



Writing a Winning Business Plan: AmBAR's Best Recipes

Entrepreneur's Guide to Writing an Effective Business Plan

Table of Content

INTRODUCTION	3
1. WRITING THE PLAN	3
2. OUTLINE FOR A NEW BUSINESS PLAN	4
3. USING THE PLAN AND APPROACHING INVESTORS	9
4. SUMMARY	10
5. USEFUL HINTS	10

Introduction

A business plan is a document that articulates and summarizes the critical aspects, basic assumptions, and financial projections of a business venture. The process of writing a business plan is an invaluable experience, for it forces the entrepreneur to think through his or her business concept in a systematic way.

The plan and accompanying analyses may serve several purposes. The plan is a blueprint for the company itself and, as such, is intended to assist the firm's management. The business plan is also typically used to attract potential investors or corporate partners. Finally, the plan may serve as the legal document, or prospectus, with which funds are raised.

It becomes extremely critical to understand exactly what purpose the "plan" is serving and what audience such a purpose implies. Even if the document is clearly written to appeal to potential investors, it is important to know exactly what kind of investors. For example, a venture capitalist or other professional investor will be more demanding than a private individual. The venture capitalist will be more interested in technical aspects of the venture, while a commercial banker reading the same document would have a set of questions related to financial sustainability and liquidity of the business. Thus, the first rule is to keep in mind when writing a business plan who the reader is and make sure the document addresses his or her particular concerns.

This tutorial focuses on a business plan that entrepreneurs use to raise capital.

1. Writing the Plan

Overall, it is important that the plan be relatively short (40 or so pages is appropriate) and clearly written. Don't be afraid to present technical details, particularly to venture capitalists. However, do not assume that the reader will be an expert in the technology or market you are interested in – don't use professional jargon and details that are not intuitively obvious.

Although the business plan must portray your business in the most attractive manner, every point you make must be supported with evidence which you can provide to investor upon request: the attractiveness of the market, the price you can charge for the product, its competitive advantages.

To achieve this level of end product, it is often helpful to get others to read drafts of the plan. Certainly, members of the management team should prepare their section of the plan and read all of the others. Financial advisors or accountants can also play a valuable role. It is also a good idea to have a plan reviewed by a legal advisor – presumably the same person who will help you incorporate and draft the other legal documents necessary for financing and starting the business.

2. Outline for a New Business Plan

An effective plan should emphasize the strengths of the proposed venture - but it should also anticipate and deal with any potential problems or challenges to be faced. Your consideration of each point in the outline will provide the basis for answering many questions that arise in your relations with potential investors or during the early operational phases of the company.

Title Page

The title page should contain the name and logo of the company, its full mailing address; the name of the contact person and his or her contact details.

Table of Contents

This section of a business plan should be designed to assist readers in navigating through the plan and locating specific sections and points. Excessive detail should be avoided here, however.

Executive Summary

These few pages are the most critical piece of any business plan. Investors will turn immediately to this section in order to get their first impression of the venture. To ensure that this section encompasses all that it should, it should be written last.

The executive summary must clearly but briefly highlight:

- Company overview
- Problem and Solution
- Market Opportunity
- Technology overview
- Business Model
- Milestones and budget
- Management team

The executive summary should be a brief overview of the entire new venture business plan.

Company Overview

This section should describe the company's origins, objectives, and management. The overview should also describe the company's business; the industry in general, its size and chief characteristics. Describe your distinctive business competence and the chief factors that will account for your success. When you describe the company business, touch upon your principal products or services, markets, and specific applications. Describe your distinctive business competence and the chief factors that will account for your success.

The section should describe the current status of the company: number of employees, sales and profits (if any), products, facilities, and so forth. Finally, this section should paint a picture of where the company hopes to go and how it envisions getting there - its strategy. If you have had previous rounds of venture financing, they should be mentioned in this section.

Technology Overview

This is one of the most critical sections, particularly for early stage technology companies. Investors are looking for businesses based on novel proprietary technologies that have a potential to revolutionize existing procedures and processes. Don't be afraid to provide technical details: most of venture capitalists are professionals in the field in which they invest, and they understand technical language. However, using professional jargon is not recommended, because the reader may not be familiar with the particular field. Charts, photos, cartoons are usually helpful to explain the technical concept.

Product or Service

Having introduced the technical concept in the previous section, the plan should describe here what products or services based on the technology the company is going to offer on the market. What needs does the product meet, especially compared to competitor's products. If the product exists and is in use, some detailed descriptions of that usage, the results, and some customer testimonials will prove valuable. If the product has yet to be manufactured, a description of how you intend to make it – and what the key milestones in the process are is also important.

Market

A common mistake is to deal with the marketing portion of the business plan in a cursory manner. Investors want evidence that the founders of a company have studied the market, understood it, and indeed are driven by their desire to satisfy its needs. To convey this, the plan should address:

- The total size, rate of growth, and purchasing characteristics of the target market.

- The market segments, and addressable market for the particular product/technology
- The target customers and the main stakeholders in this particular market segment, buying process, and how purchase decisions are made.
- The buying habits of the potential customer, and the impact on the customer of using your product or service.
- User economics: how much will it save him per year, or what return on investment will he get?
- The company's perspective on the market.
- The reaction the company expects from the market. What hurdles does the company expect in introducing its product? How will it overcome them? What features and benefits does the company expect will be particularly popular?
- Many high technology ventures address the markets that either are underdeveloped or do not exist. In many cases new ventures and new products create new markets. In this case entrepreneur's vision on the future market trend must be clearly presented.

Competition

Business plan should provide a comprehensive analysis of the competitive landscape. The section describes the competitive firms and products. Again, investors want to be assured that the entrepreneurs understand whom they will be competing against. Information on competitors' products, prices, market shares, and marketing approaches should be included. This information should be easy to use to assess competitive advantages of the company's product.

Marketing Strategy and Sales

This critical section of the plan should explain the manner in which the product will be sold. The plan should describe how target customers will be identified and how awareness will be built. The plan should also detail what distribution channel will be utilized, and how the product will be sold: by a direct sales force, sales representatives, direct mail, and so forth. This section should also address how the company will introduce its product to the marketplace. This might include public relations, advertisement, special promotions, or targeted growth.

Marketing activities:

- Marketing strategy (market segment, market share objectives)
- Distribution (direct, retail)
- Promotion (advertising, conventions, etc.)
- Pricing (demand pricing or cost-based pricing, volume discounts; how will pricing change overtime)
- Geographical penetration; field service or product support.

Selling activities (for direct sales):

- How will you identify prospective customers? Consider not just the companies, but the relevant decision-makers who can spend money on your product, either discretionary or budgeted funds.
- How will you decide whom to contact and in what order?
- Level of selling effort (for example, the number of salespeople).
- Expected sales efficiency (for example, how many calls per salesperson).
- Expected conversion rates (for example, number of calls per demonstration; number of demonstrations per sale).
- Sales productivity of each salesperson based on the above assumptions.

Business Model

In this section, you should explain how the business will make money. The business model section should also explain your strategy of developing the main business functions: R&D, manufacturing, marketing and sales. The strategy may involve building those business units in house or outsourcing those to corporate partners and vendors. The business plan must present a clear rationale why your strategy will maximize your margins and shareholder value. If the entrepreneur already has a manufacturing plan, it should be presented in this section: how the product will be manufactured, facilities required, the use of subcontractors, and what equipment will be needed to actually produce the product. In general, investors would prefer to see a firm purchase or subcontract much of its manufacturing needs, at least initially. In addition, it is often desirable to lease facilities. Since the section summarizes the company's operations, the other aspects of operations, including marketing and distribution, discussed in the marketing section should also be touched on.

For medical device companies this section should present the analysis of the existing reimbursement and CPT codes, or projected reimbursement strategy.

Investors will also be interested in how the venture plans on turning their cash investment back into cash. That is, what is the anticipated exit route for the investor: a public offering, a sale of the company, or a repurchase of shares by the firm? In the Financials section, try to give potential investors some idea of how they can cash out.

Regulatory Strategy (for biotech and medical device companies)

If your research and development efforts are regulatory driven, you need to explain how the company is going to address those requirements. Brief summary of the preclinical plan, experimental endpoints, and resources involved should be provided.

Describe your clinical strategy, major clinical endpoints that will drive FDA approval, a number of patients and clinical sites involved. Indicate which steps of the regulatory process will be the main fundable milestones of the company.

Milestones

Milestones are the goals that the company intends to accomplish as a result of the proposed financing/corporate transaction. The milestones represent a tangible advancement of the company's R&D or business: achieving a proof of concept, developing a working prototype, a successful clinical trial, specific sales volume, etc. All such advancements substantially reduce the risk involved in the investment, and increase the valuation of the company. Investors call them fundable milestones, which means that when the company accomplishes its goals it will be attractive enough to raise the next round of financing at significantly higher valuation. You must present a realistic budget and timeline required to achieve these milestones, and your plan of how you are going to achieve them.

Financials

This section must present the company's both historical (if any) financials and financial forecasts. Historical financials should include basic GAAP financial statements: Balance Sheet, Income Statement, and Cash Flows Statement. Early stage companies typically don't have sufficient financial resources to hire a certified public accountant to generate a set of audited financial statements. It is not critical to present audited financial statements in the business plan, but they must be furnished according to the GAAP standard. The financial statements can be aggregated: it is unnecessary to present every single account the entrepreneur has in his or her book.

Investors expect to see realistic financial projections, typically for a five-year time horizon, but at least until the next fundable milestone. It is critical that the projected financials be driven by thoroughly documented assumptions. For instance, don't just develop a sales forecast. Present detailed assumptions about unit volume and price. The same is true for expenses. This not only gives the investor the data he or she needs to evaluate your plan, it also speaks volumes about your careful thinking.

Intellectual Property Summary

This is a very important section: IP is the main asset of a technology start-up, and investors want to know precisely what they are buying. This is particularly critical for companies that have research and development overseas. Investors need to see that the company owns the patent or the exclusive license to use that patent. Present a brief summary of the company's

intellectual property position, issued and pending patents, and your plan of developing your patent portfolio.

If you still don't have filed patents, present what you have: results of *prior art* search, as well as your arguments why the technology is patentable and why the company has a freedom to operate in the field.

Management Team

The brief resumes of all key people and their responsibilities should be included in this section. In preparing the resumes, entrepreneurs should make sure that they portray themselves as a well-balanced team. Investors particularly scrutinize management teams of later stage companies.

In this section the Board members and Scientific Advisory Board members should be listed. The Board and SAB composition are extremely important. A start-up usually doesn't have much credibility, and first-time entrepreneurs do not have reputation strong enough to attract venture capital. Board members bring not only their expertise in particular areas of product development, general management, marketing, and sales, but also render their credibility and reputation in the industry to the company.

Scientific Advisory Board must be composed of the industry and the field of science luminaries, who would be recognized by other experts in the field. Acclaimed scientists, Professors of well known universities and research centers, CTOs of big companies are the most appropriate candidates to an SAB.

Appendix

In addition, any sample product literature, full resumes of the management team, capitalization structure, and so forth can be included in the appendix.

3. Using the Plan and Approaching Investors

Before you distribute your business plan to potential investors, it is advisable to let them see your executive summary. Executive summary is usually enough to go through venture capitalist's first triage point. However, sending a business plan without first submitting an executive summary is also an option. Your business plan always contains an executive summary, and this is the part which will be read by the venture capitalist first.

It is wise to avoid simply sending the summary to all the venture capitalists you know or can find. You need to pre-select venture groups you want to target. There are a few reasons for that:

1. Investors generally avoid deals that come in "over the transom" and prefer to review companies that have been recommended by someone they know and whose judgment they trust. That is why you need to create a list of venture capitalists that you can approach with an introduction from your friends, colleagues, lawyers, etc.
2. Venture capitalists usually specialize in very specific areas (semiconductors, nanotechnology, medical devices, neuroscience, etc.), as well as stages of development (seed, early stage, later stage, etc.). Some of them have very specific geographic requirements (invest only in Northern California). Make sure you sell your idea to the right customer.
3. Another consideration is that a proposal that develops a reputation for being shopped around to several prospective investors is generally less likely to be accepted.

That is why it is wise to be selective in whom you approach and to avoid exposing your business idea to a large number of venture capitalists.

4. Summary

The ability to attract successful, professional investors will lend credibility to your venture idea and will introduce you to a wide range of helpful contacts. The business plan serves as a vehicle to get you in the door to talk to potential investors or corporate partners. They will probe you about the plan and also about your career and management experiences, and those of any other members of the team. You need to be prepared to defend every statement in your business plan.

Most importantly, don't forget that when capital is raised, the business plan stops to be a marketing document – now it is your guidance to developing your business according to your promises to your investors.

5. Useful Hints

- Don't suggest valuation or deal terms in the business plan. The deal terms are determined by the market and are discussed in your negotiation with the venture capitalist.
- You can send a business plan either by mail or email. However, if you send it via email, use a PDF rather than DOC file.
- Use illustrations to make your idea easier to understand and more attractive, but don't use cheap marketing intended for general public.
- Don't avoid detailed technical descriptions, but try to avoid technical jargon that generally educated people won't understand.

- Don't suggest to potential investors signing a non-disclosure agreement. If some of your information is highly sensitive – don't include it in the business plan. You may need a signed NDA if your patent position is not established yet, but don't ask for it before you know you have gotten your investors interested enough.
- Be open and honest in everything you say and write. If you have problems/issues, discuss them in a constructive manner and suggest ways to resolve them.