public! Here are the priorities: 1) get the shares liquid (registered) 2) cash in some of your holdings 3) celebrate. Start-up usually take three to five years to get to this point, except in the world of the internet in certain public markets. Help needed at this stage will be from experts in investment banking and securities law. Each expert will get a share of the money that is raised. Each exchange where the IPO is to be listed will have its listing requirements which should have been know at the time of establishment of the Company or in the writing of its business plan. The issues of most concern in the IPO process are as follows:

- I. IPO Timing
- II. Offering Structure
- III. Valuation
- IV. Role of Investment Banks
- V. Selecting Investment Banks
  - A. Experience and Focus
  - B. Research
  - C. Sales and Trading
  - D. Credibility with Investors
  - E. Commitments to Long-term Relationship
- VI. Assembling the Rest of the IPO Team – Legal Counsel, Accountants
- VII. Preparing the Prospectus
- VIII. Drafting and Filing the Proper Legal Documents
- IX. The Roadshow and Indications of Interest
- X. Other Regulatory Review
- XI. Pricing, Allocation and Initial Trading

In summary, the entrepreneur chose to focus on converting an idea to a vision that became a commercial success. It normally takes anywhere between three to eight years to get to the IPO on specific exchanges. The entrepreneur has to learn how to deal with a vast array of participants, all of whom earn something because of their dealings with the start-up. The core team has to work very hard, and incur a significant personal cost for such success. The rewards are a mixture of satisfying events: seeing a viable company alive and doing business well; working in a great place with terrific people; earning investors money; becoming personally wealthy; gaining more self-knowledge about one's identity and motivation; drawing closer to one's spouse and family; learning to balance one's life and still be the leader of a very successful start-up.

## **The Successful Business Plan or Project Proposal**

In today's technology business environment, a business plan and/or project proposal is an entrepreneur's or scientist's most crucial document. No company, individual or group can expect to articulate its goals or to secure financing without a well-conceived and well-presented business plan. Without a convincing business plan, no one will seriously consider your business idea.

This wasn't always the case years ago. But, now as an investor BSVC and many other venture capitalists are far more structured and expect a far higher level of expertise and preparation from the entrepreneurs and scientists they choose to fund. When examining a proposal, we want to see more than just a good idea and a bright man or woman; we want to see a business plan or proposal showing that the concept has been rigorously assessed and that the entrepreneur or scientist has carefully thought through the issues for steps necessary to take the idea and fashion it into a successful product or service.

Only the most interesting and well-conceived business plans and proposals will warrant the allocation of resources necessary for a more thorough examination. From that group, BSVC will narrow its selection down even further, spending a great deal of time investigating each plan's merits. Finally, before deciding to invest in an opportunity, part of its staff will serve as "devil's advocate", suggesting all the pitfalls. Only the plans that make it through that process will be considered for final funding.

Whether your opportunity is large or small developing a business plan enables you to:

- Make the crucial business decisions that focus our activities and maximize your resources.
- Understand the financial aspects of your business, including cash flow and break-even requirements.
- Gather crucial industry and marketing information.
- Anticipate and avoid obstacles your business or idea is likely to encounter.
- Set specific goals and measurements to assess progress over time.
- Expand in new and increasingly profitable directions.
- Be more persuasive to funding sources.

Remember that when you start or expand a business or project, more than your time and money are at stake; you risk your dreams as well. A good business plan helps you realize your dreams. While creating your business plan, you have the chance to 1) Learn about your industry and market 2) Gain control over our business or idea; and 3) Obtain a competitive edge.

## Factors of a Successful Business and/or Project

These factors contribute most to securing business success and should predominate your planning process:

- The Business Concept
- Understanding the Market
- Industry Health
- Capable Management
- Financial Control
- Consistent Business Focus
- Anticipating Change

### The Business Concept

Meeting needs is the basis of all business. You can devise a wonderful new machine, but if it doesn't address some real and important needs or desire, people won't buy it, and your business and/or project will fail. Even the famous American investor Thomas Edison recognized this fact when he said, "Anything that won't sell, I don't want to invent."

As you refine your business concept, keep in mind that successful businesses incorporate at least one of these elements:

- **Something New.** This could be a new product, service, or feature. A simple example of something new was the fax machine.
- **Something Better.** The something better element encompasses a better service, lower prices, greater reliability, or increased convenience or speed. The Palm personal digital assistant was one such product.
- **An Underserved or New Market.** Most often this is an unaddressed niche market, an unserved location, or a market for which there is a greater demand than competitors can currently satisfy. Producers of personal computers like Dell was one such underserved market phenomena.
- **Increased Integration.** This situation occurs when a single product is both manufactured and sold by the same company, or when a company offers more services and products in one location. An example of increasing integration has been Amazon.com.

Your business or proposal should incorporate at least one of these factors – more than one if possible. Ideally, you can bring a new or better product or service to an identifiable but underserved market. For example, computer companies opened a new market of small businesses by utilizing technology to make less expensive, less complicated laser printers.

Evaluate the ways your business concept addresses the four elements described above. If your concept isn't extremely strong in at least one of them, assess whether your company or idea will truly be competitive. For example, should you have a new router to compete against Cisco's leading product to be an extremely strong competitor it must be many times faster, cheaper and reliable. Otherwise, you have no "unfair competitive" advantage that Cisco can't overcome rather quickly with its huge resources and clever strategies. With such an advantage you would have the time and the power to enter the market and gain a significant share of it without Cisco being able to stop you.

Using the following questions as a guide you can outline your business concept as your presently conceive it.

1. Is yours a retail, service, manufacturing, or distribution business?
2. What industry does it belong to?
3. What products or services do you sell?
4. Who do you see as your potential customers?
5. Describe your basic overall marketing and sales strategy.
6. Which companies and types of companies do you consider to be your competition?
7. What are the driving forces of change in your industry?
8. List your competitive advantages, if any in each area listed below.
  - New Products/Services:
  - Improved Features/Services and Added Value:
  - New and Underserved Markets Reached:
  - Methods of Increased Integration:

### **Understanding the Market**

It is not enough to have a great idea or new invention as the basis of your business or project; you must have a market that is sufficiently large, accessible and responsive to your offering. If you can't reach your market, or it isn't ready for you, your business will fail. Consider the automatic teller machine (ATM) now seen on virtually every street corner. It was invented more than 10 years before it became popular, but the company that initially marketed the ATM was unsuccessful – people weren't yet willing to trust their banking to machines.

Market readiness is one of the most difficult and most unpredictable aspects to measure when examining your market. The main thing is to keep going back and talking to the people who are actually using what you're making. See if what you're making is truly helpful to your customers.

Even if you are not creating an entirely new product or service, you should attempt to determine if your market is ready for you. You may not have the funds to undertake extensive market research, but even a small amount of analysis can help you gauge the receptivity of a particular market to your idea.

In addition to market readiness, key market factors such as demographics, size of market, and price points must be analyzed. As you develop your business plan or project, these factors will influence your choice of marketing strategy and help you make realist financial projections. When gathering information for your businessplan or project proposal, spend considerable time learning about your market. The more thoroughly you understand the various factors that affect your market, the more likely you are to succeed.

### **Industry Health**

Your business or project does not operate in a vacuum; generally, your company is subject to the same conditions that affect your overall industry. If consumer spending for personal computers decline and the component suppliers to this industry suffer, there's a good chance your component business will also experience poor sales.

As you develop your plan, it is important to have contingency plans that will enable you to respond to the industry-wide factors that will affect your own company's or project's performance. If you are seeking outside funds, your business plan must reassure investors or bankers that you understand the industry factors affecting your company or project's health and have in place the proper strategies to adjust to these changes.

### **Capable Management**

Perhaps more than any other factor, competent management stands out as the most important key ingredient in business or project success. The people you work with or place in key positions are crucial in determining the health and viability of your opportunity. Moreover, their apparent experience and ability to execute often determine whether or not your business plan or project proposal is acted upon favorably by investors.

Because of the significance of management to business or project success, BSVC and many other venture capital firms place the single greatest emphasis on this factor when deciding their investments, and they review the management section of a business plan with special scrutiny. Your business plan or project proposal must inspire confidence in the capabilities of your management team.

So, whether you are starting a new company or putting together a project team it is crucial that you conduct your own analysis of your management team. Evaluate each individual (and yourself) to see if he or she fits the profile of a successful manager. Some traits shared by successful managers are:

- **Experience.** They have a long work history in their industry and/or they have a solid management background that translates well to the specifics of any business in which they become involved.
- **Realism.** They understand the many needs and challenges of their business and honestly assess their own limitations. They recognize the need for careful planning, patience and hard work.

- **Flexibility.** They know that things will go wrong or change over time, and, as a result, they have contingency plans that enable them to adapt without losing focus.
- **Ability to Work Well with People.** They are leaders and motivators with the patience necessary to deal with a variety of people from different cultures and business backgrounds. They may be demanding, but they are fair and brutally honest.

In developing your business plan or project proposal, determine whether key members of your management team possess these characteristics. If not, move quickly to increase training, add staff, or take other measures to enhance your management's effectiveness. Any sign of weakness in the capability of the management team will make any venture capital investor hesitate to take discussions any further.

### **Financial Control**

Key to any business is how it handles money. A very successful entrepreneur once said, "When you have a lot of money act like you don't have any money and when you don't have any money act like you have a lot of money." Easy to say, but it's very difficult to live or run a business according to these words.

Not fully anticipating start-up costs or a possible economic downturn in its industry or the global economy can immediately place impossible pressures on a new business or project. Inadequate cash-flow management can bring down even a seemingly thriving business.

As you develop your business plan, make sure you have the information to understand your financial picture on an ongoing basis. What does it take to open your doors each month? Where is your real profit center? How much expansion do you need to maintain growth? Do you have control over material costs and suppliers? What are the hidden costs of marketing your company?

Build in mechanisms to keep you continually informed as your business develops. It is easier to establish good financial procedures right from the start than to wait until you face a financial crisis. Real time control and instant reporting are now realities in financial management systems. Controlling and understanding your finances makes decisions easier. And you and your investors will sleep better at night.

### **Consistent Business Focus**

As often overlooked but critical factor for a successful business is the necessity of developing a clear, consistent focus. All too often, businesses fail because management loses sight of the central character of the enterprise. Understanding the basic goals and nature of your company or project will enable you to maximize the use of your resources, motivate your employees, and develop a competitive edge. As part of the business plan process you should define a Statement of Mission. It will be the guide for your efforts.

## **Distinguish Yourself from the Competition**

In putting together your Statement of Mission, keep in mind the overall goal of your company or project. Different companies may be creating or selling a similar product, but each may have a different sense of what its business is really all about.

These different self-concepts will greatly affect the way each company markets itself, what subsequent products it develops, even the employees it hires. Some companies may succeed and rarely be in competition with one another. But, another company, which misses the big picture, is almost certain to fail over time, as it flounders in its attempts to compete with all of the other, more focused companies.

## **Developing a Company or Project Team Style**

The second aspect of company focus is the development of a company style or culture: you should give serious consideration to your company's style as you develop your business plan or project proposal. By creating a consistent style that permeates every aspect of your enterprise, from the design of your stationary to personnel policies, you give your customers and employees a sense of trust and stability in your company.

With a strong company or project team style, an organization can clearly distinguish itself from its competitors and gives it target customers a clear understanding of what to expect. Every business needs to consider its style as it relates to the company's or groups overall mission, and then infuse that style into virtually all aspects of its undertakings.

## **Anticipating Change**

Change is inevitable, and the rate of change gets ever faster. As you develop your business plan, anticipate that changes will occur affecting your company or project and consider how you can respond appropriately. A company or manager caught off guard by changing conditions is likely fail. Scenario planning is required to anticipate change and to manage your risks.

In planning for change expect nothing, but be prepared for anything. Keep in mind the kinds of conditions that can affect your business or project's future. They include:

- **Technological Changes.** It's impossible to predict or know what new technology is in the head of some bright young scientist, under development in a lab or already being tested at a customer's site. But, you can be sure you will be faced with such changes.
- **Sociological Changes.** Demographic and lifestyle changes should be evaluated in light of the potential influence on your business. Genetically altered food is running into a lot of resistance while DoCoMo has enjoyed the incredible demand for its 24x7x365 mobile internet access.

- **Competitive Changes.** New businesses or projects start every day. How hard is it for a new competitor to enter the market, and what are the barriers to entry? Can you capture and hold sufficient market share to withstand new competition?

When developing your business plan, consider how your company or project team will deal with these outside changes. Also anticipate major internal changes, such as growth, the arrival or departure of key personnel, and new product or service development. No business or project is static. Planning a company or project team responsive to change will make the inevitable changes easier.

### **The Business Plan Process**

“You only find easy answers by asking tough questions.” The business plan process entails answering many such questions within the following five steps:

1. Laying out your basic business concept.
2. Gathering the data on the feasibility and specifics of your concept.
3. Focusing and refining the concept based on the data your compile.
4. Outlining the specifics of your business.
5. Putting your plan into compelling form.

The first step is to define your basic business concept. In the previous sections, you were given ways to complete this step. So, it won't be repeated here.

But, before you tackle the body of your business or project plan, you need information. So your next task is to gather reliable data relating to the different aspects of your business. Solid information gives you a realistic picture of what happens in businesses or projects similar to yours, as well as a better understanding of your own company or project.

### **Gathering Information**

Information is power. With accurate information at your fingertips, you can make a persuasive presentation of your plan when meeting with a potential investor. Take time to do your homework. Sufficient research prevents your from including inaccurate information in your plan or proposal. – a mistake that can keep your from getting funded – and enables you to make informed decisions.

## **How Much Information is Enough?**

Once you begin to gather the material you need, it is natural to feel either overwhelmed with too much information or frustrated because some data is proprietary, costly and/or unavailable. Don't try to be exhaustive in your research efforts; it's not necessary or possible. You are merely looking for information that will give you a good idea about your business. At the same time, your research must be thorough or accurate enough to give you, and those reading your plan confidence that the answers are accurate, timely and from reliable sources.

For example, if you are manufacturing a new GSM phone for downloading music from the internet, you might identify your initial target market as girls and boys between the ages of 14 and 24. One of the questions you need to address in your plan is "How large is this market in the major markets in the world?" For this, you may have to consult only one source in the U.S.A., the U.S. Census Bureau, to find a reliable answer. However, in other countries or for other questions that arise such as "What are the trends in electronic device-buying habits?", may require consulting three or four government or industry sources or undertaking your own market research to compile the information you can trust.

## **Start Your Research by Asking Questions**

Start your research process by making a general statement that is the basis of your business (or one portion of your business). For example, if you are planning on selling a new suite of enterprise-based customer relationship management (CRM) software, the statement might be, "There is a substantial need for a new suite of enterprise-based CRM software in the financial services industry?"

Next, make a list of questions that logically follow from and challenge that statement. Here are some questions you might then ask:

- How many enterprise-based CRM software companies now serve the financial services industry?
- How profitable are the current CRM software companies in this sector?
- Are customers generally satisfied with the current CRM software companies products and services?
- Is there more business than current software providers can handle?
- What are the trends in the CRM software industry nationally?
- What are the customer relationship trends in the financial services industry?
- How do the CRM trends in the financial services industry relate to overall CRM industry nationally?

After formulating this list of questions and others, look for answers. You will be surprised where you will find some of these answers such as through reference materials and trade associations or securities analysts. To get some answers, you will have to conduct your own market research by talking to existing vendors, customers, and the people that form the industry infrastructure such as analysts, financiers, accountants, and lawyers.

As you start the business plan or project plan process, use the following Research Questions that you have at this point and the issues you will investigate. How much information you gather will be, to a large extent, a result of your resources, both of time and money.

List the questions you will examine in each area of your business, using the categories below as guidelines.

- Industry/Sector
- Products/Services
- Target Market
- Competition
- Marketing & Sales Strategy
- Basics of Operations
- Long-term Considerations

### **Evaluating the Data You've Collected**

Once you start compiling information, you might feel you have more facts than you know what to do with. Here are a few tips to keep in mind about the information you gather:

- Use the most recent data you can find; printed information is often two years old and a lot can change in two years.
- Translate data into units rather than dollars whenever possible. Due to inflation, dollars may not give you consistent information from year to year.
- Give the most reliable source the most credence. Generally, the larger the group sampled for information, or the more respected the organization that conducted the research, the more trustworthy the numbers you collect.
- Integrate the data from one source to another in order to draw conclusions. However, make sure the information is from the same time period and is consistent; small variations can lead to vastly inaccurate results.
- Use the most conservative figures. Naturally, you'll be tempted to paint the brightest picture possible, but such information often leads to bad business decisions.

## **Bringing Your Business Concept into Focus**

Once you complete your initial research efforts, but before you lay out the specific components of your plan, re-examine your business or project concept. In light of the information you now have, check to see if your idea, as originally conceived, needs to be modified or refocused.

The business or project planning process is a learning process; it is appropriate for you to adapt your business in response to your increased knowledge.

Now is the time to ask yourself some hard questions, such as:

- Can the business or project be viable or a success?
- Does a real market exist?
- Is there too much competition already?
- How does the financial picture look?

The following questions help you answer these and other crucial questions. Be sure to ask yourself these questions after finishing your initial research.

## **Evaluating Your Business Concept**

1. Your Business Industry
  - How economically healthy is your business industry or sector?
  - Explain how your industry/sector is sensitive to economic fluctuations.
  - Are forecasts for your industry or sector positive?
2. Your Product/Services
  - Is your product or service viable?
  - Can it be developed in a reasonable period of time?
  - Are the costs of development prohibitive?
  - Are the necessary supply and support systems established?
3. Your market
  - Is your market clearly identifiable?
  - Is your market large enough to support your business?
  - Is your market too large, and the costs to reach it prohibitive?
  - Is your market growing, shrinking or remaining stable?
  - Is your market ready?
  - Is your product/service too new for customers?
  - Do customers have strong loyalty to existing companies?
  - Is it costly for customers to convert to your product or service?
  - Does your product or service integrate easily with existing products or services?

4. Your competition
  - How formidable is your competition?
  - Do one or two competitors dominate the market?
  - Is market share widely distributed, making it easier to get a foothold?
  - Is there a competitor with deep pockets who can drive you out?
  - What barriers to market entry will your future competitor's face?
  
5. Your suppliers/distributors
  - How close are you to sources of supplies?
  - How reliable are your suppliers and distributors?
  - Are you dependent on one or two suppliers or distributors?
  - Are your suppliers/distributors well-established and dependable?
  
6. Your operations concerns
  - Does your business entail unusually difficult operational problems? If so, describe them.
  - Will personnel be hard to find, retain or train?
  - Is manufacturing particularly complex?
  - Must you make substantial initial capital expenditures?
  - Will you need to maintain large, expensive inventories?
  - Does new technology exist that will help you reduce costs?
  
7. Your insurance concerns
  - Describe any financial problems you anticipate.
  - Is overhead unusually high, thus putting extra pressure on cash flow?
  - Will credit be hard to establish?
  - Are profit margins narrow, making the business vulnerable?
  - Will you have to carry a large amount of debt?
  - Do the managers have the expertise necessary?
  - Will ongoing training be required?
  - Will it be costly to retain additional experts?
  - Is the industry or market changing rapidly?
  - Are there demographic or sociological factors likely to affect the market?
  - Are there rapid technological changes that will affect costs and competitiveness?

## **Making Your Business or Project Plan Compelling**

Time is valuable for people in the business of technology. Rarely can they give any one matter the attention it full deserves. This is especially true of venture capitalists who are inundated with business plans and project proposals; a typical venture capitalist can expect to see more than 1,000 business plans and proposals a year.

Although you may spend five months preparing your plan, the cold hard fact is that an investor or lender can dismiss it in less than five minutes. If you don't make a positive impression in those crucial first five minutes, your plan or proposal may be rejected. Only if it passes that first look will your plan or proposal be examined in greater detail.

## **How Your Business Plan or Project Proposal is Read**

When evaluating a business plan or project proposal, experienced readers generally spend the first five minutes reviewing it in this order: first, the Executive Summary; second, the Financials; third, the Management section; and next, the exit plan and/or terms of the deal or contract, if applicable.

## **The Most-Asked Questions**

Funding sources primarily look for answers to these questions concerned with the heart of the plan:

- Is the business idea or project proposal solid?
- Is there a sufficient market for the product or service?
- Are the financial projections healthy, realistic and in line with the investor's or lender's funding patterns?
- Is key management described in the plan experienced and capable?
- Does the plan clearly describe how the investors will get their money back?

Within the first five minutes of reading your business plan or project proposal, readers must perceive that the answers to all of these questions are favorable. Most will skip around to the various sections. An experienced investor doesn't need 10 reasons to turn down a plan or proposal – they only need one. So, the first thing they look at, after the Summary, is whatever aspect seems weakest. Then, if they cannot find a solution to the problem, they won't read the rest.

## **Increasing the Reader's Interest**

Three sections – the Executive Summary, the Financials, and the Management description – must spark enough interest and inspire sufficient confidence to make the reader decide it is worthwhile to spend additional time reading other sections in your plan or project proposal. Some investors have specific areas of interest or are known for giving certain aspects of a plan more weight than others. If you know this information, highlight those areas that are consistent with the particular investor's funding patterns.

## **Length of a the Plan**

No magic number exists, but here are some guidelines:

- Limit the plan itself (not including the Financials and appendices) to 15 to 35 pages; 20 pages are enough for nearly any business or project.
- Only a plan for a complicated business or product should be more than 30 pages (not including the appendices). If you need 40 pages or more, your plan better be intended for a very motivated, sophisticated reader, or for use solely as an internal document.
- Limited appendices to no more than the length of your plan.
- Make sure your business plan fits easily and comfortably into a briefcase; you don't want your plan to be the one left behind when an investor goes home or on a business trip.

## **What Period of Time Should Your Plan Cover?**

Most plans or projects should project three to five years into the future, or until you have reached your anticipated exit strategy or contract completion date, whichever is earlier. However, you need only include monthly financials for the first year or two, depending upon the development time. For the second and third years, quarterly financials are usually adequate; annual projections suffice for the fourth and fifth years.

## **Style**

Style shows thoroughness. Use lots of white space, so people can make notes in the margins. Use a binder that keeps the document together; preferably one that keeps the plan open to the page the reader is on. Use bullet points. Use a black style rather than indented paragraphs.

A picture may be worth more than a thousand words. Graphs, charts and illustrations also are visually appealing; they catch the reader's attention, forcefully explain concepts, and break up the monotony of the text. Place charts, particularly of half-page size or less, in the text rather than in the appendix; they will engage the reader with your plan, and may readers pay minimal attention to the appendix.

A business plan or proposal must inspire trust. Misspellings, typographical errors, and improper grammar undermine trust. Proofread your plan for such mistakes and have at least one other person proofread it as well.

Looks count a lot. But, your reader should remember your plan for its content not the way it looks. So, be conservative and professional in your choice of report covers, colors and graphics.

## **Business Plan Components**

A business plan or project proposal's basic components can take many shapes and forms. As a result, the following suggestions are just that – suggestions. The style and form you adapt to your situation can be different in many ways. But, the same message must be sent and, of course, difficult questions answered too. The basic components are as follows:

- The Executive Summary
- Company Description
- Industry Analysis
- Target Market
- The Competition
- Marketing Plan & Sales Strategy
- Operations
- Management & Organization
- Long-term Development & Exit Plan
- The Financials
- The Plan's Appendix

## **Executive Summary**

The Executive Summary gives the reader a chance to understand the basic concept and highlights of your business quickly, and to decide whether to commit more time to reading the entire plan. Therefore, your goal in the Executive Summary is to motivate and entice the reader.

In short space, you must let the reader know that:

- Your basic concept makes sense.
- Your business itself has been thoroughly planned.
- The management is capable.
- A clear-cut market exists.
- Your business incorporates significant unfair competitive advantages.
- Your financial projections are realistic.
- Investor or lenders have an excellent chance to make money.

The Executive Summary basically highlights each section of your business plan and address the areas listed below:

- Company Description
- Statement of Mission
- Stage of Development
- Products and Services
- Target Markets
- Marketing and Sales Strategy
- Competitors and Market Distribution
- Competitive Advantages and Distinctions
- Management
- Operations
- Financials
- Long-term Goals
- Funds Sought and Exit Strategy

### **Company Description**

The company description is just a straight-forward listing of the details of your business. It will probably take the least amount of time to prepare. Only one aspect of the company description is likely to require additional preparation, but it is an important one. Seemingly simple, your Statement of Mission or Mission Statement, should concisely describe the goals objectives, and underlying principles of your company. The topics that follow should be addressed in the Company Description of your business plan or project proposal:

- Company's Objectives/Statement of Mission
- Company Name
- Legal Form of Business
- Management/Leadership
- Business Location
- Development Stage
- Financial Status
- Products and Services
- Patents and Licenses

### **Industry Analysis**

No company operates in a vacuum. Every business is part of a larger overall industry; the forces that affect your industry as a whole inevitably affect your business as well. Evaluating your industry increases your own knowledge of the factors that contribute to your company's success and shows potential investors that your understand external business conditions.

In your plan or project proposal you want to focus on:

- A description of your industry.
- Current trends in your industry.
- Strategic opportunities that exist in your industry.

This should include your economic sector, size and growth rate of your industry, industry maturity (new, expanding, stable, and declining), sensitivity to economic cycles, seasonality, technological change, regulation/certification, supply and distribution channels, financial characteristics, barriers to entry and long-term opportunities.

### **Target Market**

It's easier to get a piece of an existing market than it is to create a new one. So, investors are seeking opportunities in a company whose orientation is shaped by the demands and trends of the marketplace rather than the inherent characteristics of a particular product or service.

To be a useful planning tool, the definition of your target market must meet these criteria:

- **Definable.** It should have specific characteristics identifying what the potential customers have in common.
- **Meaningful.** The characteristics must meaningfully relate to the decision to purchase.
- **Sizable.** It must be large enough to profitably sustain your business.
- **Reachable.** Both the definition and size must lead to affordable and effective ways to market your potential customers.

Once you have defined your market, you should then assess its size and trends, readiness, evaluate your competitors for that particular market and probe the market for strategic opportunities.

### **The Competition**

Every business has competition. One of the worst statements you can make in a business plan is "We have no competition." A knowledgeable investor will immediately disregard a plan with such a statement because it indicates that either 1) You have not fully examined the realities of your business; or 2) There is no real market for your concept.

When preparing the competitive analysis portion of your business plan, focus on identifying:

- Who your major competitors are.
- On what basis you compete.
- How you compare.
- Potential future competitors.
- Barriers to entry for new competitors.
- How will you obtain sufficient market share?

The objective features of your product or service may be a relatively small part of your competitive picture. In fact, all the components of customer preference, including price, service, and location, are only half of the competitive analysis.

The other half of the equation is examining the internal strength of our competitors' companies. In the long run, companies with significant financial resources, highly motivated or creative personnel, and other operational assets will be tough, enduring competition.

### **Marketing Plan & Sales Strategy**

If you can't reach customers, you can't stay in business: It's the most basic truth. The key to any successful business is its ability to create an effective marketing plan that will allow it to begin the process of developing the type of relationship with its target market that will lead to actual sales. Because developing relationships with customers costs money, and money is always limited, your marketing strategy must be carefully and thoughtfully designed. Considered to be one of the leading guides to successful marketing strategies for technology products and services you may want to reference "**Crossing the Chasm**" by Geoffrey Moore.

If you are developing a business plan or project proposal to seek outside funding, remember that many investors read the marketing plan portion first or second. They want to know that you have a realistic and price-conscious plan to get your product or service into the hands of customers.

In your marketing plan you define:

- How you will begin to develop the relationships that will allow you to make customers aware of your product or service.
- What message you are trying to convey to customers about your product, service, or company.
- Specific methods you will use to deliver and reinforce that message.
- How to secure actual sales.

What messages will you develop to enable you to create the proper relationship with customers that will motivate them to purchase your product or service? Traditional marketing experts emphasize the elements described below, known as “the Four P’s” in influencing customers to buy.

1. **Product.** The tangible aspects of the product or services itself.
2. **Price.** The cost advantage
3. **Place.** The location’s convenience and proximity to your customer.
4. **Promotion.** The amount and nature of the relationship marketing activities.

These elements leave a lot out of the marketing picture, however. Especially as customers have become more discriminating over the years and look for products or services not just to fill an immediate need but to enhance their overall success.

### **What Customers Want: The Five F’s**

“The Five F’s,” shown below, are a convenient way to sum up what customers want.

1. **Functions.** How does the product or services meet their concrete needs?
2. **Finances.** How will the purchase affect their overall financial situation, not just the price of the product or services, but other savings and increased productivity?
3. **Freedom.** How convenient is it to purchase and use the product or services? How with they gain more time and less worry in other aspects of their business?
4. **Feelings.** How does the product or service make customers feel about the success they will achieve with it and will they like and respect the salesperson and the company?
5. **Future.** How will they deal with product or service and company over time, whether support and services will be available? How will the product or services affect their business in the coming years, and will they have an increased sense of security about the future?

### **Marketing Vehicles**

Once you have clarified what you want to tell customers about your company, you must describe how you will disseminate the information.

How will you reach potential customers? Do you advertise? If so, where? How do you develop relationships with the industry infrastructure – those 10% that influence the other 90%?

Since every marketing strategy costs time and money, carefully plan how you intend to spend your marketing dollars. In devising your overall marketing program, be sure you look for:

- **Fit.** Your marketing vehicles must reach your actual target customer and be appropriate to your image.
- **Mix.** Use more than one method so customers get exposure to you from a number of sources.
- **Repetition.** It takes many exposures before a customer becomes aware of a message.
- **Affordability.**

Some of the marketing vehicles you may choose include:

- **Brochures.** Leaflets, flyers or other descriptive circulars; these are particularly useful for services businesses.
- **Print Media.** Newspapers, magazines, and specialty publications.
- **Broadcast Media.** Radio can be targeted to specific markets; television can be expensive, especially on network stations.
- **Advertising Specialties.** Items imprinted with the company name given to customers, e.g., calendars, caps, desk sets, and gifts.
- **Direct Mail.** Flyers, catalogues, brochures, and coupons.
- **Public Relations.** Educating the media, financial community and other people in the industry infrastructure is essential to creating sources of reference that your customers will listen to and believe in.
- **Sampling and beta testing.** Distribution of free product samples or prototype products for testing in real working conditions is key to gaining product or service acceptance.
- **Informal Marketing/Networking.** Creating a “world of mouth” campaign can be quickly executed by joining organizations, public speaking and attending conferences.

### **Strategic Partnerships**

Identify related companies with which to associate with for promotion, sales or distribution. Ways in which you might use such a partnership include:

- **Cooperative Advertising.** This type of advertising occurs when two companies are mentioned in an advertisement and each company pays part of the costs. This is a frequent practice in many industries.
- **Licensing.** One company may grant permission to another to use its product, name or trademark. For instance, instead of selling your computer software program directly, you might license it to another software publisher.

- **Distribution Agreement.** An agreement whereby one company carries another's product line and distributes another company's products or services.
- **Bundling.** This is a relationship between two companies where one company includes another company's product or services as part of a total package.

## Your Sales Structure

Directly related to your marketing strategy is your sales structure – how to achieve actual customer orders. In this section of your business plan or project proposal, you must describe the two main components of your sales system: the sales force and the sales process. It is enough to provide a general outline, giving a sense of understanding of what is necessary to produce sales.

At the center of your company's income-producing activities are those members of your staff with specific sales responsibilities. These key staff members who will be directly responsible for developing the relationships between your company and its customers and you must carefully plan how you will make the best use of their skills and time.

What responsibilities do you give your sales team? What commissions and incentives do you provide? How do you train and supervise the people responsible for bringing in your revenues?

Of course, every employee actually has a part in attracting and retaining customers. No matter where your employee is or what they are doing they reflect on the image of your company. Thus, some companies incorporate some form of sales-training for all personnel. But, certain staff members (and nonemployees, as well) have particular responsibilities for securing sales, and these individuals are the center of your sales team.

## Sales Activities

Sales activities can be conducted either on your business premises or by calling on customers at their homes or places of business. And your sales force can consist of either inside or outside salespeople.

- **Inside Sales Personnel.** Employees who remain on the company's premises to secure sales; include floor salespeople in retail stores or personnel who take phone orders or do telemarketing.
- **Outside Sales Personnel.** Salespeople who go to customers' locations to solicit orders; these can be company employees working on salary alone, salary plus commission, or straight commission; or they can be independent contractors – sales representatives and manufacturer's agents, either representing many product lines or handling one company's products exclusively, usually on a commission-only basis.

Once you determine the nature of your sales team, delineate how you divide responsibilities among personnel, for example, assign sales representatives by territory, product lines, or customer types.

### **Employee Compensation and Training**

How do you pay your sales force? Some form of commission is usual in most selling situations. What commission percentage do you provide? Did you give bonuses for reaching certain goals?

Do you use other incentives, such as stock options, awards, gifts, or vacations? Do district managers or other supervisors receive commissions on their staffs' sales?

You also need to consider how you will continue to train, motivate and supervise your sales force. Selling is a difficult, often dispiriting, task, and salespeople need frequent encouragement and support. Who will be responsible for this?

### **Sales Process**

Finally, you need to identify the procedures you will use in making sales calls and presentations, and the level of results you expect from your sales force. Although this information is not necessary to include in your business plan or project proposal it will provide you with more realistic sales forecasts.

Some of the aspects you should consider in evaluating your sales process include:

- **Cold-Calling.** Contacting targeted customers before they have indicated any interest in purchasing your product or service; this can be done in person or on the phone.
- **Leads.** Developing or purchasing names of potential customers who have expressed at least some level of interest in your product or service.
- **Productivity.** The amount of time it takes to secure sales, and the level of sales realistically expected from each salesperson.
- **Order-Fulfillment.** Ensuring that orders are completed promptly and accurately, an essential completion of the sales process.
- **Goals.** Establishing specific, measurable objectives for each salesperson and the total sales force; realistically assessing the number of sales possible for each representative given the nature of his or her assigned territory/product line/customer base; setting sales quotas base; setting sales quotes based on these assessments.
- **Follow-up Efforts.** Ensuring that the sales representative maintains ongoing contact with the customer after the sale and seeks out repeat sales opportunities.

## **Operations**

“Ninety percent of success comes from properly executing the fundamentals.” How are you actually going to run your business? The Operations section of your business plan is where you begin to explain the day-to-day functions of your company. This is where you translate your theories into practice.

To do a thorough job planning your internal operations, you may want to develop a separate operations and procedures manual. Such a manual should describe the specific details of the process by which you produce, distribute or maintain your products and services.

For the purpose of preparing a business plan or project proposal, however, your Operations section does not need to be thoroughly detailed. Rather, limit your Operations section to those issues that:

- Are essential to the nature and success of your company.
- Provide you with a competitive edge.
- Overcome a frequent problem in business of your type.

Facilities, location, leasing terms, improvements, utilities/maintenance, and other aspects of your facilities that are most likely to affect your company’s success should be mentioned too. Production processes should be described too. How you will utilize new technology should be mentioned should it have a major impact on the production process of your product or service.

Inventory control is always a key element in the operations section. Many businesses overlook the vital contribution that careful inventory management makes to the profitability of a company. The answer is to develop inventory management systems that substantially increase the flow of information from the sales point to the production and purchasing teams.

Supply and distribution is increasingly becoming one of the major competitive advantages in business today. Most businesses will experience difficulties with their suppliers or distributors at some point. So, it can serve you well to explore the abilities, flexibility and alternatives of your current suppliers and distributors.

Order fulfillment and customer service has always been a key element in the success of a company or project. Surprisingly, many companies pay relatively little attention to order fulfillment and customer service since they do not seem like pressing concerns or sources of increased profit margins. However, order fulfillment is part of any current sale, and customer services is part of any future sale.

Research and development is the driving force of companies in the New Economy today. A business that stands still is one that almost certainly is going to fail. You must keep on top of new developments that are going to affect your business and develop a process that makes this effort a priority in your company.

Financial control, of course, is given much attention until a company loses control of their financial situation. Set up procedures and systems to ensure that your financial information is handled promptly and accurately. Design your financial system to be a source of regular information and constant feedback.

## **Management & Organization**

Your people determine your success. People are the very heart of every business. Overwhelmingly, the quality of the people determines the success of the business. Many venture capital investors base their investment choices almost entirely on the strength of the people involved in the enterprise. They know the desire, experience, skills, and personalities of the management team have a greater impact on the long-term success of the company than the product or service provided.

For this reason, investors are likely to review the management portion of a business plan before they read many other sections. They read this section thoroughly, carefully scrutinizing the qualifications of the people behind a business. They look at not only to see if the management team has the expertise necessary to run the business, but also if the internal structure makes the maximum use of your management team.

So, you need to take particular care in crafting your Management section. You should focus on two main areas:

- 1) the people who run your business
- 2) your management structure and style.

Who are the people most important to your company's future? Who are the people determining the strategies you will pursue? Who makes the final decisions? Which members of your management decided on the products or services you will sell and the prices you will charge. Who is in charge of your sales efforts?

## **Boards of Directors/Advisory Committee**

Businesses that are incorporated must have boards of directors. In very small corporations, the directors are usually just the principals running the company. The board then serves little more than a legal function.

Obviously, venture capital investors serve on boards to protect their money; they want to exercise some control over management and direction of the company. They often bring valuable insight and judgment to the company and contribute to its overall viability and success. In forming your board of directors, you might also want to include members who bring you specific business expertise, such as financial acumen or industry knowledge.

### **Consultants and Other Specialists**

Hiring consultants can bring you the specific expertise of highly qualified individuals without the expense of a full-time employee. Both large and small businesses benefit from the services of outside consultants and specialists.

Consultants and specialists you might use, other than attorneys and accountants, include:

- Management Consultants
- Marketing Consultants
- Designers
- Industry Specialists
- Financial Specialists

### **Key Management Personnel to be Added**

Don't worry if your management team is not fully complete, especially if your company is a start-up. Investors are accustomed to see plans or project proposals for companies that have key positions vacant.

You must, however, indicate the positions you intend to add in the future and the qualifications of the individuals you will seek to fill the positions. This gives a more complete picture of your overall management team and indicates that you understand the gaps in your organization.

### **Management Structure and Style**

How will you actually run your company? How will decisions be made? What are the lines of authority? How do you want employees to feel about the company? What voice do employees have when company policies and goals are set?

In looking at your company's structure, examine both the formal lines of authority that exist and the informal ways in which decisions are made and employees are treated. While clear lines of authority are vital in large organizations, they are equally important in small companies. Perhaps the quickest and clearest way to communicate your management structure is through a graphic organizational chart.

For most companies, especially smaller high-technology companies, building a sense of teamwork is essential for success. Recognize achievement, both privately and publicly. Reward initiative with both monetary and nonmonetary awards. Acknowledge jobs well done. The five most important elements of your management style are:

1. Clear Policies
2. Communication
3. Employee Recognition
4. Employee's Ability to Affect Change
5. Fairness

Next, you need to discuss the compensation and incentives you offer your key employees as a way of retaining and motivating them to succeed. Most incentives have monetary implications, and investors often want to know the financial stake top management have in the company. Some of the incentives you may be able to offer include:

- Salary.
- Bonuses.
- Commissions.
- Profit Sharing.
- Equity
- Stock Options

### **Long-Term Development and Exit Plan**

Every business or project grows in phases. Every experienced venture capital investor wants to see one respectable phase in which a company succeeds before they go on to the second and third phases. They can have other things in mind, but it is important for them to finish the first thing to show what they can do.

When they invest capital in your company, they want to see what they are getting in return. They know how much money they can lose – the downside risk. But they also want to gauge what they might gain, how big the company might become – the upside reward.

Therefore in this section you will spell out the specific ways whereby your company can be judged and the risks involved. In developing your company's or your project's long-term plans, you must evaluate your:

- Goals
- Milestones
- Risks
- Exist Plan

## Goals

What do you want in the future, both for yourself and for your company or project? In founder-led and small companies or projects, the personal goals of the entrepreneurs or team members and the goals for the business or project should reasonably relate to one another. Otherwise, the inherent tensions will undermine the success of the business or project. There's no use envisioning running a U.S.\$50 million dollar company or project, when what you really want is to take things easy and spend more time with your family and friends and be home every afternoon by 3:00 p.m. That's just not a realistic fit.

In assessing your business or project concept, consider which of the following visions you have for your company or project and yourself:

- **Steady Provider.** Maintain a stable level of profit; earn a good, reliable income while owning your own business.
- **Innovator.** Produce new and different products or services; change the way the market views the product or service; act on your creativity.
- **Quality Leader.** Produce the product or service everyone would buy if price were no object; develop a reputation for excellence; take pride in creating the best.
- **Market or Industry Leader.** Dominate the market in terms of sales and products; have a well-known name and run a large corporation.
- **Niche Leader.** Carve out a narrow place in the market that your company dominates; do only one thing, but do it extremely well.
- **Exploiter.** Take advantage of the trends of the moment or copy the success of others; take risks for quick rewards.

## Strategies

You must consider what business strategy will take your company or project from its present situation towards your long-term goals. Developing an overall strategy gives you the basis for deciding on the priorities for specific actions and expenditures of funds.

Among the business or project strategies you might undertake are:

- **Market Penetration.** Gain a foothold in the market as you introduce either the company or a new product or service and attempt to develop sufficient sales to sustain your initial development.
- **Promotion and Support.** Intensify the marketing and development of your current product or services lines to increase sales and gain market share.
- **Expansion.** Add products or services in existing lines, additional locations, production capacity, or distribution systems in an effort to increase sales.

- **Increase Focus.** Narrow the scope of the activities of your company by eliminating some products or services and marshaling your resources on your remaining lines to increase profit margin.
- **Diversity.** Add new product or services lines (or buy other companies), thus broadening the nature of the company, in an effort to expand the overall size and sales of the company and making you less dependent on your current products and services for survival.
- **Refocus.** Modify the essential nature of the company in terms of market, products, or services to respond to changing conditions or substantial business reverses.

### **Priorities**

To implement those strategies you must undertake specific actions. For instance, if your strategy is to promote and support, you will want to use any additional resources, either money or time, on your marketing efforts. If, on the other hand, your strategy is to diversify, you want to accumulate resources to expand on the introduction of new product lines or the purchase of new companies.

Specify the relative priority of each activity when it comes to the expenditure of funds. Then describe the specific priorities in detail and the amounts each area:

- Add Employees
- Add New Lines
- Increase Marketing
- Add Locations
- Add Capacity
- Increase Salaries
- Increase Inventory
- Increase Profits
- Retire Debts
- Increase Reserves
- Acquire Other Companies

### **Milestones**

How will you and your investors know that you are making sufficient progress towards your goals? If your long-term goal is to reach sales of U.S.\$3.0 million in year five, how much do you need in sales by year two and year three.

When assigning dates to your milestones, remember that everything takes longer than planned; problems always arise. One of the frustrations of all entrepreneurs or project managers is how long everything takes to get done. Progress comes slowly. Windows of opportunity close quickly. So, allow yourself plenty of time when you are establishing chronological goals. But, be very aware of the limited time you have to execute these goals in accelerating markets and declining economies.

State your specific future objectives and when you plan to achieve each one. For example your list of objectives might include the following events:

- Incorporation
- Lease Signed
- Key Employees Hired
- Initial Financing Secured
- Product Design Completed
- Trademarks/Patents Secured
- Strategic Partnerships Secured
- First Product Shipped
- Level of Sales Reached (\$)
- Level of Sales Reached (units)
- Level of Employees Reached
- Profit Level Reached
- Second Product Line Developed
- Second Product Line Tested
- Second Product Line Shipped
- Additional Financing Secured
- Debts Retired
- Additional Location Opened

### **Risk Evaluation**

Every enterprise involves risks. But you can take some of the hazards out of your business or project plan by anticipating different possible scenarios and considering how you will react. Investors make financing decisions based on an evaluation of the potential risks versus the potential rewards. They will naturally consider what risks your company represents, whether or not you outline such risks in your plan.

Showing that you have already assessed the potential risks in your business reassures that you are not just naively optimistic in your planning. You can assess the risks facing your company or project in each of the following areas and describe the steps you can take, or have already taken, to lessen these risks:

- Industry
- Market
- Competition
- Product Use
- Costs
- Suppliers
- Distributors
- Sales
- Technology

- Legal/Regulatory
- Management
- Financing
- Cash-Flow

### **Exit Plan**

When investors give you money; it's clear how they expect to get their money back and make a good return on their invested capital. Since investors become owners of the company or project their return comes in a different manner than banks and lenders. Venture capitalists eventually plan to liquidate their investment – to convert their holdings to cash or easily traded stock. Ideally, these investors want to know at the outset how they will get a substantial profit out their investment. They want to see your exit plan that will enable them to do so.

Considering your potential exit plan benefits you as well as investors. After all, you've devoted substantial time and money of your own to this company or project, and you should have an idea of the way in which you'll reap rewards. A number of options exist for exiting a company or project, although venture capitalists may be interested in only two or three of them.

Generally, sophisticated investors look for companies or projects that can go public (sell the stock that will be traded to the general public on stock exchanges) or that are candidates for acquisition by larger companies. Investors like these exist strategies because they get out of the company cleanly, usually with substantial rewards, based on just one event: either an IPO – an initial public offering (when the stock is first publicly traded on a stock exchange) – or the sale of the company. Overall, the usual exit strategies are as follows:

- **Go Public.** Sell shares in the company to the public, traded on a stock exchange or “over-the-counter.”
- **Acquisition.** Bought by another existing company.
- **Sale.** Bought by individuals.
- **Merger.** Join with an existing company.
- **Buy-out.** One or more stockholders buy out the interests of another.
- **Franchise.** Sell concept to others to replicate.
- **Hand Down.** Give company to the next generation.
- **Close.** End operations.

### **The Financials**

Numbers are merely the reflection of decisions you make. But, people in business usually fall into one of two categories: those who are fascinated with numbers or those who are frightened by them. Yet, numbers are nothing to be afraid of or for that matter fascinated with either. They just merely reflect other decisions you have made previously in your business or project planning.

If you decided to lease a new piece of equipment, there's a number associated to that decision. If your projected sales are at a certain level, there's a number attached to that decision as well. Every business decision leads to a number, and taken together these numbers form the basis of your financial reporting.

In financials, investors look for professionalism. Use standard formats. Hire an accountant, not so much as to come up with your numbers but to see your forms. Investors want to see a cash flow analysis as well as everything else in a standard annual report (balance sheet, income statement). You or an accountant should compare your numbers with those of existing companies. If they are very different from those of well-managed companies, they may be unrealistic.

### **Types of Financial Forms**

For the financial portion of your business plan or project proposal, the three most important forms are:

- **Income Statement.** Shows whether your company is making a profit.
- **Cash-Flow Projection.** Shows whether the company has the cash to pay its bills.
- **Balance Sheet.** Shows how much the company is worth overall.

Other forms include:

- **Sources and Use of Funds.** Shows where you will get financing for your business and how you will spend the money invested.
- **Break-even Analysis.** Shows the point at which sales exceed costs and you begin to make a profit. Advisable for internal planning.
- **Assumption Sheet.** Shows those reading your financial statements how you determined the figures used.

### **Time Frames Your Forms Should Cover**

If possible, find out what periods of time your lending institution or potential investor wants to see and prepare your forms accordingly. Otherwise, prepare forms to cover the time frames cited below.

- **Income Statements.** First year: monthly projections. Years two and three: quarterly projections. First three to five years; annual projections. Existing businesses: actual income statements for the last three years.
- **Cash Flow.** First year: monthly projections. Years two and three: quarterly projections.
- **Balance Sheet.** First year: quarterly projections. Years two to five: annual projections. Existing businesses: current balance sheet and actual balance sheets for the last two years.

## Guidelines for Preparing Your Financial Forms

In preparing your financial forms, you will almost certainly have questions as to how to attribute certain expenses for your business or project. That is why it is imperative to have qualified staff members who can answer these questions and prepare the proper financial forms. When preparing your financial forms, keep these imperatives in mind:

- **Be Conservative.** Avoid the tendency to paint the brightest picture possible; doing so reduces your credibility.
- **Be Honest.** Experienced financing sources will sense dishonest or manipulated figures; expect to be asked to justify your numbers.
- **Don't Be Creative.** Use standard formats and financial terms; otherwise you look inexperienced to financing sources.
- **Get Your Accountant's Advice.**
- **Follow the Practices Used in Your Industry.**
- **Choose the Appropriate Accounting Method.**
- **Be Consistent.** Make a decision and stick with it for all your accounts, otherwise you can't compare one year's figures to another.

### The Plan's or Project Proposal's Appendix

One of the frustrations of developing a business plan or project proposal is that you are limited in how much information you can include. You may be very excited about the prospects for your company or project or feel you need to explain its complex details, but you should not go into great detail about everything in the business plan itself. Instead, your plan's or proposal's Appendix is the proper place to provide information that supports, confirms and reinforces conclusions you reach in the plan.

If you choose to include an Appendix, try to follow these guidelines:

1. Your plan must stand on its own; many people do not read appendices, Especially on the first perusal of a business plan or project proposal.
2. You don't have to include an Appendix at all: add one only if you believe the additional information is compelling.
3. Do not put totally new information in the Appendix; the material in the appendix should be referred to in the plan itself.
4. Keep it short. The appendix should be no longer than the plan itself. If your plan and Appendix are both fairly long, consider putting the Appendix in a separate binder.

## **Appendix Content Options**

The kinds of information described below are appropriate for including in an Appendix. Notice that this material all supports information already in your plan.

- **Letters of Intent/Key Contracts**
- **Endorsements**
- **Photos**
- **List of Locations**
- **Market Research Results**
- **Resumes of Key Managers**
- **Technical Information**
- **Manufacturing Information**
- **Marketing Material**
- **Work Schedule**
- **Floor Plan**
- **Competitive Analysis**
- **Marketing Budget**
- **Equipment Schedule**