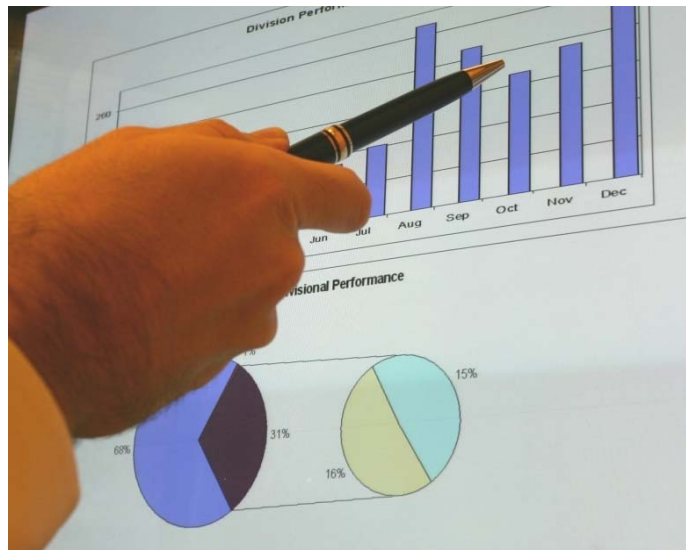




## Business Plan Guide



# **Business Plan Guide**

**A practical guide for technology companies**

**A** business plan is the pen-to-paper "rallying cry" of any start-up venture. Sound business plans not only help companies raise capital but they also help create enduring value. The business plan acts as the operations manual for the company and as a reference tool for investors and board members. It's therefore very crucial to think through and write a good business plan. This guide will walk you through the whole process in writing a successful business plan that will fit your technology company.



# How to Use this Guide Book

The first part of the guide will walk you through the key elements that should be included in a business plan. The second part describes the choice of entity selection. The last part includes a template that you could use in writing your own business part. At the end of the guide we have included a glossary for your assistance.

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# Business Assistance Guide

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# The Business Plan

## The Benefits of Creating a Business Plan

A business plan is the pen-to-paper "rallying cry" of any start-up venture. Sound business plans not only help companies raise capital but they also help create enduring value. The business plan acts as the operations manual for the company and as a reference tool for investors and board members. Developing the plan forces you to analyze corporate strengths, weaknesses, opportunities, and threats. An effective business plan should:

- ➔ Help focus ideas about a market opportunity and turn them into a realistic course of action.
- ➔ Create a track for management to follow in the early years of a business.
- ➔ Identify milestones & benchmarks the management team can use to measure progress.
- ➔ Be succinct, interesting, and sufficiently solid enough to attract prospective investors.
- ➔ Be flexible enough to handle contingencies and unexpected events.

To effectively write the plan you must keep in mind what a good investor is looking for:

- ➔ A specific and realistic source of value that differentially fulfills a specific and unmet need.
- ➔ A team that can plan and execute the plan with success.
- ➔ A sustainable and defensible product/service position.

## First Steps

The plan should be formula-driven and present a fluid, not static, estimate of actions. Your projections and your plans for execution must be committed to, but must also demonstrate room for flexibility. More than likely, an investor reviewing the plan will cut the sales projections and raise the costs. The plan should be adaptable to handle these types of contingencies and be flexible enough to guide you through dire situations. Building a fluid set of plans and decision criteria will take longer but it will pay off in the end. Multiple levels of projections formalized in the plan will serve as real tools.

Before you solicit financing, an important first step is to analyze the business thoroughly and prepare yourself for the fierce competitiveness of the capital markets. Keep in mind that it is not just the numbers that matter, you should be able to make transparent your venture's source of value.

### Action items:

1. What core competencies and values will the business possess?
2. What compelling need does the venture fill?
3. What is the company's basic value proposition?

## The Business Plan

Twenty pages is the target length for the plan, however, the length and content vary depending on such factors as company maturity, nature, and complexity. Here is a list of items to consider:

<b>DO</b>
<ol style="list-style-type: none"><li>1. Write an engaging executive summary</li><li>2. Talk about managing change</li><li>3. Talk about maintaining competitive advantage</li><li>4. Make the venture's true value transparent</li><li>5. Demonstrate the plan's flexibility</li><li>6. Base financials and projections on formulae</li><li>7. Provide a table of contents</li><li>8. Indicate the plan is private and confidential</li><li>9. Use visuals to enhance the presentation</li><li>10. Spiral bind the final copy</li></ol>
<b>DON'T</b>
<ol style="list-style-type: none"><li>1. Make the plan more than 25 pages</li><li>2. Send your plan to a VC cold - talk to them first</li><li>3. Make claims you can't substantiate</li><li>4. Discuss possible valuations in the plan</li><li>5. Wander in your writing - be succinct instead</li><li>6. Underestimate current/possible competition</li><li>7. Overestimate the company's strength</li><li>8. Underestimate required funding</li><li>9. Go it alone - enlist knowledgeable help</li><li>10. Ignore the potential for unexpected obstacles</li></ol>

## Executive Summary

This three-page maximum section should summarize the business plan and provide an overview intended principally to catch and hold the interest of prospective financing sources. While the Executive Summary is the first section of the business plan, it should be written last in order to incorporate the relevant pieces found in the subsequent parts of the plan.

More often than not, the summary is all that investors will read, so it must capture their attention. An effective summary positions the company accurately and differentiates a company from others competing for limited investment capital. If the summary fails to persuade the prospective source of capital to read further, it has not done its job.

At the very least, the summary should include:

- ➔ A description of the business and the target markets for the product or service.
- ➔ Ways in which the business will distinguish itself from its competition and the need that it will fill.
- ➔ An argument that concisely and persuasively addresses factors which will enable the venture will succeed in a competitive situation.
- ➔ A description of the management team, relevant experience and special skills of each key executive. Discuss strategies and timing for strengthening and inexperienced management team.
- ➔ A summary of key financial projections for the next three to five years.
- ➔ A synopsis of funding needs, amounts of capital as well as when and how it will be spent.
- ➔ A grid showing projected estimates of Revenues and EBITDA for the next 3- 5 years

### Action items:

1. What pulls all the other elements of the business plan together?
2. What does each part of the business plan show about the value of the venture?
3. Have I addressed the important issues relevant to the investment community?
4. Does the summary inspire management to execute and investors to invest?

## Introduction

This section is intended primarily for prospective investors who need to know where a business has been before they can evaluate where it is likely to go. If you have little history, you should place more emphasis on the description of the management team and relevant experience. This section of the plan should discuss:

- ➔ When the business was founded, its progress to date and a brief description of the founders, emphasizing their relevant experience and their roles in the company.
- ➔ The form of organization (partnership, S Corporation, LLC, etc.) and distribution of equity. Summarize the company's capitalization, classes of stock, shares outstanding and other relevant data.

- ➔ Past loans to, or investments in, the company by outside sources, as well as management's investment in the company. Detail any outstanding stock options or warrants as well as other financial commitments, including name of those involved and principal terms (price, expiration date, and so on) of each commitment.
- ➔ Products or services the company has developed or marketed and the success of each.
- ➔ The state of development that your product or service is in and what further approvals, upgrades, or development it must still undergo (e.g. stage of FDA approval, R&D status, status of website's technology if imperative to operations, etc.)

If you have reasons for believing that the company's past performance is not a reliable indicator of its potential, cite those reasons in this section and discuss them more fully elsewhere in the business plan. Also keep in mind that the current volatility of the business environment may require you to change directions. Be sure that the history displays an ability to adapt and grow and that your vision is dynamic.

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|---------------------|--|
| <b>Action items</b> | <ol style="list-style-type: none"> <li>1. On what common vision has the venture been founded to date?</li> <li>2. How will the past fuel future, sustainable growth?</li> <li>3. How has the venture shown performance and exercised good practices in the past?</li> <li>4. Have you demonstrated an ability to adapt to and overcome obstacles?</li> </ol> |
|---------------------|--|

## The Market Opportunity

This section of your business plan is intended to paint a picture of the unfulfilled need your venture will fill. Take the time to give factual as well as educated estimates of the market size and growth today and in the future.

Give a brief description of your target customer; their behaviors and ways in which you plan to capitalize on those in order to bring the venture to profitable and sustainable fruition. Describe the present market and future opportunities. If the product or service is new, market research probably will be required to put meaningful dimensions on the initial and future market.

This section should describe the results of such research, if it has been completed, or outline the plans for future research. If the product or service represents an improvement on what is available, there already may be well-defined dimensions to the market. In that case, summarize them here, using both historical data and reliable forecasts from industry, trade associations or government sources.

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|----------------------|---|
| <b>Action items:</b> | <ol style="list-style-type: none"> <li>1. Who are the customers?</li> <li>2. What is the historic and predicted rate of growth for each market segment?</li> <li>3. Where are the present and future markets? Are they regional, national, international?</li> <li>4. How does each market segment purchase the product?</li> <li>5. What are the critical product/service characteristics? Consider performance, reliability, durability, availability, price and service.</li> <li>6. What substitutes are available for this product? Or what are</li> </ol> |
|----------------------|---|

- prospective customers doing now to fill this need?
7. Does the market have any special characteristics, such as seasonal, cyclical or other important factors?

## The Offering

The purpose of this section is to define precisely what you intend to develop and market while pointing investors (directly and transparently) to the source of continuing and profitable growth.

This section should include a summary of all of the company's existing or planned products or services. The length depends on the complexity and number of products or services. The language should be concise and understandable by a layperson.

This section should also include discussion of any legal protection the company has obtained or applied for (i.e. patents, copyrights, trademarks, etc.). If, for example, a patent protects the product or process, that fact would influence the marketing strategy and interest prospective investors.

Attach as appendices any lengthy or detailed diagrams, technical documents or descriptions necessary to understand the products. Alternatively, you might opt to provide detail at a later stage of the investigation, especially if the information is proprietary.

One of the keys to success is knowing what sets you apart from the competition. When describing the product or service, give special attention to characteristics distinguishing it from others in the market. State the specific benefits (i.e. lower cost or greater versatility).

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|---------------------|---|
| <b>Action items</b> | <ol style="list-style-type: none"><li>1. How is the venture different from other companies in the market?</li><li>2. Is the product or service patentable?</li><li>3. How will the venture maintain long-term profitable growth?</li><li>4. Can a layperson understand the description of the product or service?</li></ol> |
|---------------------|---|

## The Competition

If the company is new, you will likely face entrenched competition from mature organizations with far greater resources. Identify competitors in the business plan and note the strengths, weaknesses and market share of each.

Be realistic about the analysis and address all the negatives to show that the venture is prepared. The business plan should also indicate the market share you expect to capture in the first three to five years. Spell out your rationale for these forecasts. From which competitors do you expect to draw customers, and why? Define the niche in the market and summarize the strategy to gain market share.

Cite the principal competitive factors in the marketplace: product performance, reliability, durability, styling, delivery, service, aggressive merchandising, price, and other factors. Identify trends and explain how you plan to react to them. A prospective investor will also want to know how competitors are likely to react to entry in to the market and how you plan to respond.

Perhaps the greatest temptation will be to overstate your own strengths and understate competitors' skills. In the end, this approach is self-defeating since you base the actions on the

directions charted in the business plan. Moreover, prospective investors are unlikely to back an entrepreneur who lacks a realistic view of the competition. Show how competition could deter your plans and how the venture can be adaptable to meet the changing environment in these situations. Remember if there is “*no competition*” maybe there is no need for this product!

**Action items:**

1. How has the industry of the venture evolved and how will global, domestic, and Internet competition affect it in the future?
2. What is the venture’s specific competitive advantage? Weakness?
3. How can that advantage be defended in the face of changing competitors?
4. Who is the competition & what are their strengths? Weaknesses?
5. What substitutes exist for the product or service and how do these substitutes constitute either direct or indirect competition?

## Marketing

Marketing is a crucial element of a business plan, and its importance is often underestimated. It defines strategy and charts the marketing direction for the staff. This section of the business plan should give prospective investors confidence that you can convert your ideas and assets into a strong brand and marketing position. Investors want reassurance that the business will generate a growing profit stream.

The marketing section of the business plan normally sets the stage for, or summarizes, a more detailed marketing plan. When the time is right -- either at startup or at some future stage -- the marketing executives will need to develop a comprehensive marketing plan to guide that critical function on both an annual and a long-term basis. Regardless of whether the company is in the research and development stage or ready to take products to market, summarize the marketing goals. These goals should be quantitative, realistic and consistent with the marketing analysis. They should also address the consistently and rapidly changing markets of the new economy. Here are some key areas of interest to prospective investors:

### Branding

One of the most significant issues in the new economy is the need for a startup to brand itself. In today’s constantly changing markets, you must have a recognizable name. You must decide what the company’s name means and what it will stand for. You must decide how you intend to build a brand name and maintain its equity for years to come.

### Channels of distribution

In the new economy, the manner in which product or service is distributed has become of paramount concern. New business models have given rise to new distinct modes of distribution: pure-play Internet companies and the hybrid clicks and mortar. The web has developed into a necessity in any business model. Internet considerations should also be balanced with a strategy that includes traditional channels, such as use of a sales force and physical order fulfillment centers or retail centers.

The scale of your operations will also be important. Regardless of the type of operations you choose, you must decide whether or not distribution will be handled internally or outsourced. You must consider how to deliver to the increasingly global market that the Internet has created and how expansion will be handled in terms of capacity, whether its in terms of your technology, handling traffic, or a distribution center shipping orders.

## **Pricing strategy**

You must decide how you will price your product compared to the competition. You must also be able to support that price by identifying ways in which your venture adds to the value of the item if there are readily available substitutes for your product. Keep in mind the product's current and projected product life cycle stages, how pricing will change at different times, and how your competition will react under those conditions.

## **Promotion**

Few products, however good they might be, can succeed in a competitive marketplace without effective, continuing promotion. Continually leveraging a venture's brand is of paramount importance in the new economy.

## **Sales**

Your marketing plan should address your strategy for building sales and therefore revenues. These plans should be consistent with both market data and your financial projections. Advertising on the Internet, email campaigns, as well as traditional media such as television commercials must all come under consideration. The market must be aware of your brand and want to choose your product, given that there is a need for your market offering. You must also decide how much of the promotion will be handled internally and how much will be outsourced. If you have chosen an advertising or public relations agency, prospective investors will want to know which one.

### **Action items:**

1. What markets are you prepared to serve from a financial, logistical, operational and management perspective?
2. How do you intend to monitor the market on a continuing basis?
3. Will you conduct product eval's, price comparisons or market-share analyses?
4. What is the plan for adapting to changing market conditions?
5. How will you advertise or publicize the offering?
6. What does your brand mean, what will it stand for, and how can you build equity in that name?
7. What are the critical factors which will allow the venture to maintain profit and growth?
8. What part of the venture is the source of value for the consumer?
9. What allows the firm to hold barriers to entry and competitive advantage?
10. What is the cost of a new customer? How will these costs be controlled?

## **Management**

No matter what stage the venture is in, you must develop a strong management framework. Prospective investors take a dim view of a company that lacks a well-balanced management team. However brilliant a product idea might be, or however great the market need, prospective investors want assurance the company can manage its operations effectively and adapt to the changes that will inevitably occur.

Even in the case of a new product, competition from established companies may follow on the heels of an entrepreneur's initial success.

If the company's management team has respected production, marketing and financial executives, a solid board, strong strategic alliances, and a history as well as a plan for

adaptability, you can greatly enhance the probability of success. In some cases, potential investors may be able to help you fill key slots in management and/or the Board. But many turn away from a company with a poorly conceived organization, investing instead in well structured operations.

Most prospective investors believe the presence of a complete first-rate management team is the single most important criterion in the evaluation of any funding opportunity. Therefore, this section of the plan should emphasize the experience and competence and strengths of each key management executive. It is helpful to include job descriptions, compensation data, equity interests, and detailed resumes on all management executives in place. While the internal business plan need not include such information, it is of interest to prospective investors who need assurance that the team is well qualified to implement the business plan.

Personal data on key executives should include all relevant business experience, educational background, patents or copyrights, significant awards and any other information that would show a potential investor that you have the necessary management and technical resources.

If one of the post funding goals is to strengthen the management team, deal with that issue here by outlining the planned management structure in chart form and providing detailed job descriptions and the minimum qualifications for each unfilled slot. Also indicate the level of compensation for each open position, and when and how you expect to fill it. Also do not discount the value of a strong advisory board-either business, scientific or both. The use of respected advisors during the initial stage of business formation can strengthen your credibility and add great depth to your planning.

**Action items:**

1. Is the management team complete?
2. Have you proven the management team to be a flexible one?
3. What are the management team's strengths? Weaknesses?
4. How can the team be strengthened?
5. What is the venture's human resource strategy?
6. What is the venture's planned organizational structure?
7. How do you intend to acquire and retain the personnel you will need to execute the business plan?

## Financials

In this section, all the assumptions and quantitative data presented elsewhere in the business plan are put to a numerical test. In other words, bring together all of the company's sales, market, and cost projections in a financial summary format. Be sure to keep the model open to query and adaptation. Make this a contingency- and formula-based model instead of a static uncompromising set of numbers. This will help potential investors to see your ability to react and adapt as to allow you to prepare mentally for investors to question the sales projections during a meeting.

Three-to-five-year financial projections serve a dual purpose: They guide the management team and they inform prospective investors. Include financial statements and other detailed information in an appendix or make it available upon request.

At a minimum the financials should include:

- ➔ Current financial statements.
- ➔ Past financial records -- balance sheets, profit and loss statements, cash-flow statements -- for up to three years if relevant.
- ➔ Projected balance sheet information on an accrual basis for the next three to five years.

- Profit and loss projections and cash flow projections on a monthly or quarterly basis, if possible, for the first two years and annually for the next three years.
- The venture's current funding desired and future funding expectations (be as precise as possible with dates and amounts).
- A brief statement about the planned exit strategy.

Potential investors want to see how much money you will need and when you will need it. Put at least a modest cushion in the funding request. Many early stage businesses fail because of underestimated cash needs. Be realistic and prepare yourself for the unexpected.

You should include a detailed description of all major assumptions underlying the projections. At the very least, you should describe the accounting principles, as well as sales and market share expectations. In addition, you need to be forthright about assumptions regarding the anticipated number of days sales in accounts receivables, bad debts, interest expense, research and development costs, facility costs, warranty costs, payroll, costs of materials and components and, of course, federal, state and local taxes.

A major problem facing many enterprises is cash flow. Revenues often do not flow in predictably and burn rates often exceed expectations. Some of the factors that lead to the failure of new businesses include under capitalization, failure to anticipate setbacks and unexpected expenses, and failure to be rigorous with accounts receivable. The plan should anticipate cash flow problems. The financial projections must be realistic and adaptable. If they represent a major deviation from past experience or established industry parameters, you should present reasonable evidence to support such a rosy projection. Otherwise, the forecast will generate skepticism within the management group and among prospective investors.

- Action Items:**
1. How will the venture effectively manage its financial assets?
  2. How will you deal with cash flows that are different than projected?
  3. How will the venture's financial assets contribute to the business model?
  4. What is the competition doing with its financial assets to maximize value?
  5. How much funding does the venture currently need and how much (based on the projected financials) will the venture need in the future?
  6. Have you included all relevant assumptions in your estimates?
  7. Do your projections match your sales and marketing assertions?

## Milestones

This section is concerned with committing to some very definitive goals and plans for achieving those goals. Your milestones do not have to be detailed, in-depth accounts of how you plan to execute on your idea, but must give a general idea of what action items you want to fulfill for at least the next two years. Try to isolate and identify the high-level actions, giving a range for completion no longer than one calendar quarter. Include as much of the following as possible:

- Plans to complete stages of product development (e.g. FDA trials, patents or copyrights, and the like) and/or rollout on new and existing products.
- Planned stages of your technology in time and timing for upgrades and/or redesigns.
- Plans for strategic alliances and your actions for negotiations and actions.

The milestone section can be as simple as a single bulleted list of these action steps. The intent is to show that management can commit to a plan. The milestones will serve as a way in which the right team and the investors can gauge the company's progress, by comparing actual results with projections.

**Action items:**

1. What is the current state of the planned product line in terms of research and development and production? When will the new products be completed?
2. Is the venture's technology up to par? If not, when will the necessary adjustments be completed?
3. Is the venture's means of doing business (e.g. website) up to par and scalable?
4. What lines of expansion will the venture take to grow its business

# Business Entity Selection

The choice of legal entity for an entrepreneur can be one of his or her most important choices. It can ease the task of raising capital, protect him or her from liability and facilitate the sale of the business. On the other hand, the wrong choice can have the opposite effect. Before deciding on a type of legal entity, the entrepreneur needs to consider six issues:

- ➔ Ease/cost of formation
- ➔ Liability
- ➔ Tax treatment
- ➔ Management and control
- ➔ Liquidity
- ➔ Raising capital

In California, the entrepreneur can select from seven types of entities: sole proprietorship, general partnership, limited partnership, C corporation, S corporation, limited liability company and limited liability partnership. These entities are described briefly below:

## Definitions

### **Sole Proprietorship**

A sole proprietorship is a business in which an individual runs his business directly rather than through a separate entity, such as a corporation or a partnership. A sole proprietorship is formed automatically when a person begins to do business alone. It avoids virtually all of the formalities and reporting requirements of other forms of business organization. However the individual will be personally liable for all of the debts of the business.

### **General Partnership**

A general partnership is an association of two or more individuals or companies who wish to carry on a for-profit business as co-owners. Each partner is an “agent” of the partnership and can bind the partnership in the ordinary course of business.

In addition, each partner is personally liable for the obligations of the partnership. The death or withdrawal of any partner will dissolve the partnership unless there is a written agreement to the contrary.

### **Limited Partnership**

A limited partnership is an association of companies or individuals, which has one or more “limited partners” and one or more “general partners.” Limited partners are those designated in the partnership agreements that do not participate in the control of the business and have limited liability for the obligations of the partnership. General partners, on the other hand, are those who actively manage the business. General partners have unlimited personal liability for the obligations of the partnership.

### **C Corporation**

A corporation is an entity in which the owners (shareholders) are not liable for the corporation’s obligations simply by being a shareholder. Corporations are considered a separate legal entity from the shareholders. Officers at the direction of a board of directors run a corporation. Shareholders elect directors. Unless an entrepreneur elects to be an “S” corporation, a corporation will be “C” corporation for tax purposes. “C” corporations are subject to “double taxation” because the corporation first pays a tax on its income and the shareholders then pay taxes on dividends which they receive from the corporation.

## **S Corporation**

“S” corporations are treated the same as “C” corporations under corporate law, but are treated differently under tax law: they are “pass through” entities and their shareholders avoid “double taxation” which means that there is no tax at the corporate level. The tax laws also limit the type and number of investors in an “S” corporation.

## **Limited Liability Company (“LLC”)**

A limited liability company is a newer form of entity, which combines the characteristics of a corporation and a partnership. Members of an LLC do not have personal liability (like a corporation), but a LLC is treated as a “pass through” entity for tax purposes (like a partnership).

## **Limited Liability Partnership**

A limited liability partnership is a form of general partnership in which the liability of each partner may be limited. However, in California, it may only be used for attorneys and accountants and will not be discussed further.

Most entrepreneurs start out as a sole proprietorship because it is the simplest form of entity. However, once they begin to hire employees and seek financing, they will generally choose one of the other forms of entity. The issues in making these decisions are discussed below:

## **Ease of Formation/Costs**

A general partnership can be the easiest type of entity to form because of its informality. However, general partnership law is only a “framework” which provides awkward “default” choices on many important issues. Most general partnerships are formed using a written partnership agreement. This agreement requires the potential partners to make decisions about a large number of issues: right to income and losses from the business, right to vote on matters, authority to act for the general partnership, transferability of partnership interests and admission of a new partner. The very flexibility of the general partnership can significantly increase the cost of forming a general partnership. The formation of a limited partnership has similar disadvantages because, once again, the “framework” nature of the statute means that the drafting of the limited partnership agreement requires many similar decisions by the prospective partners.

The formation of a LLC is more similar to a partnership than a corporation in its creation. It has the same problems as forming a partnership. These problems are compounded by the relatively new nature of this entity, which results in lack of certainty about the laws governing the LLC.

The formation of a corporation (either an “S” corporation or a “C” corporation) requires more formalities than other entities, such as drafting and filing articles of incorporation, drafting bylaws, electing directors and appointing officers. However the number of decisions is limited by the detailed nature of corporate law. As a practical matter, the formation of a corporation can be less expensive than forming a general partnership, a limited partnership or a LLC.

## **Tax Treatment**

The tax treatment of an entity is one of the most important criteria in this decision. A general partnership, limited partnership, limited liability company and “S” corporation are “pass through” entities: the owners are taxed directly on their portion of the income from the entity but the entity is not taxed separately. On the other hand, a “C” corporation is first taxed as a corporation and its owners (shareholders) are taxed a second time upon the distribution of dividends. Naturally, if the entrepreneur is an employee of the corporation, he can obtain a return through salary within certain limits (instead of dividends), which will be taxed only once.

## **Liability**

The liability of the entrepreneur and his investors is another critical issue in choosing the proper type of entity. Most high technology companies do not choose the limited partnership or general partnership form because of the potential for liability. Although limited partners in a limited partnership do not share the unlimited liability of a general partner, this limited liability under partnership law is lost if the limited partner takes an active role in management. Many significant investors wish to serve on the board of directors or otherwise participate in managing their investment. This format is rarely used for start-ups (except for research and development partnerships). A corporation provides limited liability for its owners (shareholders) and management (officers). The LLC offers similar limitation of liability, but its flexible internal management structure (which is similar to a partnership) makes determining how the LLC is managed more complicated than in a corporation.

## **Management and Control**

In a corporation, management is generally separated from ownership: shareholders who in turn elect directors hold the ownership of a corporation. Directors appoint and supervise officers to run the corporation. The directors and officers may or may not be shareholders themselves. A shareholder cannot bind the corporation unless she is also an officer. If a corporation has a large number of investors, the management will be very centralized in a small number of officers. On the other hand, for smaller companies the shareholders and officers may be the same.

Unless the general partnership agreement provides otherwise, each general partner can bind the partnership. However, any restriction on the authority of a general partner will not be effective against third parties who are not aware of it. Thus, a general partner could enter into an agreement, which would be binding on the general partnership even though the partnership agreement did not permit him to do so if the other party to the agreement was not aware of this restriction on the partner’s authority. In a limited partnership, a general partner has similar freedom of action, but the limited partners may not participate in management. Consequently, for management purposes limited partners are more like shareholders in a corporation than general partners in a general partnership.

The management of LLC’s is very flexible. Unless its articles of organization state otherwise, its members would manage the LLC’s business and affairs. Members have authority similar to the partners of a general partnership. They can bind the LLC. A different type of LLC is also permitted: it is run by managers. In this second type of LLC, the members cannot bind the LLC. The rights and responsibilities of the managers are described in a written operating agreement.

## Liquidity

The entrepreneur's ability to transfer his interest in the business can be very important in determining how he or she receives a return from his or her investment in the business. In this context, the entrepreneur must carefully consider the nature of his "exit strategy." The most common exit strategies are an initial public offering or sale of the company to others.

From a legal point of view, the stock of a corporation is the most easily transferable type of ownership interest. Except for the limitations imposed by the federal and state securities laws, there are no statutory limits on a shareholder's right to transfer stock (i.e., the consent of the other shareholders need not be obtained prior to the transfer). However, contract or provisions in the articles or bylaws may limit this "free transferability".

General partnership interests are generally difficult to transfer because of the "management" responsibilities that run with them. Unless such transfer is expressly authorized in the general partnership agreement, partners in general cannot sell their interest to another party because the admission of a new partner would require the consent of the other partners. In some cases, the partners may transfer their economic interest in a partnership to a third party without such agreement, but such transfers apply only to the right to share in distributions and profits and losses, but do not transfer the rights to participate in management.

Limited partnership interests are more transferable than general partnership interests. Once again, however, the transfer of the limited partner's voting rights requires the consent of the other partners unless otherwise agreed in the limited partnership agreement. Limited partnership agreements may permit the admission of a substitute limited partner with the agreement of the general partner but without the agreement of the limited partners. This approach makes the partnership interest much closer to shares of stock. The transfer of LLC interests varies depending on the nature of the LLC agreement and can be either like a partnership interest or corporate stock.

## Raising Capital

A "C" corporation has great flexibility in raising capital because it can sell different types of stock, common and numerous types of preferred, with different rights and at different prices. Since investors in a general partnership will be active in management and be subject to unlimited liability, many investors are reluctant to invest in a general partnership except for limited purposes. A limited partnership does not have the liability disadvantages of a general partnership, but does require that the investors be passive. The purchase of a limited partnership interest is not attractive to many investors who wish to be active in management because the limited liability of limited partner is lost if he or she becomes active in management. A limited partnership also requires that the limited partners find a general partner who is willing to undertake unlimited liability. Limited partnerships are generally used for passive investors in real estate matters and other tax-advantaged investments. The LLC has much more flexibility but its relative newness requires significant decisions about the internal structure by potential investors. It is worthwhile to note that LLC's are not able to take advantage of certain "tax-free" reorganizations and are therefore poor candidates for M&A transactions. Given (i) the current capital market conditions; and (ii) LLC's inability to utilize a "tax free" reorganization, the LLC's ability to effect liquidity is thus significantly impaired.

### **Silicon Valley Experience**

Most high technology companies in the Silicon Valley are organized as “C” corporations. They do so because they will generally seek financing from either venture capitalists or corporate sources and want to issue different classes of stock. Most investors are conservative in their choice of entity because they wish to focus on making the business a success and not what they view as the marginal advantages of different legal forms. At some point, the LLC may provide an alternative to the standard “C” corporation but this entity is new and is not currently used. One exception to this rule is a startup who will initially be obtaining its financing from individuals who are willing to purchase a single type of stock. This type of company will frequently be organized as an “S” corporation initially. An “S” corporation can easily be converted to a “C” corporation when it becomes time to seek funding from corporate, venture capital or other sources. An entrepreneur may choose the “S” corporation or LLC for the long term if he believes that he will not need professional investors or corporate financing because the business will be self-financing or individuals will be able to finance the business. General partnerships and limited partnerships are very rarely used for technology start-ups.

	<b>Ease of Formation</b>	<b>Liability</b>	<b>Tax Treatment</b>	<b>Management and Control</b>	<b>Liquidity</b>	<b>Raising Capital</b>
<b>C Corporation</b>	<ul style="list-style-type: none"> <li>• Must file Articles of Incorporation with State</li> </ul>	<ul style="list-style-type: none"> <li>• Limited liability for shareholders and management</li> </ul>	<ul style="list-style-type: none"> <li>• Double taxation: corporation taxed as an entity and shareholders taxed on distributions</li> </ul>	<ul style="list-style-type: none"> <li>• Management generally separate from shareholders: Management appointed by Board of Directors</li> </ul>	<ul style="list-style-type: none"> <li>• Liquidity for stock of a private company generally achieved upon a sale of the Company or upon an initial public offering</li> </ul>	<ul style="list-style-type: none"> <li>• Greatest flexibility: May establish rights, type and price of stock. May create preferred stock that has preferential rights</li> </ul>
<b>General Partnership</b>	<ul style="list-style-type: none"> <li>• Formed by an agreement between the partners (desirable to have agreement in writing)</li> </ul>	<ul style="list-style-type: none"> <li>• Each partner has unlimited, joint and several liability for all obligations of the partnership, and each partner is bound by the acts of the other partners</li> </ul>	<ul style="list-style-type: none"> <li>• “Pass through” entity: Partners are taxed on the entity’s profits and losses but the entity is not taxed separately</li> </ul>	<ul style="list-style-type: none"> <li>• Each partner has a right to manage the business and a right to participate in the profits/losses of the business</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to transfer interest: requires consent of other partners</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult: Investors reluctant to invest except for limited purposes</li> </ul>
<b>Limited Partnership</b>	<ul style="list-style-type: none"> <li>• Formed by an agreement between the partners and the filing with the state of a certificate that discloses the names of the general and limited partners</li> </ul>	<ul style="list-style-type: none"> <li>• General Partners: Unlimited, joint and several liability for the obligations of the partnership</li> <li>• Limited Partners: No personal liability for the debts of the business beyond the extent of their capital contribution to the partnership</li> </ul>	<ul style="list-style-type: none"> <li>• “Pass through” entity: Partners are taxed on the entity’s profits and losses but the entity is not taxed separately</li> </ul>	<ul style="list-style-type: none"> <li>• General Partners have general powers of management</li> <li>• Limited partners cannot be involved in management</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to transfer: usually requires consent of general partners</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult if investors, i.e., the limited partners want to participate in management</li> </ul>
<b>Limited Liability Company (“LLC”)</b>	<ul style="list-style-type: none"> <li>• File LLC-1 form with Secretary of State</li> <li>• Operating Agreement governing operation (like partnership)</li> </ul>	<ul style="list-style-type: none"> <li>• Limited liability — Uncertain case law and precedent over new nature of entity</li> </ul>	<ul style="list-style-type: none"> <li>• “Pass through” entity: Members are taxed on the entity’s profits and losses but the entity is not taxed separately</li> </ul>	<ul style="list-style-type: none"> <li>• Flexible management organization <ul style="list-style-type: none"> <li>i. Owner-managed</li> <li>or</li> <li>ii. Manager-managed</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Ease of transfer varies according to nature of operating agreement; usually requires consent of other members</li> <li>• Not eligible for “tax-free” reorganization treatment</li> </ul>	<ul style="list-style-type: none"> <li>• Complex: Investors often don’t understand membership interests and the pass through tax consequences of the entity</li> <li>• VC’s typically do not invest in LLCs; however, an LLC can be rolled-up into a corporation relatively easily</li> </ul>
<b>S Corporation</b>	<ul style="list-style-type: none"> <li>• Similar to C Corporation</li> </ul>	<ul style="list-style-type: none"> <li>• Same as C Corporation</li> </ul>	<ul style="list-style-type: none"> <li>• “Pass through” entity: Shareholders are taxed on the entity’s profits and losses but the entity is not taxed separately</li> </ul>	<ul style="list-style-type: none"> <li>• Same as C Corporation</li> </ul>	<ul style="list-style-type: none"> <li>• Similar to C Corporation</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult: <ul style="list-style-type: none"> <li>— Limited to one class of stock</li> <li>— Limited to 75 shareholders</li> <li>— Cannot have foreign investors</li> </ul> </li> <li>• VC’s typically do not invest in S corporations; however, an S corporation can elect to be a C corporation</li> </ul>

# Business Plan Template

*Here's your sample Title Page.*

*It's a great idea to put a color picture of your product right on the front. But leave room for the following information.*

**[Your Company Name]**

Month, 20xx  
[Month and year issued]

Business Plan Copy Number [x]  
This document is confidential. It is not for re-distribution.

[Name of point man in financing]  
[Title]  
[Address]  
[City, State ZIP]  
[Phone]  
[E-mail]  
[Company home page URL]

This is a business plan. It does not imply an offering of Securities.

# Table of Contents

*Here's a sample Table of Contents. Be sure to modify the page numbers when you've finished your Business Plan.*

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## Executive Summary

*If the executive summary doesn't succeed, your business plan will never sell investors. We recommend that you write the summary first and use it as a template for the plan as a whole. Since one of its primary functions is to capture the investor's attention, the summary should be no longer than two pages. The shorter the better.*

### **Mission**

Our company's mission is to [describe your ultimate goal, or insert your mission statement].

### **Company**

[The Company] was founded in [date] and [describe what your business does, such as baby products manufacturer, distributor of pencils, provider of medical services]. It is a [legal form of your company, such as LLC, S-Corporation, C-Corporation, Partnership, Proprietorship]. Our principal offices are located at [x].

### **Business**

We make [describe product, or service that you make or provide].

Our company is at the [seed, start-up, growth] stage of business, having just [developed our first product, hired our first salesman, booked our first national order].

In the most recent [period], our company achieved sales of [x], and showed a [profit, loss, break-even]. With the financing contemplated herein, our company expected to achieve [x] in sales and [x] in pretax profits in 20[xx] and achieve [x] in sales and [x] in pretax profits in 20[xx+1]. We can achieve this because the funds will allow us to [describe what you will do with the funds, such as a) marketing for your new product, b) build or expand facilities to meet increased demand, c) add retail locations or others means of distribution, d) increase research and development for new products or to improve existing ones.

### **Product or Service**

*Tell us about your product or service in terms we can understand.*

[The company] produces the following products; [list products here briefly, in order of highest sales or significance in product line].

Alternatively, [The company] delivers the following services; [list services here briefly, in order of highest sales or significance in product line].

Presently, our [product or service] is in the [introductory, growth, maturity] stage. We plan to follow this [product or service] with extensions to our line, which include [x, y, and z].

Critical factors in the [production of our product, or delivery of our service are [x, and y]. Our [product or service] is unique because [x, y, or z] and/or we have an advantage in the marketplace because of our [patent, speed to market, brand name].

### **The Market**

We define our market as [manufacture and sale of writing and drawing instruments, low fat cheese, oral care products]. This market was approximately [\$x] at [wholesale or retail] last [period available], according to [site resource], and is expected to grow to [\$x] by the year [x], according to [site resource].

*Who are your customers? If you believe there is nothing like your product on the market then you may need to take a step back and ask "How is the demand for your product being met now?" It may be true that you have something totally new, but the need is being met somehow. This goes beyond analyzing the competition, it its getting into the mindset of your customers. Maybe they are not willing to pay for the added convenience. Cell phones at 30 lbs were new and there was nothing like it – but they were too expensive and too cumbersome for the added convenience. Make sure you understand your customer. Show investors that you already thought of this and can demonstrate proof of concept. In addition, how will you reach your customers? How will you educate customers to buy from you? Why will they care?*

### **Competition**

We compete directly with [name competition]. or We have no direct competition, but there are alternatives to our [product or service] in the marketplace. Our [product or service] is unique because of [x] and/or we have a competitive advantage because of our [speed to market, established brand name, low cost producer status].

### **Risk/Opportunity**

The greatest risks we have in our business today are [market risk, pricing risk, product risk, management risk]. We feel we can overcome these risks because of [x].

The opportunities before us are significant; we have the opportunity to [dominate a niche in the marketplace, become a major force in the industry] if we can [x].

### **Management Team**

Our team has the following members to achieve our plan. [x] men and women who have a combined [x] years of experience; [y] years in marketing, [y] years in product development, and [y] years in [other disciplines].

### **Capital Requirements**

We seek [\$] of additional [equity, sub-debt, or senior financing] which will enable us to [describe why you need the funds, and why the opportunity is exciting]. We can provide and exit for this

[loan, investment] within [x] years by [a dividend of excess profits, recapitalizations, sale of company, or public offering].

### **Financial Plan**

*At this point the investor must have a clear idea of where your business stands today. If you bore him or make the information he needs hard to find, you get canned. You must provide a snapshot, however sparse, of your financial position.*

### **Sales Summary**

*At this point the investor must have a clear idea of where your business stands today. If you bore him or make the information he needs hard to find, you get canned. You must provide a snapshot, however sparse, of your financial position.*

	Last Year	This Year	Next Year	Year Two
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Sales:

Gross profit:

Pre-tax:

### **Balance Sheet Summary**

Assets:

Liabilities:

Book Value:

In [x] years we will provide an exit, which we expect to be in the form of [sale to a competitor, initial public offering, distribution of profits] or perhaps [z]. We expect to be able to achieve this in [b months / years].

## Mission

*No one understands a successful company's mission like entrepreneurs who have built successful companies themselves. Common to these companies is a sense of mission and focus. The mission statement is an opportunity to develop, express, and demonstrate your focus.*

### **Mission Statement**

Our goal is to become [describe your ultimate goal, or insert your mission statement; example; the leading manufacturer and marketer of branded in-line skate replacement wheels or the first name in low fat cheese].

We aspire to carry a reputation in the marketplace for developing and delivering [time saving, better-way products sold at a fair price for uses in the {x} market]. We can achieve this by [cutting edge product development, close understanding of market trends and needs, innovative and profitable merchandising and packaging].

To accomplish our goal, [your company name] needs [capital, management talent, larger, more efficient facilities].

In pursuit of our goal, we resolve to treat stakeholders, customers, and the community with [description of the reputation your company seeks]. These groups see our company as providing [describe benefits to each group of being associated with your company].

## The Company

[The Company] was founded in [date] and [describe what your business does, such as baby products manufacturer, distributor of pencils, provider of medical services]. The legal name of the business is [x].

It is a [legal form of your company, such as LLC, S-Corporation, C-Corporation, Partnership, Proprietorship]. Our principal offices are located at [list primary address as well as any other facilities]. We have approximately [x] square feet of office space and [x] square feet of [factory or warehouse]. Our current capacity is [x] units per month. If we exceed [x] units per month, we will need additional space. We expect this facility to be adequate for the company's needs for [two years, a year, a week] after funding.

### **Regulations and permits- cut now if inappropriate.**

[Your Company Name] operates in the [toxic waste, weapons and armaments, genetic engineering, explosives] industry, or [uses controlled substances in the manufacturing process or delivery of service], and falls under the jurisdiction of the [name government agency].

[Your Company Name] has all necessary permits to operate, and has an up-to-date record of inspections. These permits include; [list briefly here]. These agencies regulate our business in the following manner; [we must document and account for uses and disposal of all toxic materials or we must document and background check all employees with access to the launch codes for our missiles].

### **Strategic Alliances**

*The leverage from relationships can be appealing to investors. Explain how you work with others to improve your performance.*

[Your Company Name] has developed important and profitable strategic alliances with the following larger, more established business; [describe each company, it's position in the marketplace, the details of the alliance, and what risks are involved in the alliance]. For example, we have developed marketing agreements with [x], the [market leader in gummed erasers] which will enable us to sell, along side them, our [extra messy children's pencils].

The side-by-side positioning at retail, as well as the ability to share wholesale sales leads with their established customer base can help us penetrate the market more quickly.

The risk in the relationship is that they may [decide to sell pencils themselves] and cut us out of the process.

Another type of strategic relationship that benefits the company is our development joint venture with [x]. We would never be able to fund the research of the new [low fat Swiss cheese that melts smoothly], but with access to their prior research in [smooth melting cheddar] we cut our development time in half. By using some of their [equipment, or people] whom we not being utilized fully, we were able to avoid the expense of [major capital expenditures, additions to the payroll]. We have agreed to pay a royalty of [x] to this development partner for their role in this products ultimate success.

We have a strategic relationship with a number of suppliers. In exchange for a blanket commitment to purchase [more than 80% of our supply of a specific raw material from them], they have agreed to [not make it available to the market at large for six months, or to give us a preferential price].

[Your Company Name] also has a strategic Original Equipment Manufacturer relationship with a number of customers. This allows us to sell a large and steady volume of [in-line skate wheels] to [boot manufacturers, who use them to sell complete skate sets]. This gets many units of our product out in to the marketplace; however, it provides little or no brand awareness for us.

## The Business

[Your Company Name] is a [manufacturer, distributor, marketer, service provider] of [describe your product or service].

Our company is at the [seed, start-up, growth] stage of business, having just [developed our first product, hired our first salesman, booked our first national order].

### Product or Service

*Explain how your product works or how the service is used. What burning marketplace needs are addressed by your product? What value do you add to the product?*

[The company] produces the following products; [list products here, in order of highest sales or significance in product line]. Be sure to refer readers to product pictures, diagrams, patents, and other descriptive material.

Or, Alternatively

[The company] delivers the following services; [list services here briefly, in order of highest sales or significance in product line].

Be sure to refer readers to brochures and material describing your service.

Presently, our [product or service] is in the [introductory, growth, maturity] stage. We first developed our [product or service] in 20[xx] and have made [x] improvements and redesigns since then. Provide a history of product developments, introductions, and improvements leading up to the present day. Table form may be appropriate.

### Unique features or proprietary aspects of Product

*This is a crucial paragraph. Investors must see something unique, proprietary, or protected about your product or service.*

Our products are unique because of [of secret ingredient, our patented process, our proprietary manufacturing process].

Others in the market are able to provide somewhat similar [products or services], but we are able to differentiate ourselves in the market because of [x]. We will be able to maintain this differentiation because [x].

We have [applied, been granted, licensed] a patent for [x], an abstract of which can be found in appendix [x]. We have integrated this into our process which others will not be able to duplicate. Our lead product, [x] addresses the following customer needs [x] and delivers [x] benefits to customers.

*Tell us about the unique value-added characteristics your product line or process provides to customers and how these characteristics translate into a competitive advantage for your company.*

### **Research and Development**

Our research and development is headed by [name of person or contractor] whose major objective is to use market input to [develop products that solve problems or provide superior benefits to customers]. Last [period], our R&D yielded the following products and innovations; [list products or innovations]. [Your Company name] has spent [% of revenues, or absolute \$] in the past year in R&D, and plans to spend [% or \$] in the next [period].

Our R&D occasionally yields innovation without input from customers or the marketplace. Our product selection criteria in this case are as follows; [relatively low investment requirements, positive return on investment, fit with present strategy, feasibility of development and production, relatively low risk, time to see intended results, buyer in common]. Our R&D will require additional resources in the future. These will include [people, capital expenditures] to [speed up development process, test results more efficiently].

### **New and Follow-on Products**

Responding to market needs, we plan to follow [product or service] with extensions to our line, which include [x, y, and z].

Our target introduction dates for these products are [x, y, and z], which corresponds with [a major trade show, industry event]. In addition, we plan to introduce the following new products in the upcoming season; [x, y, and z].

### **Production**

Our [product, service] is [manufactured in house, assembled in house from components from various vendors, (service) provided by our staff, or subcontracted to field consultants]. [Raw materials, sub-assemblies, components] used in our products are readily available from a variety of manufacturers who can meet our quality standards.

Critical factors in the [production of our product, or delivery of our service] are [x, and y].

*Enumerate and explain capital equipment, material, and labor requirements. Are the above items readily available? Do you have multiple supply sources? List inventory requirements, quality and technical specifications, hazardous materials*

### **Uniqueness**

Our [product or service] is unique because [x, y, or z] and/or we have an advantage in the marketplace because of our [patent, speed to market, brand name].

## The Market Opportunity

*Sad fact: this is the most crucial but worst prepared section of most business plans.*

### Market Definition

*What markets are you competing in? If you make glove-compartment hinges, don't gush about the \$80 billion automobile market. You make hinges -- not cars -- for that market, so tell us how many hinges were sold last year. Are there other markets where you sell your products?*

We [expect to compete, are competing] in the [define niche] of the [define industry]. This market was approximately [\$x] at [wholesale or retail] last [period available], according to [site resource]. We believe, the major future trend in the industry will be toward [environmentally oriented, miniaturized, high quality, value oriented] product offerings.

Market research [cite source] suggests this market will [grow/shrink] to [\$x] by the year [20xx]. We expect the niche in which we compete to [grow, shrink, remain stagnant] during this time. The major forces affecting this change will be [falling cost of computers, explosion of home based businesses, tendency for baby boomers to have less kids- and pamper their pets]. The area of greatest growth within the industry will be [x].

### Market Segment

We define our market segment as [the writing and drawing instrument segment of the school/home/office products industry, the low fat dairy products segment of the food industry]. This segment has been [volatile, steady] in the last few years. Industry experts [name them] forecast [x] for the industry in the next few years.

The major market segments [segment a, segment b, segment c]. List, in general, the types of customers you are likely to reach (retailers, electrical contractors, catalog buyers, etc.)] The [a] segment of the market is based on [product type] that retail in the [x to y] price range. Most of the sales in the segment are delivered through the [catalogs, retailers, manufacturers reps, OEM's].

A typical customer for our product is a person who current may use [alternative product or service] for [what purpose]. They are motivated to buy our product because of [its value, its quality, its usefulness]. We know this from [customer responses, trade show input, ad inquiries] and feel our customers perceive our products as [good value, superior performance, great taste].

Our product, does, however, have the following weaknesses; [higher price point than most other cheeses, weak brand identity in a commodity market]. We are working to position our product as [x] in order to reduce this vulnerability.

### Marketing

Our marketing plan is based on the following fundamentals;

We expect to penetrate the [x] segment of the market[s] and achieve this by using the [retail, mail order, multi-level marketing, internet] as our primary distribution channel[s]. In time, we plan to capture [%] share of the market.

**Position**

We will position our product as [good value for price, top quality, cheap and fun], which is a position not presently being addressed by the competition. One demographic group in particular, the [elderly, hispanic, generationX,] has a particular need for this product, and we tailor our positioning accordingly.

**Pricing**

Our pricing strategy is [describe policy or, at least philosophy]. *Is this pricing based on cost? Gross margin objectives? Market?*

We arrive at our pricing based on [cost, gross margin objectives, market prices, perceived value].

We review this pricing [monthly, quarterly, annually] to ensure that potential profits are not squandered. Customers seem willing to pay as much as [x] because of [explain reasoning].

**Distribution channels**

The distribution channels we use for our product are [wholesalers, cataloguers, mass merchant retailers, consolidators]. These make sense for delivering our product to the end user because [customer profile, geography, seasonal swings]. The competition uses the [[wholesalers, cataloguers, mass merchant retailers, consolidators] channel. Our channel will prove more advantageous because [x].

Our major current customers include; [list top five, with one or two sentence descriptions]. The attached chart [see appendix z] demonstrates how our product reaches the customer.

**Advertising, promotion, trade shows**

*Your purpose is to introduce, promote, and support your products in the marketplace. Although considered a cost, a properly designed and executed campaign is an investment.*

[Your Company Name] has developed a comprehensive advertising and promotion strategy, which will be implemented by the best possible firm when funded is completed. We expect to have a presence in several national magazines as well as the trade press. We will produce our own ads and be a part of ad campaigns of our JV partners or OEMs. Our publicity plan is to remain in constant contact with editors and writers of the [trade journals that serve our industry] and seek stories and coverage that will [enhance our reputation, introduce us to buyers].

We plan to promote our product through a variety of [on site product sampling, demonstrations at high profile events, give-aways at fund raisers] and other high leverage events. The objective of all our promotions is to [expand the audience, position our product as a premium brand, strengthen our ties to the community].

[Your company name] participates in the following trade shows; [list trade shows, briefly describe organization that sponsors it and who attends, and describe presence there]. We have a regular [20 foot display booth of knock down construction which allows us to display our existing products and introduce new ones, or we prefer to attend trade shows as visitors and walk the show while displaying our wares only to pre-qualified buyers who will come to our nearby hospitality suite]. The following factors are taken into account when considering a trade show; will this event help

deliver our message to our target audience? Does the location of the show have significance? Is the time frame convenient? Is it a "must-go show"?

## Competition

*Tell us about key competitors in regard to product, price, location, promotion, management, and financial position. False or incomplete information here translates as dishonesty and negligence to investors, bankers, etc. Do not delude yourself (or your investors) about your competition.*

*Look in the industrial directories at your local library. Search on-line databases that provide competitive profiles of other companies. Read industry magazines and look for advertisers.*

### **List following Info about your competitors:**

- Who are your competitors be and where are they located?
- What are the major strengths of each competitor?
- What are the major weaknesses?
- What is the impact, if any, of the Internet on my industry?

We have no direct competition, but there are alternatives to our [product or service] in the marketplace. (But remember to say how the NEED is filled currently or that the NEED is not being filled.)

**or**

We compete directly with [name competitor a, b, and c].

**Provide a sample of each...**[example...Acme Inc. is a \$3 million sales manufacturer and marketer of pencils in the Northeast region. Acme Inc. is a division of Acme Corp, a public company with \$800 million sales. The division sells pencils, pens, and other writing and drawing instruments. The recent trend for the division has been static, as the parent has not provided working capital to modernize machinery. Acme Inc. is managed by one Vice President who has been there for six months. The previous manager worked there for 11 months.]

The competition [does, doesn't] [use the same means of distribution as the company, advertise in the same trade journals]. *If the advertising is regular-it probably works!*

Our [product or service] is unique because of [x] and/or we have a competitive advantage because of our [speed to market, established brand name, low cost producer status].

## Risk/Opportunity

### Business Risks

*This is also a critically important part of the plan. Knowing your risks and having a strategy is a must for attracting an investor. There are several kinds of risk, especially among entrepreneurial, growing businesses. Be sure to address the following, and provide your strategy for dealing with them;*

Some of the major risks facing our development include [limited operating history; limited resources; market uncertainties; production uncertainties; limited management experience, dependence on key management].

*Be honest in this section. Expert review conducted by the investor should not yield many surprises.*

### Opportunities

*This is also a critically important part of the plan. Use it to provide excitement and promise.*

Although our business today has its share of risk, we feel we can overcome these risks because of [x]. We will address [market risk] by [doing a comprehensive study, partnering with a larger company who knows the market]. We feel we can address [pricing risk, product risk, management risk] by focusing on [x].

If we are able to overcome these risks, our company has the opportunity to [dominate a niche in the marketplace, become a major force in the industry]. We feel our brand could become know as the [place entrepreneurs look for financing help, the place people look for good tasting, low fat cheese]. We think we can achieve this goal in the next [x] years.

Specifically, our lead product [x], has the chance to [change the industry, affect many lives, improve performance in the [x] field]. This would also enable us to tap markets we have not yet begun to approach, such as [international sales, ethnic market, genX].

## Management Team

*It is cliché but true: investing is a people business. Tell us not only about your managers, but how they work together as a team.*

Our team has the following members to achieve our plan. [x] men and women who have a combined [x] years of experience; [y] years in marketing, [y] years in product development, and [y] years in [other disciplines].

Officers and Key Employees	Age	Stock
[A], President		
[B], Vice President of Marketing		
[C], Vice President of Sales		
[D], Vice President of Finance		
[E], Vice President of R & D		
[F], Vice President of Operations		
[G], Controller		
[H], Corporate Attorney		

### Ownership

The company has authorized [x] shares of common stock, of which [100] are issued and outstanding. The following persons or organizations are significant owners of the company;

Name	# Shares Held	% Ownership
[A. B. Founder]	52	[52%]
[C. R. Inventor]	22	[22%]
Management Team	10	[10%]
[Seed Ventures]	10	[10%]

### Professional Support

We have strung together a team of professionals, including;  
[Corporate Attorney]  
[Accounting Firm]  
[Other Consultants]

### **Board of [Advisors, Directors]**

We have also secured the assistance and support of the following business and industry experts to help in the decision-making, strategizing, and opportunity pouncing process;

*Highlight your board members, detailing where and why they add strategic importance, what experience they have and what contacts they can contribute.*

### **Capital Requirements**

*Needless to say, this is important -- state what your capital requirements are.*

*Do not cut yourself short by undercapitalizing. Its better to ask for it all the first time, then to have to go back.*

We seek [\$] of additional [equity, sub-debt, or senior financing] to fund our growth for the next [two years, year, month]. At that time, we will need an additional [\$x] to reach a positive cash flow position.

The initial stage of funding will be used to [complete development, purchase equipment, introduce and market our new/next product line, fund working capital, acquire a competitor]. Here is a breakdown of how the funds will be spent;

Complete development	[\$x]
Purchase equipment	[\$x]
Market our new/next product line	[\$x]
Fund working capital	[\$x]

We can provide and exit for this [loan, investment] within [x] years by [a dividend of excess profits, recapitalizations, sale of company, or public offering].

*Define how much time you will require to pay back the loan or provide a return to investors. And tell us how the repayment will be accomplished, and what strategy will be used to achieve that exit.*

### **Conclusion**

Based on our projections, we feel an [investment in, loan to] our Company is a sound business investment. In order to proceed, we are requesting an [investment, loan] of [\$x] by [date].

## Financial Plan

*Needless to say, this is important -- state what your capital requirements are.*

### **Assumptions**

The attached projections assume the following;

### **Income statements**

*We recommend that financial statements be monthly for the first year or two, then quarterly thereafter. Incorporate year to date figures if they exist.*

Sales will increase with the introduction of the [new line, improved line]. We plan to introduce these products roughly on the following schedule: [detail here]. And we expect to be able to sell at the rate of [x] units per month within [x] months of introduction.

Cost of good sold will [decrease as a percentage] as we are able to buy more efficiently in the marketplace and use our new equipment to produce more units at lower cost.

Gross profit will remain static as [new introductions will be at higher margins, while we expect margins of older lines to erode].

Selling and administration expense will increase in absolute dollars, but decrease as a percentage because while expense is increasing, [name largest items here, or items that will change most significantly] our sales will be growing faster.

Research and Development, which will appear as a high percentage of sales early, will be reduced as a percentage over time.

Our head count will increase after funding to [x], which will include a [VP-Sales, paid on commission; VP R&D, \$[x], VP Finance, \$[x]; VP Operations, \$[x].

*Keep in mind that projections do not stand on their own. The rationale of how you prepared the numbers- and how sober you were when you did them- is important to investors. Expect to tie in the discussions you made about market size, time to market, market acceptance, and competitive pressures to tie into these numbers.*

*Discuss any large numbers or numbers that change significantly from period to period. Include discussion of sales growth rationale, expense growth, etc.*

### **Balance Sheet Summary**

*Comment on any large or unusual items, such as other current assets, other accounts payable, or accrued liabilities.*

## **Cash Flow and Break Even Analysis**

*These are critical statements, even more so than the Balance Sheets and Income Statements. Cash, and how much you have at the end of the day, is everything to investors.*

We have assumed that our suppliers will be willing to grant us terms of [x] until we reach monthly purchases of [x]. At that time, we have assumed that our terms will be stretched to [x] days.

We have also assumed that we can collect our billings within [x] days because of [special programs with large customers, factoring arrangement, credit card and COD sales].

We have assumed that the first part of our [loan, investment] will be made in [month], and the balance in [month].

We can reach break even by the [x] month. Sales are expected to be at the [\$x] level by that date.

## **Exhibits**

*A common rookie error is mucking up the body of a plan with too much detail. That's what the exhibits are for.*

*Exhibits give an investor a better feel for the company behind the numbers. Be sure to include illustrative material such as:*

- Product literature and brochures
- Sales sheets
- Media coverage
- Clips from industry publications
- Relevant patents
- Market research data
- Past advertising campaigns
- Useful photographs of facilities, warehouses etc.

# GLOSSARY

**Sources:** OneLook.com; InvestorWords.com; MoneyGlossary.com

**Acquisition-** the act of contracting or assuming or acquiring possession of something, in this case generally another company; something acquired (Ex: The firm Zyray was one of Broadcom's recent acquisitions).

**Adopter-** a consumer that buys products, technologies, or assumes new life styles, habits, and practices; an "early adopter" would be a consumer buying a technology product before it becomes mainstream.

**Angel investor-** an individual who provides capital to one or more startup companies. The individual is usually affluent or has a personal stake in the success of the venture. Such investments are characterized by high levels of risk and a potentially large return on investment.

**Appendices-** supplementary material that is collected and appended at the back of a book or report.

**Articles of Incorporation-** a document filed with a state by the founders of a corporation.

**Assignment-** the instrument by which a claim or right or interest or property is transferred from one person to another.

**Assumptions-** results of analysis that provide a reasonable basis for financial or other business performance projections.

**Benchmark-** a standard by which something can be measured or judged.

**Beta customers-** the 2nd letter of the Greek alphabet indicates the second phase of testing a product with customers, generally for less than full price and in exchange for product feedback or future endorsement.

**Bind-** to hold by an obligation; cause to be indebted.

**Binding-** executed with proper legal authority.

**Bootstrapping-** based on the image of "pulling oneself up by the bootstraps," which were straps looped and sewn to the top of a boot for pulling it on- which implied the ability to help oneself, often through improvised means. Often used to describe the process of launching a company by self-funding through revenue generation rather than by outside investment.

**Brand-** a product's name, company name, or "mark;" the way the product or company it is perceived by the marketplace; the act of building a unique reputation for a product or company.

**Bulleted list-** a list of items using a large printed dot to highlight each one, generally used to highlight key points of information in a simple way.

**Burn rate-** used in venture capital financing to refer to the rate at which a startup company expends capital to finance overhead costs prior to the generation of positive cash flow.

**Business Plan-** a proposal written to attract capital investment by designing a blueprint for planned

profitable growth. The proposal should be market-driven and investor-centered.

**Capital-** wealth in the form of money or property owned by a person or business and human resources of economic value.

**Cash flow-** money coming into and going out of a business.

**Cause-and-effect relationship-** a association between actions or events such that one or more are the result of the other or others.

**C corporation-** a business form which has been established in accordance with certain laws and which has specific regulations regarding taxation and the reporting of business activities; the C corporation pays federal and state income taxes on earnings.

**CE-** stands for "Conformite Europeen," and represents a registration required of products sold in the European Union countries.

**Channels-** official routes of communication, also used to indicate routes of sales distribution.

**"clicks and mortar" business-** a retail business model that combines online e-commerce with physical retail outlets.

**Commercialization-** the process whereby scientific research or basic technology is developed for selling, delivering or placing on the market in any other form.

**Competition-** the act of competing as for profit or a prize; a business relation in which two parties struggle to gain customers; also refers to those companies with which a firm competes.

**Competitive process-** a situation in which buyer(s) or seller(s) are engaged in being perceived as the better alternative product, solution, services, etc.; in the awarding of grant funds, the process by which bids or proposals are solicited.

**Compliance-** acting according to certain accepted standards.

**Consideration-** something of value given to make a contract, both legal and binding.

**Contingency-** a possible event or occurrence or result.

**Contract-** a binding agreement between two or more persons that is enforceable by law.

**Corporate investors (also strategic investors)-** representatives of a corporation that invest funds into another- usually start-up- company, in the manner similar to a venture capital investor.

**Corporation-**a business firm whose articles of incorporation have been approved in some state.

**Customer-** someone who pays for goods or services.

**Critical factors-** extremely important issues.

**Debt-** money or goods or services owed by one person to another

**Differentiate-** emphasizing a distinctive feature, attribute, or trait, generally in a very positive sense.

**Double taxation-** government taxation of the same money twice; specifically, earnings taxed first at the corporate level and then again as dividends at the stockholder level.

**Due diligence-** investigation and analysis a prudent entrepreneur, owner, executive, or lender does in making business decisions; an internal audit of a target firm by an acquiring firm.

**EBITDA-** an indicator of a company's profitability that is watched by investors, meaning Earnings Before Interest, Taxes, Depreciation, and Amortization.

**Economic development-** the development of wealth in countries or regions for the well-being of their inhabitants; the economic development process supposes that legal and institutional adjustments are made to give incentives for innovation and for investments so as to develop an efficient production and distribution system for goods and services.

**End-user-** the person who actually uses a product, whether or not they are the one who purchased the product.

**Equity-** the ownership interest of shareholders in a corporation; the difference between the market value of a property and the claims held against it.

**Executive Summary-** synopsis of the key points of a business plan or proposal.

**Exit strategy-** the way in which an investor plans to close out an investment. For example, a venture capitalist or angel investor may look to an Initial Public Offering (IPO) or acquisition as his/her exit strategy; also called "liquidity event."

**Federal Acquisition Regulation (FAR)-** the body of regulations which is the primary source of authority governing the Government procurement process.

**Federal agency-** an administrative unit of government.

**FCC-** the Federal Communications Commission, an independent government agency that regulates interstate and international communications by radio and television and wire and cable and satellite.

**Feasibility-** the quality of being doable.

**Financial projections-** a written report which quantitatively describes the financial expectations of a start-up company.

**Financial statement-** a written report which quantitatively describes the financial health of a company. This includes an income statement and a balance sheet, and often also includes a cash flow statement. Financial statements are usually compiled on a quarterly and annual basis.

**Follow-on financing-** an offering of shares in a company after a company has received an initial venture investment or public offering; also called subsequent offering.

**Funding-** financial resources provided to make some project possible.

**General partnership**-a business partnership featuring two or more partners in which each partner is liable for any debts taken on by the business.

**Government contractor**- someone (a person or firm) who contracts to provide goods or services to a government agency.

**Grant**- project-based funding issued by a government agency or philanthropic foundation for scientific research or other specific activities for the public benefit; the issuance of an award under a stock plan, such as a stock option or shares of restricted stock.

**Human resources**- the field of business concerned with recruiting and managing employees; all the people who work in a business or organization, considered as a whole.

**Hypotheses**- a tentative theory about the natural world; a concept that is not yet verified but that if true would explain certain facts or phenomena; a proposal intended to explain certain facts or observations; a message expressing an opinion based on incomplete evidence.

**Incremental**- the action or process of increasing, especially in quantity or value.

**Indemnify/indemnification**- to secure against future loss, damage, or liability; the act of securing against future loss, damage, or liability.

**Industry standards**- a basis for comparison or a reference point against which other things can be evaluated which is generally accepted by a particular industry or group.

**Initial public offering (IPO)**- a company's first sale of stock to the public.

**Integrated**- formed into a whole or introduced into another entity.

**Intellectual property (IP)**-intangible property that is the result of creativity (such as patents or trademarks or copyrights).

**Investor**- someone who commits capital in order to gain financial returns.

**Legal entity**- a person or organization that can legally enter into a contract, and may therefore be sued for failure to comply with the terms of the contract; a corporation is an example of a legal business entity.

**Liability**- the state of being legally obliged and responsible; an obligation to pay money to another party.

**License**- the act of giving a formal (usually written) authorization; a legal document giving official permission to do something.

**Licensee**- someone to whom a license is granted.

**Licensor**- a person who gives another a license, particularly a private party doing so, such as a business giving someone a license to sell its product.

**Limited Liability Company (LLC)**- an organization form that blends the benefits of partnership and

S Corporations. Only a few states have authorized this type of organization.

**Limited liability partnership (LLP)**- another name for a Limited Liability Company, often used by professional associations. The partner or investor's liability is limited to the amount he/she has invested in the company.

**Limited partnership**- a business organization with one or more general partners, who manage the business and assume legal debts and obligations. Limited partners also enjoy rights to the partnership's cash flow, but are not liable for company obligations.

**Liquidity**-the ability of an asset to be converted into cash quickly and without any price discount.

**Management team**- top executives of a company.

**Margins**- a financial term referring to the net sales minus the cost of goods and services sold.

**Market**- the world of commercial activity where goods and services are bought and sold.

**Marketing mix**- different marketing strategies a company employs to promote its product and service lines.

**Market share**- the percentage of sales a company captures for a particular product line; the percentage of total industry sales that a particular company controls.

**Milestones**- a significant event in a project.

**Morass**- a tract of low, soft, watery swamp ground; an expression that means a difficult, troublesome or perplexing state of affairs.

**New economy**- sectors of the economy activity that are knowledge driven, such as information technology (IT) or telecommunications.

**Offering**- the making available of a new securities issue to the public through an underwriting; also called public offering.

**Order fulfillment**- systems necessary to deliver a sales order.

**Original Equipment Manufacturer (OEM)**- a producer that provides a product to its customers, who proceed to modify or bundle it before distributing it to their customers.

**Patent rights**- the right granted by a patent; especially the exclusive right to an invention.

**Potential customers**- someone who could potentially pay for goods or services.

**Premium**- having or reflecting superior quality or value; payment for insurance.

**Principal investigator (PI)**- the scientist in charge of an experiment or research project.

**Product**- commodities offered for sale; an artifact that has been created by someone or some process; a consequence of someone's efforts or of a particular set of circumstances.

**Product certification-** a document attesting to the truth of certain stated facts; validating the authenticity of something.

**Projections-** a prediction made by extrapolating from past observations; financial projections predict future performance.

**Proof of concept-** evidence that demonstrates that a business model or idea is feasible.

**Proposal-** a formal description of the creation, modification or termination of a contract. A proposal may serve as the blueprint for a future agreement and may be accepted or rejected by the entity or entities that receive it.

**Prototype-** a model, mockup, or preliminary assembly of a new product.

**Public-** having shares available to retail investors in the open market; the retail investors themselves (as opposed to institutional investors); widely known, not secret.

**"pure play" internet company-** a company whose business is entirely conducted on the internet.

**Quantitative-** expressible as a quantity or relating to or susceptible of measurement.

**Rate of growth-** the rate of increase in size per unit time.

**"Referenceable"-** a slang expression which generally refers to the caliber or stature of the customers of an early-stage company; for example, HP would be a "referenceable" customer for a company developing new printer technology.

**Reference customers-** purchasers of a product or service whose background or reputation is widely known and generally valued.

**Request for Proposals (RFP)-** invitation to suppliers to bid on supplying products or services that are needed by a company or public agency but that may be difficult to describe.

**Research and development R&D-** a process of systematic investigation to establish facts, followed by the act of improving by expanding or enlarging or refining.

**Regulations-** rules specifying the appropriate behavior of agencies, organizations or individuals in industry or government activities.

**Revenue-** the entire amount of income before any deductions are made.

**Royalties-** payments to the holder of a patent or copyright or resource for the right to use their property.

**Sales channel-**a means of access to customers.

**SBA (U.S. Small Business Administration)-** an independent agency of the United States government that protects the interests of small businesses and ensures that they receive a fair share of government contracts.

**SBIR Small Business Innovation Research program-** a program of grant funding offered by specific agencies of the U.S. government to companies or individuals conducting applied scientific research which is intended to be developed into products.

**Scientific process-** systematic use of controlled experiments to try to prove AND disprove a given hypothesis.

**S corporation-** Same as Subchapter S Corporation. A corporation that elects not to directly pay federal income tax on its earnings but, similar to a partnership, it passes its income or losses and other tax items on to its shareholders.

**Self assessment-** analysis of oneself or one's performance in relation to an objective standard; calculation of one's own taxable liability.

**Sequential-** in regular succession without gaps.

**Shareholder-** someone who holds shares of stock in a corporation.

**Sole proprietorship-** a small business owned by a single owner and not incorporated; a sole proprietor pays no corporate income tax but has unlimited liability for business debts and obligations.

**Solicitation-** a petition or request; in the case of the government procurement process, an open invitation to submit a bid or other proposal for consideration.

**Sole-source-** designating a company contracted, without competition, to be the sole supplier of a product or service, as a firm having an exclusive contract for certain military technology.

**Spin off-** a form of corporate divestiture that results in a business unit or division becoming an independent company.

**Stakeholder-** any party that has an interest ("stake") in a firm or organization.

**Stock-** an instrument that signifies an ownership position (called equity) in a corporation, and represents a claim on its proportional share in the corporation's assets and profits.

**Strategic alliance-** a collaboration between two or more companies designed to achieve some corporate objective. May include licensing agreements, management contracts, or joint ventures.

**Strategic investor (also corporate investor)-** a company that commits capital in order to gain financial returns, generally in a situation where the outcomes will produce synergistic business or product development returns as well.

**Syndication-** an association of companies for some definite purpose; in venture capital, a group of investors who act together to underwrite and distribute an offering.

**Tax treatment-** the way in which a revenue item or expense is reported for tax purposes.

**Technology-**the discipline dealing with the art or science of applying scientific knowledge to practical problems.

**Technology commercialization-** bringing scientific knowledge into product form such that it can be offered for sale or delivery on the market in any other form.

**Technology transfer-** movement of technology or knowledge, often from the laboratory into commercial enterprise.

**Term sheet-** a document summarizing the details of a potential venture capital investment which serves as the basis for a final business agreement.

**Third party-** someone other than the principals directly involved in a transaction or agreement.

**Trade association-** a group of people, usually within a common industry or business community, who are united in a single organization for the purpose of enhancing their industry or their business interests.

**Trade journal-** a publication designed for a particular industry or profession.

**Transferable-** capable of being moved or conveyed from one place to another; legally transferable to the ownership of another.

**Validating-** serving to support or corroborate.

**Value-** the quality (positive or negative) that renders something desirable or valuable; the amount (of money or goods or services) that is considered to be a fair equivalent for something else.

**Valuation-** the determination of the value of a company's stock based on earnings and the market value of assets; appraisal.

**Vendor-** someone who promotes or exchanges goods or services for money.

**Venture-** a commercial undertaking that risks a loss but promises a profit; an investment that is very risky but could yield great profits.

**Venture capitalist (VC)-** a speculator who makes money available for innovative projects.

**Warranty-** a written assurance that some product or service will be provided or will meet certain specifications.

**White paper-** an objective and in-depth report; a government report, bound in white.

**Window of opportunity-** a very narrow time frame in which to take advantage of a given situation.

**Working capital-** assets available for use in the production of further assets.

**Work plan-** a series of steps to be carried out or goals to be accomplished.