HOW TO WRITE A BUSINESS PLAN FOR PROSPECTIVE INVESTORS

The research and writing of a business plan is probably the most important step that an entrepreneur takes in preparing to launch a new business and the quality of that research and plan are critical determinants of the business's prospects for success. A business plan serves three important purposes. First, it translates and builds upon the ideas in an entrepreneur's head for a business and converts them into a written outline and a roadmap for how to launch and build it. If you can't get the ideas out of your head and onto paper, no one will take them seriously. The business plan should set out the fundamentals of the entrepreneur's vision, goals and objectives and how he or she plans to achieve them.

Secondly, a written business plan serves as a means of communicating the business to prospective investors, management team members, employees and strategic partners. A business plan is typically the most important document that anyone looking to raise debt and equity financing has to prepare. And whether you're approaching an angel investor, a venture capitalist or a banker, the first thing that person will likely request is a business plan or at a minimum your executive summary. Consequently, your plan has to be much better than good. It has to be compelling in order to stand out among the hundreds of plans that the typical investor reads during the course of the year.

Thirdly, the business plan serves as an effective management tool. It provides a set of benchmarks against which management and investors can gage the company's progress. Consequently, the business plan should be a dynamic, living document and should be updated in writing annually. Unfortunately, the reality of entrepreneurship and the multiple priorities and tasks that the typical entrepreneur continuously juggles is that they tend to have a current written business plan only at the launch of their business or when they are desperately seeking financing of something else that requires a current plan as the price of admission.

Transferring their business ideas and plans from their head to paper in a manner that makes sense to readers is much more difficult than most new entrepreneurs realize. The process will also likely require several iterations before the plan is ready for prime time. In addition, many companies that launch at the product development stage are simply not far enough along to have a complete and accurate plan coming out of the gate. However, the process of preparing the initial iteration of their plan should make clear what they still need to learn about their business opportunity and prospective markets before approaching investors. This should help them to focus their business development activities.

A common mistake of entrepreneurs is to begin distributing their business plan before it is ready resulting in a less than stellar first impression. You get just one opportunity to make a strong first impression on prospective investors so you want to make sure that you "hit them with your best shot." Raising debt and equity financing is all about perceptions of risk and opportunity. You need to write your plan in a manner that maximizes the perception of opportunity and effectively addresses and minimizes the perceived risks. Make sure you have one or more experienced entrepreneurs or business professionals critique your plan before you let it loose.

This article recognizes the struggle that the average entrepreneur goes through in completing their plan. It is intended to make the job of writing a business plan a little easier by identifying the information that investors typically expect to see in the plan. There is no single correct format for a business plan. In reality, there are probably nearly as many different formats as there are business professionals and the specific format you choose is to some degree a matter of personal preference. However, most of the good formats provide the same essential information. The following format should be suitable for most purposes.

EXECUTIVE SUMMARY
COMPANY DESCRIPTION
MARKET ANALYSIS
PRODUCTS/SERVICES
COMPETITIVE ANALYSIS
MARKETING/SALES
MANAGEMENT AND OPERATIONS
RISK ANALYSIS
FINANCIAL PLAN
APPENDIX

EXECUTIVE SUMMARY

The most important part of this most important document is the executive summary. This is essentially a snapshot, which highlights the most important and compelling aspects of the plan and will typically follow a similar format.

When submitted to a potential investor on its own, the executive summary will determine whether or not the entrepreneur is invited to submit his or her complete plan for review. When accompanied by a complete business plan, the executive summary is typically read first by investors and used as a screening tool to determine how much time the investor will spend reviewing the rest of the plan.

One of the words frequently used in the venture financing industry is compelling. Prospective investors expect executive summaries and business plans to be compelling. Webster’s defines compelling as forceful and demanding. The executive summary should excite the reader and make them want to know more about your business opportunity. If you haven’t accomplished this by then end of the executive summary, chances are that you have lost them.

The executive summary should be written in layman's language and should generally not run more than 2-3 pages in length. Some investors like a one-page summary. The executive summary should be written last, although the temptation is to write it first and then attempt to inflate it like a balloon into a complete plan. If you become one of those entrepreneurs who are lured into following this approach, make sure that you go back once you have completed the plan and revise your initial summary.

Begin the summary with a **Company Overview**. Investors want to know after reading the first sentence of the summary what business the company is in. A good way to open is with a mission statement that in a few sentences identifies:

1) What the company does
2) Who it does it for
3) The industry the company is in
4) What the company aspires to become

In the next few paragraphs it is critical that you address what is compelling about your business. You must get the reader excited about the opportunity and hungry to learn more. You will typically want to address the following questions:

1) What unmet customer need does your product/service fill?
2) Why is this important?
3) How is it unique?
4) Why will customers care?
5) Why should investors care?
6) Why will you be successful?

This should be followed by a **Milestones** section listing the company's milestone achievements to date. You want to be able to convey that a momentum is building and increase the reader's excitement. Substantive milestones increase the perception of opportunity and can offset some of the apparent risks. You will probably want to avoid showing your plan to investors until you can demonstrate sufficient momentum to generate that enthusiasm.

Other sections of the summary, similar to your business plan typically include:

Markets
Products/Services
Competition
Management team

These sections will range between a few sentences and a few paragraphs in length and will simply highlight the most compelling information from their corresponding sections in the complete plan.

The summary should also include a section entitled **Funding Requirements**. Identify the amount of money that you seek to raise, whether it can be raised in stages and your planned use of the funds. You should also briefly identify one or two likely exit strategies. One of an investor's most important concerns is how they will get their money back, and this demonstrates your recognition of its importance.

Close with a brief summary of your **Financial Projections**. Identify any revenue and your Earnings Before Interest and Taxes (EBIT) for the past year, and provide projections for the present and next two years.

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COMPANY DESCRIPTION

Following the Executive Summary, this section should identify when the company was founded, who founded it, why it was founded and the company business structure. In addition, it can include any compelling information about the origins of the company.

Identify where the business currently is situated in the business development process. Pre-sales businesses should outline their path to market entry and offer a time line that they know they will be able to achieve. Prospective investors who prove interested in your business, but think that you are too early to be invested in, will continue to watch you and monitor your progress against your market entry plan. Companies with sales should outline the anticipated path from where they are today to their breakeven point and continue to the fulfillment of their vision.

Some technologies are complex, and it can sometimes be difficult to understand their significance. In these cases, entrepreneurs may want to add one or more paragraphs to this section to essentially build a foundation of understanding so that the rest of the plan makes more sense, flows better and is more compelling.

Remember that writing a business plan is like building a cinder block foundation. You are essentially building the reader's understanding of your business opportunity block by block. Each "building block" of your business plan must build upon and fit with the one laid before it. The business plan must flow smoothly and must be "user friendly" to read. Make sure that the plan is written in laymen's language and that you explain all acronyms and technical terms the first time you use them. Unfortunately, many business plans force the reader to have to work too hard to try to understand the business opportunity. The typical investor will not work that hard and will simply move on to the next plan.

MARKET ANALYSIS

Markets are typically among the top concerns of prospective investors. Bigger is obviously better, although investors typically don't want to see companies targeting huge markets from the outset. They would prefer to see a company target one or up to a few lucrative niches within those markets, establish themselves in those niches and then build from there.

Science and technology entrepreneurs tend to struggle with the market analysis and marketing strategy sections of their business plans and tend to treat them superficially. Investors for their part typically expect entrepreneurs to be experts on their targeted markets and prospective customers and to know them, as well as the competitive landscape, at least as well as anyone else in their space.

Discuss your targeted markets including their size, growth and other trends, as well as how they are likely to be impacted by general economic trends. Identify your immediate and longer-term niches and your rationale for targeting them. Investors expect to see a clearly identified unmet need or opportunity within a company's targeted niches that its product is going to fill.

Identify any barriers to entry that are presently in place to keep new competitors out of the market. Examples of these barriers are competitors' intellectual property or the large sums of money required for successful market entry. Entrepreneurs should try to make certain up front that they will have the resources and capability to successfully overcome these barriers. They should also make sure that once they enter the market they "close the door" behind them by putting barriers in place to prevent other potential competitors from following them in. Entrepreneurs will also need to demonstrate knowledge of the dynamics of how their markets work including the buying and selling process. This information about the buying and selling process can alternatively be placed in the Marketing/Sales plan.

PRODUCTS/SERVICES

Describe your product or technology in layman's terms. If it takes an advanced degree to understand your business plan, you are limiting your pool of potential investors. Make sure that you define all scientific terms and acronyms the first time you use them and make sure that those definitions make sense to laymen.

A common weakness found in science and technology business plans is that they place too much emphasis on the technology. In good plans and summaries, the technology is presented as secondary and incidental to the business opportunity that the technology offers. Readers want to understand the value of the business opportunity and expect the presentation to be compelling.

The business plan should be kept to no more than 25 pages in length. However, entrepreneurs and particularly those who are also and were first inventors tend to enjoy writing the Products/ Services section more than any other section of the plan. They are often concerned that readers understand and appreciate their technology or product, and consequently this section of the plan is often too lengthy and detracts from the compelling nature of the business opportunity. One way of avoiding being too technical or lengthy is to place the detailed description in an appendix, so that it is available if a reader wants it.

Identify any intellectual property and how you are presently protecting or will protect it. In addition, discuss your ongoing R&D and product development plans giving particular attention to any future products included in your financial projections.

COMPETITIVE ANALYSIS

The competitive analysis presentation in a business plan can build or kill an entrepreneur’s credibility with the reader. A common vulnerability among entrepreneurs and the quickest way to irreparably lose all credibility is to say that their product or service has no competition. Entrepreneurs are typically quite sincere when they make this mistake because they are looking at the word competition in a very narrow sense meaning competitors offering products with the same capabilities and bundle of features and attributes as their own. It may be true that there is nothing quite like their product or service. However, they always have competition. At a minimum, their competitor is no solution. Some problems are not important or inconvenient enough to justify a solution at the price at which one can be made available. There are investors who actually prefer to see some competition because this validates the existence of a market.

Identify your key competitors. If there are numerous competitors you may wish to group them according to their common denominators. You want to identify the basis for the competition, whether it be technology, price, features, quality, service, or some other factor. Discuss your strengths and weaknesses and how they compare with those of your competitors. You will also want to identify any developing technologies on the horizon that could potentially disrupt the competitive field.

Investors like portfolio companies to have a competitive or even unfair advantage. This is something that differentiates companies from their competitors in one or more ways that are compelling to their prospective customers and/or difficult or impossible for competitors to overcome. Identify and discuss your competitive advantage and how sustainable that advantage is likely to be over time.

You should also address how your competitors may respond to your entry to the market. It is possible that your competitors could change the way they conduct business upon your entry, in order to make themselves more competitive and to fend off your competition. I get particularly nervous when an entrepreneur tells me that they have a price advantage over all their competitors.

For example, just because a competitor is charging 35% more than your anticipated price, this does not mean that company will continue to charge that price upon your entry. They may be able to cut their price by 50%, drive you out of business and then raise their price again. Or, even if their costs are substantially greater than yours, if they have deeper pockets than you they may still be able to cut their prices 50%. Although they may bleed red ink, their deeper pockets will sustain them until they drive you out of business and then raise their price again.

If you do a thorough job in completing your competitive analysis, you will generate a lot of information, which while critical to you in making your case to investors can become a bit unwieldy for you and readers to deal with and process. A competitive matrix allows for the presentation of a lot of information in a useable format. Along one axis you will list the critical evaluation criteria typically utilized by prospective customers to compare the competing offerings. On the second axis you list key competitors or groups of competitors. You then rate the competitors against the criteria. You can make the matrix the focal point of your competitive analysis and supplement it with appropriate narrative.

Market validation is also critically important. Investors want to see evidence that an entrepreneur has been talking to prospective customers and industry leaders who can testify to the unmet need for their product or at a minimum that it offers a sufficiently large enough improvement over competitive offerings to change customers' purchase decisions. They want evidence that prospects are interested in purchasing the entrepreneur's product at a price at which he or she can afford to make it available, while making investors lots of money. Market validation includes:

-Initial sales
-Orders
-Beta testing
-Strategic alliances
-Distribution agreements
-Market research

MANAGEMENT AND OPERATIONS

This is typically the most important section of the plan to investors. One of the proverbs of the venture financing industry is that investors would rather invest in a "Class B" product supported by a "Class A" management team than they would invest in a "Class A" product supported by a "Class B" team. This is because very few people possess all the diverse skills required to build a successful business and even in those cases, and hopefully sooner rather than later, there is simply not going to be enough of that person to go around.

Many, if not most, science and technology-based businesses are founded by one or more scientists and technical professionals, with little formal business experience. In almost all cases the management team will have to include a sales and marketing professional with industry experience, in order to be taken seriously by investors. They want to be sure that there is someone on the team who can unlock the door of the company's prospective customers. Investors will also want teams to include or have plans to hire a chief financial officer. They want to know that there is someone on the team watching out for and taking care of their money.

Describe each team member's responsibilities, training, strengths and relevant prior experience. Investors like teams that include successful entrepreneurs and expect team members to have relevant industry experience. Discuss plans for rounding out an incomplete team. Identify the owners of the business, as well as advisory boards and key advisors. Discuss your staffing plan including anticipated hiring over the period covered by the plan.

The plan should also address where the business will be located and how it will operate. Explain how the company's product(s) will be manufactured, packaged and delivered. Identify important capital equipment that the company has or that will be required to be purchased. Discuss quality control. Indicate anticipated increasing plant and equipment requirements over the life of the plan. In the case of companies with substantial manufacturing operations, the Management and Operations section of the plan will be divided into separate sections.

Building a manufacturing capability is typically expensive and can delay a company's market entry. In most cases it is possible to identify one or more manufacturers in a region who can manufacture your product at a reasonable price enabling you to maintain high margins. The outsourcing of manufacturing can be an effective market entry strategy because it can greatly reduce the amount of financing required to be raised and can accelerate your market entry and penetration, thereby making your deal less risky and more appealing to investors. If manufacturing is important to you, it can be added down the road once you have more cash or are more bankable. Other functions can be effectively outsourced as well.

MARKETING/SALES

In this section you will present how you will spread the word about your product(s), get it into the hands of your prospective customers, and close the deal. You can begin with a discussion of your revenue model and identify your income streams for current products and services, as well as anticipated products included in your revenue projections. Alternatively you can discuss the revenue model as part of the products/services discussion, as a separate section, or as part of the financial plan. It is helpful to know what all the anticipated revenue sources are before reading how you plan to sell them. Discuss your pricing strategy including your gross margins and how this compares with competing products.

Discuss how you will communicate your existence and product offerings to prospective customers. Outline your public relations plans including the use of press releases, technical papers, articles, etc. Identify your planned use of advertising, marketing materials, and the Internet, as well as your participation in conferences and trade shows.

Discuss and justify your distribution strategy including whether or not you will have an in house sales force and your use of manufacturers reps, distributors, telemarketing, online sales, mail order, and direct mail. Indicate how this compares with the strategies used by your competitors.

Discuss your market penetration strategy. Identify discounts, promotions, warranties and discuss customer service.
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RISK ANALYSIS

Discuss the significant potential risks inherent in your venture and in the broader business environment and how you will overcome any problems and pitfalls that materialize. Problems will inevitably arise. If there is a single universal truth of entrepreneurship, it is that everything takes more time than the entrepreneur's most conservative estimates. If there is a second such truth it is that everything costs more money than those same most conservative estimates. You can't anticipate every possible problem. However, the more you consider, the better prepared you will be to successfully overcome those you do encounter.Hidden text

FINANCIAL PLAN

Investors recognize the "guess work" involved in preparing revenue projections and that they essentially are not worth the paper they are written on. What they pay careful attention to, however, is the underlying assumptions on which they are based and whether they are reasonable and founded on a good understanding of the industry, targeted markets, and their dynamics.

Discuss the assumptions underlying your market share, sales and other important projections. Investors want entrepreneurs to make bottom up rather than top down sales projections. Entrepreneurs tend to make unsubstantiated market share assumptions that they appear to pull out of the air and then apologize for them being embarrassingly conservative. Investors want you to build your projections sale by sale.

Investors will also expect you to accurately account for every anticipated cost. Identify your breakeven point and when it will be achieved. Investors will then assess whether the anticipated returns justify the risks inherent in the opportunity.

Identify your financing requirements and discuss how the funds will be used. Explain whether the investment can be staged in incremental payments tied to the achievement of performance milestones. Investors often like this approach in order to reduce their risk. Identify your most probable exit strategies.

Include 3-5 years of pro forma financial statements including balance sheets, income statements, and cash-flow statements. The income and cash flow projections should typically be monthly for the first year and quarterly thereafter. Include historical financial statements if available. If you make it past an initial meeting, you may be asked to develop multiple sets of projections based upon various possible scenarios.

APPENDIX

Attach resumes of management team members, product literature, and other select material that reinforces and validates the most compelling aspects of your venture.

READY, SET, STOP

Once you have had your draft plan critiqued by one or more experienced entrepreneurs or business professionals, made the appropriate revisions and think that you are ready to approach investors… DON'T. Try to get your plan referred to a targeted investor by another entrepreneur or business professional whom the investor knows and respects. Investors try to find grounds to justify meeting with entrepreneurs whose plans are referred to them. They look for grounds to "weed out" those plans that come in without a referral.

This article was written by Randy Harmon, for publication in the annual NJBIZ financing supplement.