# *Writing the Winning Business Plan*

## Structural Guides & Practical Hints
## How to write your 2020 Business Plan


Jack Derby,
Partner, Derby Management
jack@derbymanagement.com
Director, Tufts University Entrepreneurship Center
Cummings Family Professor of Entrepreneurship at Tufts
jack.derby@tufts.edu
617-504-4222

# Why We Wrote This Guide

At Derby Management, we're in the business of coaching the senior management teams of our customers through various growth stages. Just as a point of reference, our experience at Derby Management is largely based on…

- 40 years in business, focusing on…
    - Business & Strategic Planning with emerging and middle-market companies
    - Sales & Marketing Productivity in companies of all sizes
    - Senior Management Coaching at the senior team level
- A current customer base of 400 companies, largely in New England, Upstate NY & Eastern Canada
- Growth companies with revenues roughly between $10 and $250 million

  Prior to Derby Management, each of us spent 15-20 years running companies in the positions of CEO, CFO, VP of Sales and VP of Marketing in a wide variety of markets from healthcare to consumer products, from tech to no-tech, from commodity products to specialized capital goods and from physical products to professional services.

Frequently when we begin working with a new client, we find that the company is either stuck in its growth cycle, or that it's behaving erratically, like a rudderless ship being buffeted by cross-currents around it. When we suggest *"Let's take a look at your current business plan,"* our new client's response frequently is… *"It's a bit out of date,"* or simply… *"We don't have one."*

Since we work closely with our current clients, other service providers and venture and private equity investors that provide us with the majority of our references, many of our prospects and clients are focused on planning to make a new push into a new level of growth and profitability.

For the primary reason of internal direction among your management team, we strongly believe that a short annual business plan which has been researched, analyzed, discussed and debated among your co-founders, your senior managers is critical to keeping any company on track while also providing a means through which your employees (no matter if they are two or 200) can understand the company's future direction. Finally, a business plan that is a working document and which is annually updated provides a platform for a common view by outside directors, investors and bankers.

Recently, we were approached by the management of a $40 million company in an industry we just happened to know a lot about to assist them in raising venture capital financing that they planned to use for growth of their sales and marketing activities. An interesting company, but after listening to them in two meetings and reviewing disjointed pieces of materials, I finally told them that it made no sense to proceed any further without a formal, business plan in which everything was written down, their tactics would fit more logically into their strategies, their sales and marketing plan would be detailed and financial projections would be forecasted..

Having said this, we have found, that unfortunately most business plans we review are no better than "fair" to "poor" in structure and presentation. Typically, the plan's content is reasonably good, but problems arise because it's simply too difficult to dig out the important information from reams of unnecessary material. *"Business Plan Clutter"* is a widespread disease. In our experience, it's rampant in the world of emerging businesses and too often occurs even in more established companies with revenues in excess of $50 million.

In fact, one of our larger clients, with revenues just north of $80 million and a healthy bottom line, has never written a business plan, and none of its divisions has an operating plan beyond a few PowerPoint slides. Our reaction: We're reasonably impressed with our client's results, but it also begs the question of what performance would the company attain if there were a written business plan that all of its senior managers had participated in creating and had fully bought into with their own individual annual operating objectives and tactics?

So that's why we wrote this **How to Write a Winning Business Plan** ebook. It's meant to guide you, the entrepreneur, the founder, the senior manager, in structuring, formatting and presenting your own business plan. It's meant to supply you with a few *"Rules of the Road"* as to how investors, bankers, and, most importantly, your managers and other readers will look at your business plan.

And it's meant to push you to reduce your thoughts into simple language that will excite and move the reader—whether that reader is a potential investor, an outside director, an internal manager, or a new member of the senior team that you're trying to recruit—to clearly understand where you're headed, what strategies you plan to follow, and what you plan to do on arrival at the future, well-planned end points.

This is the 17th year we've updated this guide with new content being constantly added as a result of our experiences. Having been in the business of coaching senior managers for 40 years, and now having the privilige of directing the Tufts Entrepreneurship Center, I have never felt more strongly about the importance of encouraging our clients and our students to both create and consistently update their business plans no matter what the state of their business is.

We believe this a sign of the economic times on one hand, and the digital times on the other. Business now moves at a very rapid pace, driven by the explosion of online sales and marketing tools, social media communication, and the requirement for more formal business processes from sales to marketing to supply chain logistics. We've recently observed a huge renewed surge in entrepreneurial management and its innovative culture, not only in our younger company clients-those with revenues of $1 to $20 million-but also in our much larger clients where the techniques of rapid product development and innovative thinking are being rapidly adopted into the core architecture and culture of running their businesses on a day to day basis.

Whatever the reason, businesses today live in much more complex and more competitive market, product, sales and distribution environments than ever before, resulting in a wider variety of management pressures. We look to a company's business plan as the primary document for providing management the basic building blocks for framing the company's future as you and your co-founders and other managers look out over the tactical 12 months of the business plan with a strategic view of the following 18 to 24 months.

It's our belief that a business plan must answer these questions…at a minimum:

✓ What is your business about? ✓ Where is the business headed over 18-24 months?

✓ What's your Value Proposition, meaning, what's the customer value you provide?

✓ Where arethe growth opportunities? What are they in priority order?

✓ What are the growth roadblocks? … and, most importantly…

✓ What new management strategies and tactics have you designed to create growth?

As management coaches who have been involved in hundreds and hundreds of strategic and business planning sessions, we've learned that success in our clients' businesses is all about choosing and combining *a few* well discussed strategies with *a few* detailed tactical plans. The key words here are "a few." It's relatively easy for all of us to talk about and develop various strategies. Choosing and winnowing them down to a selected few is the *very* difficult part and that is at the very heart of the best practices we've experienced among the more successful management teams. They make choices, they prioritize, and they execute on those choices.

Better to concentrate on perfectly executing two or three strategies with a very few well-honed tactics over the next 18 months, than to attempt too many initiatives over the next three years. Our experience is that "*less is always more".* Trying to get your managers and your employees to successfully attack more than a *very few* new strategies nearly always leads to confusion, poor results and demoralization. Personally, we always like to employ "The Derby Rule of 3".

**(1)** It's unrealistic to believe that any management team is going to execute well on more than three *major* corporate directions

**(2)** Three is about the limit of what most managers can burn into their DNA and drive to ground on a day by day basis.

**(3)** In terms of blocking and tackling on executable tactics, again, better to keep the list ***"Short & Memorable"* vs. *"Long & Forgettable"*.**

Having worked in the planning and the writing of hundreds of business plans and read thousands more, we have found that if you really want to write a business plan, you'll get there. It just takes a fair amount of dedicated time. Writing a business plan is similar to writing that thesis back in college or in graduate school. The hard work and the real challenge is in your own management planning leading up to the creation of the written plan itself.

In any planning process, you, as a member of the senior team, must reach total agreement as to the directions and the primary tactics, not just consensus, through a series of honest, objective discussions and decisions based on the best available data such as…

- Quantifiable market research
- An analytical and objective assessment of your customers' needs
- Your actual sales results by channel and by market
- Your Value Propositions that you deliver to your specific personals and customers
- …along with a complex mix of sales and marketing tactics

With this in hand, good managers focused on both long (3-5 years) and short (2-3 years)-term growth will then be able to plot the company's future. As a leader in the company, you want your peer senior managers in the business to actively engage in a hands-on planning process to achieve complete and total agreement regarding your company's direction. Inability to reach genuine and honest acceptance of direction will typically lead to failed strategies. It is critical to understand that this goal of "complete and 100% acceptance" is not easily reached and requires a tremendous amount of transparency and trust on the part of you and your entire senior team.

**Bottom line:** You will achieve success ***only*** when your senior managers join one another in a unified battle plan. If this comment sounds like a Sun Tzu adage, it is meant to since we are disciples of his teachings, both in running businesses and in creating high performing sales teams.

When I begin speaking about the importance of business plans, I am always reminded of this quote from General Sun Tzu, China's first great master of modern warfare:

> ***"The general who wins a battle makes many calculations in his temple before the battle is fought. The general who loses a battle makes but few calculations beforehand. Thus, do many calculations lead to victory, and few calculations to defeat; how many more do no calculations at all! It is by attention to this point that I can foresee who is likely to win or lose."***
>
> —General Sun Tzu from The Art of War

So, given that success in warfare, in sports and in business often comes down to the reality of the fact that the senior leadership has spent more time planning its offense, the best business planning process often consists of taking a series of planned "time outs" from the frantic twelve-hour days that consume most managers' calendars. Successful planning actually *requires* that the senior management periodically step away from the day-to-day and commit themselves periodically to the task of "*figuring things out".* This process, whether it occurs at the company's offices, in a venture lab at your university or at an offsite retreat location in the mountains, is your opportunity to really think through, debate and "argue out" the strategic and tactical issues that you and the other members of the senior team must resolve in order to manage the business … rather than having the business, or more typically the market and the competition, manage you.

The end result of the business planning process is the actual business plan*,* the document that details management's conclusions. It should clearly describe the basic reasons not only for the company's present existence, but also the expectations for its progress over the next twelve to eighteen months. Forget three and five-year business plans for now; the world just changes too quickly. Of course, as potential venture investors, we will ask you for five year plus complete with five years of financial projections. Simply, don't overthink this request since it's impossible to do. We're just asking this to see how you think. Eventually, if we are interested, we are going to work directly with you using our formats to put together every set of financials. Eventually, once you are up are running, and we're invested, you're going to need to do this on a rolling basis each quarter and then formally for the approval of your next year's business plan.

**Your business plan must at least include the following points:**

✓ It should be the vehicle through which you and the senior team managers define your total buy-in for the future direction of the business.

✓ It should provide the basic strategies and their corresponding tactical plans for the period of the next 12 to 18 months.

✓ It should provide a conservative set of performance measurements.

✓ Most importantly, it should state what management defines as success, including the activities that will truly set the business and its managers apart from the competition and provide a unique value proposition to its customers.

At the end of the day, your business plan needs to be about success as you and the other senior managers have defined it. Nothing more … but absolutely nothing less!

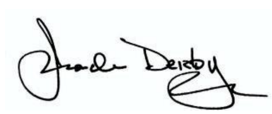
## One last comment…

Focus first on making sure that you have an "A" level management team, and then conduct your planning process to the point where you and the team reaches full, absolute 100% consensus on the business plan…even if it's a B+ plan.

Here's our experience from hundreds and hundreds of business planning processes:

1. An "A" team will create "A" level results with even a "B+" level business plan.
2. A "B+" team will achieve "C" level results with a "B+" plan

Have fun reading this. We had fun putting it together. Give us a call at the office or, better yet, directly email me at jack@derbymanagement.com and let me know what you think of our ideas and maybe discuss some of your own experiences. We are always looking for new ideas and comments that we can share with our readers. We also welcome additional contributors to this e-book, so if, at any time, you have ideas, just give me a call, and we can discuss them.



Jack Derby, Director, Tufts Entrepreneurship Center jack.derby@tufts.edu
Cumming Family Professor of Entrepreneurship
Jack Derby, Partner, Derby Management jack@derbymanagement.com

# Why Bother?

**A business plan is vital to growing your business and involving all your senior managers and (if you have them) your investors for <u>two critical reasons</u>:**

**First** and foremost, it is ***the only*** management tool that provides strategic focus and full management agreement … ***the only*** vehicle for coordinating the primary operating tactics and company objectives you want shared among all your key managers.

**Second**, it is ***the*** required instrument to raise both early stage angel, angel group and venture capital equity financing essential to grow your business. You do not pass "GO"—and you do not collect your $200—without a well thought out and well- written business plan. There's no alternative. Don't waste your time telling me about your cousin who was funded with only 10 PowerPoint slides that he and his college roommate put together over a couple of beers. Most probably, the story isn't true. But if it is, I guarantee you not only that the company is out of business, but that the venture fund has most likely met the same fate. That's why we termed that period of the first wave of the Internet companies during the mid to late 1990's as "The Bubble." Only a very few (and very lucky) people made a ton of money. Most Bubbleheads lost everything. One could very well argue that the Unicorn environment of superheated valuations today, in this summer of 2019, is very similar.

During the past year, we had the opportunity to measure venture investing many times. And over the past 20 years, I've been actively involved in raising over $840 million in venture capital and private equity financing. Four or five times each week I spend time on the phone, during my very long commute home, talking with my Tufts entrepreneurs and various Boston-based investor groups including my many angel investor friends at **Launchpad**, individual angels who were members or general partners at **Common Angels** before we shut it down, the exciting team at **Converge Ventures,** and another five or so venture firms which I've co-invested with over the years to discuss yet another "great" business plan.

Add to that tens and tens of active business plans that I see at the Tufts Entrepreneurship Center, through our 700 plus students each year, our many competitions and our accelerators which range over a very wide variety of development from concept to C-Corp businesses with completed early stage funding.

In one of my dual roles, that of being a partner at Derby Management or the Director of the Tufts Entrepreneurship Center, if I or one of my partners or my professors believe that a plan is sound, I will often provide the introductions to an individual angel investor or an angel network or an early stage venture capitalist or even a banker… all of whom have very limited bandwidth. As I result if I am asking someone to review a business plan or even a two-page executive summary, it had better be a very well written document that represents something exciting and scalable

It's very important to note that every year the typical established angel group or any early stage venture firm already receives hundreds of business plans. Your job is to present your business plan in a unique and compelling manner so that it finds its rightful place at the front of the Inbox. Just to add weight to that, I would expect that on average, between Derby Management and Tufts, I "review" 500 to 600 business plans a year. Obviously, "review" does not mean "read thoroughly"

What Derby Management provides as a firm is the knowledge of and connections to potential appropriate investors *"just take a look at an executive summary of a very interesting company we've been working with".* In reality, this sometimes comes down to asking for a favor, but more often than not, what we must do is define for the potential investor exactly why we think this particular business plan makes sense for their organization…and, we need to do all of that in one to two minutes over the phone and be totally prepared to send some materials when the potential investor responds with *"Sure, just send me something to review",* the exact same words we say when we are approached as a potential investor.

In several cases, we've worked with battle-tested serial entrepreneurs who had already proven their skills in one or two prior deals. In every case, the potential investors' response when we made the first introductory telephone call was exactly the same: *"Sounds interesting; why don't you have them send me their business plan."*

The business plan is your key to opening the door. With no business plan, or worse, with a poorly prepared plan…the door never opens. You simply don't proceed. All of what you might have read in *INC* about the two entrepreneurs who raised $5 million in equity without a business plan is media garbage. It's there for selling the magazine. It's just not true, or if it is true, the process has been dumbed down to make it look easy…*and sell more magazines*. Nothing against *INC* per se. It's great for "Tips & Tricks", but you need to understand it for what it is, and it is not a guide for writing a business plan that builds a successful company.

So, unless you're wealthy, or your rich aunt is ready to fund you and your dream for the next two to three years, you need to begin the process of creating a well-conceived and structured business plan that will pass the tests of the experienced but more cautious angel or wizened venture capital investor who may only invest in three to six companies during the entire year.

Also, please remember that business plans are not just for startup entrepreneurs. At a point when you want to get that bank loan for your company, your business plan is your representative at the bank. It stands in for you when you're not there and the bank officer or the decision maker at the loan committee has questions about your business.

In the world of both venture and private equity and, in fact in corporate management, your business plan, or its Executive Summary, will typically be the first document seen by the venture capitalist or private angel investor, or your boss… and we all know the importance of first impressions!

With all venture and angel investors, the business plan is your calling card. Without it, you simply will not get past the first meeting or be taken seriously. Since your business plan is often the best window into your business that potential investors see, it's extremely important that it be carefully prepared, well presented, and, most importantly, accepted 100% by everyone on your management team as to voice of this business.

Too frequently we've read reasonably good business plans but later discovered that all the ideas were the CEO's, and that they had not been blessed by the rest of the senior management team or, in the worst cases, the other managers had not even read the plan. Hard to believe, but it happens, and it happens all too often.

A well thought out plan enables you and everyone on your founding management team to deal effectively with today's rapidly changing and highly competitive business environment. Furthermore, you will find that, although difficult to begin, the actual business planning process itself serves as an extraordinary valuable exercise that will increase your chances of success in managing any business and not just your venture startup.

And finally, your business plan provides you and your senior managers with an overall structure for keeping perspective while traversing your journey to ultimate success. A good example is represented in the following graphic. One of the critical takeaways from this is that your new venture needs to get to a point of stability in about 24 months, and one of the most critical components of stability is "sustainable positive cash flow".

## Value Creation Model…


For the startup management team, the critical point is to get to a point of cash breakeven within 24 months. Success in achieving that objective always comes down to detailed strategic planning and creating the corresponding tactical plans that connect the dots to everything and everybody who is directly connected in growing and scaling the business.

**Why growth, by the way**? In today's startup markets, and especially in the tech world, there's no such thing as standing still or looking to achieve "slower growth". If you are not focused on change and growing your business, then these rapidly changing markets will eclipse you, or, worse, your competitors will steamroll right over you. A business plan allows you and your management team to get out in front of the market and be a leader rather than a follower.

# The Do's & Don'ts for Writing Business Plans

**Do:**

● Grab the reader immediately. Explain up front: products, markets, and the business model.

● Be brief, direct and detailed. Get to the bottom line quickly!

● State clearly the compelling reasons why the business will grow and customers will buy.

● Talk details about the customer pain points.

● Cleary define the Value Proposition *as seen by the impact on the personas of your customers.*

● Clearly define the barriers to entry.

● Be compelling! Why this business? Why will customers buy? Why now?

● Break through the business plan clutter. Convince your reader about this success with data!

● Be realistic with yourself. You're investing your career and reputation, not just money.

● State clearly the company's short- and long-term objectives for the next 12-24 months.

● Describe just three primary strategies that will enable the company to reach its objectives.

● Be realistic in making projections and in assessing your market and revenue potential.

● Support your primary strategies and tactics with detailed, quantified assumptions.

● Substantiate statements with underlying business data and accepted market research.

● Discuss objectively, but not negatively, your company's business risks.

● Include detail regarding both traditional and online sales and marketing strategies.

● State clearly how much money you will need and how the funds will be used.

● State clearly how you will create value for your investors and your "exit strategy".

## Don't:

● Write much about history.  A business plan is about the future.

● Forget to focus on your customers' needs. <u>This plan is not about you or your technology</u>.

● Forget to focus on the customer value you will deliver. Nothing more; nothing less!

● Include internal financial plans and detailed budgets.  You are just presenting summaries.

● Use overly technical descriptions of your products, processes or operations.

● Forget about the importance of detailed market data and objective customer research.

● Make vague or unsubstantiated statements or claims.

● Assume anything. Question everything.  Your boss and all your potential investors will.

● Forget the investment audience that you are addressing.  What they care about is…

- ✓ Experienced management
- ✓ Focused Value Propositions
- ✓ Cash
- ✓ Exit strategies
- ✓ Large and growing markets
- ✓ Proven sales channels & tactics
- ✓ Leadership
- ✓ Innovative technologies

…and most importantly, scalable and sustainable competitive advantage

● Think only about the United States.  Most growth businesses must look worldwide.

● Define valuations in the actual plan.  This will come later as part of many negotiations.

● Attempt to write the business plan by yourself without major input from others.

● Try to write over a protracted period of time.  Commit to a timeline of two months or less.

● Include copies of resumes, technical papers or reams of marketing materials.

● Forget to proofread, edit out unnecessary phrases … and then proofread three more times.

# Preparing the Plan

## *Getting Started: The Company Self-Appraisal*

A company self-appraisal must be performed in conjunction with establishing an operating budget for the next three years wrapped inside your business plan. You can't develop a plan or a budget in a vacuum. The following questions, although they may sound simple, are meant to evoke specific responses that are fundamental to the company's present position and its future direction.

These questions are meant to provoke you and your management team to think. They're not necessarily intended to be answered in your business plan. We've found time and time again that these are the types of questions that a management team honestly needs to appreciate, discuss, confront and come to agreement on before they jump into actually writing their business plan. They are listed here in no particular order. We just want to get you to think about your new business, not to follow a formulaic process.

● What business-be very specific here—are we really in or do we want to be in? Even though this business plan needs to define a financial plan for three years, you should be using a three-year time horizon within which you are going to define what the business will become in three years from now and then back into where you are today, especially if you are at the concept-only stage.

● What is our Value Proposition…as seen and valued by our Customers? This is critical!

● Is our mission clear? For our managers? For our customers?

● Do we have a scalable business model and the most effective sales and marketing models for the next one, two or three years?

● What customer personas are we serving? How well? What customers are we not serving and what are we planning to do about that segment?

● What are the very specific needs of our customers? How do we know? What do we know about the needs of our customers' customers? Should we think one customer link ahead?

● How do our prospects and customers, large and small, view us? Have we ever surveyed them?

● Do we fully understand our markets and the customer's pain in them? Can we prove this through surveys and basic market research we or others have completed?

● What's the nature of our markets: trends, size, competition and risks?

● What are our most valuable and unique skills that we have and that we need? What are our core competencies, and if we don't have that talent today or those skills today, what are we going to do to attract it either through hiring additional employees or creating outsourced partnerships?

● Are we committed to making the really difficult changes? Describe that commitment.

● What changes are likely to occur during the next two to three years…

...in our products and services, we're thinking about?

...in our rapidly changing online world?

...in the technologies or manufacturing processes in our industry?

...in the nature of our competition?

...in our customers' buying habits?

…in our management team

● What market share do we want and by when?

● Since most businesses slow down because management has not sufficiently thought through their sales channel selection effectiveness, what do we need to know about sales performance metrics for our industry? Do we know the sales and marketing performance metrics of our best (or other tangent direct and indirect) competitors? If there are public company competitors in or near your space, this information can easily be gleaned from their results or Edgar or Hoovers. If not, we can guide you as to how to acquire this market research efficiently.

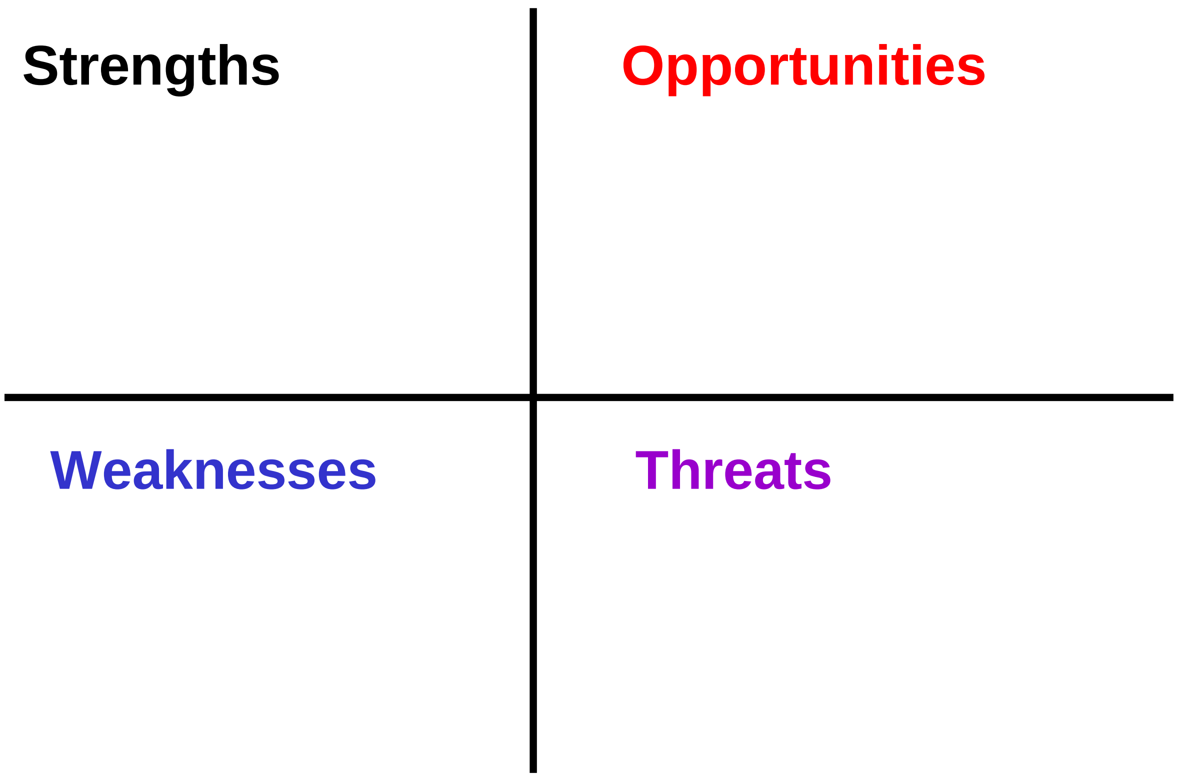
● How can we best finance the growth that we're planning?

● Where are the holes in our management structure? How can we plan our management depth not just for today but for next three years also? Are you the best CEO going forward?

Through this process, you and your senior managers are beginning to assess your business strategies and understand—hopefully objectively—whether your strategies will support your various departmental tactics. At the end of the day, **long term financial value** for the company and for your own wealth will be created *only* because your underlying strategies make economic sense over the longer term. Perhaps your product will become the next Google or McDonalds or Zappos or Home Depot. Given that, you need to keep this focus on your personal **long-term financial value** foremost in your mind, given the amount of risk that you are going to assume for the next five plus years.

What might make sense before you jump headfirst into writing your business plan is to conduct a formal (this does not have to be a long process) SWOT assessment of your business idea, especially if you have an existing product or service-no matter how small your revenue is. Having you and other members of your management team and your advisors participate in a classic, objective and clinical assessment on your business often represents a very meaningful jumping off point for both your business plan and your periodic planning process.

The output of this exercise will look like the classic SWOT 2-by-2 graphic below. To learn more about creating a SWOT, the best source is any of the materials on the subject at the Harvard Business School Press.



There are two key components to arrive at a complete SWOT outline. The first is the individual thinking by all of the managers on your team as to what they individually believe are the primary Strengths, Weaknesses, Opportunities and Threats. Have your managers think about these in advance and just bullet list them down, first individually, and then in a priority order.

The second is the prioritization by the entire group to agree on what are the top three in each category. Why three? One is simply "*The Rule of Three*", but more importantly, the company management, no matter what its size, cannot deal with creating more than three strategic responses to each of these categories and even at just three, you will be *very* challenged to tactically execute.

**The objectives of this process are...**

1. You want to know, protect and enhance your core strengths
2. You want to eliminate your weaknesses (internal), *over time*
3. You want to invest in your opportunities, *over time*
4. You want to continuously be aware of your threats (external)

---

**Just a few categories of Strengths and Weaknesses to think about as a guide:**

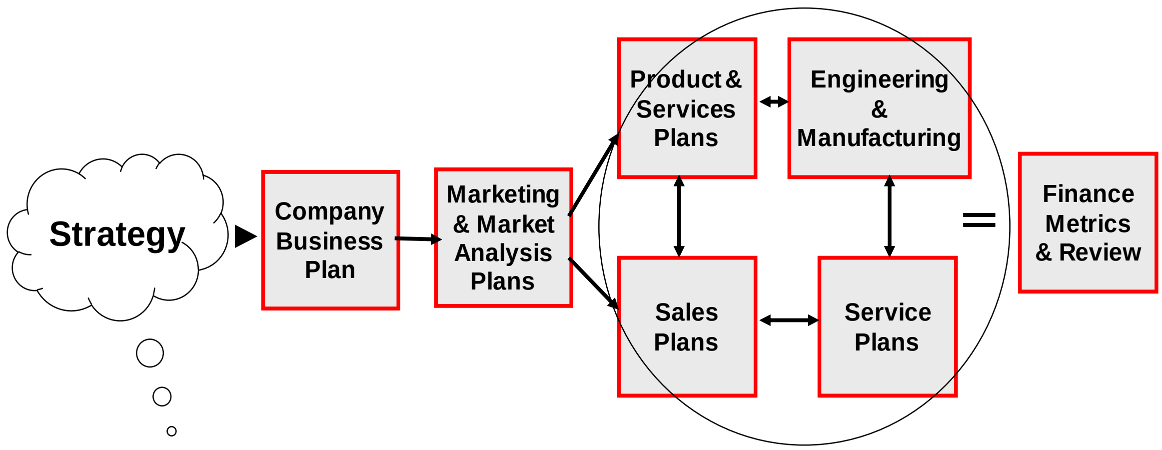
- Resources: financial, intellectual property, location, and people
- Cost advantages from proprietary know-how
- Management experience
- Exclusive access to high grade natural resources
- Favorable access to distribution networks
- Government rules and regulations regarding the business
- Creativity, innovation and your ability to develop new products
- Product range and diversity
- Cooperative ventures.
- Competitive capabilities

**And a few categories of Opportunities and Threats:**

- Market Trends
- Economic condition
- Buyouts or Mergers
- Joint ventures and strategic alliances
- Expectations of stakeholders
- Technology
- Public expectations
- Competitors and competitive actions
- Poor Public Relations development
- Criticism (Editorial)
- Global Markets
- Environmental conditions and regulations

# A Business Planning Architecture

**( Everything needs to fit )**




**The CEO's Job is One Simple Thing:**

**Create Highly Scalable Growth**

# Developing Operating Strategies

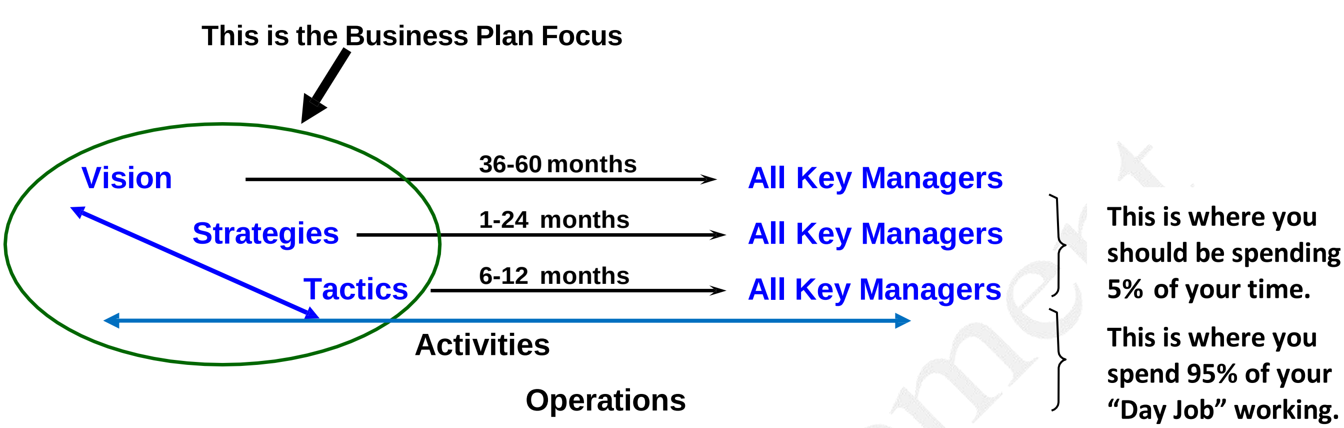
### *Figuring out your company strategies:*

Don't be put off by this word, ***"Strategy".*** Just translate this commonly misunderstood and incorrectly used word, ***"Strategy"***, into the phase of ***"Primary Future Directions"***. You need to be concerned about your ability to clearly define the ***primary future directions*** and the primary tactics that will lead you into the vision of the future that you have set for your company and for yourself.

Five components of your plan …

1. Clearly state your vision of the company's future.
2. Define your three to five key strategies that will support this vision.
3. One ***Vision***, three to five ***Strategies***
4. Everything else becomes highly integrated ***Tactics,*** their ***Objectives,*** *and their* ***Activities***
5. The sum of all of that becomes your business plan.

## Business Plan Architecture…



We created the graphic above to visualize the differences between the words ***"Vision"***, ***"Strategies"*** and ***"Tactics."*** Management's primary responsibility is to create a totally integrated balance within the circle. Too loose a Vision or too many Strategies, and there will be chaos since it will become impossible to tie the Tactics together. On the other hand, too few Strategies or weak and marginally effective Tactics will not lead to significant growth for your business. Key point: All **Tactics** have **Objectives**. All **Objectives** have dates and metrics. **Activities** are where the rubber hits the road. What you can manage best is your and your team's **Activities definitive timelines with specific metrics.**

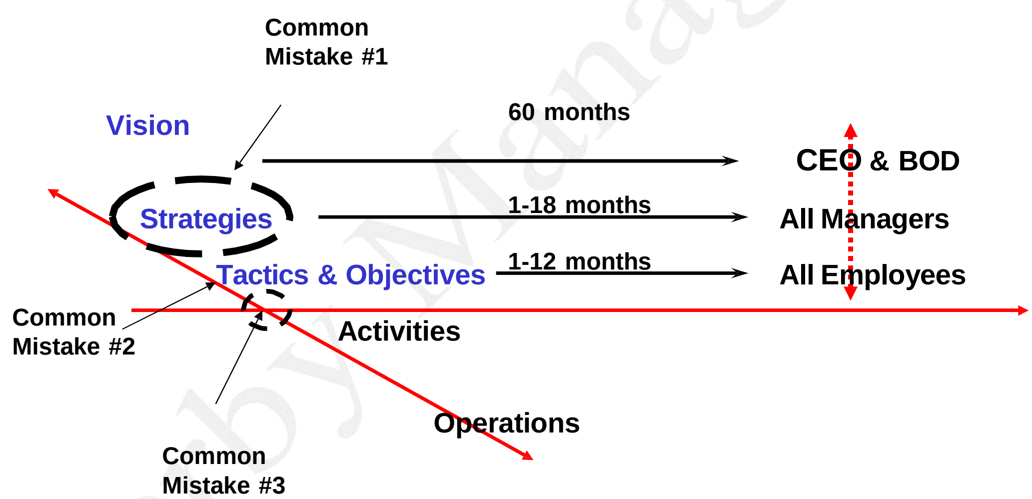
There are no set rules about the timelines for Visions, Strategies and Tactics, but here are a few guidelines that we have found useful over the years in conducting 30-40 strategy planning sessions a year.

- ✓ Visions will probably look out 36 to 60 months. Don't waste time with a ten-year vision. Today, too many market changes…and you have a business to run…*today.*
- ✓ Strategies tend to be worth investment if they look out 18 to 24 months.
- ✓ Tactics typically work well if they are locked in for your 12-month operating plan.

There may be 10-year Visions somewhere—indeed, one of our primary clients, Steinway & Sons, in business for 165 years, clearly has a well-defined vision—but typically, Visions morph over time and certainly Strategies and Tactics will change significantly over two and three years.

***Let's take a slightly different view of the same graphic…***

# Business Planning Architecture








We have found three common mistakes that companies make in their business planning process and in their business plans.

**Mistake #1**

The most grievous mistake is that management, and especially early stage management, does not formally come together at least once a year to decide what they will and won't do strategically. The best companies that we know do this religiously a minimum of two times a year, and the most successful take a full day once per quarter. The planning architecture that we currently want all our companies to incorporate, no matter what their size, but, again, especially young startups, is that of "a rolling planning process". Once a year, typically early in the first half of the year, management convenes a two-day offsite meeting to work through their primary directions for the next 18 months. Then once a quarter, typically during the first week of the new quarter, they assemble again for what we call "a long half day" to talk through how they're doing against the strategic plans that they set out earlier in the year. Finally, they spend another day or two in October going through strategic assumptions in preparation for the following year's budget that will be submitted to their board in December. The result of this is a natural rhythm reflecting the flow and ebb of the business which leads directly into the actual financial planning for the subsequent year. Done well, it works all of the time in producing consistent results that either make or surpass their annual business plans.

The primary issue often comes down to choosing the longer-term investments, the strategies, the directions and the business thrusts, where the wood goes behind the arrow, and then getting all the management team and the venture investors to agree that these are the best choices. "Choosing" is the critical operative word here when producing a business plan. But in our experience making declarative statements of "choosing what not to do" is even more difficult, and it is equally important.

**Mistake #2**

The founders and other managers must be able to document, for the company as a whole, their tactical operating plans for at least 12 months. Too often these plans are just financial plans or are so general and just "big bullets" on the PowerPoint deck such that they are meaningless.

We like to see activity and battle plans for the company for the entire year and most importantly, very detailed plans at the departmental level for each of the upcoming quarters. At the beginning of each quarter, there should be a peer review of performance against expectations among the department managers and the CEO. Why peer reviews? Because discussions among peers provide extraordinary learning platforms and a series of "lessons learned" and "best practices" for the entire management team.

**Mistake #3**

Mistake #3 comes down to the issue of planning in general. The horizontal red arrow on Page 27 above "Activities" points to the dividing line that managers take between *planning* for the company and *running* it. The most successful entrepreneurs we know adopt annual structures in their planning process budgeting with enough time to gather the senior managers, go offsite and align their primary strategies and tactics for the future 12 months.

Think about this issue in terms of hours. Consider that the average manager will work on average 60 hours a week, or 3,000 hours a year, more for entrepreneurs, for sure. What percentage of that time does the senior team devote to planning the business for the next couple of years or so? We believe management should spend 5%, or about 150 hours a year, planning for the long run. In actuality, the number we experience in our companies for true strategic planning is probably more like 100 hours a year. But even 100 hours is an improvement over the zero hours that all too many business managers spend planning.

Besides integrating and balancing Vision, Strategies and Tactics, it is also critical for entrepreneurs to consistently explain and involve all the employees in the architecture between Vision and Operations. Everything within this architecture must tie together and be balanced between the bandwidth of management and the company's financial resources.

Any normal manager can run a company on the basis of short-term objectives and the actions that are necessary to achieve those objectives. This is merely "management maintenance". It's always necessary to some degree, and it's a teachable skill. There is nothing wrong with managers who possess this skill.

At the same time, maintenance is not very exciting for entrepreneurs in general, and, as importantly, a slow growth company is not attractive to professional venture investors. It does nothing, moreover, to build growth or longer-term value in the enterprise. And most importantly, it's not the real job of senior management. We call this "screwdriver management" because when we first observed it a number of years ago, the founder-CEO of our client, a young $2 million manufacturer, literally always had a couple of screwdrivers in his back pocket so that when he was out in the factory, he could check things out and tweak the adjustments on the manufacturing equipment. Although he had been very successful in designing the innovative production equipment, when the company was smaller, we recommended to the board of directors that he be replaced since he was not the right person to grow the business. The company recruited a new CEO, who had previously founded and managed a $30 million business, and he successfully led our client through three years of very rapid and profitable growth. The prior CEO, by the way, stayed with the business in a different role, participated heavily with management and made a lot of money at the exit.

Senior management's true job is planning the business strategically and leading it to a new plateau of growth. Through working in hundreds of companies, we've found that long term success cannot be achieved without a thoroughly analyzed, multi-year business plan and foundation of a planning process focused on balancing and integrating the combination of Vision, Strategies and Tactics.

**As an exercise, take a couple of hours for yourself and your managers and answer these questions to get the planning juices flowing for you and your senior managers.** This self-evaluation typically begins with an objective analysis of the company's strengths and weaknesses. Let's start there.

Gather your team of managers and advisors together. Ask each of them to describe the top three strengths and weaknesses of the business as a whole. Then ask them to do the same for their own departments. When you complete this strengths and weaknesses exercise, go through the questions listed below. By the way, this entire process should take no more than a half a day and requires little preparation except individual thought, but it's an excellent way to begin engaging the senior team to think through the important issues for your business plan.

**General Planning Process:**

● Do we have a well-defined written Vision of what this company will become?

● How can we translate this Vision more effectively to our customers and employees?

● Do we have a "Bumper Sticker" or "Elevator Pitch" that fully describes what we do?

● Do we have a single OST (One Simple Thing)?

● Do we have effective Value Propositions about VALUE received, not benefits?

● Do the strategies that we have utilize our primary strengths and competencies?

● Do we have an integrated sales and marketing process with measurable steps?

● Do we have a documented planning and quarterly business review process?

● Do we have an "A" level senior team? What is our Bench strength?

● Do we know enough about our market to define five new growth opportunities?

● Do we need outside assistance to help us develop this plan or would that slow us down?

● Do we have the right skills internally to be able to answer these questions objectively?

**Market Planning:**

- Do we sufficiently understand our markets, our customers and our competitors?

- Do we have a firm grasp of customer needs for the next two years?

- Does our current product portfolio keep pace with expected technology changes?

- Do we have a multiyear product development and customer service plan?

- Do we fully understand how to create online marketing lead generation and branding?

- Do we have the right skills internally to be able to answer these questions objectively?

**Sales & Marketing Planning:**

- Do we have a cost effective, detailed sales process in place?

- Do we have documented selling tools, checklists and presentation templates in place? You should read The Checklist Manifesto if you want to learn about checklist successes.

- Where do we need to be in terms of sales processes and sales cost models?

- Do we have the correct sales organizational structure in place for the next two years?

- Do we have the sales correct channels for cost effective growth?

- Do we have the right team currently in place? Are they really "A" players?

- Do we require formal sales processes, with written games plans and certification?

- Do we have an effective online sales strategy, both internally and for our customers?

- Do we have the skills to develop cost effective online and traditional marketing tactics?

**Financial Planning:**

● Do we have a detailed one and two-year plan for revenues, margins and EBITDA?

● What's the probability of our success? What must we do to improve our margins?

● Can we raise capital? What's our experience? How long will it take?

● What support do we need from our investors, suppliers and bankers?

**Management and Organizational Planning:**

● Do we have the necessary management experience and skills?

● Where are our weak points? Where do we need to upgrade and bring in new talent?

● Am I the best person to lead this company/department as its senior manager?

● How long will the implementation of this new business plan realistically require?

● What are the risks of following these strategies?

Again, these lists are not meant to be exhaustive. There are many, many more questions that should be asked in a full strategic planning process. The intent here is merely to get you thinking through the types of issues that will need to be addressed as you start writing a multi-year business plan and most importantly, growing your early stage business.

# Reviewing Assumptions

## Business Assumptions:

Before you jump directly into the process of actually writing your business plan, you need to provide a few guidelines or boundaries, and these are called assumptions. It is critical for yourself, the entire management team, and the external readers of your plan to describe the assumptions that define a few of these guidelines and define your planning environment ***at the time*** you are writing your business plan.

Your assumptions should be realistic. They should not include everything that could possibly go wrong in the business. Murphy's Law is going to impact your business in any event. You cannot build a healthy, fast growth, business by delineating everything that *might* go wrong. There should be a managed balance between what the business and its markets can realistically expect, and the unknowns involved in forecasting. Your assumptions must be rooted in a supportable pattern of logic and quantifiable data. The primary assumptions you should consider before you begin writing your plan—not all of which are applicable to your company—are:

| **External Assumptions** | **Primary Issues You Need to Consider** |
|---|---|
| Competition | What's new or looming in the three-year future? |
| Energy & Environment | How will these issues will affect our margins? |
| Inflation | Is there anything on the horizon that will cause concern? |
| Market | What are the primary analysts forecasting for your market? |
| Materials | What's the cost/supply impact of critical suppliers? |
| People | Do you expect a market shortage of critical people? |
| People | What are the 12 to 18-month critical hires? |
| Regulations | What's the government planning 3-5 years from now? |
| Technology | What are the implications of future technologies? |
| Taxes & Tariffs | Are there upcoming changes? |

| Internal Assumptions | The Detail You Must Know |
|---|---|
| Value Propositions | The Specific Value that you deliver to the customer's business |
| Market data | Primary and secondary sources. |
| Customer data | Survey data from individual categories of prospects. |
| Sales forecasts | by period, unit, anticipated price changes and major customers. |
| Sales metrics | by sales/salesperson, cost of acquisition, lifetime value. |
| Cost of Sales | By channel and expected margin. |
| Sales Expenses | By sales channel, commissions and promotional activities. |
| Cost of Goods | By detailed primary cost components, lead times, inventory. |
| Margins | By product line, critical materials, sales activities. |
| G&A | By specific department, headcount, leases, benefit plans. |
| Receivables | By forecasted sales, days outstanding. |
| Capital | By specific expenditures. |
| Financing | Timelines and type of capital. |
| Technology | Product roadmaps and timing strategies. |
| Marketing | the Waterfall Math of marketing campaign to closed sale |

# The Business Plan Outline

**What's Included?**

7 to 8 Sections:

1. Executive Summary
2. Introduction to the business
3. Overview of the markets
4. Overview of Sales & Marketing plans
5. Overview of products and roadmaps
6. Summary of Manufacturing or Operations
7. Management team bios
8. Four pages of financials

***This is the content outline & flow that you need to keep in mind through this entire process of writing the plan***

This section describes a typical outline for your business plan, and I'd like you to keep the eight points above, and their relative flow, in your head as you're creating your own plan. There are typically seven to nine sections, but we have also been involved in preparing many plans containing from six to ten sections. A number of sections—like the "Executive Summary" and the "Financials"—are ***always*** presented in the order that we recommend here-first and last. At the same time, depending on what's most important to the future of your own emerging business, you may want to reorder some of the other sections. The most critical point is that you must continue to ask yourself if the order of presentation will make sense to a reader who does not know anything about your business and may not know much about your market. Think of yourself as the author of a wonderfully complex novel that you expect to hit the best seller list. You should regard this plan in the same light. Every successful novelist first outlines the flow of the book. You should do the same before you start writing.

You must first explain your business. If I am on page two of any business plan, and I cannot easily describe the business, the market, the target customers and how the business is going to make money (referred to as "the business model"), then I may just put the plan aside and go on to something "easier", *and probably never pick up your plan again*. It all depends on my time, which I don't have much of and who referenced the plan to me to review.

In my management consulting business, running Derby Management, teaching every semester at MIT and at Tufts, where I'm the Director of the Entrepreneurship Center, plus my role as a venture partner at Converge Venture and in the past as Chairman of Common Angels, while facilitating five to six Sales Management and Entrepreneur Boot Camps a year, I also personally review hundreds of business plans a year. My decisions on moving ahead with a business plan often come down to my own level of interest, my available time and who referred the business plan to me. Typically, our 700 plus students taking our entrepreneurship courses will get priority over anything else, with 80 of those being part of my own two courses. The primary point here is for you to understand the priorities of a venture investor, and what I do know from 30 years of being in the early state investing game that there's no one just sitting around with nothing to do just waiting to read another plan.

Do you succinctly explain the business and also explain why you and your management can make it a success? In order to do this, I do a quick "investor's read". If I'm five minutes into the plan, and I can't understand the business model and how the founders plan to make money, I will simply set it aside and possibly pass it on to someone else, or more likely just respond that I'm not interested. By the way, unfortunately I'm never going to meet *"just for coffee"* unless you are already a customer, or one of my students, or you have come highly recommended from one of our customers or my co-investors. Other than that, I am simply way overscheduled already, which is exactly why your business plan must speak for both you and your business.

Once you have explained the business model in the first page or two, you should continue to excite the reader with either the market opportunity or the products or the services that are central to the company's success. If you begin with the product or the service, then you must follow that section immediately with the Market section, typically followed by the Sales section and the details of how you plan to penetrate the markets. You are going to write the Executive Summary last, after everything is finished. In 100% of the best business plans, an Executive Summary is essential. It is your calling card when someone asks you to send them a business plan. Tease the reader with two to three pages before you send them 30.

The bottom line is that you must think like an outside reader. How will an angel or venture investor, or a potential key manager that you are trying to recruit, assess your business based on the business plan? What's the most logical flow of information that immediately provides outsiders, not only with a firm understanding of what you're attempting to do, but also encourages them to be part of your success.

● What's compelling enough about your business that you're willing to risk everything plus raise outside capital and look for attention from outside partners and advisors?

● What's compelling and differentiated enough in your products and services that prospective customers, who don't even know that you exist today, (and are already spending their dollars elsewhere) are going to stop doing whatever they're doing and pay attention to you for ten minutes of a telephone sales call or take one minute to read past your blog headline?

● What's the differentiated value that you bring to your customers? Why this? Why now? What makes the financial return of doing business with you more attractive than doing business with the other guy? The issue is not whether you are "unique" as much as it is whether you can create value for the new prospect to purchase and for your existing customers to purchase more. In today's world, value creation is measured by two types of managers. One of those, as you would expect are the financial managers and their language is ROI. And, you might as well build into this business plan specific but simple ROI and TCO (Total Cost of Ownership) models that demonstrate a return. Besides, your salespeople can use these standard selling tools in their sales presentations.

The other manager is the head of Sales or Marketing, who in today's world, is almost totally focused on selling customer value. What is your product or your service going to provide in financial terms as business drivers to your new prospect or existing customer? Compelling Value Propositions have become the new currency in both Sales and Marketing.

If you remember to answer these questions relating to "compelling need" and “differentiated value creation” all the way through your business planning process and the actual writing of your business plan-and then your sales and marketing plans-we guarantee you that your plan will be more compelling to your audience whether that audience consists of potential investors or your current and expanding leadership team.

In terms of the business, always focus your considerations on the minds and wallets of the key decision makers at your prospective customers …

● What's unique about your product and service offerings?

● What is it that demands the attention of your new prospects?

● What is it that encourages your customers to keep coming back for more?

● What creates more exit value than those other business plans on an investor's desk?

● What makes a potential investor grab the phone and schedule an appointment with you? Think

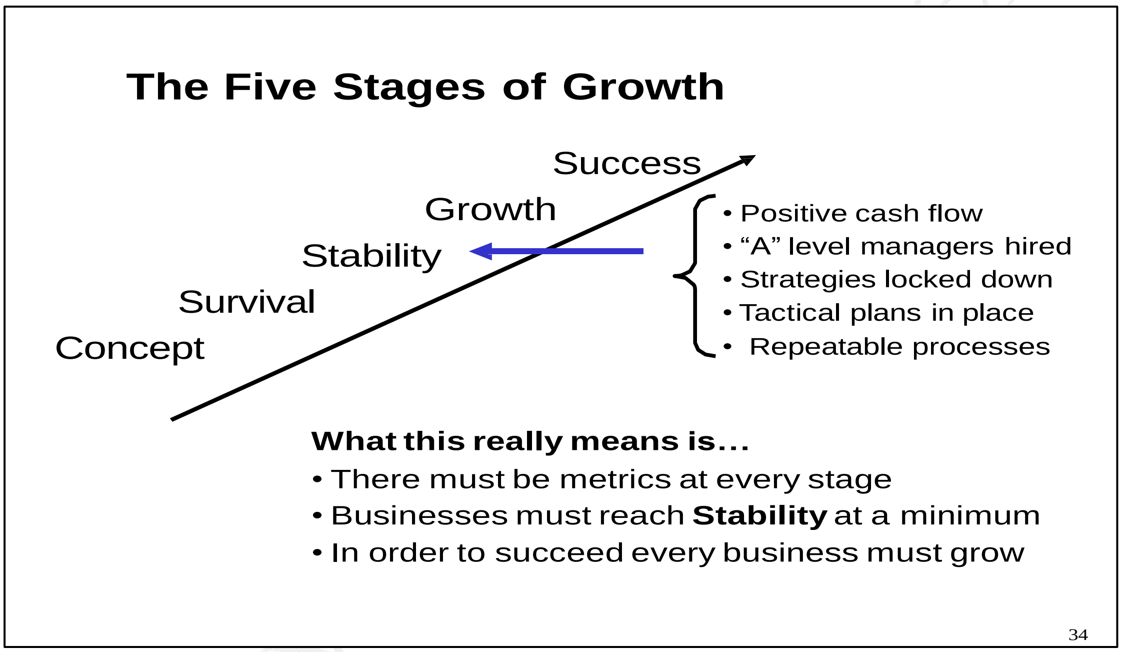
like an investor, and your plan just may get you to that critical first meeting.

In the world of angel financing and venture capital, entrepreneurs and even experienced managers of later stage companies typically lose out and don't get funded not because their business ideas were poor, and not because they didn't have many of the necessary ingredients for success, but because one of the competing business plans was more interesting, more compelling, and presented a potentially larger financial return opportunity for the investor.

One of the initial keys to success of having your business plan read is to have a trusted advisor present your plan to potential angel or venture capital investors on your behalf. The best introduction is through an existing or prior CEO of one of the venture/angel/angel group portfolio investments or a limited partner for their fund.

**Last Comment:**

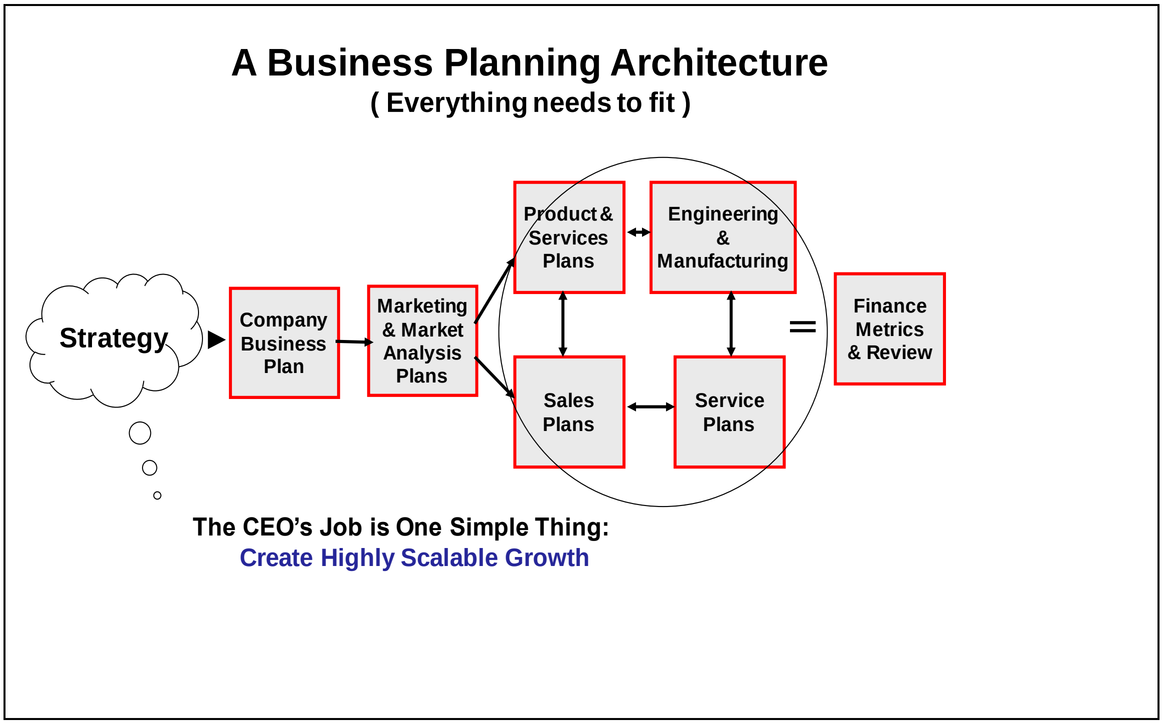
As an architect of your business plan, you want to take the reader along this path of value creation. Move the reader from Concept to Stability very quickly over the first two years. Tell that person exactly how you are going to achieve the five-key metrics of Stability as quickly as possible.



# Working Through the Sections

## Creating the Architecture where you are The Architect

There are two points to consider here. First, where in the overall structure of the business does my business plan fit? The best way to think about this is to look at the graphic below:




Everything begins with the company's business plan. Every aspect of the marketing plan in terms of product direction and market definition, every component of your sales tactics, every aspect of how your products and services are going to be sold, will be based on the fundamental architecture of your underlying business plan.

Second, understand the basic architecture of the plan's content and how it flows. What's written below outlines the points that will be discussed later section-by-section.

**Section 1: The Executive Summary**

You're going to write this section last since it's meant to be just what it's called - "a summary".

**Section 2: Introduction to the Business**

1. A simple-to-understand description of your business, the industry and the markets.
2. An overview of the business opportunity … What is it? Why is it compelling?
3. A clear definition of the revenue and profit model. How are you going to make money?
4. A succinct outline of the market and the customer profiles.
5. An attention-grabbing definition of your products, systems and services.

**Section 3: Market**

1. Market analysis and penetration strategies.

| | |
|---|---|
| .1 Market Opportunity | What's the growth rate and trends: US and worldwide? |
| .2 Customer Analysis | What are the specific customer needs? Pain points? |
| .3 Compelling Attributes | What's innovative? Why will your customers buy? |
| .4 Competitive Analysis | What are the competition's advantages and risks? |
| .5 Value Proposition | What's the clear, differentiating customer value? |

**Section 4: Sales & Marketing**

1. Market strategy: ***'The Marketing Plan'***

| | |
|---|---|
| .1 Situation Analysis | This is a very brief classic SWOT analysis. |
| .2 Business Opportunity | What's your basic business opportunity? |
| .3 Pricing Analysis | Why will your pricing strategy work? |
| .4 Marketing Tactics | Must be rich in content, innovative and effective. |

**2. Sales strategy: *'The Sales Plan'***

| | |
|---|---|
| .1 Distribution Channels | What are the channels? Why and when? |
| .2 Sales Models | Define the financials and metrics of your models. |
| .3 Primary Tactics | Detail the primary tactical penetration plans. |
| .4 Organization | Discuss the go-forward organization structure |
| .5 People | Define the structure and who you will recruit and retain |

**Section 5: Products, Engineering and Product Development**

1. What are the company's core technical competencies?
2. What's the product roadmap over the next three years?
3. What's the current status of research and development?
4. What's the project development status: timetables and projected costs?
5. What's unique, innovative and blocks or slows down the competition?
6. What's the proprietary status of the technology? Any patents, copyrights, trademarks?

**Section 6: Manufacturing or Operations**

1. Cite experience and core competencies if production and operations are internal.
2. Identify in detail your outsourcing potentials, competencies and timelines.
3. Specify costs and cost reduction plans.
4. Identify any important sole source or critical production engineering situations.

**Section 7: Management Team**

1. Do not include resumes. There will be plenty of time later to provide these
2. Create a short, one-paragraph biography of each key manager.
3. Include short bios for *primary* advisors, key scientific advisors if any, and Directors.
4. Identify key "To-Be-Hires" and your timetable to hire these key managers

## Section 8: Financials

1. Provide the highlights of the financial plan and your overall financing strategy.
2. Provide standard 5-year pro forma statements in standard *investor-ready* formats.
3. By month for the first year, quarters for years two and three, annual for four and five.
4. List the primary underlying business assumptions.
   .1 Profit and loss
   .2 Balance sheet
   .3 Cash flow- (assume the funding that you are looking for in this) .
   .4 Primary uses of funds

5. Exit Strategies. This should be a very short summary of how you would exit if and when you decide to sell the business. **Valuation should never be mentioned!** (Did you notice **the bold** and underlining here?) If you attempt to do this, you will never be right plus there will be ample time to discuss valuation in detail as your funding process unfolds. It is just not now, and it is never in your business plan!

## Section 9: Appendices

There normally is no need to have an appendix. If you do decide to include one, make it brief. Remember the adage: "One picture is worth a thousand words". This is not a place for "everything else." We usually prefer not to include an appendix at all.

Again, below is a good summary of the flow of your business plan

**Summary: 7 to 8 Sections**

1. Executive Summary
2. Introduction to the business
3. Overview of the markets
4. Overview of Sales & Marketing plans
5. Overview of products and roadmaps
6. Summary of Manufacturing or Operations
7. Management team bios
8. Four pages of financials

## Section 1: The Executive Summary

The Executive Summary is a two to three-page summary of the company's highlights. It allows the reader to determine quickly if he or she has any interest in your plan. Stay true to ***The Three Rules about Executive Summaries.***

1. **Most readers do not go beyond the Executive Summary.**
2. **All readers will be biased, positively or negatively, by this section.**
3. **All readers will prepare for their first call or meeting with you by re-reading this section.**

| <u>**The Components**</u> | <u>**The Focus**</u> |
|---|---|
| 1. The business idea. | Be brief and get to the bottom line quickly. |
| 2. What's compelling? | Answer in market and customer value terms. |
| 3. The market opportunity. | Summarize size, trends and real opportunities. |
| 4. The target markets. | Define what to sell, to whom and how. |
| 5. The competitive advantages. | Focus on opportunities but point out the known risks. |
| 6. The management team. | Summarize who they are and their track records. |
| 7. The offering. | State the amount that you need in equity or debt. |

This section must be sufficiently appealing and compelling for the reader (potential investors and potential new members of the senior team you are trying to recruit) to continue through the plan and to respond to your follow up calls. It's not as easy as it sounds to create a two or three-page document that succinctly describes the business, its long-term value, the overall market and your plan for achieving sales and high margin in that market. These are the salient points on which you must focus your time and writing skills. And remember: **PREPARE THIS SECTION LAST.**

## Hints:

• Focused brevity is the most important attribute of this section.

•Four full pages are too long. Make it shorter! Being concise is hard work.

•Most investors, bankers and potential acquirers will expect to read this section.

•Many readers will not go beyond this section before they meet with you.

**•Ask yourself...**

"What's our compelling business opportunity?"

"What do we do best? Why?"

"Where's the differentiated value creation in two to three years?"

- For the Customer, for the Investor?

"Can I put this definition of the business on a bumper sticker?"

What's the OST (The One Simple Thing) about this business?

• **Force yourself** to write and review this section with the following points in mind:

Think like an investor.

Move 100 feet above the deck and look at this business plan objectively.

Remember that your summary is only one in the 10 to 20 other business plans and executive summaries that an investor will see during any particular week.

• **Focus yourself** to provide total focus everywhere in your plan:

- ✓ Focus on the customers, their pain, and their needs. Be specific. Explain these needs.
- ✓ Focus on the markets today but also for three years into the future.
- ✓ Focus on the specific methods that will allow you to penetrate your customers.
- ✓ Focus on doing one or two things really well. Don't confuse the reader.
- ✓ Focus on the core of the business and what you need to do to make it a success.
- ✓ Focus on the strength of the management team and how you will hire "A" levels.
- ✓ Focus on pragmatic answers and conservative financials.
- ✓ Focus on creating the most efficient and logical sales models to your customers

## Section 2:  The Introduction to the Business

You are at the beginning of the business plan. Explain specifically what the business is and how it will make money. Don't get lost in defining the market or the technology. All that will come later.  Focus on just describing the business…and do it succinctly.

**UNLESS YOU EXCITE THE READER, HE OR SHE WILL SIMPLY PUT DOWN YOUR PLAN, FORGET ABOUT IT AND MOVE ON TO THE NEXT ONE!**

Now go into detail regarding the business model.  How will it make money?  What are the long-term value enhancers that make this business a worthwhile investment? Write about the industry, the company and its products and services. This section should contain:

1. **An industry analysis of its current status and, most importantly, its future trends.**

2. **The specific target markets and specific target primary customers.** Support these comments with hard data.  Never tell the reader: *"… because it's a huge multibillion-dollar market, and all we're seeking is 1% of that market."* If you make general statements like this, you are really telling the investor that you haven't got a clue as to where to go to sell your product or service.  Might as well say it here:  Never define success as "first mover advantage". That might have been ok with the invention of the Internet, but most of us lost money on that concept.

3. **A clear description of the products and the value-added services.** Be "technical enough" without being overbearing and losing the reader in confusing terminology. One of my best friends, a very successful venture capitalist in Boston for 30 years, tells many of his entrepreneurs that when it comes to technology, he basically understands how a toaster works. The message here: If you lose your audience in techtalk, you will lose your audience in the business model.

This section should provide the following in general overview terms. The next sections will go into the necessary detail. Let the next sections grab the reader and pull them down into the interesting details.

3.1. Customer needs, product features, customer benefits and business advantages.

3.2. Primary advantages and disadvantages compared to the competition.

3.3. Current status, trends and prospects of the industry.

3.4. General market size and growth trends. Details will be in the Market section.

3.5. Future products, developments, markets and economic trends.

## Hints:

• Reread whatever you have written with the eye of an investor who may not know the market to the degree that you do. Have you quickly and specifically explained the business, the business model, and how you are planning to create a scalable, highly valuable company? Have you done this in the first paragraph or two of this section? Too many times we have seen business plans go on for a page or two without defining what the business really is. This is not only confusing but also very irritating to the reader.

• Use industry-accepted data and well-known analysts' research, such as Forrester or Gartner in tech, to support your claims and comments about the market and your target customers.

• If you have them, use direct quotations from brand name customers supporting your business and your business directions. You can also do the same with well-known industry analysts, senior managers in the market, and your own business and scientific advisors.

• Be data rich in this section. *Wow*! and excite the reader with hard compelling facts.

# Section 3: The Market

## Market analysis

This section of the business plan is one of the most difficult to prepare; however, it is also ***the most important section.*** All the other sections of the business plan depend on the market research and analysis that is presented here. Present the facts to convince the investor that the company's products and services have a BIG market opportunity in an expanding industry and can win sales both efficiently and effectively. The information must support your assertions that your emerging venture can capture a substantial part of the market over the next five years, but also win new business somewhat immediately during the next 12-18 months.

So … what's BIG? If your business plan shows solid five-year growth in the company's sales from nothing to $20 million, that may not be a bad business, but it won't excite most professional angel groups or venture capital firms. The math behind this conclusion has to do with the economics of creating venture funds and assessing the historical rates of return for venture firms.

Suffice it to say that the typical venture capitalist will be looking for five-year revenue growth of $50 to $100 million. Whether they will believe you can achieve this goal is another question, but the fundamentals of the market must require this level of year-over-year potential growth.

As long as we are on the issue of market size, an investor needs to believe that the overall market already is, or is going to be, north of $500 million; otherwise, the venture or private equity economics just don't work.

If you want to go through the math on why this is so, give us a call at any time (just email me at jack@derbymanagement.com or jack.derby@tufts.edu to set up a telephone call appointment with me or one of my managers), and we'll walk you through the math and the venture issues of limited partners, deal risk and fund returns.

All of the follow-on financial projections in your business plan depend on the validity of the market data and the resulting sales strategies and tactical implementation models that are outlined in this section.

***Even after the first meeting with potential investors, we have seen more deals abandoned due to the lack of compelling market growth, and the lack of a detailed understanding of how to sell into that market, than any other two reasons.***

This section of your plan must address:

1. **The customer analysis.**

Customer research and hard data are absolute necessities. You need to discuss customers' specific needs and how you know that these are their needs. Also, you need to identify both your current and your targeted customers. You cannot afford to be general or vague in this section. Verifiable survey data goes a long way toward building credibility with the reader. In today's world of online surveys surveying customer and prospect needs does not have to be an expensive or difficult process. Any good junior or senior college intern with a marketing major at a good university in your geography will be able to do this for you.

2. **Market size and trends.**

Verifiable and industry accepted data is an absolute necessity!

Don't even try to explain that since this is “a new market,” reliable data doesn't yet exist. You may be correct in that data for a brand-new market may not *yet* exist, but it's out there somewhere either in market data that’s analogous to yours or in market data from which you are going to be stealing “*a share of wallet”* and customers. Somebody, somewhere is spending money on something similar.

The best example of this issue of unknown market data continually occurs with respect to products and services promoted and sold online. Go no further than Facebook or Instagram and other social networking sites or the SaaS market to convince yourself that dollars have been redirected from traditional areas to markets undreamt of just a few years ago! Still unconvinced, then think about the rapidly evolving world of IoT, self-driving cars and the entire industry of “connected health”.

Even though there were, and are still, a multitude of unknowns, our experience is that market sizes and trends can be forecasted with relative accuracy. You must be able to define market forecasts and trends in this section. Don’t say that the business is difficult to forecast. Investors don’t want to hear that. That may be the case at the outset, but everything can and must be forecasted. Sales forecasts are necessary in building any scalable business, and it’s simply unacceptable to say… *“but, in this industry, forecasting is impossible”.* One, it’s never true, and two, if you really believe that, then you’re simply not going to be able to build an investable business. And, reason three is reason one: it’s never true!

Where do you go to get market data? Get your hands on the market research reports from the large research companies either through friends or associates at large corporations who buy this stuff or get slightly out-of-date reports at a university you attended.

If you can, visit the head librarian there, or simply connect with them online. They are wonderfully helpful.

We find the best market research firms are companies such as…

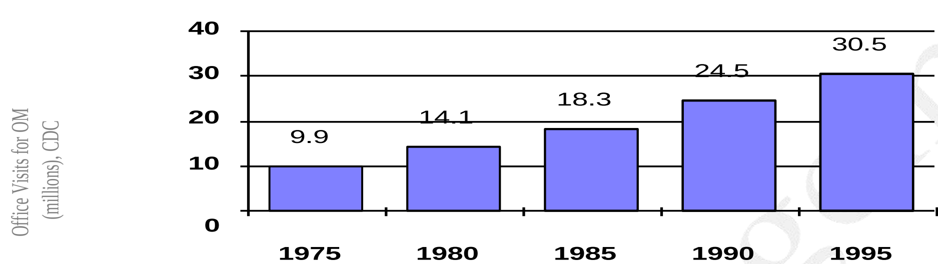
-Gartner -IDG -Nielsen -Forrester -Hoovers

-Capital IQ -Frost & Sullivan

There are countless others, so these names are just to give you a perspective of what's out there. Again, our best advice is to reach out to your university, talk to the research department there and enlist an intern or two to assist you.

Use graphs to show market size. The chart below based on CDC data which we found buried in other data, made a big impact when we successfully pitched for venture capital at EarCheck, where I was a co-founder and CEO. We successfully conveyed that the disease of Otitis Media was an epidemic … not just "more earaches in kids."

**Otitis Media is Epidemic...**




- Most frequently diagnosed illness among preschoolers.
  - Children < 2, office visits more than tripled.
  - Children 2-5, office visits more than doubled.
- Cost: $3-$4 billion annually in U.S.
- 25+ million U.S. antibiotic prescriptions annually.
- 1 million P.E. tubes, 1997.

Another source of meaningful market data is to dig into analysts' reports from the large investment banking firms. Referencing market statistics from firms such as Goldman, Chase, or Citibank makes a significant difference as to the veracity of your market.

**3. Competitors' strengths and weaknesses.**

This includes estimates of your key competitors' market shares and total sales, along with an objective analysis of their strategic directions. Will you be able to get all this information? Maybe, maybe not, but you must give ranges of revenue and what is known about the competition.

If all you know about their competitors is their location and their website, you then define yourself as a manager that goes into battle unarmed.

Make a realistic assessment of your competitors' strengths and weaknesses. Assess your indirect competition by analyzing the existing substitutes and other alternative products, listing the primary companies that supply them, both domestically and internationally. In general language, but with specific data, compare competing and substitute products and services based on market share, value, quality, price, performance, delivery, timing, service, warranties and other related features.

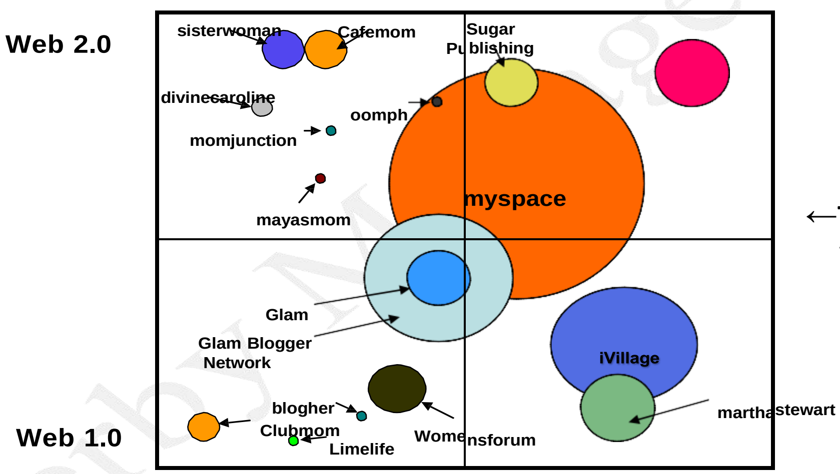
You don't need to include all these attributes, but you do need to be informative. Convince yourself and your potential investors that you thoroughly understand the competitive landscape. Never state that your product is unique and has no competition!

Discuss the three or four key competitors and why customers buy from them. Discuss why customers will leave them. Explain why specific competitors are vulnerable and how you will capture their business. Indicate any knowledge of your competitors' actions that could lead you to new or improved products and a better position. In essence, you need to anticipate and answer two questions: "What makes your products "better?", and "Why will these customers buy from you and not your competition?"

You should use graphics to represent where your company is and where you want it to be in the competitive grid when it gets funded. This information can be displayed in many ways, but a couple of the most common ways are described below:

The first is a scaled 2-over-2 matrix. You want to be positioned in the upper right-hand quadrant. The other is a table listing you and your competitors across the top and the areas in which you compete in the left-hand column. Your ratings in each block show how you stack up against the competition. Note in the old graphic below, which was meant to show the power of myspace, there was no mention of Facebook.

## Competitive Landscape




←This quadrant is exactly where you want to be.

The reason that I showed the example above is because this entrepreneur (and the rest of the market analysts) regarded Myspace as the 800-pound gorilla at that time. Obviously, that's not so today. The point here is that competitors change, markets change, pricing strategies change and marketing tactics change-today more than ever before. You need to constantly stay on top of your competitors and the volatile nature of your markets. This next table shows your company in the first column and the competition in the following columns. Along the rows, you would list items such as benefits, technical differentiation, ease of use and other attributes demonstrating the superiority of your products and services.

| | | PhD | Tendril | Greenbx | Contol4 | CES | Brultech | TED |
|---|---|---|---|---|---|---|---|---|
| Measure | Whole House | ✓ | SM | SM | SM | ✓ | ✓ | ✓ |
| | All Circuits | ✓ | X | X | X | ✓ | X | X |
| | Outlets | ✓ | ✓ | X | X | X | ✓ | X |
| Display | Web Portal | ✓ | ✓ | ✓ | ✓ | ✓ | X | X |
| Monitor | Control Therm./Dev | ✓ | ✓ | ? | ✓ | ✓ | X | X |
| | Efficiency/ Renew. Anal | ✓ | X | X | X | X | X | X |
| | Proactive Alerts | ✓ | ✓ | X | X | X | X | X |
| Mon. Other Sources | Gas/Oil | ✓ | X | X | X | X | X | X |
| | PV | ✓ | ✓ | X | X | ✓ | X | X |
| | Integrate EV | ✓ | X | X | X | X | X | X |

4. **Differentiated Value Creation.**

Compare the fundamental value added or created by your products and services, stating clearly why that value meets the customers' needs both today and two to three years from now. Value creation is **THE** key differentiator when comparing your products and services to your competitors.

Let's assume for the moment that your products and services are the same as those of your competitors. We know you believe that your products and your services are far better, but let's assume just for a moment that all are equal.

**Ask yourself:** What will differentiate your products and services and, most importantly, what value will customers derive from purchasing them?

Actually, the best way to do this is to visualize yourself moving to the buyer's side of the table and listen to the words that you are saying about your products and services. Would you be listening attentively or sarcastically thinking, *"So What? What's in this for me"?*

In today's world of disintermediated channels and seemingly limitless variety of features and pricing options, where a buyer can purchase a product or a service just as easily in Mumbai as they can in Cambridge, value for the buyer is *the* name of the game.

● Where is the value created in your business and your customers' businesses?

● Is it in the business model itself?

● Is it because your products or services are less expensive or faster or create a better return?

● Is it in your sales processes or in the level of your customer service?

● Just where do you create lasting value?

You must also demonstrate in financial terms specific ROI or TCO models. Buyers and sellers have always discussed projected returns, but most of these discussions have been general and hypothetical. Today, with the uncertainty and volatility or politics, tariffs, interest rates and international trade in general, creating and demonstrating ROI and TCO models is absolutely essential. Given that, if creating financial value is the buyer's primary decision-making criteria, then make your primary selling criteria the value creation specifically for their company.

**Hints:**

• Prepare the market analysis section first. Use extreme care in researching and preparing its content and validating all the data.

• This is another great place for the use of charts and graphs. Let the picture tell the story.

You can use this to your advantage, especially in two areas. The first is industry trend data. The second is comparing you with your competitors.

• Do not limit your description to today's products or services. Your market analysis must support future product enhancements. Show where you plan to take your company over the next three to five years.

• Typically, this section is the most difficult to write and takes the most time. Prepare yourself organizationally and mentally when you undertake it.

• Do your research first. Organize all your collected data into folders and browser bookmarks before you sit down to write.

- Try to answer that interesting question that goes around in the heads of the venture investors: *"Will the dogs eat the dog food?"* The phrase comes from a case study that was done years ago where a large corporation thoroughly analyzed the market. As only large consumer product companies can, they scrutinized the competition and digested (pun intended) all the data that existed in their quest to develop a new organic dog food with all the wonderful attributes and benefits of smell, color and vitamins.

Unfortunately, most of the dogs, other than the few in their doggie focus groups, hated the taste. The product was a disaster.

What you need to do with your products and services is convince yourself and your management team first—then your potential investors—that you have thoroughly answered that question. You may be managing a small business, but there's no reason that you can't do the research and answer that question. Quite frankly, if you don't answer it, the potential investors will form their own answer which will probably be "no deal."

How do you do this? It's relatively simple: Ask your targeted prospects!

- ✔ Use focus groups, formal and informal.
- ✔ Conduct formal customer or potential customer surveys either by telephone or online.
- ✔ For surveys use any of the Google tools. They are the most versatile
- ✔ Talk to everyone you know and record the data.

As a professor of marketing at Tufts and as a lecturer in business planning and marketing at MIT, I would strongly encourage the use of marketing project teams or interns to assist in this process. Go directly to the marketing professors or department heads to ask the question of " Who are your best students?" and use that person's guidance to assist you.

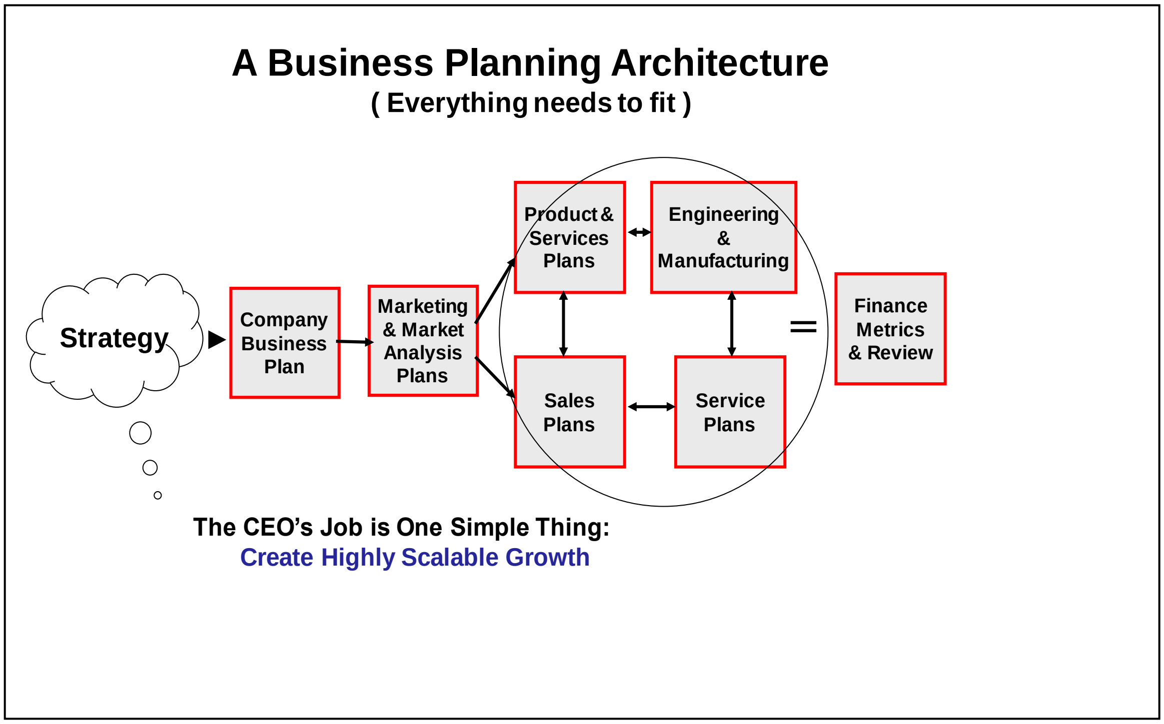
Do not believe that focus groups and surveys of prospects are only for large corporations. Well done, they will answer any question that you need answered.

Although, surveys and any credible market research will cost you a couple of bucks and may be a possible challenge given the nature of your young enterprise, you will find that these will be the most important expenditures of your company's life. Again, strong advice here is to go back to your university's libraries and ask their assistance.

You need this level of customer, or prospective customer, intimacy if you are planning to commit your career and the careers of others, let alone the investment dollars of friends and professional investors.

## Section 4: The Sales & Marketing Plans

Think about Marketing and Sales in terms of their fitting into your company's business architecture. Once you have completed the marketing plan portion of the business plan, outlining market size, segmentation and competition, you now shift to your sales plans.




The sales plan portion of your business plan is just an outline. This is not a deep dive into detailed quarterly territory plans and key account plans which you will require your salespeople to construct and present to your senior management team every single quarter.

The sales plan presents the third most critical strategic component of the entire enterprise. It answers the question: ***"How are you going to sell whatever it is that you sell cost effectively and with a scalable and efficient sales model and sales process?"***

**The Sales Plan Section should include:**

**1. Distribution channel strategies.**

Convince the potential investor that you know what you are talking about in terms of your sales model and channels. Assure the reader that you know how to hire the best players to execute your plan and that the company's management culture is totally (and we mean *totally*) customer-focused, and customer-intimate. Give examples throughout your plan forcefully demonstrating this principle. Those examples could include the math behind how long it will take to hire, train and coach a new sales hire before that person reaches their planned quota. There should also be specific sales models of what it takes to ramp a hunter, a farmer, and a scout (lead qualifier or BDR-Business Development Rep)

Channel strategies need not be singular. You can simultaneously explore both direct sales (both field and inside) and sales through leveraged channels such as manufactures reps, dealers, distributors or OEM partners, or combinations of these channels. You must make critical strategic decisions to demonstrate your capabilities in this area:

• What is the management bandwidth and margin impact on your company if you choose to use either a direct or an indirect channel?

• Do you need to utilize an indirect channel from the outset, or can it evolve to an indirect model over time?

• Does "direct" mean face-to-face or telephone/online or a combination? We know plenty of excellent, senior level salespeople, who both sell, and close hundreds orders worth hundreds of thousands of dollars and never leave their office.

The challenge is to continuously break down the old ways of thinking about salespeople traveling and being on the road and consider how to make that process more cost effective for your company and more time effective for your customers and prospects.

• Focus on your management's bandwidth and the amount of money that you have to spend. Channel strategies are not immutable. They change over time as a result of your experience and the company's growth. Your needs and access to capital will change, your customers' needs will change, and the resulting sales models will change.

Convince yourself, your management and your potential investors that you have the experience to hire people who can make sales channels decisions cost effectively and then manage the channels to the level of revenues that you're forecasting while paying attention to the industry norms for your sales and marketing expense model

Channel selection comes down to being able to define the cost of the sale—not the cost of the product or the service—and the time, or sales cycle, needed to make the sale. Should you field a direct sales force considering expense, customer impact, and the time to close, or an indirect sales force of manufacturers' reps, distributors, dealers or OEMs? This decision can only be made by talented and heavily experienced sales and sales channel managers.

There are exceptions to the rule, but we normally suggest that if possible, you begin with a direct sales channel if you are executing a startup or a small business.

Part of this decision is based on the fact that you may not be able to identify anyone who wants to sell your product at an early stage. Perhaps the more important reason for you to begin with a direct channel, however, is your need for a direct connection with the customer.

The most common argument to use an indirect channel is always the expense of creating a small inside or outside direct sales force with upfront expenses and long ramp periods. The counterargument for starting with a direct channel using your own people is that you get….

- ✓ 100% interest.
- ✓ Direct feedback regarding your offerings and market data
- ✓ 100% share of mind, rather than splitting that with reps who carry multiple lines
- ✓ Direct translation of your prospect's and your customer's needs.

Crack the code regarding the most effective sales channel, and we believe that there's no better way to do that than on a direct basis…*at least for a while*.

There will be plenty of time to evolve the sales model to one that is potentially more cost effective … but not at the company's inception. If you feel that the business ultimately must adopt an indirect model, that's fine. Just show this process as a natural evolution. Clearly explain in your business plan when and how you are going to make this happen.

Your sales channels—especially more cash consuming direct channels—must be focused on just one thing**: How can I reach our forecasted sales levels in the most cost effective, repeatable and scalable manner, while achieving the highest level of customer satisfaction?** There are excellent processes, metrics, sales tactics and performance measurement tools that enable your sales management to do just that.

Your sales plan does not need to go into all the specifics. However, you must convince your potential investor that you and your management team have the experience to make your forecasts happen. More companies fail to achieve their forecasted results because of the inexperience and inadequacies in the sales management than for any other reason.

After serving over 1,000 clients over 40 years, we have never seen a company fail because its product was inadequate. There have been plenty of product and technology issues, but they have never been the primary reasons for underperformance. The #1 reason for company underperformance, time and time again, is incorrect strategic and tactical decisions in the world of Sales. To this end, you should be guided by our experienced adage, which is…

***You must hire major league ballplayers in sales management. Just "good enough" is absolutely not "good enough".***

Here are a couple of important final points about creating a direct channel.

The first is that a direct channel does not necessarily mean that you are going to fill up the territories with field people *on the street*. We like to see a model with a small number of people *on the street*—again, to reach the required level of customer intimacy—in small, focused geographies, but later, as the company matures, we want to see a larger telephone and online inside sales organization concentrating on sales support and expansion of existing accounts. The classic "hunter/farmer/scout" model we frequently have used effectively—with salespeople who find new customers acting as the Hunters, and those who nurture customer relationships acting as the Farmers, while Scouts (known in the trade as "BDRs"-Business Development Reps) focus only on lead generation and qualification—may be an approach you should explore in your business plan.

The second point is that in the beginning, there is no need to sell across the entire U.S., let alone the world. Our **"Streets not States**" model is critical to experimenting and proving out your sales models, selling tactics, best practices and messaging. It is much easier and far less expensive to accomplish that in a few states rather than across the country.

One of our most profitable investments was in a healthcare company about eight years ago that when we sold it, had revenues north of $125 million, was very profitable and never sold outside New England although, it could have sold its products and services anywhere. To most managers, it would have been a natural to expand into New York, whether it was the City or Upstate. To this highly successful management team, New York was never a consideration, and they decided to limit their expansion strictly to New England. In fact, the penetration really focused on Maine, New Hampshire and eastern Massachusetts. “The Streets-not-States Model” proved to be very effective and very profitable for us as investors.

**2. Online Sales Strategy.**

Whether it’s today or a couple of years from now, you’ll incorporate ecommerce and online sales and marketing strategies based on multiple social networks. This does not simply mean marketing banner ads or creating keywords for search optimization or other “standard” components of Inbound Marketing. I’m assuming that you’re already an active corporate user of LinkedIn Navigator, and that your business has an active Facebook and Instagram presence since these tactics are absolute baseline requirements today. Strategies of how you are planning to utilize blogs and online communities in the future do belong in the marketing section of your business plan.

Your online business-to-business strategy will employ the same level of tactics and selling tools you will have in your direct-to-business salesperson channel. If you have not thought through this component of your sales and marketing plan, that's going to be a problem. You must recognize that in most businesses, you would be operating at a distinct cost and sales cycle disadvantage without them.

### 3. Sales tactics and customer support mechanisms.

Define the *primary* tactical plans through which you will enter, penetrate, and ultimately become a leader in your specific markets in your defined geographies and in your specific segments of your targeted customers. At the same time, create balance. Remember that you are writing a longer-term business plan, not a 12-month sales plan for which you will require much more detail in terms of tactics, quarterly plans, targeted key accounts, channel selection, customer segmentation and performance metrics.

Do not omit from your business plan the important sales functions of customer success and customer service, lead qualification, and technical support. It's our experience that well trained inside sales and customer support people *always* provide the most cost-effective sales solutions for both new and existing customers. Plus, by far, they are the most cost-effective solution for upselling and retention of existing customers.

Most of your customers will spend most of their time interfacing with your internal sales and support associates, not with the field warrior who visits them occasionally either face to face or over the phone. Spend wisely on your internal people and their technologies, their Marketing software systems such as Hubspot and Sales CRM systems such as Hubspot or Salesforce, plus their communication support tools.

A rule of thumb: the most successful selling organizations today in companies with more than $10 million in annual revenues typically spend approximately $5,000 a year per salesperson for Sales tools including CRM subscriptions and integrated apps that bolt seamlessly into their CRM platforms. You don’t need to budget this amount at the beginning, but very quickly you will discover that these expenses significantly optimize and enable your salesforce.

In today's most highly performing sales organizations, the two key verbs are: "Optimize" and "Enable", and there's volumes of research behind these new methods to make your sales organization both more efficient and more effective. Even if you're not *exactly* there today, your potential investors certainly are; therefore, you need to quickly become an expert in today's selling and marketing tactics which are steeped in math, metrics, processes and seamlessly integrated technologies

**4. Salesforce Profiles.**

You must define the requisite skills, experience and business attributes of your sales management and sales personnel, both in the field and internally. A business plan that does not talk specifically about the makeup of the salesforce and its internal support associates, is unrealistic. It betrays management's understanding of the sales process. Relying on your definition of the type of salespeople you plan to hire, potential investors may also be able to identify potential key salespeople from their arsenals of contacts.

## Hints:

• Convince the reader you know how to create the exact fit between your customers and your selected sales channels.

• Remain focused on viable procedures, but at the same time avoid allowing your sales tactics to become "cookie cutter" repetitions of other sales channels in your industry. Besides field-tested tactics, include innovations and technology tools linking your salesforce and your customers to your CRM and marketing automation systems.

• Ensure that your customers always have access to your representatives through direct dial numbers, smartphones, tablets and, online applications such as Go-To-Meeting, Zoom & Ring.

• Explain why your tactics will be more cost effective than your competitors'. Convince your reader that you'll achieve the margins you've forecasted.

• Decide which companies could be your best allies and indirect channels in the future. Whether it's a straight OEM deal, or a much larger business that interacts synergistically with your company, or a licensing arrangement, you will evolve to a multitude of sales methods and partner channels providing you with additional leverage. These may be more effective than fielding your own direct salespeople or even independent reps.

• Just a word about independent reps or, as they are known, "manufacturer's reps". This channel has been a foundation for many industries. More and more, however, it is falling out of favor because it doesn't provide the necessary customer intimacy. It's easy to think that you have a variable cost of only 5% to 10% on a sale, and that you don't need to actually pay reps cash until the product ships. Those facts are true, but you must also consider the significant negative impact of the share-of-mind issue.

<u>We absolutely do not recommend reps for young companies</u>, or for that matter, for most established businesses with the exception of a few markets such as retail or commodity products. We believe reps ultimately cost you more in lost business because they typically are not positioned to develop new companies. Using reps as lead generators may be an opportunity, but they are not as effective as your own direct salespeople representing you and your product on the phone and in front of prospective customers. There are much better, albeit initially more expensive, means of getting in front of prospects. And don't forget that the qualified lead you receive from a manufacturer's rep is actually much more expensive a lead because your own technical people must intervene in the majority of most complex sales and complete the actual closing.

• Although you may be able to hire an untested field salesperson for a $60,000 base salary, an experienced field salesperson will typically cost a total of $150,000-$200,000 per year, including a competitive base, expected commissions, travel and entertainment expenses and benefits. For an experienced inside salesperson, expect to pay between $80,000 to $150,000 in total (base plus commissions and benefits).

• For field salespeople, plan on paying car operating expenses plus $500 monthly in car allowances. Plan on paying for the use of a cell phone. For air travel and accompanying hotel costs, plan on $500 to $1,000 a day unless the travel is very regionalized.

• For each new salesperson, plan on three months until they become "initially effective," and at least 12 (more like 18) months until they become "fully cost effective" and are reaching their quota consistently. We call this point "full ramp" meaning that they have then reached that point of experience and training that they will consistently be on quota.

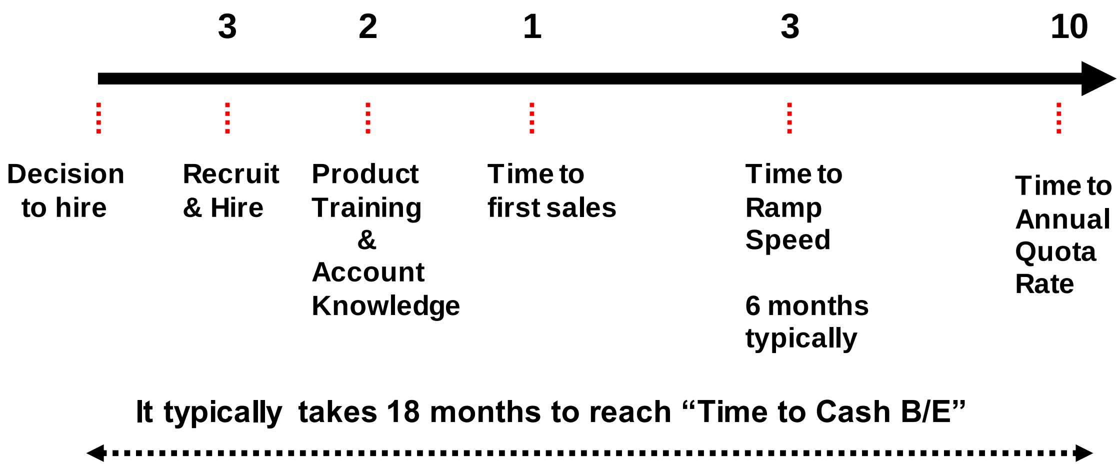
For those first three months, you will pay full costs without the new salesperson generating any revenue. In our experience, the "three-month rule" applies even when the person comes from the direct competition. It's our experience that customers typically don't change their allegiances when a salesperson changes to a competitor … especially a smaller competitor.

Following the initial three months, plan on an additional nine to eighteen months of "ramp time" before the new salesperson becomes "fully cost effective." During that time, the salesperson is learning and personalizing the company's sales processes and tools. The "Mean-Time-to-Cash-Recovery" for a new salesperson may often be 24 plus months after the time of hire.

# Creating Sales Optimization

## Hire extremely well & “on time”

- Assumes 3 month sales cycle
- Assumes “standard” relationship sale
- Assumes B+ hires




• We have found that when the sales plans of small and emerging businesses fail, it’s usually because the company didn’t hire heavily experienced, battle-tested sales management. Other than hiring the CEO, filling sales positions are *the most critical* decisions you will make. They will directly determine your company's success.

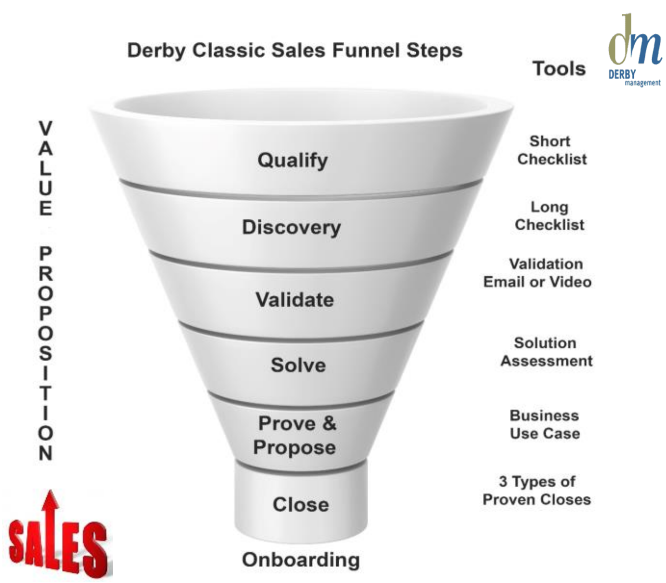
• For fast growth companies to succeed in selling, they must arm their field sales forces with powerful smartphones and tablets, networked contact databases, immediate email at text access to the company’s CRM system and linked websites with video that quickly take the salesperson directly to product data sheets, sales templates and detailed technical support.

• There are just a few metrics you should include in your sales and financial models. Build a sales model process up from the bottom in Excel reviewing your "hunters" and "farmers" on a monthly basis, figuring in customer buying seasonality. Ultimately, all of this will direct-report out of your CRM system. In the short term, just track this in Excel.

- **Understanding Sales Models**

  - You must calculate…
  - Hiring rate — time to recruit + hire
  - Sales ramp #1 — to first sale and #2 to full selling effectiveness
  - Attrition rate — % leave: voluntary and involuntary
  - Average cost — base + plan + benefits + expenses
  - Sales cycle — "hello to close"
  - Trigger point rates — time between steps in your sales process

This is also a great place for the use of graphics describing your sales and marketing models




The sales and marketing process funnels we've included above are more than just graphics. These become *"the way you sell".* They are strict processes created for the purpose of discipline, uniformity and the ability to measure and build on best processes across all the salesforce.

Use them with your CFO, your head of sales and your salespeople in sales planning and in financial modeling of your sales cycles. The trigger points coincide with the six (typical) steps in the sales process. The trigger point "# of calls/contacts" fits into "Qualify," the first step in the sales process. The second step in the sales process, "Discovery," is measured by the number of "champion letters" sent. The third step, "Proof," is measured by the number of "ROIs" presented. The fourth step, "Solve," is accomplished through "factory visits" by customers and potential customers to your facilities. And the fifth step, "Proposal," is measured by the number of "proposals out." Your correct execution of these six steps will result in a successful sales effort.

We are not suggesting that you must reach this level of detail in your sales plan section. It is typical, however, for the specifics of the sales process and the underlying math models to be addressed during early meetings with potential investors, and all of this must tie back to your overall revenue model, and of course to your financial assumptions and forecasts.

# The Classic Derby Process Funnel


**Basic Funnel Tools**

- Email Templates
- Intro Pitch Scripts
- Needs Checklist
- Agenda/Confirm
- Champion Letter
- The Sales Deck
- Objection Handling
- ROI Calculators
- Testimonials
- 3 Best Closes
- Contracts

**Basic Metrics**

# of Qualify contacts

# of Discovery Calls
# of Champion Letters

# of Follow Up Meeting
# of Proposals

# of Wins

Finally, pay attention to Jack's ***Law of 3,000***, which is based on an ideal *of* a dedicated salesperson actually working 60 hours a week, or about 3,000 hours a year.

| | |
|---|---|
| **3120** | Salesperson's Hours/Week/Year |
| - 180 | 15 days' vacation |
| - 40 | 5 sick + personal days |
| - 80 | 10 company holidays |
| - 180 | training, sales + company meetings |
| - 15% | standard non-utilizable time (breaks, getting started, etc) |
| = 2,244 | total ***Available Hours to Sell*** |
| x 50% | sales effectiveness (50% of the time they sell, they close … a *very* high rate) |
| = **1122** | available selling time or management time |

The bottom line of **Jack's Law of 3,000** is that *good* salespeople, only have about 1,000 hours a year to actually sell and effectively close business for you, so your most important job as a manager is to make that time highly effective and to eliminate everything else from their activity that takes away from their effectiveness as sales warriors.

### 3.3 The Marketing Plan:

This section should describe how the sales projections in your financials will be attained in terms of product and market segmentation, positioning, marketing activities and promotional campaigns. It summarizes the content of your company's more detailed company marketing plan in a condensed fashion. Yes, *you do need a written Marketing Plan even at this early stage of your venture.*

It should include:

1. Your market segmentation strategies-what, why now, evolution over time?
2. Your overall marketing strategies. These include your primary tactics, events, materials and a summary of their costs and expenses.
3. Your pricing strategy. Convince the potential investor that there is a relationship between price and margin to market share, growth rate and profits. Thoroughly explain your present pricing strategy. How will it change over time? What is its relation to your planned product extensions and new products?

4. Your marketing and your sales Value Propositions. What are they? How will they change? How are you planning to deliver them? Your marketing message may be different in form and in methods from your selling message.

5. Your promotional strategy and your primary tactics. Don't fall into the entrepreneurial trap of "all other."

Many business plans we read list marketing tactics, especially promotional tactics like an all-inclusive shopping list: *"We will do PR along with national and regional ads plus banner ads, national and regional trade shows, and, of course, social media…"* That sums up the promotional program. What it really shows is the inexperience of a management group that is divorced from the reality of marketing in today's environment of cluttered messages and hundreds, actually thousands, of media opportunities that are going after the exact same customers as you are…*every single day.* Specificity and metrics count in creating effective marketing plans today.

The contents of this very short (a page or page and a half at the most) section must be very focused and convince sophisticated readers that you know what you're talking about. At the end of the day, you won't have much money to spend on marketing programs, so you need to maximize the impact of these expenditures. As a result, the reader needs to understand that you understand the math and the buyer's journey along the path from awareness to lead generation to qualified opportunities and finally to closed orders.

As a growing company up to around $50 million, the marketing activity you define will be used for one thing and one thing only—lead generation—not PR, not branding, just simple lead generation. Marketing's job is to fuel your highly experienced and expensive salespeople with qualified leads. This is actually the primary goal of any marketing organization.

Answer definitively where the company's few resources—expense money and management efforts—will be spent. With any new venture, you must have focus. Marketing is one of the places where the rubber must hit the road in terms of laser focus.

**Hints:**

This section must be highly focused. Show that your various strategies and related activities are…

- ✔ well linked together
- ✔ directed at specific markets and penetration tactics
- ✔ tactical and action oriented
- ✔ measurable in terms of leads generated
- ✔ cost effective

• Describe what's to be done, how it will be done, when it will be done, and by whom. Don't go into overwhelming detail that will numb the reader. Hit the high points. You can always go into greater detail later.

• On one hand, you need to be "standard and true" using the time-tested standards of classic Outbound and of Inbound Marketing and PR. At the same time, however, create balance in describing your Inbound and online approaches. A marketing plan without a fully fleshed out Inbound strategy is worthless! How will you use online solutions, Inbound and Outbound, in creating value for your customers and qualified leads for your salespeople?

In an era when an increasing number of messages fall on the ears and eyes of potential buyers who have no spare time, you must be convincing. Make your ideas different. Make them stand out from the rest of the pack. Basic components in your sales and marketing plans are linked and highly interactive websites, ecommerce tools, open and closed social networks, database marketing programs, marketing automation systems such as our personal favorite, HubSpot, optimized search words and salespeople with networked smartphones and tablets.

• Focus on those geographies that you know best but recognize that most businesses are global. If you are presently focused on the US, be prepared to discuss when you plan to move into Canada, Europe, Japan and East Asia.

## Section 5: Engineering and Product Development

This section should explain the nature and the extent of the design and development requirements for your products and services over both the short and long term. It should include:

**1. Core technologies.** In which technologies does your company excel? Point out your core skill sets. Explain why they are central to your company's success.

**2. Current development status**. What are the costs, and how long will it take, to deliver a fully marketable product? Answer these questions whether this is your first product or a new generation of existing products. Also outline the risks. Investors always ask: *"What will you do if the product is 6 or 12 months late?"* Your response cannot be: *"It won't be."* Potential investors also ask: *"What would happen to your schedule if I gave you twice the amount of money that you are requesting for product development?"* The timetable should graphically illustrate the major milestones of your primary development projects.

**3. Product strategy for future products.** What are the funding requirements for the next generation of future products and services … especially in terms of people, skills and tools?

**4. Intellectual Property.** Describe any patents, trademarks, copyrights or intellectual property rights you own or will seek. Describe the agreements and alliances providing the company with development rights or those that pose risks. We have not seen many deals flounder because of the lack of patents, but we have seen management suffer because they did not have a well devised strategy for intellectual property. Rule of thumb: hire a very strong intellectual property law firm like Wolf Greenfield or Gesmer Updegrove in Boston at the outset, then involve them in your strategic planning for patents.

**5. Product Roadmap.** Include an overview of your product roadmap, along with a graphic outlining deliverables for the next three years.

## Hints:

• Focus first on your company's current core technologies.

• Define your plan for acquiring or outsourcing the technologies that you don't have but need for the success of the business.

• Create a balance between building your internal development activities and outsourcing functions that are not critical or could be done more efficiently outside.

• "Speed to Market" is the key to successful growth in most markets. In product and service development, always ask: *"How do I assure that this product will get to market when I need it?"* Be extremely conservative in your planning. Don't understate your capital requirements. Seek enough capital to make sure your timetables will be met. **Money's cheap. Delays aren't!**

• Two things venture capitalists don't want to hear from entrepreneurs—but often do—are:

- The first: "We're out of money…*the Friday after next*."
- The second: The entrepreneur has just discovered something (you can usually substitute "software" for "something") critical in the product development cycle of a device for example that will take six more months to complete.

- There is no reason for the delay except that the entrepreneur was overzealous in his or her forecasting or lacked the resources or experience to hire the best developers or the best head of engineering.

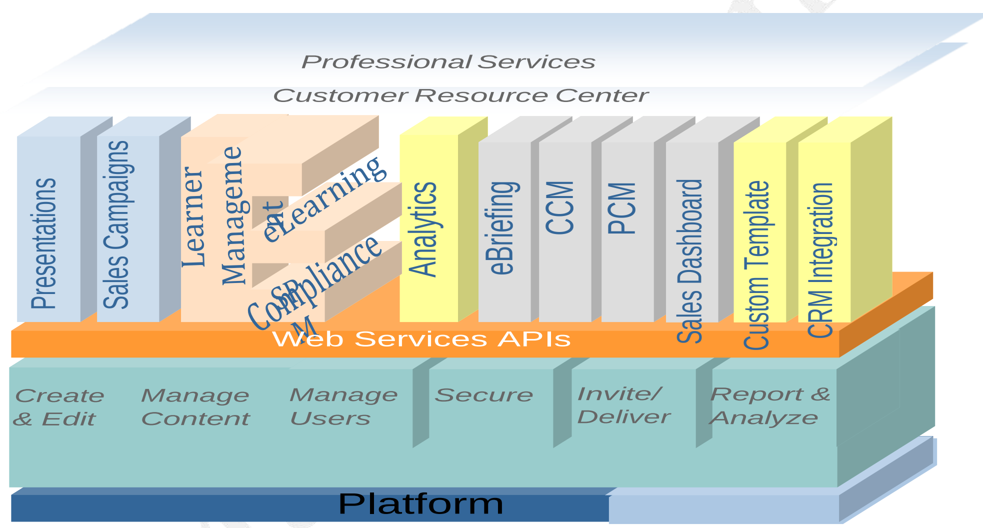
• To take a lesson from the Sales section, ask the question: *"What technologies could you import from an alliance partner faster than you could develop internally?"*

Case in point: We advised a medical company that concentrated on developing hardware while it negotiated a joint development agreement for its new disposables with a much larger corporation …a corporation that could be viewed, under "normal" circumstances, as an indirect competitor. By so doing, our client partnered with a potential future competitor while reducing its overall development time by 60%. Did our client spend more money? Probably not overall, but it spent more in a much shorter period of time than if it had completed the project internally, but it was well worth it since they kept to their product launch schedule! Experience counts. It gets you to market on time!

A second case in point: Another of our clients virtualized all its product development. It was technology and patent rich with 26 issued patents. We hired a superbly experienced VP of Engineering—MS in electrical engineering from MIT, Harvard Business School, Bain Consulting, and Raytheon, plus experience gained from two startups, who also had extensive experience in overall product management and scheduling. After that we never hired another full-time person into the department. We outsourced everything.

As the company's revenues grew from zero to $8 million during year one, the "engineering" department engaged in strategic planning and managed projects through a virtual department of highly skilled engineering companies and individual engineers for hire. Cash outlay was significant in that first year…but we progressed from a concept to the successful introduction of sophisticated products, including a successful FDA acceptance in record time.

• Use graphics where possible to show how your product's expected evolution. Below, you will find an outline of a "new product plan" created by one of our customers following the adage of a picture being worth 1000 words.  The client then added to this timelines and cost and was then able to take a very complicated development process with overlays of time, people, outsourced services and all the related costs in summary fashion



## Section 6:   Manufacturing or Operations

Interpret this section broadly in describing the standard production of widgets, the generation of software code or the back-office operations of your service company. Provide a general overview of your production and operation strategies for the short term and over the next two to three years. Will you produce internally? If so, why? What's your concept of "Customer Quality"? The same question as it relates to "Customer Success"? How do you plan to implement your strategy at a tactical level? If it is a widget company, where and how will you distribute and ship your products? You should be able to provide in this section an overlay of your complete supply chain through to the successful onboarding and repeated use of your products by your customers.

Include:

**1.** Your core manufacturing capabilities and processes.
**2.** The company's quality strategy and its primary tactics.
**3.** The balance between in-house production and outsourced suppliers.
**4.** Inventory planning … your concepts, financial objectives and tools.
**5.** Your strategies with key suppliers, including any key sole sources.
**6.** Your logistics and distribution strategies for warehousing and shipping.

### Hints:

• Some of the most successful startups that we advise outsource their entire manufacturing process including warehousing and shipping because engaging in manufacturing is not central to their business models or because they have entered into agreements with partners with greater manufacturing experience. Success today is defined by "Speed to Market."

• Describe any critical regulatory issues—FDA, FCC, ISO, EPA, OSHA, EC and so forth—that must be addressed in production. Explain how you will minimize the risk of non-compliance.

• Be as precise in defining your cost of goods and your future plans for cost reduction. For your venture investors, revenue is the initial metric of success, but shortly, margin will become the more important name-of-the-success-game, and an analysis of margin begins with cost-of-goods and the potential for future decreases.

Think about this: The answer to improving your cost of goods and your cost of sales should be peppered throughout your business plan, from your financial projections to your sales strategies.

## Section 7: The Management Team

**1.** The organizational model. If it is innovative, such as a virtual organization, describe your management philosophy, the culture that you have or will create, and why you've reached those decisions.

**2.** Provide concise, one-paragraph biographies of your key senior managers, your most important outside primary advisors, any official scientific advisors, and your Board of Directors, including industry awards and any life achievements.

Make it clear that you already have, or will have, enough experience on board to guide you over the inevitable speed bumps.

What if you don't have a built-out management team? When you don't and yet you do have the money or stability to attract key managers, detail the tactics and the timing of your plan to fill these positions as soon as funding is available. Similarly, you can profile the types of experience that you'll be seeking in filling these key positions.

### Hints:

• Don't include the full resumes of the key management. They take up space. They may also create questions and misperceptions. There will be plenty of time to get into detail later. Begin with overviews and highlights. Focus on why their experience will help you manage the company.

• If you do not have a Board of Directors, acknowledge that you will create one and will want your new investors' guidance and contacts in so doing in addition to some of them being on your board of directors, of course.

• List only those advisors who have clout and name recognition in the community. If your accounting firm is one of the larger firms, list it. If it's a small local firm, don't. The same goes for your law firm. When raising professional money, it's much better to have recognizable regional or national CPA and law firms. If you're in Boston where we've practiced for 40years, just email us, and we can give you our recommendations of the most cost-effective firms.

If you have a business with obvious potential, you may be able to negotiate low fixed fees for several years with some accounting firms and law firms. You will comfort professional investors if you retain well known service providers with whom they're familiar and have worked with in the past.

## Section 8: The Financials

This section represents the conservative and achievable management projections of revenues, costs, expenses, margins, cash flow and, most importantly, EBITDA.

**"Cash is King."** You often hear that phrase for good reason. Your management must appreciate that cash is your most important weapon when you are pushing your emerging business, or even your well-established business, to grow quickly. This doesn't mean you must be conservative in your use of cash in all areas. It does mean you need to spend the cash you raise very wisely, applying all you need in critical areas and being downright cheap in other areas.

There should be three subsections in the Financials section of your business plan:

- "Assumptions",
- "Financials"
- "Exit Strategy."

The "Financials" subsection will provide an overview of your current financials and your objectives for the next five years. It should include…

1. P&L projections for five years: by month for the first year, by quarter for years two to three, and by year for years four and five.

2. Corresponding cash flow projections for five years.

3. Proforma balance sheets for the first year with annual summaries for the next three.

.

4. Major capital equipment requirements.

5. If this business is already operating, the latest summary P&L's and balance sheets for the past year, with brief statements of the major operating variances and sales and margin data. (Don't include the entire financial statements for past years … only the P&L and the balance sheet for each year, individually and comparatively.)

6. Definition of your overall headcount year-by-year including full and part time as FTEs

## Hints:

• Before you crank up your Excel spreadsheet, check with one or two of your primary targeted investors. Listen to their ideas of the format that they would prefer to see. If possible, use their formats if they also assist in your business planning. Understand how they will assess your financials and where they will place their primary focus.

The key: Don't just go off and use your own financial format without checking with a professional. What's typical in your market for professional angel groups and venture capitalists?

• Prior to the financials, it is important to bullet list on one page the primary assumptions that provide underpinnings for the financials. For example, include in that assumption list items that define the gross margin assumptions you are making over this period. Similar items would be the sales channels that you plan, and what your decision as to whether to outsource or not.

Here are a few formats that we would like to see. The first is a P&L; the second is a balance sheet; the third is a cash flow statement, and the fourth is a summary you should use in the Executive Summary at the beginning of the business plan:

**Start-Up, Inc.**
**Income Statement**

| (in thousands) | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| Product Sales | $ 1,197 | $ 3,699 | $ 7,500 | $ 16,685 | $ 37,349 |
| Service Revenue | 81 | 572 | 1,509 | 2,499 | 3,934 |
| **Total Revenue** | **1,278** | **4,271** | **9,009** | **19,184** | **41,283** |
| **Cost of Sales** | | | | | |
| Product Cost | 638 | 1,699 | 3,330 | 6,390 | 14,365 |
| Service Cost | 41 | 286 | 755 | 1,250 | 1,967 |
| **Total Cost of Sales** | **679** | **1,985** | **4,085** | **7,640** | **16,332** |
| **Gross Margin** | **599** | **2,286** | **4,924** | **11,544** | **24,951** |
| **Operating Expenses** | | | | | |
| Research & Development | 270 | 462 | 618 | 1,158 | 1,958 |
| Sales, General & Administrative | 1,816 | 2,489 | 3,759 | 5,914 | 10,142 |
| **Total Operating Expense** | **2,086** | **2,951** | **4,377** | **7,072** | **12,100** |
| **Income (Loss) Before Interest and Taxes** | **(1,487)** | **(665)** | **547** | **4,472** | **12,851** |
| Interest Expense | - | - | - | | |
| Interest Income | 33 | 21 | 44 | 118 | 340 |
| **Income (Loss) Before Taxes** | **(1,454)** | **(644)** | **591** | **4,590** | **13,186** |
| Tax Expense | - | - | - | 1,231 | 5,268 |
| **Net Income (Loss)** | **$ (1,454)** | **$ (644)** | **$ 591** | **$ 3,359** | **$ 7,918** |

**Start-Up, Inc.**
**Balance Sheet**

| (in thousands) | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | $ 365 | $ 657 | $ 548 | $ 363 | $ 2,332 |
| Accounts Receivable, Net | 256 | 1,452 | 2,152 | 5,522 | 10,991 |
| Inventory | 211 | 910 | 1,317 | 2,782 | 6,777 |
| **Total Current Assets** | **832** | **3,019** | **4,017** | **8,667** | **20,100** |
| Property, Plant & Equipment, Net | 50 | 87 | 133 | 215 | 324 |
| Other Long-Term Assets, Net | 3 | 1 | - | - | - |
| **Total Assets** | **$ 885** | **$ 3,107** | **$ 4,150** | **$ 8,882** | **$ 20,424** |
| **Liabilities and Stockholders' Equity** | | | | | |
| Accounts Payable | 114 | 282 | 473 | 999 | 2,609 |
| Accrued Expenses | 201 | 349 | 534 | 890 | 1,401 |
| Taxes Payable | - | - | - | 308 | 1,317 |
| Short-Term portion of Long-Term Debt | - | - | - | - | 20 |
| **Total Current Liabilities** | **315** | **631** | **1,007** | **2,197** | **5,347** |
| Warranty Reserve | 24 | 74 | 150 | 333 | 747 |
| Long-Term Debt | - | - | - | - | 60 |
| **Total Liabilities** | **24** | **74** | **150** | **333** | **807** |
| **Stockholders' Equity:** | | | | | |
| Preferred Stock | 15 | 40 | 40 | 40 | 40 |
| Common Stock | 5 | 5 | 5 | 5 | 5 |
| Additional Paid-In Capital | 1,980 | 4,455 | 4,455 | 4,455 | 4,455 |
| Retained Earnings | (1,454) | (2,098) | (1,507) | 1,852 | 9,770 |
| **Total Stockholders' Equity** | **546** | **2,402** | **2,993** | **6,352** | **14,270** |
| **Total Liabilities and Stockholders' Equity** | **$ 885** | **$ 3,107** | **$ 4,150** | **$ 8,882** | **$ 20,424** |

**Start-Up, Inc.**
**Statement of Cash Flows**

| (in thousands) | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| **Cash Flows from Operating Activities** | | | | | |
| Net Income (Loss) | $(1,454) | $ (644) | $ 591 | $3,359 | $7,918 |
| Adjustments to net loss to net operating cash | | | | | |
| Depreciation/Amortization | 16 | 38 | 66 | 100 | 151 |
| Changes in assets and liabilities | | | | | |
| Accounts Receivable, Net | (256) | (1,196) | (700) | (3,370) | (5,469) |
| Inventory | (211) | (699) | (407) | (1,465) | (3,995) |
| Other Long-Term Assets | (5) | - | - | - | - |
| Accounts Payable | 114 | 168 | 191 | 526 | 1,610 |
| Accrued Expenses | 201 | 148 | 185 | 356 | 511 |
| Taxes Payable | - | - | - | 308 | 1,009 |
| Warranty Reserve | 24 | 50 | 76 | 183 | 414 |
| **Net Cash (Used In) Provided By Operating Activities** | **(1,571)** | **(2,135)** | **2** | **(3)** | **2,149** |
| **Cash Flows from Investing Activities** | | | | | |
| Capital Expenditures | (64) | (73) | (111) | (182) | (260) |
| **Net Cash Used in Investing Activities** | **(64)** | **(73)** | **(111)** | **(182)** | **(260)** |
| **Cash Flows from Financing Activities** | | | | | |
| Proceeds from Long-Term Debt | - | - | - | - | 100 |
| Repayment of Long-Term Debt | - | - | - | - | (20) |
| Equity Investment | 2,000 | 2,500 | - | - | - |
| **Net Cash Provided By Financing Activities** | **2,000** | **2,500** | **-** | **-** | **80** |
| **Net change in Cash** | **365** | **292** | **(109)** | **(185)** | **1,969** |
| Cash, Beginning of Year | - | 365 | 657 | 548 | 363 |
| **Cash, End of Year** | **$ 365** | **$ 657** | **$ 548** | **$ 363** | **$2,332** |

98

**Primary Assumptions. Also included in your Executive Summary**

**Start-Up, Inc.**
**Summary Financial Forecast**

| (in thousands, except units) | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| **Headcount** | **10** | **17** | **30** | **55** | **100** |
| **Unit Sales Forecast** | **42** | **137** | **300** | **710** | **1,690** |
| (the following figures are in thousands) | | | | | |
| **Unit Price** | **$ 28.5** | **$ 27.0** | **$ 25.0** | **$ 23.5** | **$ 22.1** |
| Product Revenues | 1,197 | 3,699 | 7,500 | 16,685 | 37,349 |
| Service Revenues | 81 | 572 | 1,509 | 2,499 | 3,934 |
| **Total Revenues** | **1,278** | **4,271** | **9,009** | **19,184** | **41,283** |
| **Unit Cost** | **15.2** | **12.4** | **11.1** | **9.0** | **8.5** |
| **Unit Margin** | **13.3** | **14.6** | **13.9** | **14.5** | **13.6** |
| Product Cost | 638 | 1,699 | 3,330 | 6,390 | 14,365 |
| Service Cost | 41 | 286 | 755 | 1,250 | 1,967 |
| **Total Cost** | **679** | **1,985** | **4,085** | **7,640** | **16,332** |
| **Gross Margin** | **599** | **2,286** | **4,924** | **11,544** | **24,951** |
| **Income (Loss) Before Interest and Taxes** | **(1,487)** | **(665)** | **547** | **4,472** | **12,851** |
| **Net Income (Loss)** | **$ (1,454)** | **$ (644)** | **$ 591** | **$ 3,359** | **$ 7,918** |

To summarize, the “Financials” section of the business plan should include:

1. Assumptions
2. Financials
3. Type of financing structure: equity and/or debt
4. Involvement of corporate or supplier alliances, if any
5. Use of funds
6. Exit strategy

If you don't have or can’t afford a CFO, plan on hiring a part time CFO who is well known in the angel financing and venture communities. The cost is not high, and you and your small company are now dealing with an individual with whom the community is already comfortable. How do you find a person like this? Give us a call directly or ask your potential investors who they would recommend.

The subsection, *"Exit Strategies,"* defines the amount of funding needed from investors, the securities offered and the use of the funds.

The financial models should be formatted such that you optimize the possibility of attracting the funding you're seeking.

• The format of the *"Use of Funds"* section must be general, but it must also tie back to the details of your financials, including your cash flow plan. An investor should be able to discern your primary tactics by correlating the text of your business plan and your descriptions of *"Use of Funds"* and cash flows.

• Remember, a banker is not an investor. An investor is not a banker. You will need to have a banking instrument in your planning at the right time.

**Valuation.**

**Don't** include your thoughts about valuation unless you can back them up with well accepted data, recent investment criteria, and reliable experience. **In most cases, you will not be able to do this, so don't create a problem by attempting it!** Valuation discussions will come … but far down the road in the follow-on meetings.

Outlining a valuation strategy that is clear, logical and accepted by management is more important than attempting to see a valuation.

Pricing venture capital and private equity placement deals involves estimating the future value of your business. It is highly subjective.

Typically, unless there has been a recent financing, theoretical approaches must be used to estimate the company's future value, the investor's percentage of ownership and the investor's return on the investment. You and your potential investors will negotiate the valuation, balancing their mathematical formulas against your vision and their experience. At this stage of planning don't be hard-nosed. You may be underselling your company's value just as easily as overpricing it. Retain an experienced management coach who has been through this process many times to advise you.

The best way to build value in a company is to achieve your objectives and milestones within the timetables in your business plan. As the milestones are achieved, risk is reduced, and subsequent rounds of financing can usually be raised at more attractive valuations. No statement is more potent than: *"Every month, for the last two years, we've met the milestones identified in the business plan!"*

**• When you're thinking about valuation, always remember that a large ownership percentage of nothing is nothing.**

• Your financial numbers are extremely important. They must be objective, well presented and conservative. When you initially introduce your business plan and during your initial meetings, no one will believe your numbers anyway. The specific numbers—the magnitude of the revenue line or the profit line—are not critical at this stage. On the other hand, your financials must be:

| | |
|---|---|
| • Accurate | Mistakes and over-reliance in formulae in Excel sheets are deadly sins! |
| • Logical | Look at the numbers from 100 feet above the day-to-day |
| • Cash centric | *Cash is King.* When it runs out, it becomes *very* expensive! |

| | |
|---|---|
| • Tied | The numbers must tie together within the text of the plan. |
| • Scalable | The business, sales models and metrics must show margin improvement. |
| • Substantial | Investors only invest in big ideas, not $10 million businesses. |
| • Substantiated | Hire an experienced part time CFO rather than a full time CFO lite. |

• You, your management team, your product ideas, and your understanding of the market and its growth are more important than the numbers in the eyes of your future investors and bankers. The numbers must be interesting. They also must be accurate and logical, but no one will invest in your company solely on your numbers no matter what story they tell.

• Add to this that in all our deals done and investments made, we have yet to find a company that has met its original business plan numbers. Actually, one of our better companies recently achieved $100 million in profitable revenue. Management's happy, the investors are happy, and no one needed to be reminded that the $100 million benchmark was actually six years later than the original business plan had projected.

## Section 9:  Appendices

**We don't encourage appendices**, but if you absolutely need an appendix, include:

**1.** One or two technical one-page product data sheets for your primary products only.

**2.** Important publications or references from well-known industry leaders, but only if they are very focused and compelling.  A page from a well-respected market research report is an example.

Hints:

• First, you probably do not need an appendix.

• Don't include "everything else," material that did not fit in any other section, but which you think readers should see. When you reach follow-on meetings, the time and the need to present this level of detail will arise.

• We often like to see a brief one-page "glossary of terms"  if the product, technology or market descriptions include critical, nonstandard terms the typical investor may not understand.

• Don't include technology, market or customer references for investors to contact. These requirements will develop as your follow-on meetings unfold. You will then know enough about your investors and their issues to provide them with the most appropriate references.

## Formatting and Presentation Hints

*"Back in The Day",* we gave the guidance that the best business plans weighed no more than a quarter of a pound. Investors tend to read them on trains, planes, and in front of the television on weekends watching the game. If you make them unwieldy, too heavy or "unusual" in their size or format, they will simply never be looked at.

• Use ample white space to make the important points … 11 or 12-point type, margins wide enough for notes, and standard word processing formats from Microsoft or Google so that when an investor asks for a copy to be sent by email to another investor, there will be no formatting problems. PDF all your documents.

• Thank your readers up front for taking the time to read your plan. Remember to send them thank you notes at the end of the process … even if the process ends with: "Thanks, but no thanks." By the way, when this happens, *always* go back to the individual, ask for a critique and ask where else he or she believes you might approach potential investors. Although they may not tell you or answer your follow up calls, they may well tell your trusted advisors or other investors. Find that person to ask on your behalf.

• Maintain a detailed database of all individuals to whom you have sent plans. Note the dates you sent the plans, their exact responses, meetings and telephone numbers and email addresses.

• Understand that almost no one will read your plan thoroughly. Investors will typically read the Executive Summary and the Market section, then jump right to the Financials.

• Remember that an equally important audience for your business plan is for your managers. They will read the plan much more thoroughly. Frequently, however, they will fail to understand your specific strategic directions unless they have been actively involved in the process, so be sure to involve all of them through the entire process.

• You, your managers, and your closest advisors will create the final business plan. You will have worked on it for weeks, even months, writing and rewriting, simultaneously refining your company's direction. No one outside your company knows this. It's your job to communicate the plan and its excitement.

• Understand the way that investors and bankers think about business plans. If you have close friends in the financial industry, ask them how they assess businesses. If not, ask us; we're in the industry and review the 500-600 plans that come to us every year. We would be glad to take a quick read of yours. Both I and my senior partner, George Simmons, are members of angel network groups in New England, and I'm a Venture Partner at Converge Ventures. Besides being a Tufts professor in entrepreneurship, Marketing and Sales, I also teach business planning and marketing in the Mechanical Engineering Department at MIT. The bottom line here is that we see hundreds and hundreds plans a year.

• Understand that your business plan is being compared to tens, and at the larger firms, to hundreds, of other plans that have nothing to do with your business, your markets, or you. This is your competition. Make sure that you get your "share of mind" from your potential investor or banker and, of course, that you ultimately close the sale.

• Understand that your business plan is being balanced against the internal demands and objectives of the investment firms and banks in addition to the personal objectives of the individual investors and bankers. Ask yourself: *"How and why do I fit their needs?"*

## Final Hints

When sending business plans to potential financing sources...

• Include your mailing address, your cellphone number, and your email address *everywhere*.

• Spell check, spell check again, and read every word three times.

• Your cover letter should be brief and inviting, and state that you plan to follow up within a week to confirm that the plan was received. What you really mean, of course, is that you are going to call and ask for a meeting.

• Plan to follow up after sending of your plan within a couple of days-shorter than one week. Make sure that it was received. Ask what happens next. Listen carefully to the comments and advice. Write it down in the database tracking file that you've created for this funding.

• Remember that you have only one initial objective: *Get an initial meeting*. Then remember that you have only one more objective: ***Get to the next meeting.*** We learned this initially from Dan Holland a co-founder of One Liberty Ventures, 35 years ago soon after the formation of Derby Management, and it still rings to be very true today.

• If you run out of meetings, or you can't schedule the first meeting, ask the investor's advice. Where could you go next? What you should do? Write down their comments. Compare them later.

• Be selective in sending out your plan. Initially target 20 to 25 firms or individuals…that's right, 20 to 25. Unless you've been the CEO of two or three other successful startups and investors have pre-invested in you, don't try to get by with sending out only a few plans. Raising money is a war. It must be fought in a series of battles and skirmishes. Plan on a six-month campaign, during which you will suffer lots of rejections and setbacks. Preferably use a trusted advisor to the angel groups and venture firms for an introduction.

• Many entrepreneurs shy away from sending out more than five plans at a time. They want *"to see how they will do."* Or they do not want to be caught up in "too many meetings" while running the business.  Bottom line: That strategy is just plain wrong.

• On the other hand, don't "shop your plan around" with too many mailings … 50 or more. It will become well known negatively in the financial community if you are approaching every investor and bank. The professional investor community is tight and confidential. They talk … they do deals together …they're bright people with strong convictions and connections.

• Raising money is a full-time event. It requires *an extra* 50%-100% of your time. Don't be casual about the process. Fred Smith of FedEx visited over 300 potential venture investors before he was funded. Judy George of Domain over 100.  As advisors, we like to believe that we're very experienced in this arena. We typically contact 20 to 25 potential investors just to begin the process.

• Link a specific reason for contacting every potential investor. Ideally list a reference contact. Most plans need an introduction.

• Develop your presentation pitch in PowerPoint format. This is your abbreviated business plan. It focuses your sales effort at every meeting. Assume that no one has carefully read your plan and, even if they did, it was weeks earlier, so that by the time of your first meeting they have forgotten it. An experienced salesperson would not go into an initial sales call without sales tools. Neither should you.

A PowerPoint presentation can be hard copy or on your laptop. Rule of thumb: Have both. It should consist of 20 or fewer slides formatted with bullet point text, graphics, trend lines and tables. You're attempting to capture your audience's attention in the first five minutes. The story must be compelling. Your presentation must be professional!

Even when the potential investor says that they don't need to go through your presentation, gently force the issue. Your presentation is your storyline. You have put it together logically. If you don't use a formal presentation, you'll be at the mercy of random and unconnected questions and answers, which is never healthy. You may eventually come out with the same content, but it will not be presented well and may be replete with inconsistencies and misunderstandings. Use a presentation pitch and you won't be disappointed.

If you want a slide deck that takes you through building "The Perfect Pitch," just email us at jack@derbymanagement.com or jack.derby@tufts.edu.

• Review your plan with industry and investor-knowledgeable people before you send it out. Listen to their advice. Adjust your plan where appropriate.

• Be prepared for lots of criticism. Accept it constructively. No one will believe your financial projections even though you have prepared them "very conservatively."

• Track your progress through this process. Log comments detailing the results of meetings and moving your plan along to its final conclusion: *Get the deal done!*

• Be prepared for a minimum of four to six months of hard work and intense time demands in completing your financing. While you're hard at work doing this, remember that your other full-time job is running the business!

• We've been involved in investment financing that has occurred in 90 days, but after reading literally thousands of plans and working with hundreds of companies, and successfully raising over $840 million in both small and large pieces, the six-month rule is typical. If you're not getting to any initial meetings after six weeks, something is wrong with your business model, your business plan … or even possibly, you. Get a professional to look at your plan and your presentation pitch.

• Fundraising is a process, not an event. Your business plan will evolve. So, will your methods of presenting it, both in content and in style. You cannot afford to stick to all of your initial ideas and concepts unless they are fundamental to the business model. Use the fundraising process as a learning process. Adapt rapidly, taking criticisms and reflecting them where appropriate in your business idea and strategies.

• Typically, we expect the following activities to occur within the first six months after the plan is circulated:

✓ Define 20 to 25 potential targeted investors or firms.
✓ Understand their investment criteria.
✓ Determine a means of entry with a respected reference.
✓ Above all: Get those first meetings! Then get to next meetings!

- ✓ Think of this as a football season. Every week—every meeting—you need to win.
- ✓ The list will quickly narrow down to three to five potential investors.
- ✓ Bring one to three of these to conclusion.
- ✓ Involve your law and accounting firms up front. It's more expensive to do so only at the end.
- ✓ Negotiate valuation objectively and with outside advisors … never by yourself!
- ✓ Set up timetables with everyone.
- ✓ Push through the legal documents to closing.
- ✓ Do the same in setting up firm budgets with your accounting and legal advisors.

• At the beginning of your investment campaign, devote a minimum of 50% of your time to organizing, preparing and working through the initial meetings. During the middle of the campaign, devote 25% to 40%. And during the final stage, devote 75% to 100%.

• Stand up for what you believe in. At the same time, don't rely on weak arguments with unsupported data.

• **Finally, luck counts … but connections count more.** Ask everyone you know about fundraising connections. Keep driving this process hard throughout the entire campaign. Connections make a difference in getting your plan reviewed a little more intently, especially in the beginning when you need to break through the clutter.

- ✓ Have a strong and experienced advisor close to you during the entire process.
- ✓ Look for connections in the financial community.
- ✓ Ask your law and accounting firms for help with their contacts.
- ✓ Look for contacts everywhere: college alumni, business associates and friends.

## Ending comments…

First, a special thanks to my long time good friends and advisors, **Den White**, Managing Director at the Boston office (617-309-2608) of the law firm, **Verrill Dana,** to **Steve Wilchins**, at the law firm of Wilchins, Consentino, Friends ((781) 237-4400), to **Mary Cole**, an excellent B2B High Tech Marketing Consultant (781-659-4728), **Tom Powell** of Professional Management Partners (508-353-3614), and Gorm Heron, SVP & CTO at **TerraTherm**, for their comments, edits and contributions to this book.

We believe that what we have written and collected provides not only entrepreneurs, but any business manager, with a comprehensive guide to creating a highly effective business plan. Based on the direct experience of both our team and our partners, this document is meant to serve as a guide for how to (and how not to) write a thorough business plan. In addition, our own backgrounds in successfully raising approximately $840 million in both venture and private equity, we've also thrown in several recommendations regarding best practices for fundraising.

It may also be that you could find this book daunting if you've never written a business plan, or perhaps, you want more of a personal, hands-on involvement. If that's the case, one of the best recommendations we can make is to come to Boston and experience one of our day-long "WhiteBoarding Sessions**"** during which we take apart your business model, intensively investigate all your primary assumptions and provide you a variety of recommendations, follow up assignments and detailed homework that will help you move more quickly through the actual business plan writing process.

The WhiteBoarding Session typically involves me or my senior partner, George Simmons, so that you're receiving heavy emphasis on sales, marketing, operations and finance from two guys who have co-founded more than a dozen companies and continue to be active investors in the early stage market. We created these sessions in response to a number of requests that we received once people had finished this guide, but then found the task of "What do I do now?" and recognized that this was often too daunting to begin by themselves. Whiteboarding provides them with that exact balance between "instruction" and "learning" in an environment of "hands-on" experience from individuals who have done it before.

Give me a call at any time, and I will walk you through the details and logistics.

I hope you enjoyed the book. As always, I welcome your comments, edits and additions. Just email me at jack@derbymanagement.com

*Jack*

Jack Derby

Coach, Derby Management
jack@derbymanagement.com
Director, Tufts Entrepreneurship Center
Cummings Family Professor of Entrepreneurship
jack.derby@tufts.edu
Cell: 617-504-4222

## About Jack Derby

Prior to forming Derby Management in 1990, Jack's background included positions as CEO of Mayer Electronics Corporation, President of CB Sports, President of Litton Industries Medical Systems, CEO of Datamedix Corporation and Executive Vice President of Becton Dickinson Medical Systems.

Jack is extremely active in the New England emerging and middle market business communities. He is currently or has been an active board member in 20 companies including 14 companies that he has either co-founded or managed as the CEO. He was instrumental in restructuring the Board of the MIT Enterprise Forum where he held the position of Chairman. Additionally, he has been the Vice Chair of the Smaller Business Association of New England where he was the recipient of New England's *"Pro Bono Publico Award"* for his significant contributions to the business community. Jack has also been a Director of MIT's Technology Capital Network, and the President of the University Club of Boston. Jack served for 10 years as the Chairman of the Association for Corporate Growth of Boston and also served as a Director of ACG's Global Board, where he was twice awarded their annual Meritorious Service Award. In 2019, Jack was presented with the first-ever Lifetime Achievement Award by ACG Boston.

Jack is currently a Director of the Associated Industries of Massachusetts, Aviant Hospice, Chase Corporation, Loci Controls, and Reiser Inc, where he is Chairman. Jack has been an active director of a total of 20 boards including being a long term Chairman of the MIT Enterprise Forum, and Common Angels, one of the largest angel group funds in the U.S. Jack left the boards of Beacon Hospice and Hybricon Corporation, when those companies were sold in highly successful transactions.

Jack was named to Mass High Tech's *All-Star Team.* He has been quoted in The Wall Street Journal, The Boston Globe, The Boston Herald and has published numerous articles and editorials in The Boston Business Journal and Mass High Tech. He has been a frequent speaker at numerous business organizations including the MIT Enterprise Forum, the Association for Corporate Growth, the Small Business Association of New England, Harvard Business School, and numerous corporate sales meetings.

Jack is a Professor of the Practice at Tufts University where he teaches two courses-"Entrepreneurial Marketing" and "The Science of Sales." Additionally, he is the Director of the Entrepreneurship Center, which provides a minor in entrepreneurship, the largest minor on campus teaching over 700 students a year in the fundamentals of entrepreneurship and what it takes to create an entrepreneurial mindset in any business or social enterprise.

Jack is also a Lecturer at MIT where, for the past 20 years he has taught classes in business planning and marketing for undergraduate and graduate students in the Mechanical Engineering Department.

Jack is a graduate of Boston College and the United States Peace Corps.

## About Derby Management

Derby Management was formed in 1990. Since then we have worked with approximately 600 clients. Our firm focuses on four competencies:

### 1. Strategic and Business Planning Coaching

We provide senior management with extensive strategic and tactical skills resulting in the creation of operating business plans used internally as planning guides and externally as fundraising vehicles. Specializing in the venture capital and private equity communities, Derby Management has been the architect of numerous fundraising campaigns totaling more than $840 million with approximately 55 of its clients.

While the primary focus of the firm is working directly with entrepreneurial starts ups, emerging growth companies and established corporations, Derby Management has provided extensive strategic planning and fundraising coaching services for numbers of Boston-based venture capital firms and deal-related transaction service providers.

### 2. Sales and Marketing Optimization

Derby Management provides services in sales and marketing planning and execution. With a strong focus on reducing sales cycles and increasing sales and marketing productivity, we furnish detailed hands-on tactical plans in sales channels analysis, objectives and quota assignments, forecasting, compensation planning and actionable events. We also provide extensive marketing planning and market research.

### 3. Financial Planning and Fundraising

We have played an active role in creating financial plans, establishing controls and procedures and providing interim CFO management for many clients. We have taken a leadership role in facilitating and building many fundraising campaigns totaling over $840 million for a variety of companies ranging from entrepreneurial start-ups searching for Series A venture capital to established companies who are seeking expansion capital.

### 4. Senior Management Coaching

We provide extensive one-on-one and one-on-team direct coaching to our clients' senior managers. These services provide the senior managers with skills in management development internally and externally with directors, mentoring capabilities, conflict resolution skills and continuous guidance in other management skills necessary to create successful CEOs. From time to time, these services evolve into situations where we assume direct assignments in portfolio companies as interim CEOs, Vice Presidents of Operations and Vice Presidents of Sales.