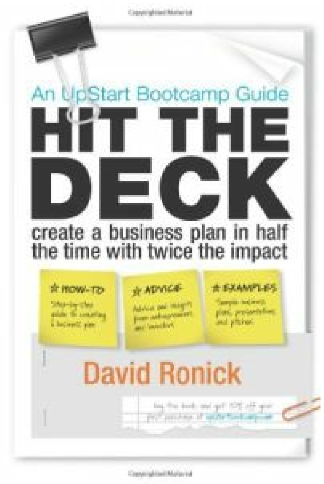

Book Hit the Deck

Create a Business Plan in Half the Time With Twice the Impact

David Ronick
UpStart Bootcamp, 2010
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Recommendation

If you are starting a new company, you need a business plan or “pitch deck” presentation. Slide by slide, entrepreneur David Ronick, founder of UpStart Bootcamp, shows you how to write a powerful business plan and present it to investors. Ronick interviewed numerous leading experts on business plans during his research for this practical, worthy guide for entrepreneurs. However, the book suffers from persistent product placement for Ronick’s company at the end of each chapter. The author should have taken his own good advice: “Get rid of the corporate logo and contact info on every slide.” Despite that foible, *BooksInShort* recommends this hands-on, easy-to-follow advice to anyone who is getting a business off the ground or seeking outside funding.

Take-Aways

- A business plan defines your goals and vision. Any new enterprise needs a plan.
- To raise capital, create a “pitch deck,” or slideshow presentation.
- Make your pitch deck brief – about 15 slides – and use simple language and images.
- Get help with your business plan, but don’t outsource the entire project; only you can answer the difficult questions potential investors may ask.
- Do research or hire a market research company to identify customers with unmet needs.
- Consider “bootstrapping” – raising capital as you go, usually from relatives and friends – before approaching outside investors.
- Show your investors how your company will make money.
- Discuss what it takes to make a sale and how many units you must sell to be able to cover your expenses.
- Describe how your new and different company will react to competition.
- Practice your pitch aloud many times before presenting it to investors.

Summary

How Business Plans Have Evolved

Starting a company requires developing a business plan to make your goals and vision explicit. If you have partners, the process of creating the plan ensures you understand each other. A business plan is essential if your start-up requires outside funding. However, business plans no longer follow the traditional “40+ page college term paper” format. Nowadays, 95% of venture capitalists prefer business plans to take the form of a “pitch deck” – that is, a presentation.

Planning Your Presentation

Balance your time between "planning and acting." If you spend too much time getting feedback, you may lose momentum. Your business plan presentation doesn't need to be perfect. Accept any needed help creating it, but don't outsource the entire project; investors will ask some tough questions that only you can answer.

> "If you have more than one founder, want to get feedback on your plan or intend to raise capital, you'll need a presentation."

Keep your pitch simple, and cater to your audience. If your mother wouldn't understand your pitch, reword it. Hook your listeners with the first slide. Your pitch deck should be about 15 slides long and include lots of white space. Never cram 10 bullet points on one slide. While the slides act as a guide to your presentation, the most important data should come from what you say.

> "If you are pitching to investors, tell them why you believe (not promise) they'll make a profit on their investment."

Before you write your slides, coin a succinct mission statement that defines your idea. List the specific clients you'll target, including how they identify themselves and how they behave. Write the name of your product, brand or service, and describe it clearly. Ask yourself why your offering is unique. Combine these pieces into a "positioning statement." You are now ready to create your pitch deck:

"Why You Are Doing It": Slide 1

When seeking capital from investors, list your business goals on your first slide, informing potential investors of the path you seek for your company. Identify "what constitutes success." Make sure your goals are explicit.

"What You'll Do": Slides 2 Through 6

Discuss your business environment on slide 2. Include the size and segments of your market, its growth, and relevant trends. Consider the market in terms of your revenue goals five years from now. To estimate your potential market share, divide the total market size by your revenue.

> "Pitching in person is far more persuasive than sending a document for people to read."

Slide 3 should define your targeted groups of customers – that is, your "total addressable market." You can delineate customers by demographics, behavior, product price level, distribution channels or buying habits. Demographics include age, sex, income, race, religion, national origin, geographic location, and the like. Consumer behavior includes how often people buy a product or how loyal they are to certain brands. You can also segment markets by psychographics, which include factors such as life values, interests and lifestyle.

> "Your slide deck is a sales document. Design it to persuade, not to inform."

Once you've identified your customers, use slide 4 to illustrate that this market has a gap only you can fill. A growing market is superior to a big market, because growing markets have more customers and less competition for each customer.

Provide a clear statement of your overall strategy on slide 5. Don't squeeze too much data onto this slide, and don't fill it with business jargon. List only the most pertinent factors.

> "Cut out the consultant-speak and acronyms and use simple, plain language."

On slide 6, discuss your analogs – that is, companies similar to yours. Find the real story of what worked or didn't work at these firms. Talk to investors, founders, employees or ex-employees. Venture capitalists in your market know your analogs, so learn all you can from them.

"How You'll Do It": Slides 7 Through 14

Slides 7 through 14 explain how you will be able to accomplish your goals. Slide 7 presents your offering. Explain the product or service you will sell initially, how your offering will change over time, and why it will evolve. Impart only the highlights of how your business may mature and expand. Investors want to learn more about your business than your product.

> "When your plan is about 80% finished, stop! Don't obsess over making it perfect."

Cover your marketing strategy on slide 8. List your pricing strategy, distribution channels, advertising and promotional efforts. Will you price your products lower than your competitors to increase your market share? Or will you set prices higher to reflect a better quality product, while planning to drop prices later? Show how you will advertise and promote your product.

> "When you consider market size, be sure to limit the universe to segments that are truly relevant to your business – your total addressable market."

Slide 9 should discuss your business model and how your company intends to make a profit. Before crunching the numbers, figure out if you want to interact directly with customers – as a retailer, for example – or whether you want to act as a wholesaler and work with an intermediary who sells to your customers. Then elaborate on your "unit economics": With the first option, you need to know the cost of acquiring and retaining one customer. Ideally, the total should be no more than one-third of the value of that customer. With the second option, you will need to know your "break-even volume" – the number of units you must sell before you begin turning a profit.

> "Don't utter the following words to your prospective investors: 'Our financials are conservative.' It's a dead giveaway that you are a rookie."

Present your working team on slide 10. What tasks do you need to accomplish? What are the roles of your various team members? How well do your current team members fit your future needs? If you have a strong team, consider moving this slide closer to the beginning of your pitch.

Every business has risks, but you can handle them: That's the message of slide 11. For example, your product may not draw customers, or another well-funded firm may have developed a similar product. You may hit obstacles on the road to developing a new product. If you run out of money during development, then you are finished. If your product or service is extra innovative, you may not get many early adopters. Marketing your product may cost more than you expect. Be aware of such risks, describe them on this slide, and show how you will prevent or cope with them.

> "The relationship between...the cost of acquiring a customer and the lifetime value of a customer...can spell the difference between success and failure."

On slide 12, present proof of the progress you have made in all areas to date. For example, if you already have paying customers, include them. If not, show how consumers can sample your offering through a free trial or beta test. Make deals with other companies as partners so you can present measurable results and display the progress of your firm, even if you haven't raised any capital yet. Starting your business may call for "bootstrapping" – earning funding as you go. Bootstrapping offers several advantages over raising capital. Bootstrapped companies are faster, more flexible and more efficient. Because raising capital is time-consuming, leaders of bootstrapped companies can spend their time developing products and generating revenue. A founder of a small, bootstrapped company who retains 100% of the profits may make more money than a founder retaining only 10% of the profits of a company backed by venture capital.

> "Practice this pitch out loud again and again, until you can recite it in your sleep. Even when someone catches you off-guard, or after you've had a few cocktails at an event or dinner, you must be able to deliver your elevator pitch perfectly."

On slide 13, show how proper implementation and execution of your plan ensure the success of your business. Break down complex tasks into smaller parts. Analyze how long it will take to strategize and execute each job. For example, you may want to develop your product within a certain time frame or stay within your budget when hiring your team. Show how you will measure your performance of each task.

> "If you have limited expertise in finance, accounting and Excel, you should get help."

Financial projections on slide 14 quantify the goals and assumptions set forth in your business plan. If you lack finance and accounting experience, get help from an expert, but make sure you thoroughly understand your own financial model. Tell your investors when you will break even, enumerate your scale and capital requirements, show how you will balance revenue and expenses, present your main fiscal assumptions and comparables, and illustrate how you will use your proceeds. Break-even occurs when cash starts flowing into your business and stops flowing out.

> "Beware of 'drinking the Kool-Aid' – getting so excited about your idea that you lose the ability to be impartial."

Before breaking even, your company will operate at a loss. You should be able to predict how many units you need to sell each month to start earning money. Your scale is a ballpark prediction of your annual revenue after five years. Although your scale number will be wrong – since it is just an estimate – it helps investors evaluate whether the risks are worth the rewards. Be realistic about the balance between revenue and expenses. Base your projections on your industry's standards. Make sure your numbers are in line with those of similar companies.

> "Every time you give a presentation, you'll learn something that can make the pitch better the next time."

"**What You Need": Slide 15** Your final presentation slide should answer these crucial questions: "How much money do we need to build this business?" and "How and when will owners get a return on their investment?" If you project that you can break even within 12 to 18 months, you should raise enough capital to take you that far, with some to spare.

Consider creating backup slides for your presentation. Backup slides can answer tough questions or challenges from your audience. It's easier to display a backup slide with an answer than to reply to a question when you're on the spot. You may also want to create backup slides with more detail, such as monthly financial projections.

How to Make Your Pitch

Create a good, short "elevator pitch" and a "one-page synopsis," or "one-pager." Your elevator pitch is a clear, concise, spoken – or occasionally written – version of your presentation. Keep practicing your pitch aloud until you can recite it flawlessly. Once your business contacts have heard or read your elevator pitch, send them a one-page synopsis, which should get your contacts' attention and facilitate in-person meetings. Do not send your pitch deck instead of the one-pager. You must deliver your pitch in person.

Don't read from your slides. Make a condensed pitch deck that you can consult if necessary. Practice your pitch in front of family and friends. Ask your practice audience to interrupt you with challenging questions. If you plan to use a laptop for your presentation, bring a backup copy of your pitch on a flash drive. If you expect to use a projector or other technical equipment, build in extra time before the presentation to set up and test it. After your pitch, ask for feedback. If you receive a negative critique, allow it to improve your next pitch. After your presentation, collect business cards from your audience members so you can follow up with them.

Final Financial Considerations

Start-up companies generally go through three rounds of fund raising: "start-up capital," "the seed round" and the "Series A round." Many entrepreneurs begin by raising start-up capital from relatives and friends. These companies typically seek $100,000 or less to get up and running.

Companies requiring additional outside funding often try to arrange seed money from angel investors. After using start-up capital and seed funding, you may be able to raise additional money from venture capital (VC) firms through a Series A round. The process of approaching VCs or angel networks can take six months or longer. VCs tend to support entrepreneurs with proven track records. Before contacting VCs and angels, learn what types of companies they've invested in previously and what they're looking for currently. Find a "lead angel" with expertise in your industry, and get a commitment from him or her before talking to other angels. Seek "smart money" investors who can help with strategy, networking, HR and other business tasks.

If you are raising capital, tell your investors your "deal terms." Put these terms on a backup slide in case the pitch goes well. Delineate the following "mechanics":

- How much is your company worth now? This is the value prior to the funding you seek to receive.
- How much money do you need? Usually, you want to get your company through at least one year of operation.
- How much will the company be worth the day after you raise the investment?

You can estimate your preinvestment value by looking at comparable companies. Although entrepreneurs agonize over how much their companies are worth prior to receiving capital, they should worry more about making their companies successful.

About the Author

Consultant **David Ronick** founded UpStart Bootcamp, an online school for start-ups.