

HOW TO COMMUNICATE YOUR STORY AND RAISE CAPITAL

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1

Hello, I'm Henrietta de Veer, Managing Director of Trautman Wasserman, a co-founder services, corporate development and investment banking firm specializing in working with early-stage, growth enterprises. For the last 20 years, I have worked with emerging growth companies, most particularly those competing in technology and healthcare markets, broadly defined, and have undertaken for them a variety of what I would broadly describe as corporate development initiatives, to include strategic and business planning advising, debt and equity private placements, mergers and acquisitions, buyouts, corporate partnering initiatives and public offering advising. As a result, I have helped management teams develop and implement strategic and operating plans for internal use as well as for external purposes, such as for raising capital or for selling a company. What I hope to accomplish today is the following: 1) to convince you of the importance of a business plan in the first place; 2) to give you some advice on the business planning process and then 3) to give you some guidelines for putting the results of the business planning process into writing.

For many, the thought of writing a business plan is considered a somewhat grim and relatively boring subject. But I hope to convince you that it can be an exciting and challenging endeavor and one that can contribute to the success of your business if the document is implemented and used properly on an on-going basis. What I want you to come away with from this talk is an understanding of the importance of being able to communicate the story of your business, both verbally and in writing, in an internally consistent, defensible and compelling manner. Once you have learned that, many of the other steps needed to be taken to build a company have a chance of being successful.

Overview of Presentation

- Discussion of General Issues Before Commencement of Business Plan Writing
- Overview of Process for Organizing Plan and its Content
- Discussion of Plan Organization by Plan Section
- Summary and Conclusion

In terms of the general structure of the presentation, I will summarize some of the general issues you need to consider before you start writing the plan and discuss some of the steps you want to take for organizing the plan's content. Then, I will take you through the various sections usually included in a business plan, giving some helpful hints on how the document should flow. I will then end with a discussion of the executive summary, the most important section of the plan and one that should be a concise distillation of the complete plan, summarizing all of the sections in a compelling fashion.

As a final introductory note, I am making certain assumptions about the kinds of companies you in the audience represent - the companies you will be describing are generally not yet in existence or are in the very early stage of development. I also realize that most, if not all, of you are students, and this is your first experience at writing a business plan or at trying to capture the essence of a business in writing. While this does not effect the purpose of the plan, it will certainly change certain aspects of how you move forward in the process and how much detail you will be able to present. This presentation is rather detailed and may be beyond what you will be able to accomplish over the short-term. However, I believe it will be helpful in giving you guideposts to follow as you think through what you want and, ultimately, what you need to be communicating about your business to potential outside investors.

Why Write A Business Plan in the First Place?

- It is a structured means for a management team to:
 - ◆ Address all business issues rigorously and in a disciplined fashion and develop operating and strategic assumptions for all aspects of the business
 - ◆ Test these assumptions on an on-going basis
 - ◆ Update and change assumptions and, therefore, operating procedures, as business conditions change, which they always do

So, why write a plan at all? Do I really need it? Many view the prospect with horror and only grudgingly undertake the process because someone told them that they had to do it to raise money. In fact, over the years, I have dealt with many management teams from many companies across a wide array of industries and markets and stages of development, who, more times than not, have never, or only infrequently, been involved in the development, writing and on-going updating of a business plan. Some of the reasons given are: 1) I'm too busy and it isn't worth it to take time away from operating the business; 2) it's a waste of time because the marketplace I compete in is changing too quickly; 3) I have a plan in my head and I don't need to write it down; 4) I'm making a profit, so I don't really need a plan; and 5) I don't really understand how to go about the process, so I have never tried.

I can't overemphasize how important the business plan writing process is. The objective of the process, no matter what the purpose or who the ultimate audience is, should be to end up with an internally consistent, justifiable and defensible strategic and operating plan. The plan should establish a well-integrated baseline of strategies, goals, deadlines and assignments. I believe a manager of a business gains multiple advantages if he or she uses the business plan to deal with the obstacles and opportunities that will constantly challenge his or her business. With the plan, you be able to reduce risks of surprises; accurately gauge your progress against some benchmarks; keep the strategy current with changing marketplace requirements, make corrections in business direction as conditions demand it; constantly balance and make decisions about the long- and short-term needs of the business and use it to help you navigate out of difficulties that crop up as you go forward.

What Should Be the Purpose of a Business Plan?

- An internal guide for monitoring operating strategic business goals and a yardstick for measuring how your business meets these objectives on an on-going basis
- A marketing document for attracting investment, corporate partners and/or potential acquirers
- A due diligence document for outside parties

Again, this may not be directly applicable to what you all are doing over the short-term, but in my mind, a business plan really serves at least three purposes, and you can in fact use the same plan in many cases for all three purposes with some modifications:

As internal guide: 1) it allows you to be a devil's advocate with your own business

2) it helps you define rigorously all operating, strategic and financial issues of business in the context of the marketplace in which you operate and 3) it gives you the opportunity to shoot as many holes into your operating assumptions as possible and come up with defensible arguments for your resolution of issues. In fact, for all of you here this evening, this is probably the best way for you to approach the task of writing a business plan. If you do this well, then you have positioned it to be a good start to be used as a financing document.

As financing document: To be a strong financing document, you need to answer the following questions: What kind of company are you? 1) kind of business; 2) stage 2) current equity structure 3) needs/goals of principals, shareholders, management and employees and 4) who is audience? a) family/friends b) individuals/angels c) private equity and d) corporate. You need to have an excellent financial plan tied to your specific strategic, operating and sales and marketing assumptions. Without this, you generally won't get beyond a first meeting, if, in fact, you even get the first meeting.

As a due diligence document: If you do have outside parties evaluating a potential investment, it is very helpful to have already gathered required information and have it organized in a coherent fashion. You may initially send out an executive summary, which should accurately summarize the complete plan, but you should have already prepared a detailed operating and strategic plan, which covers all aspects of your business. Not only will it speed up the capital-raising process, for example, but it also makes sure you are prepared for the rigor of the business evaluation and due diligence process, which can be substantial. Many investors make the mistake that the executive summary as a door opener is enough. The problem is that if you do not have the backup material, you will very rapidly lose the interest of investors once the due diligence process begins. It's much, much better to be prepared at the outset.

Thus, the process of writing a complete business plan will challenge your assumptions, clarify your strategies and solidify your needed course of action. You will be able to highlight areas where you need a different skill mix or additional technologies or maybe you find that you need for capital for sales and marketing and R&D. Whatever your findings, the best written plans should be tools for communications, marketing, investment, due diligence and ongoing business management.

The Business Plan as the Vehicle to Obtain Financing

■ What do you need to do/consider?

- ◆ Produce a well-conceived, well-defended business plan that makes sense within the marketplace in which you compete
- ◆ Minimize technical language and, without trivializing your technology, explain products in an easily understandable manner
- ◆ Identify appropriate sources of capital
- ◆ Identify appropriate individual, most particularly a key decision maker, within these organizations
- ◆ Only retain advisors with bone fide credentials and references who can put you in front of the individuals and funds appropriate for your industry, stage of investment and size of offering

Finally, there are a few critical issues to keep in mind when raising money. The most critical one is obviously WHAT WILL PUT YOUR PLAN ON THE TOP OF AN INVESTOR'S PILE? However, there are wide differences in expectations, and frankly, levels of expertise, of different kinds of investors such as friends and family, angels and professional investors. My belief is that if you start with a rigorous approach to understanding your business as well as you can and to communicate it effectively no matter who the audience, it will make the whole capital-raising process much easier as you move forward.

Suffice it to say, for any investor, the most important thing you can do is to make sure you minimize as many of the reasons someone can say no as possible right up front. Again, that is why a well-written business plan can make a huge difference.

The First Step - Industry Information Gathering

- Collect as much information as you possibly can on the industry and marketplace in which your company competes
 - ◆ Public companies
 - ◆ Private companies
 - ◆ Market analyses from various industry research organizations
 - ◆ Reports and articles from industry publications
 - ◆ Technical articles

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6

I always suggest to people that the first step in writing a business plan is to make sure you know the industry in which you are competing as much as you possibly can. Most entrepreneurs have some level of knowledge about the marketplace in which they compete, particularly in terms of technical aspects of a particular product space, but probably not at the level of detail needed to defend a particular approach to the marketplace, to discuss competitive products and positioning and then to integrate this information into a marketing and sales and financial plan.

Depending on how leading/bleeding edge your technology is, there are always some comparatives out there. The best place to start is to gather information on public companies. It is very easy to request detailed information or find it on the Internet, and a great deal of this can form the baseline not only of your discussion of industry trends but also in terms of your marketing and sales and financial assumptions. If you diverge dramatically from comparable public companies in terms of how you will distribute your product, for example, or how much you will spend on marketing and sales and R&D, you better have a good explanation of those differences.

There is also a great deal of other information available in a variety of forms and through a variety of means - over the Internet, in libraries, from various trade and technical journals covering your industry and so on.

Again, the whole point of this activity should be as a check-and-balance for testing your own assumptions for operating and growing your business. You should do this for yourself, not just for outside investors, since it keeps you abreast of industry trends and how your company fits in today and how it will do so as the industry evolves.

The Structure of the Business Plan

- Executive Summary
- The Company - Operating Description
- The Marketplace
- Growth Strategy
- Marketing and Sales
- Management, Employees and Board of Directors
- Financial Overview
- Appendices

Once you have finished your information gathering on the industry and various companies in the marketplace, you are now ready to begin the process of analyzing your own business and communicating your story in writing. Obviously, these activities can be done simultaneously but for the sake of this presentation, I am attempting here to discuss the process in a step-by-step fashion. The above list represents sections of the business plan. In some cases, you may not need to include certain sections depending on the purpose of the plan or that they simply may not be relevant. For example, the Growth Strategy section is useful as a separate section if there is an acquisition plan separate from the sales and marketing plan that forms an integral part of the growth strategy. In that case, it needs to be broken out in more detail and highlighted in its own section.

With start-up and early stage companies, the level of detail in certain sections may be small compared with that found in the plans of later stage, more mature companies. However, it is still important that all aspects of the business be discussed because this is either going to be a guiding document for how you should be building your business or be used also as a marketing document which an outside party uses to get at your thinking about your business and to evaluate whether he or she believes that you can do what you say you are going to do, particularly in light of the industry in which you are competing.

What I suggest that you do is start with an outline for the structure of the document. By the time we finish this presentation, you will have a good idea of the overall structure for the document and the specific topics that should be covered in each section and can use it as a basis for an outline. Think of yourself as telling a story about your company - how is the company organized, what are the products and services it provides, how does it produce these products and services; what is the industry in which it competes and how is my company positioned because of both industry trends and its own strengths to become a leader in its targeted market, what is the sales and marketing strategy that will enable it to become that leader, what is and will be the personnel infrastructure that will support such growth and leadership; and what will be required from a financial perspective to achieve growth goals? Each section should lead naturally into the next.

The most important thing to do through the whole process is to be a devil's advocate of your own plan - continually ask yourself the tough questions as an investor will; never accept anything as self-evident.; always test your assumptions; get as much down on paper as possible and then edit, cut and refine until it flows and accurately describes the business and the opportunity. The above structure is only suggestive; in the end have to build the business plan with your own situation in mind.

The Company - An Operating Description

- Overview
- Company Achievements
- History
- Products and Services
- Proprietary Product Development
- Operations

The first section to be written is more descriptive than strategic in nature, though clearly, there will be some strategic strands that run through certain parts. Since the Executive Summary is written last and should be a concise, well-integrated and flowing summary of the complete plan, I will not discuss it here except to say that you should be able to capture in 5 to 8 pages, hopefully in an exciting manner, the opportunity your company represents.

No two organizations are alike, and this list of topics, as well as the sub-topics under each major topic, are certainly not meant to be exhaustive, and neither are they all appropriate for every company, so some topics need not be discussed at all in your plan. In addition, the organization of the document itself needs to fit the kind of company you are, and you will see in the next slide that how you go about describing the operations of a software company is likely to be different from a manufacturing company. You need to sit down and think about all of the operating aspects of your company - how is it organized, what are all the functions and how do they work together, how have you organized the business and infrastructure to support the products and services you sell, what do you have today so that when you discuss your needs in other parts of the plan, they make sense in that context and naturally flow from previous sections of the plan.

You should always start with a succinct overview of the Company. For example, "X Corp., a \$4 million sales, Washington, CT-based company founded in 1991, is a precision custom injection molder of plastics parts for the consumer products packaging industry, specializing in household and personal care, pharmaceutical and food product applications for an unusually high caliber of customers." From this introductory sentence, you should be able to summarize or succinctly describe in three or four paragraphs your business, its products, your approach or philosophy, any unique characteristics you believe you have today and anything that is important to highlight up-front. This should flow nicely into a discussion of your history, which is to provide an understanding of how you got to where you are today. At this point, the organization of the document can change, depending on the kind of company being described. In some cases, it makes sense to have the product discussion under the operations section and in other cases, as its own section. The following slide shows some alternatives.

Operations - Two Examples

■ Manufacturing-Driven

- ◆ Overview
- ◆ Company Achievements
- ◆ History
- ◆ Products
- ◆ Proprietary Product Development
- ◆ Manufacturing and Administration
 - Manufacturing, Packaging and Shipping Operations
 - Processing, Production and Packaging Capabilities
 - Quality Control/Assurance
 - Financial and Operational Control Systems
 - The Capital Expenditures Program
 - Major Suppliers and Supply Issues
 - Other
- ◆ Key Operating Issues

■ Software-Driven

- ◆ Overview
- ◆ Company Achievements
- ◆ History
- ◆ Products and Services
- ◆ Products Under Development
 - Short-Term Development Plans
 - Longer-Term Development Plans
 - Long-Term Product and Market Opportunities
- ◆ Summary of Unique Product Characteristics
- ◆ Operations
 - Administrative structure
 - R&D organization
 - QC/QA
 - Financial and operational control systems

The Operations section is particularly important if you already have an existing infrastructure of some sort, even if you are small. However, even if you are a start-up or in an early stage of development, you should already be thinking in terms of building an operations, and the writing of this section provides a discipline of examining the issues surrounding the building of an organization to support your plan. I have listed here some of the topics that are usually covered in a plan. Again, try to keep it concise, interesting to read and logically connected so that one section, as well as topics and subtopics, naturally flow into the next. Try to think of questions people will have at the end of one section and answer them in the next. For example, if you have manufacturing operations, you will describe the actual processes and equipment used and possibly how the plant is organized, which naturally moves into a discussion of how you schedule production and warehouse products after the completion of a production run. The CAPX discussion here usually talks about what you have done to date, that is, its history, and then refers to the Financial Overview section for detailed discussion of future needs.

The Product section should get into detail about your products and, if you have sales, break them out as a percentage of sales into relevant categories. Do you have different end users or different categories of customers? Different product categories? This discussion should go into enough detail so people understand clearly what your product niche is and how you are positioned. In the case of the above-described injection molder, a product sales breakdown might focus on product class - packaging, consumer goods, toys, fixtures and other- and also by kind of product - deodorant canisters, line closures, hinge applications, self-draining closures and so on. Again, this section provides a logical introduction into your product development activities and gives a context for why you are developing the products you are and over what period of time. This discussion should only be descriptive of the projects and not discuss the financial or personnel needs, which will be discussed later. In some cases, if you have some key operating issues, for example, you have some proprietary manufacturing processes to produce the products being developed, this should be described in the following section. In other cases, any key operating issues or unique manufacturing/processing capabilities might be more usefully or logically discussed in the Operations section.

The Marketplace

- Overview of Industry/Marketplace
- Market Size and Growth Overall and By Segment
- Industry Trends
- Major Issues
- Factors Contributing to Growth of Industry
- Competitive Environment
- Market Opportunity

This should encapsulate and summarize your findings from your research into the industry. Ideally, at the end of this discussion, you should be able to say something like: "Thus, a unique opportunity exists for building a market leader in the..... industry for the following reasons: 1) 2) 3) etc. Then, hopefully, you should be able to conclude by saying that your company represents that unique opportunity to take advantage of the key trends in the industry. Again, there is no magic except to think about what are the key factors driving growth in the market in which you compete and how will you be positioned to meet the challenges and opportunities. This should not be a discussion of your company. I believe many companies make the mistake of alternating throughout a document between discussions about the company and about the industry in general. I think that, not only does the document read more smoothly if you pull out the industry discussions from the company analysis but it also allows the clarity of your thinking about your business to come through. If you have really captured concisely what's going on in your industry, your discussion of your company, and the decisions you have made to build it which will come through in your section-by-section descriptions, will be much clearer.

Again, every industry and marketplace is different, so it is hard to say that all of these listed topics need to be covered. However, you need to demonstrate to yourself, as well as outside parties, that you have the pulse of your marketplace and are accurately positioning your company to take advantage of the trends.

Marketing and Sales

■ Marketing Strategy

- ◆ Goals and Objectives
- ◆ Tactics - Product, Sales Channel and Image-Building

■ Sales Strategy

- ◆ Sales and Marketing Organization
- ◆ Goals and Objectives
- ◆ Tactics
- ◆ Partnership Opportunities

■ Competition

- ◆ Competitive Threats
- ◆ Company Competitive Strengths
- ◆ Market Opportunities

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11

In my estimation, this section can make or break you, particularly if you are a technology-driven company which has been founded by technical people with little or no marketing and sales background. Again, marketing and sales focus is important for being able to take a great product and being able to market, sell and distribute it in an effective fashion. In contrast to the Field of Dreams theory of distribution, simply building it does not ensure that people will come. Professional investors will say, again and again, we have seen great products but if there is no focused sales and marketing strategy and a strong management infrastructure in place, the company will likely be unsuccessful over the longer term. Thus, even if they love the product, if they don't believe you understand what it will take to market and sell your product, they will pass on the investment opportunity.

Thus, it has been my experience that, unless a company has a truly seasoned marketing and sales professional who has developed targeted sales and marketing plans for technology-driven markets before, this is one of the hardest sections to address. However, this is where your industry research gives you a framework for starting the process of examining sales and marketing issues for your company, given the industry in which you compete.

The first order of business is to develop a first-cut marketing strategy. What are your marketing goals and objectives: To establish high levels of credibility with key opinion makers in your industry? To build a strong branded identity? To become the industry-standard embedded operating environment in the defense industry? To attain leadership position as the preeminent vendor of a full line of home meal replacement products? To be known as the leader in quality and service in the high end segment of assisted living industry? Then, once you have established your marketing objectives, what will be your marketing tactics for achieving those objectives, e.g., in terms of product tactics, sales channel tactics, image-building tactics and so on.

Companies have different selling strategies, depending on the markets in which they compete, and you should be able to set down specific sales objective and tactics, even with limited resources (much less what you will do with financial resources at your disposal). For example, some sales objectives can be: to increase distribution in geographic markets in which you are currently selling and to expand distribution into new geographic markets; to establish a regional network of sales representatives over the next two years; to develop adequate sales support to allow sales force to respond quickly to market opportunities; to develop promotional point-of-sales campaigns to help retailers reach consumer; etc. If the Internet is a fundamental part of your distribution strategy, then make sure you know how you will deploy it and what revenue model(s) you will use, particularly in the context of what competitors are doing. If some other company is using the same strategy and is not succeeding, you must be able to defend why it will work if you use it. Once sales objectives are set down, then you can break out specific sales tactics for achieving objectives in terms of product sales to what target customers, product distribution, product pricing, product packaging, product promotions, marketing and communications. Also, if partnerships and alliances are a key sales strategy, they should be discussed here.

While you will have discussed competition in a general way in the industry section, the purpose of this summary discussion is to tie it to your sales and marketing strategy. What are you doing differently? Why? Why will you be more successful than your competitors? This, then, will be a strong lead-in to a summary discussion of the market opportunities and the Company's competitive strengths for addressing the market: e.g., proprietary processing knowledge and production capabilities, strong management team, deep technical capabilities, proven marketing and sales expertise, excellent reputation for product quality and service, high quality customer portfolio, favorable industry dynamics in high-growth segments, etc. You should be able to conclude this section that you are in a strong position to become an industry leader.

Management, Employees and Board of Directors/Outside Advisors

- Management
 - ◆ Overview and Key Strengths
 - ◆ Bios
- Employees
 - ◆ Overview and Key Strengths
 - ◆ Numbers by Functional Category
 - ◆ Personnel Plan
- Board of Directors and Outside Advisors

Professional investors also see this as a critically important section and want to see strong management in place. If you do not have it yet, you should start thinking about how you will overcome the limitation if you are ultimately planning on raising venture capital. Be sure you do summarize all of your strengths, however. Do a skills inventory of your organization from as many perspectives as possible.

By this time in the process, having set out what you need in terms of operating infrastructure as well as sales and marketing requirements, you should be able to assess what you have today and what you will need in the future to accomplish your growth objectives. Clearly set out what you are missing, but do that within the context of a systematic personnel plan. One thing you can do over the short-term is to build a quality, outside Board of Directors and/or a Scientific Advisory Board, most particularly if you are a proprietary technology company that can attract some well-known names to it. That can give a stamp of approval so that outside parties will take the first step and begin the process of evaluating the opportunity. It is also shows a willingness on the part of the entrepreneur to work with professionals outside his company in order to get the best advice possible about growing the business.

Financial Overview

■ Financial and Investment History

- ◆ Security Ownership
- ◆ Warrants Outstanding
- ◆ Debt Outstanding
- ◆ Stock Option Plans/Benefit Plans

■ Contingencies and Other Financial Considerations

■ Capital Requirements & Use of Proceeds

■ Assumptions for Financial Projections

The first part of the Financial Overview should be a financial and investment history, if you have one. You should include charts of current security ownership (number of shares and % of total) and who the investors are (if any), warrants outstanding (including the terms) and a list of debts outstanding, including again, the terms of every short and long-term debt (apart from operating debt such as accounts payable). If you have a stock option program in place, you should describe it and any important aspects of it you think worth noting. If you do not have one, discuss why you do not and if you have a willingness to have one and are going out to the venture community, express your willingness to have an option program since that is a very important part of a venture funding.

Be sure to discuss any contingencies or other financial considerations that should be highlighted. Are there any lawsuits outstanding? Are there any environmental issues associated with the kind of business you run? Any intellectual property issues? What about workers' compensation problems? Do you need high levels of insurance to operate your business? Do you have a patent in dispute? The purpose of this section to disclose up front any potential problems or issues, particularly with financial implications. The worst thing you can do is not tell anyone and have them find out later during due diligence. Believe me, they will find out anyway so it's best to broach the issues the way you want to, not when someone else forces you.

Last but not least is the list of your financial assumptions. This should be done after you actually build your model and should summarize are the major line items so not only can outside people understand how you built your model but so you can track your financial performance against plan and be able to change the assumptions, as need be. I am surprised how few people do this, and don't really know what's going on with their business from a financial perspective. If you take the time to set up the financial plan properly in the first place, it can be an invaluable tool for analyzing your business and for understanding what you need to do to improve your cash position, for example, or your profitability, etc. You can even test the effects of changing product pricing paradigms and what this will mean in terms of profitability.

Assumptions for Financial Projections

- A Bottoms-Up Plan for the Income Statement, Balance Sheet, Cash Flows and Capital Expenditure Program
- Detailed Assumptions that Make Sense, Are Internally Consistent and Are Natural Extensions of Your Strategic and Operating Plan in the Context of the Industry in which You Compete

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14

Always do a bottoms-up plan for both your P&L and balance sheet and be sure to have a cash flow statement and CAPX program tied to both of them. What do I mean by this? By way of contrast, what you should not do is a top-down sales plan based on either a simple growth rate (e.g., I am assuming I will grow at 25%/year because that's what most people do in my industry) or I will grow from .5% market share to 1.5% market share in five years. This bears no resemblance to what you will actually do, and in fact, does not demonstrate a knowledge of what drives a business - how a company gets sales, how it operates to support customers, to develop, manufacture, or distribute products, and so on. All it says is - I have read an industry report which says the size of the industry is x today and will be z in five years (a very big leap, I might add) and that all I have to do is get a tiny piece of the action and I'll be a terrific investment opportunity. Believe me. This doesn't help you realize your own goals - either for your company or personally, and a professional investor discounts that kind of plan completely. It is not confidence-engendering that you really know how you are going to build your business.

It's true that building a financial model can be an arduous process, but once done, it is an extremely important tool in your operating tool set. Numbers reflect all of the strategic, operating, and sales and marketing assumptions going into a business plan, not vice versa.

Start with sales by product - both existing and proposed (should tie to your development plan) and go down line item by line item and by category of employee, e.g., R&D, G&A and sales and marketing. Your personnel plan should tie in to this, how many R&D people in what category do you need in each of the next five years to support your development plan; how many marketing and sales people, what kind of administrative support, etc. Be sure you've included everything relevant to your business over the next three to five years, not just in the categories of what you spend today. Clearly, if you grow, your organization will dramatically change and you have to show that you are taking that into account and making certain assumptions.

I also always have in the balance sheet a line for new equity which becomes the balancing item. In other words, it will tell you what you will need in terms of outside investment in order to support the plan that you have developed. Bottom line, the financial plan needs to be convincing, that you have thought through and made certain decisions regarding your operations and what you believe to be a viable approach to building those operations and that the financial plan is an internally consistent, justifiable representation of that plan.

Even if an outside party disagrees with certain of your assumptions, if you've shown you've thought about the uses and have addressed them in a way that is internally consistent with the rest of the plan and makes sense, then you will stand a much better chance of achieving your goals, for example, of raising capital.

Appendices

- Five-Year Financial Projections
- Audited Financials (if available)
- Five-Year Summary of Operating and Liquidity Statistics
- Organizational Chart
- Marketing Brochures
- The Industry

The Appendices vary from company to company, and these are just some examples of what can be included. Obviously, the actual three- to five-year projections should always be included and if you have any audited financials. As an aside, if you are seeking professional investment and have not yet had your financials audited, it will be a requirement for closing the investment. As a result, if you are thinking about raising capital at some point in the future, you should already be thinking about having a year-end audit done.

If you have nice marketing brochures, it's always helpful to include them in this package. Likewise, if a detailed industry discussion strengthens your case even further beyond the shorter discussion in the body of the plan, include it. I have found that if it is a particularly technical product (e.g., tunable solid-state lasers) or an industry with a wide range of market niches or if you have a pioneering product that few people will know about, much less understand, it may require more detailed discussion or an industry white paper. My point here is try to keep it as clean and simple as possible in the document's body but have material for the reader to refer to. (You may or may not want to do this if you are using the plan solely for internal purposes, though, again, it may be a helpful way of tracking changes in the industry.)

The Executive Summary

- Overview
- Company Achievements To Date
- The Marketplace
- Summary of Company Competitive Strengths
- Summary of Operations
- Capital Requirements and Transaction Summary

Clearly, this is the most important section of the document because you should be able to provide a succinct distillation of the business in 5 to 8 pages that offers a clear and defensible justification of the business opportunity. The Overview is the introduction to the Company that summarizes descriptively what your business is today. It can be a shortened version of the Overview used in the Company section. You should then briefly summarize the market opportunity, trends, competitive environment and market opportunity and how these factors position you to be a potential leader in the market.

This should be a natural lead-in to a summary of what you believe your competitive strengths are so that you can reap the benefits of changes in your industry. Obviously, different companies have different strengths but I usually summarize the list as found at the end of the Marketing and Sales section.

The Summary of Operations section simply summarizes the financial plan and highlights anything worth pointing out in terms of assumptions. If you are raising money, the final section briefly sets out the proposed transaction, most particularly the use of proceeds by category of expenditure - M&E, working capital, pay-down of debt, marketing and sales, R&D, and transaction costs.

Summary

- The Strategic and Operating Business Plan
 - ◆ The Beginning of a Process, Not the Ending
 - ◆ A Means of Concretizing Your Thoughts About Your Company and its Growth Opportunity
 - ◆ A Benchmark for Testing Assumptions on an On-Going Basis and for Changing Them as Business Conditions Change
 - ◆ A Necessary and Integral Part of Being a Successful Growth Company

In summary, the business plan should be considered a living document, not something you write because you have to and then stick on a shelf or in a desk drawer to molder. It is the beginning of an on-going business process, not the ending of a finite event such as a capital-raising. In fact, if you look at some of the best companies, they approach the business planning process rigorously and have what I call a rolling three to five year plan. That is, every year, a monthly budget for both the P&L and balance sheet is developed for the coming year, and performance is measured against the plan. The five-year plan is then revisited to examine all of the assumptions governing that time period and adjustments are made, if appropriate. For example, there may have been a major new entrant into the market and how will that effect us? Or the product pricing paradigm has changed in the industry, and we will have to dramatically change our prices and thus, our marketing and sales strategy.

Thus, I believe that all entrepreneurs seeking to build a successful growth business need to consider the written plan a tool for communications (both externally and internally), marketing, investment, due diligence and ongoing business management. In my mind, it is a necessary and integral part of being a successful growth company.