

EXECUTIVE SUMMARY©

Each of the bold sections of the Executive Summary should be 1-2 sentences at most. When you get to the other major chapters of the plan, you may have as much as a paragraph for each bold section. Most plans should cover a five year period but some may need financial projections for the sixth year as well (in order to value the business on this final year). Many times the Executive Summary is written last as it summarizes the key points from the full text.

Concept (Powerful Opening Sentence)

As a busy investor, why should I pay attention to this proposal? Succinctly state the product or service you propose as well as the target buyer

Failure of Current Products and Competitors

How do the existing products perform? Why do they fail? Are there structural barriers for your product?

Value Proposition

What customer need will this product meet? State clearly, in customer terms, why this concept is superior and cite economic payback to customers if it is known. If available, cite customer traction, initial sales, strategic alliance commitments or key testimonials.

Competitive Advantage

How will you position the product competitively, e.g. performance differentiation, cost position, customer segment. The key difference from competitive offerings.

Entry/Growth Strategy

How will you achieve initial sales and then roll it out? What are the planned customer segments beyond the initial segment?

Total Addressable Market (TAM) Size – Historical and Projected

Common error is to describe the entire market size when the addressable portion of it is much smaller. It should be the revenue figure if you got 100% of the market segment at industry price norms. You may note the potential for second generation products or geographical expansion but they should not be included in the initial market sizing unless the remainder of your plan proposes resources sufficient to cover the full scope of the proposed market. Where possible provide both unit and dollar estimates to isolate effect of pricing and inflation. If international revenues are contemplated, note assumed exchange rates. Cite sources of estimates of market size and growth rate.

TAM Growth Rate – Historical and Projected

Again, it is the growth history and potential of your segment not the whole market. And again, use care in citing authoritative sources. If sources vary substantially, note differences and your reason for choosing your assumptions.

Projected Revenue and Profits

Describe briefly why should this product produce attractive sales and profits. Indicate expected market share expectations. Identify projected unit sales and dollar revenue, generally

for first year and fifth year or in chart format for all five years. Show net after tax profits for the same time periods.

Capital Needs

Indicate capital needs for this plan including expected debt and equity funding. Briefly note use of proceeds. May mention key financial milestones like cash break-even, profitability, product patent approval.

Management Team

Cite briefly the top two or three key members' background and expertise. If key capabilities will not be filled initially, indicate backgrounds and expected hire dates. You may need more than a few sentences here but this is often one of the first reads for outsiders.

Company Status/Progress

Note status of product (prototype, final design, etc) and intellectual property filed or obtained (copyrights, trademarks, patents). Any sales or strategic alliance commitments, supply chain commitments that involved limited sources.. If a new legal entity will be required, what is it?

INDUSTRY ANALYSIS

These chapters amplify the Executive Summary and should provide additional research and logic in describing the market. Remember that no one will believe you if you state that you have no competition. You will always have competitors, even if they may only be future ones or the key competitor is a "do nothing". Be careful to cite sources of data such as industry associations, which can be very helpful. Think not only of sources in your industry but also of those in industries of your suppliers and customers.

INDUSTRY

Target Addressable Market (TAM) Description

This is the macroeconomic view of the market but should be described in terms of the customer profiles that best fits. Give some history to the industry and how it is evolved. Be clear whether the market is best described by demographic attribute (e.g. single males aged 20-35), psychographic profile (GenXers) or need (employed persons seeking a periodic, low cost indulgence – a rough description of TastyCreme).

TAM Size (Historical and Projected)

Remember to size only those segments which your product or service will address in this phase of development. Consider using chart for this and growth rate.

TAM Growth Rate (Historical and Projected)

Support with authoritative citations.

Market Trends

Consider the impact of external macroeconomics (population shifts, labor availability, interest rates, economic swings) on your industry and your product acceptance. How do technology trends enable or disrupt your product? Consider industry experts, competitors, customers and suppliers as possible sources of information.

CUSTOMERS and END USERS

Primary Market Segment Description

Describe the choices of initial market segments, select one niche or segment as your primary and explain why. Then describe both the typical customer and the “customer’s customer” or end user if you are not selling directly to consumers. For example, if you are selling to consumers through retail stores, you will have to consider the effect of the buying power and ability to shape terms represented by large “big box” retailers. Describe the economic and psychographic needs of your customers and end users. Most good plans include direct observation of or feedback from customers and end users to obtain this information.

Future Market Segments

Think of future uses and needs for your product which might extend your initial market definition. Based on this assessment, define new segments that might represent your second or third markets or niches. Describe the typical customer in those segments.

Economic Buying Profile

Decision process/method of purchase

Some buying processes present barriers for new products. For example, is the buyer buying only after a relationship has been formed or requires a formal bid process. Are decisions centralized or decentralized? Will buyers rely on ratings; if so, what are the key influencers?

Purchase frequency/cycle

Some products are purchased very infrequently and the first mover has a big advantage. Some low price items are more impulse buys while higher priced products suggest a prolonged selling cycle and involvement of multiple influencers. Describe the buying cycle and how it might impact the business strategy and customer acceptance rate.

Retention or turnover rate

Describe level of customer loyalty and retention issues. The switching costs should also be explained if they are high and what impact will they have on your strategy. What is the cost of customer attraction? Are losses permanent or do buyers “cycle through” offerings?

Product Attribute Profile

Determine and describe the relative importance of all possible product attributes. What do customers value most? What are they indifferent about? Value least? This may have been described in the Primary Market Segment Description but if not, use this section here.

Frustration or Need to be Solved

Explain the unfulfilled need or frustration for which your product provides the answer. Is there an apparent need for which the customer will immediately understand it or a more subtle need that will require them to try or test the product first. Describe how this distinction impacts your positioning, market segment and marketing programs.

Benefits or Economic Payback

Customer benefits may not always be economic but the pocketbook is a powerful motivator. Describe carefully the non-economic and economic benefits and what assumptions you made. If you have a payback calculation from the customer's perspective, include it here.

Market Validation Evidence

The above three sections will require hard evidence to be credible. The best validation is testimony of highly satisfied customers who paid for the product. Concept testing is another form of evidence that should be done if you have no sales traction to date. Testing can take multiple forms – focus groups, surveys, testimonials - and all are appropriate. Analogs are also a valid test but not as good as direct feedback. Assessing customer satisfaction with a highly similar product can be used but the issue will be how similar. Describe your validation techniques here or as part of the above three sections.

Status of Current Customers

List any orders, contracts or letters of commitment including the expected revenues from them. This is the most powerful evidence in the plan so make sure to highlight this in the Executive Summary as well.

COMPETITION (Direct, Indirect and Potential)

Identify both the direct as well as indirect competitors who offer an alternative or substitute to your product. For example, competitors to TIVO or VCRs might include movie theaters or video rentals. Also describe companies which might see your product as either opportunity or threat and create their own product and entry.

You should have 4-5 competitors who fit one of the three categories. While this could be a lengthy section, you might consider a chart format which could be embedded in the text. If you do so, you should highlight the sections where there are key difference that you want the reader to note and your text should allude to these points as well.

Describe each direct, indirect and potential competitor as follows:

- Company name, parent affiliation, years in business
- Product description/features
- Market share, revenue or volume
- Strategy (Marketing, Price, Sales, Channel, Ops, Development)
- Financial resources including profitability and cash/capital raised
- Comparison of their attributes vs. perceived customer needs
- Competitive response to successful launch

NEW BUSINESS STRATEGY

PRODUCT DESIGN AND TECHNOLOGY PLAN

Objective and Philosophy

Describe your design positioning within the industry (leadership, strong copycat, etc), development strategy and philosophy on ownership of technology. Provide the logic for why this philosophy makes a marketplace difference.

Industry Technology Trends

Technology shifts over the previous five years should be noted and to the degree that there is evidence or articles that talk about the future shifts or trends they should be cited. Make sure to relate these changes or trends to your development strategies. If they are not relevant then ignore commenting on them.

Technology Platform Description

Be clear that you describe the platform that you plan to use. If it is an industry standard, then make that clear but if it is new, describe carefully how and why this is the long-term winner.

Design Description

Be specific about the features you plan to offer. Include drawings or pictures in the exhibit section if they are not proprietary. Remember if you have filed for patent protection, you are on the one hand in a defensible legal position but it also means that your drawings are in the public domain.

Later Phase Design Modifications

Each development and design phase should be described for the life of the business plan with key product features indicated. If you plan to package changes into a planned release, make sure it is clear what will be included and when you plan to make in each release.

Regulatory and Statutory Requirements (if applicable)

Include all governmental and legal barriers in your product's design or use. Describe the approval process and any analogies that did or did not get approval. Estimate the time frame for approvals.

Intellectual Property Plans and Status (if applicable)

Include not merely patent status but also copyright or trademark filings as well as status.

Competitive Comparison

Each of the direct competitors' technology history should be evaluated and a likely strategy that they might follow described. Consider using a side-by-side chart to compare your direct competitors and any relevant indirect competitors. Show all product features including service elements. Highlight the ones that reflect key differences.

Prototype Status and Plans

Describe progress of the prototype including external or internal approvals, test results, pictures or drawing status or physical product samples

Design and Development Skills Required

Are there any skills which will need to be hired and when are planned hires to be on board? If you plan to outsource any of the design or development, describe the vendors and their history and capabilities as if they were your own team.

Pro Forma Assumptions (here or in Financial Section)

- Design budget
- Number of research and/or development people
- Compensation

Implementation Schedule

Use a time chart to show the key milestone dates for all phases of design and development as well as the approvals and intellectual property filings. Show history and planned dates during the life of the business plan.

MARKETING PLAN

Customer Segment Objective and Philosophy

Describe where you believe the product and market segment is in terms of Rogers' adoption model. Explain the following and include your reasoning:

- Description of potential "innovators" (non-economic buyers who influence the market)
- Specific early adopters - customer names and logic for selection
- Roll-out strategy/late stage customers

Marketing Objective and Philosophy

Product positioning statement, push versus pull model, awareness creation versus trial inducement objectives

Specific Methods

Describe which programs you plan to employ and why. Consider mass media such as advertising, targeted media such as direct mail, promotional activities such as events or informational activities like PR or word-of-mouth programs. Describe how and when you plan to use each and why you believe these techniques will be effective. Use analogs from other startup companies as examples to support your choices.

Competitive Methods Comparison

Contrast your programs and plans to direct and indirect competition

Pro Forma Assumptions (here or in Financial Section)

- Number and frequency of program activities
- Cost per program activity

Implementation Schedule

Implementation schedules are included in each section of functional strategy. You may fully develop them here or only highlight key issues and present an integrated implementation schedule as an exhibit to the overall plan.

CHANNEL STRATEGY

Objective and Philosophy

There are two key channel choices you must determine: distribution and sales. They may or may not be done by the same organizational entity. For example, you may use a third party distributor to move the product and provide service to the customer but you may sell the product with your own sales team. So make sure you clearly define the two roles and how each will be handled. This section is about your distribution channel choice – the next section will cover sales channel options.

Methods to be Employed

- Direct to Customer via own network
- Wholesaler/Distributor/Jobber network
- Third Party Alliance/Partnership network

Once you have defined how your channel strategy will work, tell the readers why you made the choice. What do your customers value in terms of cost, service or lead time? How does your distribution channel strategy support these needs? Do your choices preclude competitive response? Will they facilitate customer feedback so that you can fine-tune your offering, particularly if there is significant uncertainty in the marketplace or volatility in competition?

Upstream or Third Party Role

If you are shipping to a customer and not directly to the end user, what will the customer provide for the end user, for example, display, promotion, buyer attraction through events and complementary products? Is this contractual or just normal industry practice?

Third parties will require a fee, arrangement or margin which should be defined. What services will the third parties provide besides inventory management and delivery (for example, after sales service, customization, complementary installation services, bundling with other products in a package more attractive to buyers)?

Comparison to Competitive Channel Strategy

See above sections for info

Implementation Schedule

See above sections for info

SALES STRATEGY

Objective and Philosophy

One of the most important choices for a startup is how you will gain initial traction with customers. Define how you plan to sell and service the customers from the outset through the life of the plan. If you intend to build your own sales force versus use a third party brokers, reps, agents or partnership, explain your logic for your choice.

Sales Force Organization and Account Focus

Determine what role you expect the sales people to perform. Define how many sales people or third party brokers/reps/agents you plan to have over the life of the plan. Explain how they will be organized, managed and trained.

Coverage

Define what level of coverage you intend to provide for your customers. You may want to segment the customers by geography, account size or importance. If you do so, explain how coverage will vary by these dimensions.

Comparison to Competitive Structure and Effectiveness

Same as previous sections

Pro Forma Assumptions (here or in Financial Section)

Size of sales force

Compensation

Implementation Schedule

Same as previous sections

OPERATIONS AND SUPPLY CHAIN STRATEGY

Objective and Philosophy

Production of many early phase products are outsourced to avoid the capital costs inherent in certain manufacturing processes and to maintain a degree of flexibility as the product design evolves. While outsourcing may permit a focus on other aspects of your business that you consider your competencies, it is important that your supply chain choices support your overall product positioning and competitive strategy. Other startups would rather build the infrastructure early to capture the scale economies and assure the product quality and reliability. Tell the reader which is your philosophy and why. Make sure you consider all elements of cost, service, reliability, delivery, customization, information. Cross reference to your competitive positioning.

Location and Facility Decisions

Where will you locate your production and warehouse facilities? What considerations such as labor rates, tax advantages, real estate costs, lead times and service levels led you to this decision? If you choose to outsource, describe your third party company and why you chose them. If you believe that your location decision is advantaged, describe where the competition

is located and why you believe your choice is better. If there is any location analysis that you have done through outside sources, cite this data.

Process Description

Describe the processes in general terms and leave any detailed information or layouts to the exhibits. Make sure to describe any unique processes or equipment that might give you an advantage or for which your competitors will not likely match you in the near term.

Environmental/Sustainability Challenges

Describe any environmental/sustainability restrictions on your operations. If you are selling in Europe, are you required to take back product that has become obsolete? Are there other packaging or waste restrictions? Do your plans provide you with a “green” advantage over your competitors?

Operating Lead Time and Plan

Describe the lead/lag times that are characteristic of your industry and how your lead time to produce and deliver the product is similar or advantaged. If you are in a seasonal or cyclical industry, explain how you plan to balance the workload during high and low periods. If there is tremendous uncertainty in demand, explain how you plan to manage the upside and downside of demand realization.

Capital Equipment Requirements

Describe the major capital equipment that is needed and what level of investment the company will need to make. If the equipment is new or proprietary, describe how it is advantaged. Develop a time line for when the equipment will be needed. Describe whether you plan to own or lease/rent/outsourcing this equipment and why.

Human Capital Needs

There are often certain skilled labor that you will need. Describe how you plan to find, recruit, train and retain them. If it requires unusual compensation to attract them, describe how you plan to do that. If there is any competition for these people, explain how your offer will be positively received.

Need and Availability of Limited Raw Materials, Supplies, Services

For some products there is a critical material or source of product/service that is hard to get or expensive to procure. Describe these limited supplies, how you plan to procure them and if you have any contractual or other means of preventing competition from gaining access to them.

Description of Supply Chain Model

- Key supplier relationships
- Inventory flow and management
- Information flow between supply chain partners
- Distribution or warehousing network
- Quality control

Describe unique elements of your Model and any advantages you might have relative to competition.

Service Strategy and Returns Policy

If your product requires post-sale service guarantees or processing, describing how you plan to cover these issues. What will be the resources needed to provide this service. What if anything is unique about your strategy versus competition?

Pro Forma assumptions (here or in Financial Section)

- Facility lease or operating costs
- Capital equipment (including leases)
- Materials and services bought (by major category)
- Direct labor and benefits
- Overhead/office expenses by category
- Inventory investment and inventory turns
- Accounts payable and receivable in dollars and days
- Provision for customer allowances and returns

Implementation Timing

See previous sections for info

ORGANIZATION STRATEGY

Objective and Philosophy

Identify those positions which have been or must be immediately filled by hiring or transfer and describe why they are the most important. Some folks will not include a Financial executive which is important to many outside investors so make sure they are at least mentioned. May include compensation philosophy including use of stock options and/or performance based compensation where it is not necessarily expected for those positions.

Top Management Team Resume Highlights (resumes in exhibits)

- Years of experience in the industry
- Years of experience in entrepreneurial and/or corporate companies
- Names and track record of those companies
- Years of experience in similar position in other companies
- Education

Future Management Team Backgrounds and Timing

Same as above but include when you plan to add them to your team

Board of Directors and/or Board of Advisors

This group adds enormous credibility if done right. Probably needs to be limited to three to five individuals for each group. More than that will cause management issues. Their background experience in the industry is key. They do not have to be entrepreneurs to be effective in these roles.

Consultants, Part-time Specialists, Professional Advisors

Their names, how you plan to use them and their timing (when and for how long)

Personnel Table

For all managerial or salaried employees. Use exhibit, not text. Show salary information by time periods that correspond to Financial section..

COMPETITIVE ADVANTAGES AND/OR BARRIERS TO ENTRY

Description of Your Barriers to Entry

The following are some possible competitive advantages or barriers to entry.

- First mover
- Joint venture/business development partnership
- Exclusive customer contracts
- Brand name
- Control of or exclusivity with key distribution channel
- Patent and copyright protection
- Legal or regulatory approvals
- Financial resources to outlast competitors
- Superior internal product development or production technology.
- Exclusive/limited sources of supply
- Process/equipment technology
- Availability of skilled or unskilled labor
- Location

Compare your barriers or competitive advantage to the other players in your industry. Make sure to consider the potential competitors as a reference point in your comparative analysis. Since you are unlikely to be able to dominate all aspects, what will be your focus and what will theirs?

FINANCIALS, MILESTONES AND RISKS

REVENUE MODEL/PRICING STRATEGY

Objective and Philosophy

There are three basic pricing options for startups - skimming, penetration, neutral. Starting with a price premium is often advantageous for companies with limited competition and superior product performance. Conversely price sensitive customers may resent premium prices and be willing to switch at the first price competition so hence starting with a penetration strategy can assure volume and scale economies in the first few years and maintain customer loyalty. Describe your pricing strategy on these three dimensions and your logic. How do you value the trade-off between revenue growth (penetration) and rapid achievement of profitability (skimming)? Which will support long term barriers to competition?

Pricing Model/Methods

There are three pricing methods (fixed, annuity or performance) that one can use and sometimes it can be multiple methods at the same time. For example, you may sell the basic unit at a set price per unit (fixed) with an annual service contract fee (annuity). Decide upon the methods you intend to employ and why. Consider what the industry standard is but remember that this may be your chance to change the industry model and gain an advantage.

Beside the three basic pricing methods there are many versions of segmentation pricing within the three models that are available. Segmentation pricing might include quantity discounts, purchase timing discounts, bundling/unbundling and so on. The ultimate method in this regard is negotiated or individual contract pricing by customer. Consider how you might segment your pricing method.

Note that cost plus pricing is not one of the methods used and should only be used when the industry is locked into this method and no change is likely. Cost plus is popular with financial types not the marketing and revenue generators who are more concerned with value.

Actual Price Points

You will need to select actual price points for the first five years of your plans. That implies consideration of how you plan to raise prices and/or change the metrics over time. For example, you might have a introductory price for beta customers that expires after some period. Make sure if you have evaluated retail price points that you deduct retailer and distributor margins, where appropriate, to validate your proposed pricing levels.

Unit Volume

You will need a chart to show unit sales volume by time period. If you have a rollout strategy you will need to assume and describe how your rollout will occur within a time period. For example, if you plan to add 10 new customers per year, you may assume that they will be added evenly throughout the year so effectively you will have half the expected revenue during that rollout year. Make sure your assumption on this rollout is clear to the reader. Your chart should also show market share on both a unit and dollar basis. Make sure it is crystal clear how you arrived at your unit volume projections and what sources you used to get there. Many investors detest the “we expect to get 5% of the market” projections – it has no basis.

PROFORMA ANALYSIS

Business plans should always include Pro Forma P&L, Balance Sheet and Cash Flow. Reviewers of plans consistently report difficulty in understanding these presentations and relating them to key underlying assumptions.

Supplemental charts and tables can be very helpful in improving comprehension. For example, revenue can be supplemented by a table listing revenue by major product or service and separating the effects of unit change and price change. Graphs can clearly show planned cash flow and changes in revenue, profit or loss. Consider supplemental tables of gross margin %, overhead %, days receivables and payables and inventory turns to improve understanding.

You can then compare these ratios to industry standards to highlight both commonalities and differences.

Remember also that the uncertainties of the new business planning situation will almost certainly mean that final financial results will vary from those in the initial plan. As a tracking and control tool, however, the financial statements are most useful if they are easily linked to underlying ratios and assumptions.

Financial Assumptions (here or in relevant sections)

The text of most of the above sections had lists of Financial Assumptions needed for this section. If you have not included them in the individual sections, they should be included here and likely in a chart format. Assumptions should include annual macroeconomic cost increases that covers inflation and/or exchange rates as well as assumptions used in constructing the statements (for example, days revenue in receivables, interest rates, benefit % of salaries).

Pro Forma P & L

Minimum of five years but some will want six years to value company off of final year pro forma. First two years should also be available by month or quarter depending on the level of management decision and rollout strategy in that time period. Management will be sensitive to the “inflection points” of loss rate and cash flows as well as projected dates of cash and operating break-even. Timing estimates of these events should receive careful scrutiny. Make sure to include % of revenue figures as many investors have benchmarks of what is a “norm” for certain costs.

Pro Forma Balance Sheet

This is a direct link to parts of the P&L as well as the Cash Flow. But there are elements that are new such as Receivables, Inventory, Fixed Assets, Depreciation, Payables and so on.

Pro Forma Cash Flow Statement

Sometimes referred to as Sources and Uses. The key here is the beginning cash that you have assumed and the ongoing cash investments as well. They should be highlighted and shown clearly. Also important for investors is to know how you will use the cash. These two points are likely shown in the Executive Summary and ending paragraph if the plan requires you to raise outside funds or gain management approval for funds.

EXIT STRATEGY

Describe potential strategic buyers by name and indicate why they might consider buying your company. This will likely be challenged so it helps to know what has been their acquisition history and product development philosophy. Annual reports help define their history and goals.

If your plan anticipates that your revenues in the fifth year exceed \$100 million and your valuation exceeds \$25 million (rough figures), you may be a candidate for an IPO. If so, you will need to research recent IPO history and their multiples of earnings. A simple chart or description of the companies, their primary product and their multiple is sufficient. This will

be used by the readers to determine their own return on investment expectations. It is not necessary in the plan to try to calculate an IRR or other return calculation. Likewise you do not need to show what percent of the company you want or are willing to give. The investors are generally good at this and it will be negotiated so let them make the first offer.

MILESTONES (CHART FORMAT)

EXAMPLES INCLUDE:

Concept and Product Testing Results
Completion of the Prototype
Seed Capital Financing/Management Approval
First Production or Beta Test
Market Test or "Early Adopter" Acceptance
Second Round Financing/Board Approval
"Early Majority" Acceptance/First Competitive Action or Response
Cash Flow Positive/After Tax Profits
Product Design Upgrades Completed
New Market Segment Traction
Second Generation Products

RISKS and MITIGATION

Many things can go wrong in even the best business proposal. It is almost certain that some elements of the plan will change. A key to success is the ability to identify those which could be most disruptive. Predict, if possible, when they may occur or at least the signaling event which suggest that change is imminent and to identify the extent to which mitigation is possible.

For your plan what is the "fatal flaw" or risk which could most upset its success? In most cases a few stand out from the many which could be considered. How can you anticipate this risk and adjust successfully to a changed competitive environment?

Not all of the following examples need to be used – just those that are relevant to your plan

Macroeconomic impact

May include recession, trade disruption, currency change or geopolitical disruption. This can include devaluation, expropriation, new regulation, infringement of intellectual capital interests, government instability, war and similar issues

Market or customer acceptance

The plan may specify dates at which rate of acceptance is tested and "go-no go" decisions are revisited. This may be regulated by the company's regular annual planning cycle or by dates and events specified in the business plan; for example, assessment of acceptance at the annual New York Toy Show or High Point Furniture Market.

Competitive response

Market and competitive analysis should anticipate potential competitive response. Where possible, the timing of such response should be identified, calling for assessment of impact.

Product development and/or patent approval

In early stage product plans, dates for critical design or patent approval events should be specified

Legal, statutory or environmental approval

Operational (cost estimates, skilled labor availability, material shortages)

SUMMARY PARAGRAPH

It is good to end on a high note with a summary of the key competitive advantages and reasons why an outsider should be excited about this product and plan. Make sure to include the money you need to start and run the business.