

Engineering Entrepreneurship: Planning your business

ENGR 4302/5302; EE 4302/5302



**WHAT EVERY ENGINEER
SHOULD KNOW ABOUT**

STARTING A HIGH-TECH BUSINESS VENTURE

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Boca Raton London New York

CRC Press is an Imprint of the
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Note:

In this course, we have a collection of lectures composed of decks of slides. Often, as in this deck, there is a lot of information/words on each slide. The instructors will not cover every point in detail. We ask you to review/read these slides over; there is typically sufficient coherent material for efficient information transfer/learning to be possible.

There are hundreds of textbooks on entrepreneurship from the business point of view. There are only a few from the engineering side—all of these are flawed in one way or another. We are doing the best we can.

Make sure you write a business plan because it will crystallize your thoughts to communicate your ideas with somebody else. Make sure that once you have written your business plan, you have somebody read and critique it and ask you questions. It doesn't have to be a cookie-cutter business plan with glossy pages and lots of information. Essentially it's a plan that says what the company is going to do, what problem it is going to solve, how big the market is, what the sources of revenue for the company are, what your exit strategy is for your investors, what amount of money is required, how you are going to market it, what kind of people you need, what the technology risks are, marketing risks, execution risks. Those are the fundamentals of what goes into a business plan, and many people have it in their heads but don't write it down.

Sabeer Bhatia
Cofounder of Hotmail

- **Problem solved**
- **Market size**
- **Revenue sources**
- **Exit strategy**
- **\$\$ needed**
- **Markets and marketing approach**
- **Type of team**
- **Technical risks**
- **Marketing risk**
- **Execution risk**

HOW LONG WILL IT TAKE?

Experts suggest that the business planning process could take as few as 100 hours and up to 2,000 hours. The more common range given by experts is between 200 and 500 hours, oftentimes divided among a team of individuals building the plan. These hours can appear to be very deceptive. Much of the background and market research done in preparation of annual budgets or for other planning purposes can be used in the preparation of a business plan.

Surveys of entrepreneurs suggest that a business plan for a new business will take between 160 and 640 hours to research and prepare. For established businesses, the process will take less time to prepare, usually between 40 and 160 hours, depending on the amount of work that has been done previously.

Message: It takes time to get this done—start now

Two types of business plans

► External plan

- Used as a tool to highlight the plans for the business to interested third parties, including potential investors.

► Internal plan

- Used to set goals and objectives for the business and track progress.
- Usually targeted at the board of directors, the management team, and others involved in the operations of the business.

WHAT ARE THREE MAIN TYPES BUSINESS PLANS?

A business plan is used for various purposes and will be prepared for various audiences. Listed below is a summary of three typical times a startup business will engage in business planning.

- **Business concept summary:** The founder's first attempts to lay out the reason he is creating the business. What is the market potential? What niche will our product fill? Who are the competitors? What is the "homerun" potential?
Is your idea disruptive or transformative?
- **External business plan:** Depending on the needs of the third party, the company will prepare specific planning documents and resources to convince an outside investor to provide funds for the business. How does your investment fit our needs? What are the key metrics we judge our business by? Why is this approach the "right" move for the investor?
Raise \$\$!
- **Internal (or strategic or operational) business plan:** The founders and management team will undertake a comprehensive evaluation of the business and prepare a detailed and thorough plan to be used to guide the business. What are key milestones? What are the hiring needs? What will the product development timetable be? What will the financial picture be today, this year, and three to five years from now?
Get organized-be successful

In each case, the foundation of a thorough business planning process will be research, from both various reference sources available to the entrepreneur as well as anecdotal research available from key advisors and personal resources.

PLANNING TO SUCCEED

What could happen

Once you set up your business and received funding, your business plan has found its way into the scrap heap.

Watch out for

Successful businesses recognize the importance of strategic planning and use their initial business plan (with tweaks and modifications along the way) as a part of the regular operations. Many investors will ask for regular tracking of aspects set out in your business plan at board meetings or investor presentations. Strategic planning is an important part of a successful business strategy, so you should find ways to make goals tangible to all parts of your organization. Companies with a technical focus and founding team oftentimes struggle to maintain the focus and direction during their initial development stages.

TIP: Incorporate strategic planning into your business' fabric.

Track your progress—meet your milestones.
A disorganized company goes nowhere.

DOES PREPARATION OF A BUSINESS CONCEPT SUMMARY OR A BUSINESS PLAN VIOLATE THE OBLIGATIONS TO YOUR CURRENT EMPLOYER?

In most cases, no. Although it could seem underhanded to prepare a business plan for your startup while still employed, preparing your business plan or researching a startup business is not illegal or unethical while still employed. Here are some suggestions to eliminate potential problems when you depart:

- Avoid working on your business plan on company time
- Avoid recruiting coworkers to join your new company
- Try not to start a business that directly competes with your current employer before you depart
- Refrain from using company resources (computers, e-mail, copiers) in the preparation of your plan
- Continue to perform your job duties and provide the expected effort at your job

Remember:

E-mail is a permanent record. If you want something kept private, don't put it in an email!

BUSINESS PLAN PREPARATION RESOURCES

Below are additional publications available online for preparing your business plan:

- *Outline for a Business Plan*, Ernst & Young LLP, 1997
- *Guide to Producing a Business Plan*, Ernst & Young LLP, 2001
- *Writing an Effective Business Plan*, Deloitte & Touche, Fourth Edition, 2003
- *Hurdle: The Book on Business Planning*, Tim Berry

Remember, you can literally find hundreds of resources available to assist entrepreneurs with business plan preparation, such as software, books, online publications, websites, consultants, and articles. Don't let information overload derail your business plan. Use applicable resources and information from personal contacts, but don't lose track of the purpose of the business plan: to assist you as an entrepreneur!

Hurdle by Tim Berry is free and uploaded on Canvas

There is much topical overlap in the literature

USING BUSINESS PLANNING SOFTWARE

Many entrepreneurs will decide to use a software package to aid in business planning. Certain software packages will simply provide business plan samples and templates, whereas more advanced systems will analyze your plan, assist with details of the plan preparation, and offer ongoing tracking to the business plan goals and milestones. Expect to pay from \$39.99 to \$299.99 for a typical business planning software package.

What to consider when choosing a business planning software package?

- Ease of installation and setup
- Price
- Time savings
- Simplicity
- Integration with other software tools
- Customer support
- Robust features and applications

USING BUSINESS PLANNING SOFTWARE (CONTINUED)

Top-rated business planning software packages include the following:

- Business Plan Pro 11.0; Business Plan Pro Premier Edition 11.0; and Marketing Plan Pro 11.0 (by Palo Alto)
- Plan Write for Business; Plan Write Expert Edition; and Plan Write for Hi-Tech Marketing (by Business Resource Software)
- Fundable Plans (by Fundable Plans)
- BizPlan Builder 2008; and BizPlan Financials 10 (by Jian)
- PlanWrite; PlanWrite Expert Edition; and Plan Write Hi-Tech Marketing Planner (by PlanWare)
- Business 10.0 (by PlanMagic)

For a full review of more than 20 different business planning software titles, please see the table at the end of this chapter.

Note: this is old data

SAMPLE BUSINESS PLANS ONLINE

The following websites offer free sample business plans that you can download:

- Center for Business Planning (<http://businessplans.org/businessplans.html>)
- Bplans.com (http://www.bplans.com/sample_business_plans/index.cfm)
- Entrepreneur.com (<http://entrepreneur.com/services/sampleplans/>)
- About.com: Small Business Information (http://sbinformation.about.com/od/bizplansamples/Business_Plan_Samples.htm)

Most business planning software packages offer sample business plans with the purchase of the software.

KEYS FOR YOUR BUSINESS PLAN

The three most important considerations for a business plan are as follows:

- Be brief
- Be specific
- Be honest

In all writing:
Get to the point, use no unnecessary words
The Strunk&White way.

ACCORDING TO VENTURE CAPITALISTS

What is the best way to make a good first impression with your business plan?

- The business opportunity is presented in a clear, exciting manner.
- The entrepreneur understands that projections are, at best, hopeful guesses and tries to base the projections on realistic assumptions.
- The entrepreneur makes as full disclosure as possible of the pitfalls of the business as well as its strengths.
- The plan is carefully proofread and edited until it does not contain any errors in grammar or math.
- The plan shows why the company and its products are different and significantly better than what is out there in the marketplace.
- The company has taken the time to study and understand its competitors and can address their strengths and possible weaknesses.
- The plan contains enough information to tell a complete story about the company but is presented in a concise, tight writing style.
- The plan does not make exaggerated claims about the product or the management.
- The entrepreneur knows the plan by heart before making a presentation to the potential investor.

Source: Profit Dynamics Inc.

ACCORDING TO VENTURE CAPITALISTS

What is the most common mistake entrepreneurs make when completing their company's business plan?

- Stating that the company had no competition or underestimating the strength of competitors — 32% of respondents
- Not clearly explaining the opportunity — 27%
- Disorganized, unfocused, or poor presentation — 12%
- Miscalculation of market share and market size — 9%
- Failing to describe a sustainable competitive advantage — 9%
- Failing to address the risks of a venture and failing to contain a contingency plans for coping with the risks — 9%

Source: Profit Dynamics Inc.

It is easy to make these mistakes!

Key components of a business plan

- 1) Executive summary
- 2) Product, service, or technology
- 3) Market opportunities
- 4) Competition
- 5) Marketing and sales
- 6) Financing and liquidity plan
- 7) Management

WHAT ARE INVESTORS LOOKING FOR?

The following are key considerations for investors to consider when preparing a business plan for a high technology business:

- What level of financing is needed in the next 12 months?
- What level of financing does the company project to need over the next two to five years?
- Where is the company allocating money it raises and how does this contribute to the growth plans of the business?
- What is the expected return on investment (ROI) for the investor?
- What are the company's exit strategies (buyback, sale, or IPO) and how common is this strategy for companies in the market?
- What amount of ownership is the company willing to provide to an investor?
- Is the company willing to condition receipt of funds on achieving any milestones or targets?
- How will the investor be involved with the company (board of directors, management, advisory, etc.)?

Don't make a reader hunt for this information; be sure to include this in the executive summary that is readily available to a potential investor.

Investors: \$\$\$\$\$!

1) Executive summary objectives

- ▶ Provide a clear statement of the business opportunity
- ▶ Introduce the management team and highlight their skills and experience
- ▶ Detail financial projections based on clear assumptions
- ▶ Identify the short- and long-range plans for the company
- ▶ Explain the how an investor can achieve significant returns on an investment in the business

GRABBING THEIR ATTENTION

According to Ernst & Young, some 85% of business plans are not seriously considered by investors. So what should you include in your executive summary that will capture the interest of a potential investor?

- Our product is targeting a sizeable market with unmet needs.
- Our business has an innovative and attractive approach for serving this market.
- We have already had some success with our approach.
- There are other companies similar to us that have had successful exit events.

A potential investor is looking for a business plan with tangible, specific, and clear evidence detailing each of these key statements. Build an executive summary that clearly answers these questions: “Can this business idea be a big success?” and “Why is this opportunity compelling?”

Preliminary successful prototype helps

GIVING THE VENTURE CAPITALIST THE INFORMATION NECESSARY TO MAKE A DECISION

According to Cindy Nemeth-Johannes, these are the things a venture capitalist wants to read in your executive summary:

- Here's our estimate of the market.
- The reason why you're going to be a market leader.
- How will you benefit your customers? How much will you benefit them? Why will they choose to do business with you?
- How are you going to prevent competition from going after your market and your customers?
- What does your management team look like? What have they already done? Do you have any advisors who will carry a lot of weight?
- How much money are you looking for, what are you going to do with it, and what is the current financial situation?
- What have you already accomplished? **List up to eight things** that you've done and don't restrict yourself to the product itself. Sure, they want to know that you can make the product work, but they also want to know what parts of your team are in place and whether you've come to agreements with any strategic partners.
- What are the milestones you intend to accomplish?
- When do you plan your exit strategy? What do you think the company will be worth then? Keep your numbers realistic or they'll figure that you're just a dreamer, not a doer.

Prove you can deliver.

Source: "How Do Venture Capitalists Evaluate Your Executive Summary?" (http://abcsmall-biz.com/bizbasics/gettingstarted/vencap_eval.html).

Well-written executive summary

- ▶ An introductory paragraph to draw in the reader and identify the key opportunity the product or service will fill
- ▶ A company overview, including information on the organizational form, the date of formation, stage of funding/development, location, and milestones achieved to date
- ▶ A description of the core proprietary or licensed technological strengths
- ▶ A summary of short-, medium-, and long-term operational goals, implementation and growth strategies, and plans to attain and sustain market leadership
- ▶ A list of the factors necessary for the business to succeed- **what do you think?**
- ▶ Information on the market, the market size, and targeted or likely customers
- ▶ A clear description of the key benefits, features, and strengths of your product, service, or technology
- ▶ Profiles of key management and advisors
- ▶ Information on the financing needs of the business, including amounts raised thus far, future funds being raised, and the use for the funds
- ▶ A description of the most likely exit strategies for the company
- ▶ Financial highlights and projections
- ▶ Summary of the technology, team, and market opportunity

SAMPLE OF BUSINESS PLAN LANGUAGE

Executive Summary: Management Team

High-Tech Startup Inc. has a solid management team with years of e-commerce startup experience. Each of the founders has successfully founded and sold previous Internet startups. Each member of the founding team brings a wealth of experience to the company, including e-commerce, Internet strategy, application architecture, advertising models, content development and deployment, and business development.

Tina Talented, Cofounder/CEO

- Founded eSuccess Corporation
- Led product strategy, planning, and development of webSuccess, an Internet commerce product
- Sold eSuccess to MajorWeb Inc. (Nasdaq: MWI) in 2006
- Headed business development for MajorWeb's e-commerce efforts
- 16 years of relevant experience in operational and technical management in the communications arena

In your plan, just say who you are today, key accomplishments, and when you plan to complete your degree. Don't make stuff up.

Ernie Engineered, Cofounder/Vice President of Engineering

- Founded vWorld Enterprises while a PhD student at State Tech University
- Helped vWorld attain market leadership position in tracking system for virtual reality applications
- Eight-year veteran of various technical product development

Seth Sellers, Cofounder/Vice President of Sales and Marketing

- Founded eMarket Inc., an online marketing software company
- Directed strategy and implementation of product marketing for eMark
- Sold award-winning OscarGrammy.com entertainment website to Newsite.com
- Developed comprehensive Internet strategy for World Telecom Inc.

SAMPLE OF BUSINESS PLAN LANGUAGE

Executive Summary: Critical Success Factors

The business plan that follows discusses the factors that make the company a well-positioned entrant in the competitive e-commerce arena:

- The technological breakthrough will overcome the inadequacies of alternative technical solutions
- Low-cost and high-performance proprietary technology delivering services adhering to/surpassing industry standards
- Technology is already operational (or in clinical trials)
- Management and advisory team with 60 years of combined management, consulting, research and development experiences and a proven track record for success
- Favorable regulatory environment
- A sizable local, national, and international market with tremendous potential for growth

2) Product, service, or technology objectives

- ▶ Provide a clear description of the product, service, or technology
- ▶ Describe the current stage of product development
- ▶ Identify upcoming development milestones such as beta tests, clinical trials, or product releases
- ▶ Explain planned development for future products or services and identify the ongoing research and development efforts

Well-written product, service, or technology section

- ▶ References to intellectual property found in your technology
- ▶ Illustrations, screen shots, or other images that can provide a visual representation of the technology or product
- ▶ A clear explanation of the features, contrasted with other competing technologies

3) Market opportunities objectives

- ▶ Describe the overall market conditions
 - Size, growth rates, trends, and key companies involved
 - Regulatory landscape for the market—like the FDA
 - Opportunities, unmet consumer needs, and weaknesses of existing products or technologies [Facebook vs. Ello?]
- ▶ Identify the target markets for the technology
 - For each targeted end user, provide demographic information, trends in consumer activity, buying patterns, and price sensitivities—use public/private data
 - Identify the specific purchasing process for any competing products and for your potential technology

DEFINING YOUR MARKET

What could happen

For example, optical biosensors vs sensors

You've been told that defining your market is a key component of the business plan. How do you define the market in a realistic manner?

Watch out for

Don't say: I will get 5% of the \$10B sensor market

Savvy investors don't want you to quantify the total available market. Focus on the target market for your product and provide a realistic estimate of that marketplace. Also provide the key assumptions used to reach your market estimate. Define the potential customers in the marketplace (be specific where appropriate) and identify the party within the organization that would make buying decisions. If you provide a five-year market-share forecast, identify what would be likely customers you would need to capture to reach that level. As one investor said, "I haven't seen a single business plan that was able to give me a realistic estimate of their target market." Use the help of potential investors to put together data for your market penetration and be willing to share your assumptions used.

TIP: Focus on providing a target market and provide assumptions used to reach your market size.

In your class-project plan, do 5 year projections

Market research

<https://www.businesswire.com/news/home/20180214005567/en/Global-Polarizer-Film-Market-Report-2018-Trends>

Scope of the Report

Polarizer Film Market by Technology [Volume (M Sqm) and \$M shipment analysis for 2012 – 2023]: Super Twisted Nematic (STN) Thin Film Transistor (TFT) Twisted Nematic (TN)

Polarizer Film Market by End Use [Volume (M Sqm) and \$M shipment analysis for 2012 – 2023]:
Televisions Monitors Notebooks Mobile Phones Others

Key Topics Covered:

1. Executive Summary
2. Market Background and Classification
3. Market Trends and Forecast Analysis from 2012 to 2023
4. Market Trends and Forecast Analysis by Region
5. Competitor Analysis
6. Growth Opportunities and Strategic Analysis
7. Company Profiles of Leading Players

Nitto Denko Corporation

LG Chem

Fujifilm

Sumitomo Chem

Samsung SDI

Dexerials Corporation

Polatechno Co., Ltd.

Shenzhen Sunnypol Optoelectronics Co., Ltd.

BenQ Materials Corporation

For more information about this report visit

https://www.researchandmarkets.com/research/g89b9s/global_polarizer?w=4

Also: Dun&Bradstreet
Frost&Sullivan

USING U.S. GOVERNMENT INFORMATION

- **Bureau of Labor Statistics (<http://www.bls.gov>)**: Identifies trends in hiring by occupation, demographic, geography and several other criteria.
Example: If your product will be targeted at nurses, using the Bureau of Labor Statistics data, you would be able to show that there were 2,505,000 registered nurses in 2006, and the Bureau of Labor Statistics projects that these numbers will increase to 3,092,000 by 2016, an increase of 23.4%.
- **Census Bureau (<http://www.census.gov/econ/www/index.html>)**: Provides data on the total number of establishments, employment, payrolls, and number of establishments by nine employment-size classes by detailed industry.
Example: If you plan to market your product or service to physician's and dentist's offices and will market only to Chicago (your headquarters) in the first year, you can use this information to show that, in 2005, there were 6,843 physician's offices and 4,531 dentist's office in the Chicago metro area.

This can be useful in your market forecasting

Trade mags can be useful–info+ads
Professional societies+exhibits

Well-written market opportunities section

- ▶ Details on important trends in the industry that will affect your business
- ▶ Graphs, charts, and illustrations that visually explain the industry and its patterns
- ▶ Insights on purchaser demographics
- ▶ Reference to outside experts
- ▶ Information on each target market
 - Rationale for selecting particular market for initial efforts
 - Details on the size and demographic
 - Existing demand
 - Advantages and disadvantages your business has in the target market
 - Sales and distribution methods required to reach this market

4) Competition objectives

- ▶ Offer insights into the competition
 - Direct competitors
 - Indirect competitors
 - Potential competitors
- ▶ Identify the barriers to entry for your technology that may protect you from competitors
 - Intellectual property
 - Partnerships
 - Regulatory obstacles—FDA takes a long time!

Identify competitor strengths/weaknesses

	Importance to customer	High-Tech Startup Inc.	Competition #1	Competition #2	Competition #3
		Rating (1–10)	Rating (1–10)	Rating (1–10)	Rating (1–10)
Advertising					
Appearance					
Expertise					
Location					
Price					
Product					
Quality					
Reliability					
Reputation					
Sales strategies					
Selection					
Service					
Stability					

Identify competitor strengths/weaknesses

	High-Tech Startup Inc.		Competition #1		Competition #2		Competition #3	
	Strength	Weakness	Strength	Weakness	Strength	Weakness	Strength	Weakness
Advertising								
Appearance								
Expertise								
Location								
Price								
Product								
Quality								
Reliability								
Reputation								
Sales strategies								
Selection								
Service								
Stability								

Well-written competition section

- ▶ Market share data on each competitor, including graphical representations
- ▶ Comparisons of strengths and weaknesses of competitors
- ▶ Identification of current sales and marketing approach of each competitor
- ▶ Current and potential strategic partners in the target markets

Some of this info may be difficult to obtain

5) Marketing and sales

Strategy: 4 Ps of marketing!

- ▶ Product
- ▶ Price
- ▶ Placement (distribution)
- ▶ Promotions

Objectives:

- ▶ Identify the sales process (how do customers purchase the product, by direct sales, retail, channel partners, etc.?)
- ▶ Detail the purposes of your marketing strategy
- ▶ Explain each of the 4 Ps and how the business will use each to generate revenue for the business

INTEGRATING THE 4 Ps INTO YOUR BUSINESS PLAN

Product: What are the key aspects in identifying the product or service to the end-user or consumer?

- Consumer benefits
- Competitive advantages
- Product positioning strategies

Definition of 'Price Elasticity Of Demand'
A measure of the responsiveness of the quantity demanded of a good to a change in its price. It is calculated as:

$$= \frac{\% \text{ Change in Quantity Demanded}}{\% \text{ Change in Price}}$$

Price: What are the key aspects to the pricing strategies of your company?

- Price elasticity
- Comparison pricing
- Historical industry trends in pricing
- Your future pricing strategy
- Purposes of your pricing strategy: to gain market share, to establish a price-quality reputation, to increase cash flow, to gain major customers

PRODUCT POSITIONING

"Product positioning" is a marketing technique intended to present products in the best possible light to different target audiences.

The method is related to "market segmentation" in that an early step in major marketing campaigns is to discover the core market most likely to buy a product—or the bulk of the product.

Once segmentation has defined this group ("active seniors," "affluent professional working women," "teens") the positioning of the product consists of creating the message likely to reach this group.

Positioning involves symbol and message manipulation, including displays and packaging.

<http://www.inc.com/encyclopedia/product-positioning.html>

INTEGRATING THE 4 Ps INTO YOUR BUSINESS PLAN (CONTINUED)

Place (distribution): How will your product or service reach consumers?

- Industry sales channels
- Targeted sales channels
- Strategies for growth of distribution

Promotion: How will your product or service reach consumers?

- Identify target markets
- Offer marketing priorities
- Provide a marketing budget and short- and long-term marketing plan

Well-written marketing and sales section

- ▶ A clear explanation of the customer sales process
- ▶ Specific targeted customers and a detailed approach to reach these customers
- ▶ Thorough explanation of the pricing strategies of competitors
- ▶ Explanation of the aims of your marketing strategies

6) Financing and liquidity plan

Objectives

- ▶ Lay out the key financial projections
 - Projection for revenues
 - Projections of expenses by key category (research and development, sales, administrative)
 - Capital requirements
- ▶ Identify the exit strategy for the company

Projections

- ▶ Short-term capital needs used to pay current operating expenses
- ▶ Projected costs for research and development
- ▶ Acquisition of equipment, buildings, and land
- ▶ Expected costs of various employees
- ▶ Timeline for go-to-market

SAMPLE OF BUSINESS PLAN LANGUAGE

Financing Section

The Company has received initial financing of \$300,000 from the founders and private investors. The company expects to close the first round of financing in March of 2009 and to have raised \$3.5 million. The company plans to begin a second round of financing in February of 2011, raising an additional \$4.9 million.

The Company's technology is currently operational in a beta site for 150 customers. Expansion of the beta site is anticipated to begin in early 2009, with a broader and more intensive trial period for later in the year. Full-service commercial launch dates are being evaluated. The company expects the second financing round to fund the test phases and bring the company to the point of readiness for commercial service rollout.

SAMPLE OF BUSINESS PLAN LANGUAGE

Financing Section

We expect to raise \$3 million in the current round of financing. These funds will be used primarily to fund product development and marketing of our product, eCom Success Software, and additional staffing in operations, testing, support, and administration. Beyond this, we will require additional capital to carry out our marketing, sales, and operations plans. The operating and financial forecasts attached to this document assume that we will close an additional \$3 million round of financing by the end of calendar year 2009 and another \$6 million (or more) in the following year. Market and competitive responses could accelerate our need for capital.

SAMPLE OF BUSINESS PLAN LANGUAGE

Exit Strategy Section

We expect to be able to achieve liquidity for our shareholders within 36–48 months, via an IPO, or a sale, or merger of the company. Although we are not actively seeking to enter into such a transaction, we are approached periodically by potential merger or acquisition candidates. Given the rapidly developing professional internet services industry and the proliferation of well-financed companies in this market space (e.g., Big Web Inc., ERP Software Corp., Softco Co., etc.), we think accelerating our success in the marketplace will make us a highly attractive target for acquisition by these firms who seek to add strategic components such as our e-commerce solutions to their product and service offerings.

SAMPLE OF BUSINESS PLAN LANGUAGE

Financial Assumptions

Revenue Assumptions

High-Tech Startup Inc. has segmented the anticipated market of e-commerce users into major e-tailers (defined as top 100 online retailers as reported by the Online E-tailing Review) and smaller e-tailers (all other e-commerce users). The relevant assumptions and estimates needed to estimate the revenue drivers are defined as follows (*truncated for example purposes only*):

- **Number of major and smaller e-tailers:** The total number of e-commerce users adopting the HTWeb product and using it to create e-commerce transactions on a daily basis, segmented between major and smaller users. Based on information from the Online E-tailing Review, the top 100 e-tailers account for 62% of the transactions . . .
- **Average number of transactions per day per site:** The number of transactions per day per site, segmented between major and smaller users. The initial baseline estimate for the major sites (based on Online E-tailing's survey of 34 of the top 100 e-tailers) is 8,100 transactions . . .
- **Average dollar size per transaction:** The average dollar amount of each transaction, segmented between major and smaller users and segmented by industry categories is . . .

SAMPLE OF BUSINESS PLAN LANGUAGE (CONTINUED)

Expense Assumptions

The operating expenses are based on estimated quarterly salary amounts and headcount for the following functional areas:

- Executive
- Marketing
- Sales and Support
- Engineering
- Professional Services
- Administrative

Headcount increases represent the expected requirements to meet the anticipated growth of the company. Certain other cost areas are based on percentages of payroll costs (benefits, training, recruiting, etc.) or per-head costs (facilities and services, and equipment). All other costs are based on the estimated growth and needs of the company, such as nonsalary sales and marketing costs and other professional services.

SAMPLE OF BALANCE SHEET PROJECTIONS

High-Tech Startup Inc.

	Beginning Balance Sheet		End of Fiscal Year 1		End of Fiscal Year 2		End of Fiscal Year 3
ASSETS:							
Cash	\$ 1,500,000	\$	1,601,727	\$	8,764,526	\$	26,911,533
Trade Accounts Receivable	\$	\$	457,756	\$	1,949,045	\$	4,044,763
Other Current Assets	\$	\$	25,000	\$	50,000	\$	75,000
Total Current Assets	\$ 1,500,000	\$	2,084,483	\$	10,763,571	\$	31,031,296
Property, Plant, and Equipment	\$ 2,000	\$	96,163	\$	284,813		598,263
Net Intangible Assets,	\$ 15,000	\$	12,000	\$	9,000	\$	6,000
Net Total Assets	\$ 1,517,000	\$	2,192,646	\$	11,057,383	\$	31,635,558
LIABILITIES AND SHAREHOLDERS' EQUITY:							
LIABILITIES:							
Accounts Payable	\$	\$	(165,896)	\$	(319,623)	\$	(563,647)
Accrued Expenses	\$	(5,000)	\$	(164,075)	\$	(283,307)	\$
Deferred Revenue	\$	\$	(70,000)	\$	(175,000)	\$	(245,000)
Total Current Liabilities	\$ (5,000)	\$	(399,971)	\$	(777,930)	\$	(1,245,039)
SHAREHOLDERS' EQUITY:							
Preferred Stock/Common Stock and Additional Bid-In Capital	\$	(1,512,000)	\$	(1,512,000)	\$	(1,512,000)	\$
Accumulated Deficit/(Earnings)	\$	\$	(280,675)	\$	(8,767,453)	\$	(28,878,519)
Total Shareholders' Equity	\$ (1,512,000)	\$	(1,792,675)	\$	(10,279,453)	\$	(30,390,519)
Total Liabilities and Equity	\$ (1,517,000)	\$	(2,192,646)	\$	(11,057,383)	\$	(31,635,558)

Balance Sheet Assumptions:

Accounts Receivable	Assume Days Sales Outstanding of 45 days
Property, Plants, Intangible Assets	Assume an average useful life of four years and use the half year convention and Equipment Estimated useful life of five years and assuming no capitalization of software development costs
Accounts Payable	Assume 45 days outstanding for accounts payable
Accrued Expenses	Assume salary and benefits paid in 24 periods, one period accrued and due at year end Additional accruals recorded in amounts of \$75,000 in years 1 and 2 and \$100,000 for the third year
Deferred Revenue	Deferred Revenue recognized over 12 month license contracts, assuming a half year convention
Equity	\$1.5 million received today

Assets–Liabilities=Capital=Equity

Using the half-year convention, a taxpayer claims a half of a year's depreciation for the first taxable year

SAMPLE INCOME STATEMENT

High-Tech Startup Inc.

	Fiscal Year 1	% of Total Revenue	Fiscal Year 2	% of Total Revenue	Fiscal Year 3	% of Total Revenue
Revenues:						
License Fees	\$ 70,000	1.92%	\$ 245,000	1.56%	\$ 420,000	1.28%
Direct Customer Sales	\$ 3,572,910	98.08%	\$ 15,468,921	98.44%	\$ 32,317,519	98.72%
Total Revenue	\$ 3,642,910		\$ 15,703,921		\$ 32,737,519	
% Change	N/A		331.08%		108.47%	
Costs of Revenue:						
Cost of Goods Sold and Maintenance	\$ 197,773	5.43%	\$ 605,226	3.85%	\$ 1,217,720	3.72%
Gross Profit	\$ 3,445,137	94.57%	\$ 15,098,695	96.15%	\$ 31,519,798	96.28%
Operating Expenses						
Sales and Marketing	\$ 1,548,004	42.49%	\$ 4,089,019	26.04%	\$ 7,553,735	23.07%
Research and Development	\$ 709,107	19.47%	\$ 1,021,141	6.50%	\$ 1,730,471	5.29%
General and Administrative	\$ 907,351	24.91%	\$ 1,501,756	9.56%	\$ 2,124,526	6.49%
Total Operating Expense	\$ 3,164,462	86.87%	\$ 6,611,916	42.10%	\$ 11,408,732	34.85%
Income from Operations	\$ 280,675	7.70%	\$ 8,486,778	54.04%	\$ 20,111,066	61.43%
Number of Employees	27		63		118	
Revenue per Employee	\$ 134,923		\$ 249,269		\$ 277,437	

High-Tech Startup Inc.

January 1, 2009

CASH BURN BUDGET

	Opening Balance	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
OPENING CASH AMOUNT													

OUTGOING CASH

Accounting and legal													
Car, delivery, and travel													
Insurance													
Interest													
Internet, Telephone													
Marketing, sales, advertising													
Outside services													
Payroll expenses (taxes, etc.)													
Purchases													
Rent													
Repairs and maintenance													
Supplies (office and operations)													
Taxes													
Utilities													
Wages													
Other expenses (specify)													
Other (specify)													
SUBTOTAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital purchase (specify)													
Loan principal payment													
Other startup costs													
Owners' withdrawal													
Reserve and/or escrow													
TOTAL CASH PAID OUT	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CASH RECEIPTS

Cash sales													
Collections fm cash receipt accounts													
Loan/other cash inj.													
TOTAL CASH RECEIPTS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CASH AVAILABLE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CLOSING CASH AMOUNT	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

7) Management objectives

- ▶ Profile key management team members and organizational responsibilities
- ▶ Highlight technical advisory board and strategic advisory board members
- ▶ Identify key support resources
 - Legal counsel
 - Patent/intellectual property counsel
 - Key consultants
 - Accountant
- ▶ List key management team members to be added and expected timetables

Well-written **management** section

- ▶ Relevant experience of the management team
- ▶ Description of the management philosophy of the team
- ▶ Explanation of how current team members will complement one another
- ▶ Identifying key needs of the management team and timetable for hiring

SAMPLE OF BUSINESS PLAN LANGUAGE

Management Section

High-Tech Startup's management team combines exceptional engineering and product development experience with proven management and financial expertise. All members of the core team have been involved in startup ventures. The team is dynamic, cohesive, and well-balanced with strong technical, financial, and operations talents. The full team has been collaborating together for several months. Each member has broad capabilities and can successfully meet the diverse challenges of a technical startup.

Tina Talented, President and CEO

Tina has 16 years of experience in operational and technical management in the communications arena and is currently a consultant to venture-backed startup TechTop Inc., where she has participated in the company's development from concept through funding and initial product development. After founding eSuccess Inc. and spearheading its e-commerce product strategy, planning, and business development efforts, Tina sold the company to MajorWeb Inc. in 2006. Previously, Tina was the Division Manager and Executive Vice President of Product Development at a small privately funded startup in Singapore. In that position, Tina was responsible for the financial, operational, marketing, sales, and technical aspects of a design and development facility in Asia. Tina has also held various management and technical positions at HT&S Worldwide and Service Software. She holds undergraduate and advanced degrees from the College of Tech & Trade in Singapore and the University of Big State.

Appendix: Only include additional information that is important and compelling

- ▶ Financial projections and detailed financial statements
 - Income statement (profit and loss)
 - Cash flow/cash burn
 - Balance sheet
 - Financial ratios
- ▶ Resumes or expanded biographies
 - Key management team
 - Technical or scientific advisory board members
- ▶ Market research
- ▶ Marketing material
- ▶ References from customers or product users
- ▶ Description of patents, trademarks, copyrights, and licenses
- ▶ Detailed profiles of competitors
 - Company history
 - Detailed descriptions of products and services
 - Reviews of products or services
 - Pricing and sales strategies
- ▶ Media or press reporting

Other details for a business plan

- ▶ On the cover page, include the following information:
 - Company name and logo
 - Contact information
 - Date of preparation
 - Confidentiality clause
- ▶ Triple check for any misspellings
- ▶ Limit the use of technical vocabulary or provide appropriate definitions
- ▶ Use graphs, pictures, images, and charts to make the business plan more appealing to the eye
- ▶ Provide detail on all the assumptions used in your business plan
- ▶ Use **bold**, *italics*, and underline to highlight text
- ▶ Extract key provisions and highlight in sidebars
- ▶ Be sure that the business plan is pleasing to the eye



“STRETCHING” THE TRUTH IN YOUR BUSINESS PLAN

What could happen

Your business plan initially contained projections and other information that was possible. However, you've now learned that these results cannot be obtained. Do you need to inform potential investors or is this just “puffery” and part of the sales process?

Watch out for

Making a statement that you know is untrue or a promise that you know you can't perform could be deemed to be fraud if an investor invested based on certain facts or information you know to be false. You have an obligation to correct inaccuracies if they arise. It is also good business practice to be truthful and forthcoming about changes in your assumptions or projections throughout the fundraising process.

For your business plan, you should be sure to include your key assumptions used for your projections to allow a reader to make her own judgment about the projections themselves. You should keep a list of parties who have received your business plan and update them with revised copies in the event things change in a material sense (certain intellectual property can no longer be protected, a founder leaves the team, or market conditions change dramatically). It is possible that a founder could be sued by the investors if fraud is discovered (while it somewhat unlikely to be the case, it is best to avoid the issue).

Many, if not all, new business ventures suffer a misstep in their first year, and investors know this. However, by setting impossible expectations, you may find that you wind up harming the relationship with these business partners. Remember, you are not only getting an investor for their money, but they likely represent a member of your board and oftentimes a source of funds for subsequent fundraising.

TIP: Update/revise your business plan in the event of changes in material information in your plan.

KEEPING YOUR BUSINESS PLAN CONFIDENTIAL AND PROPRIETARY

Because getting potential investors to sign an nondisclosure agreement may not always be an option, you should still take steps to provide some protection on your business plan itself. Use of the language “confidential and proprietary” may not provide the same level of protection as a nondisclosure agreement, but some courts have held that, in a scenario in which a person or persons were aware that they had been exposed to a trade secret, they would be barred from using it or disclosing it to others without permission.

Take steps when possible to protect your proprietary information and remember that, when you cannot get a nondisclosure agreement signed, to trust your gut: make sure to ask around before disclosing to a potential investor if you are wary of their reputation.

TIP: On the cover page of your business plan, state (in bold text) that the business plan is confidential and proprietary.

Everybody does this.....

SAMPLE OF BUSINESS PLAN LANGUAGE

High-Tech Startup Business Plan

CONFIDENTIAL INFORMATION

This business plan is the property of High-Tech Startup Inc. and is strictly confidential. It contains information intended only for the person to whom it is transmitted. With receipt of this plan, recipient acknowledges and agrees that:

1. In the event recipient does not wish to pursue this matter, this document will be destroyed or returned to the address listed above as soon as possible;
2. The recipient will not copy, fax, reproduce, divulge, or distribute this confidential plan, in whole or in part, without the express written consent of SoftLink Inc.; and
3. All of the information therein will be treated as confidential material with no less care than that afforded to your own company confidential material.

This document does not constitute an offer to sell, or a solicitation of an offer to purchase.

Version: _____

Copy number: _____

Provided to: _____

Signature: _____

Date: _____

Principal Contact:

Name: _____

Title: _____

Address: _____

Phone, fax, e-mail: _____

Business Plan Software Reviews

Software publisher	Website	Rating ¹	Relevant software titles	Price ²	Notes
Palo Alto	http://paloalto.com	4.5	Business Plan Pro 11.0	\$ 99.95	Provides largest suite of resources; best selling software.
			Business Plan Pro Premier Edition 11.0	\$ 199.95	
			Marketing Plan Pro 11.0	\$ 179.95	
Business Resource Software	http://brs-inc.com	4+	Plan Write for Business	\$ 119.95	Offers unique business model evaluation function to identify the strengths and weaknesses of the plan; offers remote collaboration tools.
			Plan Write Expert Edition	\$ 219.95	
			Plan Write for Hi-Tech Marketing	\$ 299.95	
Fundable Plans	http://fundableplans.com	4	Fundable Plans	\$ 39.95	Lots of links to appropriate industry-specific information
Jian	http://jian.com	4	BizPlan Builder 2008	\$ 99.77	Contains numerous templates
			BizPlan Financials 10	\$ 69.95	
PlanWare	http://planware.org	4	PlanWrite	\$ 119.95	Best software to develop a business plan in an international format.
			PlanWrite Expert Edition	\$ 219.95	
			Plan Write Hi-Tech Marketing Planner	\$ 289.95	
PlanMagic	http://planmagic.com	4	Business 10.0	\$ 99.95	Specific plans for hotels, bars, coffee bars, restaurants, resorts, construction, retail, bed and breakfasts
SmartOnline	http://smartonline.com	4	SmartOnline	\$ 49.95/month	
Individual Software	http://individualsoftware.com	3.5+	Professional Business PlanMaker Professional 2008	\$ 49.95	
KMT Software	http://send.onenetworkdirect.net	3.5+	OfficeReady Business Plans 2007	\$ 79.95	
Nova Development	http://novadevelopment.com	3.5+	Business Plan Writer Deluxe 2006	\$ 99.95	
Socrates	http://jdoqocy.com	3.5+	Winning Business Plans	\$ 29.95	
Atlas Business Solutions Inc.	http://abs-usa.com	3.5	Ultimate Business Planner 4.0	\$ 99.00	
Business-Plan-Success.Com	http://business-plan-success.com	3.5	Business Plan Success 5.0	\$ 39.99	
My Business Kit	http://mybusinesskit.com	3.5	Complete Business Kit	\$ 49.95	
NetEkspert	http://store.esellerate.net	3.5	iPlanner 2007	\$ 39.95/year	Only does financials
VPS Pro	http://vpspro.com	3+	VPS Pro	\$ 85.95/year	
Adarus	http://adarus.com	3	Adarus Business Plan	\$ 55.95	
Village Software	http://villagesoft.com	3	Business Plan FastPlan	\$ 99.95	

¹ Rating is out of 5, with 5 being highest and 1 being lowest. Ratings provided by Home Office Reports (<http://homeofficereports.com/Business%20plan.htm>).

² Prices as of January 2008.

Active planning software

- ▶ <http://www.fundableplans.com/>
- ▶ http://www.paloalto.com/business_plan_software/

INTERNAL BUSINESS PLANNING

Many early-stage companies will prepare an internal business plan (also referred to as the operational business plan or the strategic business plan).

The internal business plan is designed to serve as a detailed, **strategic roadmap** for the business. It is different from the business concept summary or a business plan prepared for third-party investors in that this document will represent a more substantial tool based on extensive research and a more detailed analysis of the company's plans and objectives. In most cases, an internal business plan will serve as the **operational template** for the organization to identify future hiring trends, sales targets, and key milestones.

Typical details included in the internal business plan:

- Capital purchases
- Headcount increases
- Department-level expenses
- Development schedules for new products and services
- Sales targets
- Customer and potential customer tracking
- Three- to five-year projections

INTERNAL BUSINESS PLANNING (CONTINUED)

An internal business plan should be structured to provide regular tracking against actual performance. Therefore, the accounting and financial systems should be set up to allow for performance measurement of actual data against the internal business plan.

One of the mistakes that many entrepreneurs make is that they focus solely on the preparation of their business plan for potential investors; the internal plan is usually more extensive, including specific headcount goals, specific customer targets, and detailed product development timelines. Many entrepreneurs find the process much more efficient to consider these distinct efforts. Although the internal business plan can serve as the foundation for information used in a third-party business plan, certain aspects of an internal business plan should not be shared with a third party.

Some startups will prepare an internal plan before seeking financing, whereas others will wait until after financing has been achieved to develop a plan with the aid of investors. The process may well take several months up to a full year.

INTERNAL BUSINESS PLANNING (CONTINUED)

Steps to Preparing an Internal Business Plan

To prepare the internal business plan, you'll need to the following:

- **Prestage:** When to begin? How long will it take? Who to include? What tools to use?
- **Stage 1:** Develop your steps to create an internal business plan
- **Stage 2:** Information gathering
 - Identify the current financial state of the business
 - Identify the financial and human capital needs for various business departments
 - Develop sales and marketing milestones
 - Create a list of potential customers
 - Collect competitor data
- **Stage 3:** Produce the internal business plan
- **Stage 4:** Initiate a critique and reworking of your business plan
- **Stage 5:** Management release of the business plan
- **Stage 6:** Ongoing tracking against the business plan

INTERNAL BUSINESS PLANNING (CONTINUED)

How long will it take?

The first rule of business planning is to give yourself more time than you think. Generally, the preparation will be done over a series of months; oftentimes, the planning is done while one or more of the founders continues to be employed elsewhere. As with the other business planning tools discussed previously, to prepare the documents themselves may only take a few days or weeks, but the research and discussions needed to gather and parse the underlying data driving the business plan will take much longer to collect and consolidate.

Much like the preparation of a business plan for potential investors, a typical range is between 200 and 500 hours for business planning. Depending on your experience and the complexity of your business, you may find yourself spending between 200 and 1,000 hours in the preparation of a full internal business plan.

Track internal plans and progress with regular meetings with the team!

SAMPLE BUSINESS PLAN ORGANIZATION

Tim Berry of BPlans.com offers the following as a sample structure for a business plan.

1. Cover Page
2. Executive Summary
3. Operational Plan

- Company summary
- Product or service, describing the details of the sale and customer benefits
- Intellectual property
- Legal structure
- Management
- Personnel
- Accounting/legal
- Insurance
- Security

These are the main points.
Their exact arrangement is not cast
in stone.

4. Marketing Plan Analysis

- Overview
- Market analysis
- Marketing strategy
- Customer services
- Implementation of marketing strategy
- Evaluation of marketing strategy

SAMPLE BUSINESS PLAN ORGANIZATION (CONTINUED)

5. Financial Analysis

- Summary of financial needs
- Use of funds
- Budgeted cash flow statement
- Income forecast
- Break-even analysis
- Profit and loss statement
- Balance sheet
- Financial statement analysis
- Business financial history

6. Supporting Documents

- Management resumes
- Credit reports
- Copies of key agreements (leases, mortgages, contracts, etc.)
- Legal documents

7. Strategy and Implementation

8. Web Plan Summary

Source: <http://articles.bplans.com/index.php/business-articles/writing-a-business-plan/A-Standard-Business-Plan-Outline>.