Writing the Winning Business Plan

Structural Guides & Practical Hints for Senior Management in 2016

DERBY
management

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 is largely based on…

- 25 years at Derby Management, focusing on…
  - Business & Strategic Planning
  - Sales & Marketing Optimization
  - Sales Management Coaching
- A current customer base of 400, largely in New England, Upstate NY & Eastern Canada
- Growth companies roughly between $10 and $250 million
- Prior to Derby Management, each of us spent 15-20 years running companies
  - As CEO, CFO and VP of Sales in a wide variety of markets from healthcare to consumer products, from tech to no-tech, from commodity products to specialized capital goods.

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When we suggest *"Let's take a look at your current business plan,"* our client's response frequently is… *"It's a bit out of date,"* or simply… *"We don't have one."*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 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 push into a new level of growth and profitability.

For the primary reason of internal direction among your management team, a short business plan which has been researched, analyzed, discussed and debated among the company's senior managers is critical to keeping any company on track while often time providing a means by which bankers, investors along with your employees can understand the company's future direction.

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 private equity 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 fit more logically into their strategies and financial projections would be forecasted out for a couple of years.

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 individual annual operating objectives and tactics?

So that's why we wrote this "How To Write a Winning Business Plan" manual. It's meant to guide you, the senior manager, in structuring, formatting and presenting your 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 move the reader—whether that reader is an outside director or an internal manager—to clearly understand where you're headed, what strategies you plan to follow, and what you plan to do on arrival at the future direction.

This is the 15th year we've updated this guide. It has grown in content as a result of our experiences. Having been in the business of coaching senior managers for 25 years now, we have never felt more strongly about the importance of encouraging our clients to update their business plans.

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, social media communication tools and the requirement for more formal business processes from sales to marketing to supply chain logistics. We've recently observed a renewed surge in entrepreneurial management and in culture, not only in our younger company clients—those with revenues of $5 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 culture of running the business on a day to day basis.

Whatever the reason, businesses today live in much more complex and more competitive market, 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.

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?

✓ What's your Value Proposition?

✓ Where are the growth opportunities? What are their priorities?

✓ 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 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 word here is "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 is at the heart of the best practices we've experienced among the more successful management teams.

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 Rule of 3".

(1) It's unrealistic to believe that any management team is going to execute well on more than three 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 on 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 graduate school. The hard work—the real challenge—lies in the management planning leading up to the creation of the written plan itself.

In any planning process, senior managers must reach consensus through a series of honest, objective discussions based on the best available data such as…

- Quantifiable market research
- An analytical assessment of your customers' needs
- Your actual sales results by channel, by market
- Your Value Proposition
- …along with a complex mix of sales and marketing tactics

With this in hand, good managers focused on growth will then be able to plot the company's future. As a leader in the company, you want all of your senior managers in the business to actively engage in a hands-on planning process to achieve complete and total acceptance 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 acceptance" is not easily reached.

Bottom line: You will find 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 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' time. 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 or at an offsite retreat location, is the manager's opportunity to really think through, debate and "argue out" the strategic and tactical issues they must resolve to manage the business … rather than having the business, or more typically the market and the competition, manage them.

The end result of the business planning process is the 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 three to five years, including at least the following points:

✓ It should be the vehicle through which management defines its 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 36 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 the company's 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 the team reaches 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. Having said that, 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 would also welcome additional contributors to this e-book, so if you have ideas, just give me a call, and we can discuss them.

Jack Derby, President, Derby Management

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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 management consensus … ***the only*** vehicle for coordinating the primary operating tactics and company objectives you want shared among your key managers.

Second, it is ***the*** required instrument if you were to consider raising later stage private equity financing or if you were to make a significant change in your current banking relationship in order to take that "step up" to grow your business. You do not pass "GO"—and you do not collect your $200—without a well thought out and written business plan. There's no alternative. Don't waste your time telling me about that friend of your cousin who was funded by a private equity firm with no more than 10 PowerPoint slides that he put together over a couple of weekends. 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 "private equity fund" he described was little more than a boiler room operation looking for either naïve or desperate (or both) small business owners. Just to point out that for every legitimate private equity fund, there are 50 other brokers looking to represent you in your search for growth financing, and that 50 represents the real brokers and investment bankers, not the scam artists and single-shingle guys.

During the past year, we had the opportunity to measure venture investing a number of times. And over the past 20 years, we have been actively involved in raising over $725 million in venture capital and private equity financing. Four or five times each week we spend a great amount of time on the phone talking with both entrepreneurs and the owners of established businesses as we review *yet another* "great" business plan.

If this is not a business that we are already invested in or is an existing customer, the end point in this process often comes down to knowing when—and to whom—to direct these business plans. Without some level of organized document to review, the process…at least for us and most qualified investors…does not work. Just too many opportunities and too little time. If you don't make the initial process relatively easy to being the engagement, then I and most other investors are going to quickly move on to the next (and easier) opportunity.

Assuming that the business plan is sound, we often provide the introductions to the already overworked private equity investor or the banker … many of whom really have limited bandwidth and lukewarm desire to read yet another business plan at that given moment. The unread plans already stacked up in their Inboxes are so unwieldy that they're beginning to irritate them. *Always* remember that every year the typical established first, second and third-tier private equity firms receive 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 on the top of the pile.

What we provide as a firm, besides many trusted referrals, is knowing how to ask the potential later stage venture or private equity investor *"just take a look at an executive summary of a very interesting company we've been working with".*

In reality, it 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 three minutes.

In a number of cases, we've worked with battle-tested serial successful business owners 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 plan."*

In each of these deals, management had already been funded to some degree and had existing revenue, but they would not have gone forward without updated business plans and presentation packages that followed the rules, were easy to read and contained all of the necessary data in a format which the investor expected.

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, it's 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.

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

Also, please remember that business plans are not just for entrepreneurs. If 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. I remember very well an 90 year old electronics distribution business that I bought in the late 1980's, and the primary reason that I was able to secure debt financing from a Tier 1 bank was the clarity of my business plan to purchase the company, rapidly grow and successfully sell it…which is just what we did. During each of my bank meetings, I always referred back to the original business plan…good times and bad.

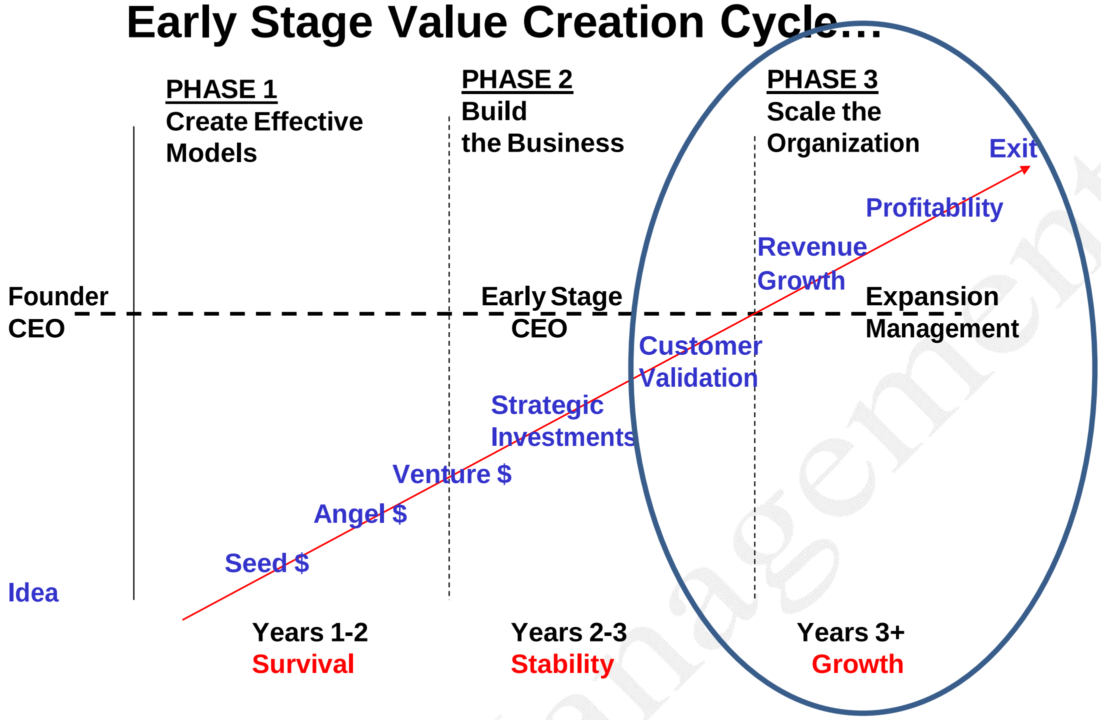
In the world of both venture and private equity and, in fact in corporate management, your business plan, or its Executive Summary, will typically be the first document seen by the bank, the private equity firm or your boss… and we all know the importance of first impressions!

With most bankers, and all stage venture and equity 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 by everyone on your management team.

Too frequently we have 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 management team to deal effectively with today's rapidly changing 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. And finally, it provides you and your senior managers with an overall structure for keeping in perspective while traversing the path to ultimate success. A good example is represented in the following graphic. One of the critical takeaways from this is that once your company has reached that very difficult point of stability and sustainable positive cash flow, the even more difficult phase is that of highly profitable scalability whether you're planning on an exit or planning to leave the business to future generations of your family. Scalability in everything you do- Sales, Marketing and Operations-is the key to highly valued businesses.

Early Stage Value Creation Cycle…



For the more established businesses in Phase 3 and whether they are at a point of six or sixty years old, success always comes down to detailed strategic planning and creating the corresponding tactical plans that connect the dots to everything and everybody that's connected in growing and scaling the business.

Why growth, by the way? In today's markets, in today's world of slow growth macroeconomics, there's no such thing as standing still with "maintenance" or "milking" strategies. If you are not focused on change and growing your business, then the market and your competitors will change 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.

● 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 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!

● 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 12-24-36 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 growth money you will need and how the funds will be used.

● State clearly how you will create value for your PE 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. This is not so much about you or your products.

● 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 board 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 a negotiation.

● 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 coming three to five years both for your management team and also for the potential of providing a business plan for investors. You simply 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 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 financial plans for five years, you should be using a time horizon within which you are going to define the business in three years from now and then back into where you are today.

● 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 the right scalable business model and the most effective sales and marketing models for the next three years?

● What customers are we serving? How well? What customers are we not serving and what are we planning to do about that market 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 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, 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 two recent examples.

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

...in our present products and services?

...in a rapidly changing online world?

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

...in the nature of our competition?

...in our customers' buying habits?

● 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 company? Do we know the sales and marketing performance metrics of our best (or near) 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.

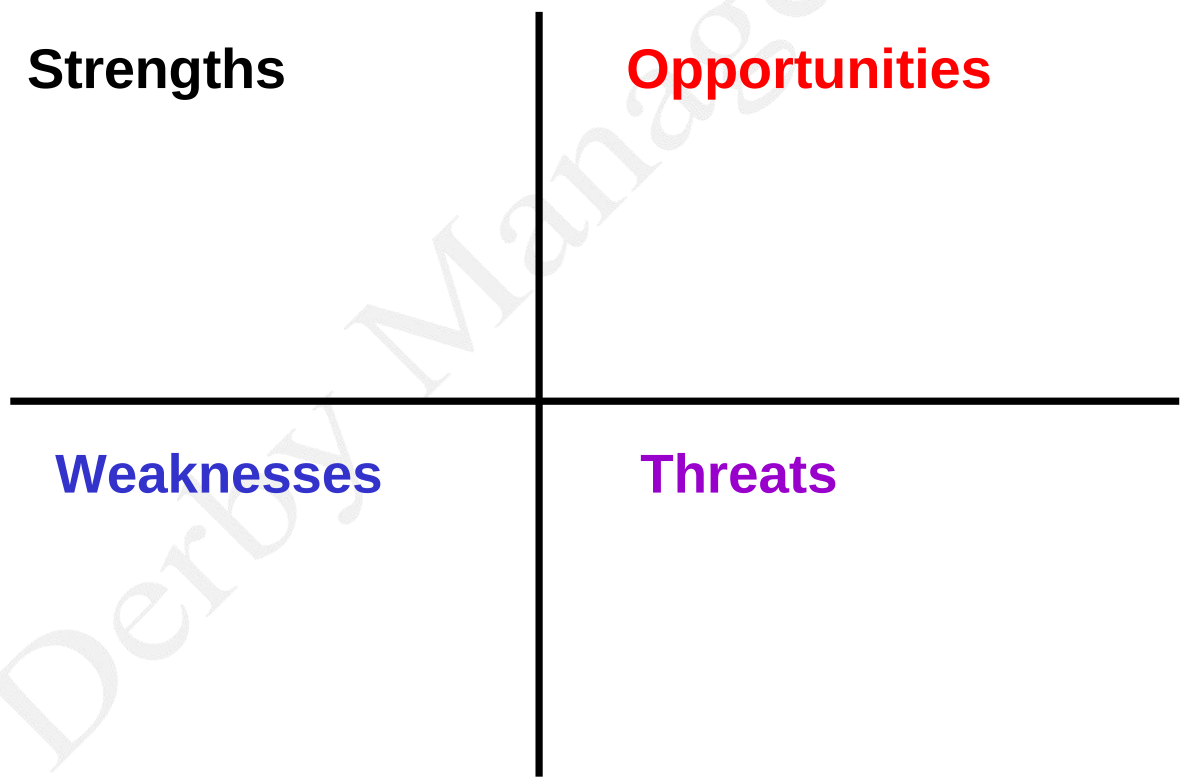
● How can we best finance the growth that we're planning?

● Where are the holes in our management structure? How can we plan our management depth not just for today but for three years from now? What about succession planning?

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, but most probably it won't. 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 established business. Having the management team 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 also for your annual strategic offsite.

The output of this exercise will look like the classic SWOT 2-by-2 graphic below



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, (both internal) and Opportunities and Threats (both external). Have your managers think about them in advance and just bullet list them down.

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, it will be *very* challenged.

The objectives of this process are...

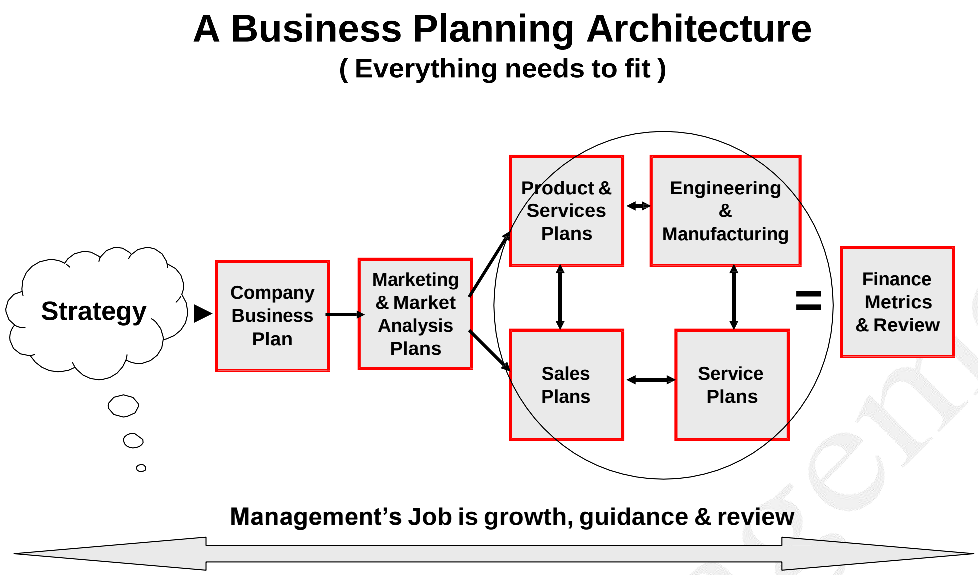
1. You want to know, protect and enhance your core strengths
2. You want to eliminate your weaknesses (internal), *over time>.* These typically form your strategies.
3. You want to invest in your opportunities, *over time.* These typically form your strategies.
4. You want to continuously be aware of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

Just a few categories of <u>Strengths and Weaknesses</u> 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 regulation regarding the business
- Creativity/ ability to develop new products
- Product range and diversity
- Valuable intangible assets
- 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



Developing Operating Strategies

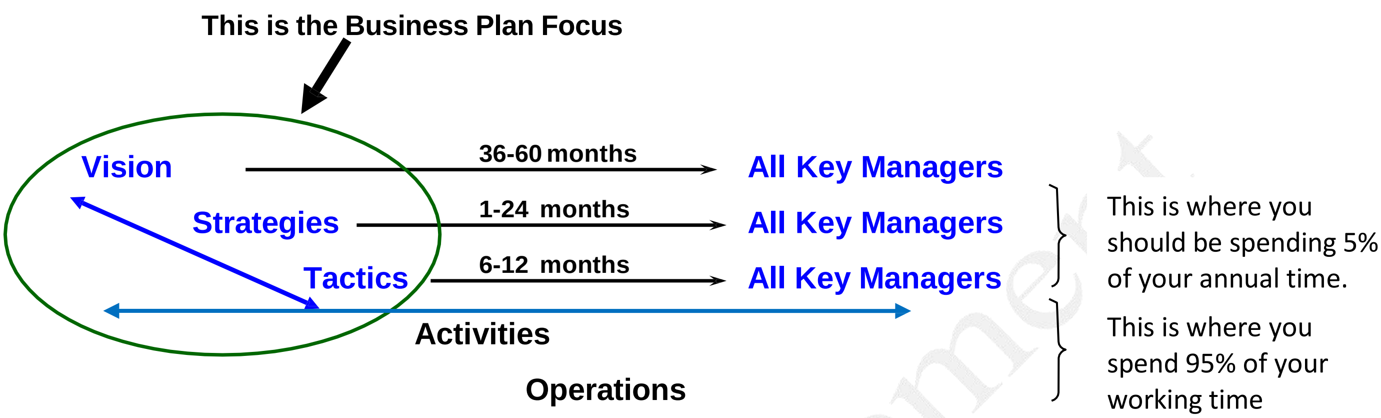
Figuring out your company strategies:

Don't be put off by this word, ***"Strategy".*** Just translate this commonly misunderstood and incorrectly used word, ***"Strategy"***, into ***"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. Then everything else becomes highly integrated ***Tactics*** and their ***Objectives***
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 marginally effective Tactics will not lead to significant growth for your business. Key point: All **Tactics** have **Objectives**. All **Objectives** have dates and 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.

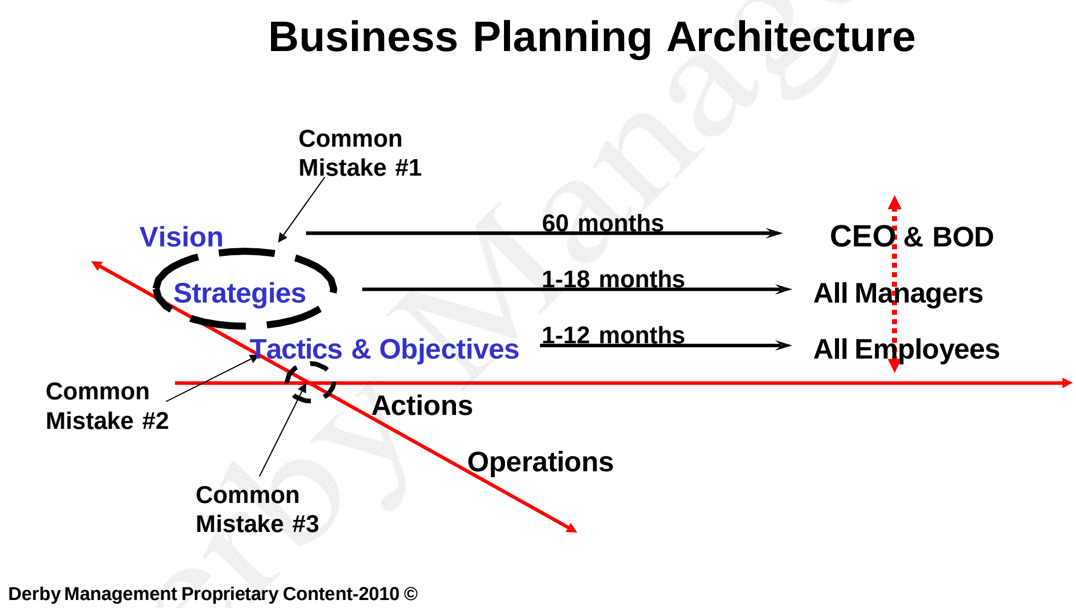
- ✓ Visions will probably look out 36 to 60 months. Don't waste time with a ten year vision. Today, too many market changes…and you have a business to run…today.

- ✓ 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 160 years, clearly has a well-defined long term vision—but typically, Visions morph over time and certainly Strategies and Tactics will change significantly over three to five years.

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



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 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 one or two times a year. The planning architecture that we currently want our companies to incorporate 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 like to 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 the 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.

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

Mistake #2

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

We like to see battle plans for the company for the entire year and most importantly, very detailed plans at the departmental level for the upcoming quarter. 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 wonderful learning platforms and a series of "lessons learned" and "best practices" for the entire management team. It also makes the review process much easier and more impactful for the CEO.

Mistake #3

Mistake #3 comes down to the issue of planning in general. The horizontal red arrow above "Activities" points to the dividing line that managers take between *planning* for the company and *running* it. The most successful companies adopt annual structures in their planning process budgeting enough time to gather the senior managers, go offsite to review strengths and weaknesses and come together on aligning primary strategies and tactics for the future.

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. 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 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 on annual business planning.

Besides integrating and balancing Vision, Strategies and Tactics, it is also critical for management to consistently involve all employees up and down the line 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 over the longer term. 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 $20 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 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 developed a $100 million business, and he successfully led our client through five years of very rapid and profitable growth. The prior CEO, by the way, stayed with the business in a lesser 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 have found that long term success cannot be achieved without a thoroughly analyzed, multi-year business plan and planning process focusing 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 the senior managers 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 an effective Value Proposition 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? Bench strength? Succession plan?

- 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?

- Is there a cost effective balance between field and inside sales?

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

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

- 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 three 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 growth capital? What's our experience? How long will it take?
- What are the realities of taking in private equity funding to ramp up growth?
- What support do we need from our bankers, investors and suppliers?

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 probably 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.

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 senior management team, and the external readers of your plan to describe the assumptions that define a few of these guidelines that 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 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 12-18 month critical hires?
Regulations	What's the government planning 3-5 years from now?
Technology	What are the implications of future technologies?
Taxes	Are there upcoming capital gains changes?

Internal Assumptions	**The Detail You Must Know**
Value Proposition	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 campaigns 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 9 points above, and their relative flow, in your head as you're creating your own plan. There are 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. At the same time, depending on what's most important to the future of your own 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 wonderful novel that you expect to hit the top of 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 a 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 never pick up your plan again*. It all depends on my time.

In my management consulting business of running Derby Management, teaching every semester at MIT and Tufts, my role as Chairman of Common Angels, and facilitating five to eight Sales Management and Entrepreneur Boot Camps a year, I also personally review 100 business plans a quarter. 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 deal to me.

Does the plan's author succinctly explain the business and whether management can make it a success? In order to do this, I do a quick "investor's read". If I'm 10 minutes into the plan, and I can't understand the business model and how they 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.

Once you have explained the business model in the first page or two, you should continue to excite the reader with either the additional 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. Notice that we skipped by the Executive Summary section. You are going to write that last, after everything else 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 them with two to three pages before you send them 30.

The bottom line is that you must think like an outside reader. How will a private equity investor or a banker 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 potentially raise outside capital and look for advice from outside investors and advisors?

● What's compelling and differentiated enough in your products and services that prospective customers who may not 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 sales call or three seconds of a blog post?

● 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 prospect and for existing customers to purchase and then to purchase more. In today’s world, value creation is frequently measured by the finance guys 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 return. Besides, your salespeople can use these tools in their sales presentations.

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 plan, we guarantee you that your plan will be more compelling to your audience whether that audience consists of potential investors or banks 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 financial 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?

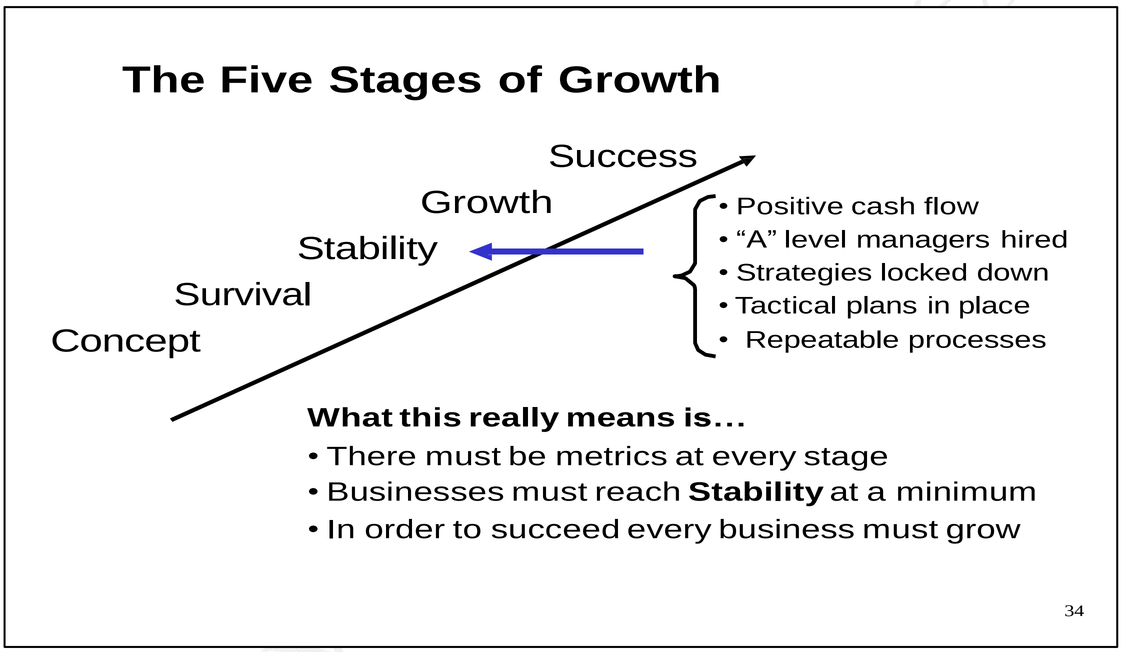
●Think like an investor, and your plan just may get you to the first meeting.

In the world of private equity, 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 private equity investors on your behalf. The best introduction is through an existing or prior CEO of one of the portfolio investments or a limited partner for the PE fund.

Last Comment:

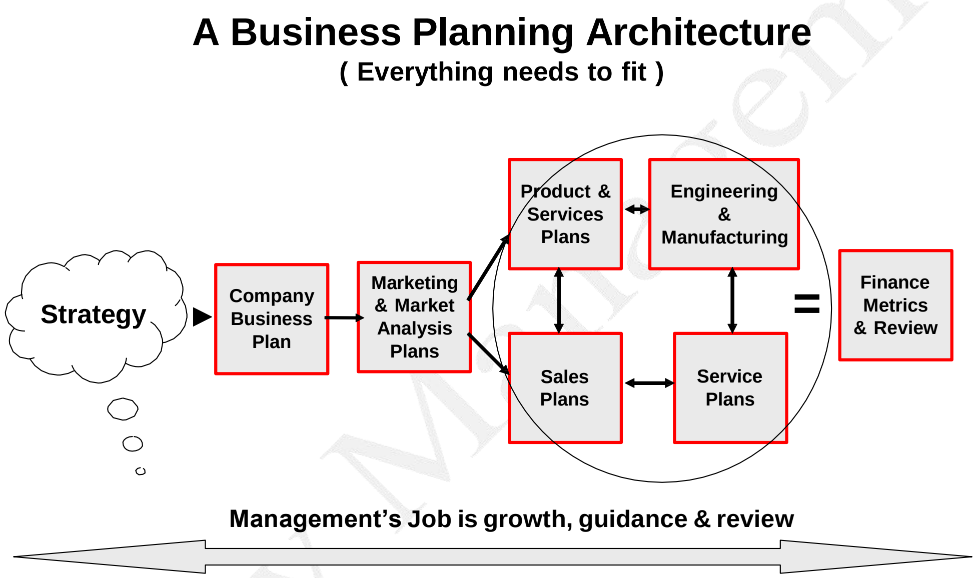
As an architect of your business plan, you want to take the reader along this path of value creation. Move me from Stability to Growth very quickly over two to three years. Tell me exactly how you are going to achieve the Growth and Success levels as quickly as possible.



Working Through the Sections

Creating the Architecture With You As 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 strategy 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?
	What's the indirect competition?
.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

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. Don't include resumes.
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.

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. List the primary underlying business assumptions.

 .1 Profit and loss

 .2 Balance sheet

 .3 Cash flow .

 .4 Primary uses of funds if you plan to raise equity

4. 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?) You will never be right, and there will be ample time to discuss valuation in detail; it is just not now!

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 and recommend against it.

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 meeting with you by reading this section.**

The Components	The Focus
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 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 2 to 3 years?”

- For the Customer, for the Investor?

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

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

Think like an investor.

Move 1,000 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 a reader will see during any particular week.

• Provide **Total Focus** everywhere in plan.

- ✓ Focus on the customers, their pain, and their needs. Be specific. Explain these needs.
- ✓ Focus on the markets for today and also for three to five years in 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 makes money. Don't get lost in defining the market or the technology. All that will come later. Focus on describing the business…and do it succinctly.

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

Now go into detail regarding the business model. How does the business make money and what are you planning to do to expand your revenue and increase your profitability? 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 reader that you haven't got a clue as to where to go to sell your product or service.

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 or industry jargon, you will lose your audience in the business model.

This section should provide the following <u>in general overview terms</u>. 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 a reader who does 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 more scalable and more 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 irritating to the reader.

• Use industry-accepted data and well-known analysts' research 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. Also include comments from 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 of 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. The information must support your assertions that your well-established business can capture an increased percentage of the market over the next five years.

So … what's BIG? If your business plan shows solid five year growth in the company's sales from nothing to $5 million-that may not be a bad business, but it won't excite most private equity firms. The math behind this conclusion has to do with the economics of creating PE funds and assessing the historical rates of return for deals.

Suffice it to say that the typical venture capitalist will be looking for substantial five year revenue and EBITDA growth. Whether they will believe you can achieve this goal is another question, but the fundamentals of the market must support substantive potential growth.

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 than any other reason.

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 build credibility with the reader. In today's world of online survey tactics from companies such as Zoomerang, Survey Monkey, Constant Contact and Google Survey, surveying customer and prospect needs does not have to be an expensive process.

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 "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 and other social networking sites or the SaaS (software-as-a-service) market to convince yourself that dollars have been redirected from traditional areas to markets undreamt of a decade ago!

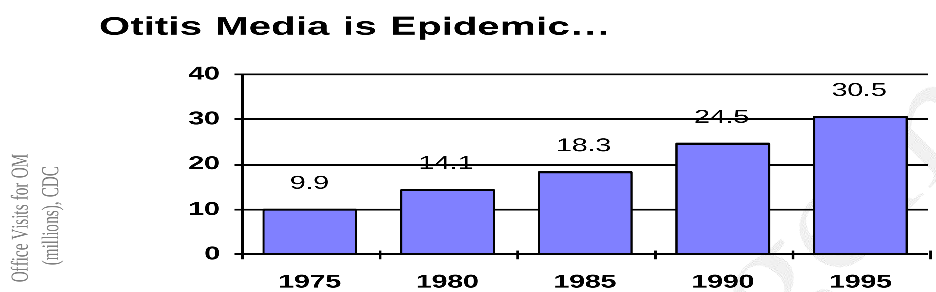
Despite the fact that there were, and are still, a multitude of unknowns, our experience is that market sizes and trends can be forecasted with varying degrees of accuracy. You must be able to define market forecasts and trends in this section. Don't say that the business is difficult to forecast. Investors don't want to hear that. That may be the case at the outset, but everything must be forecasted. Sales forecasts, are absolutely necessary in building any scalable business.

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 universities or at the business section in the main branch of the public library in any major city. If you're in New England, that would be the Kirstin Library, which is the business section of the Boston Public Library. Incredible facility and very helpful people whose job is to assist you.

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

• Forrester	. Gartner
• IDG	. IMS Health
• Frost & Sullivan	. Nielsen

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 the co-founder and CEO. We successfully conveyed that the disease of Otitis Media was an epidemic … not just "more earaches in kids."



- 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 deep into analysts' reports from the large investment banking firms. Referencing market statistics from firms such as Bank of Boston, Goldman 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 of this information?

Probably not, but you must give ranges of revenue and what is known about the competition.

If all you know is their location and website, you define yourself as a salesperson 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 on the basis of market share, value, quality, price, performance, delivery, timing, service, warranties and other related features.

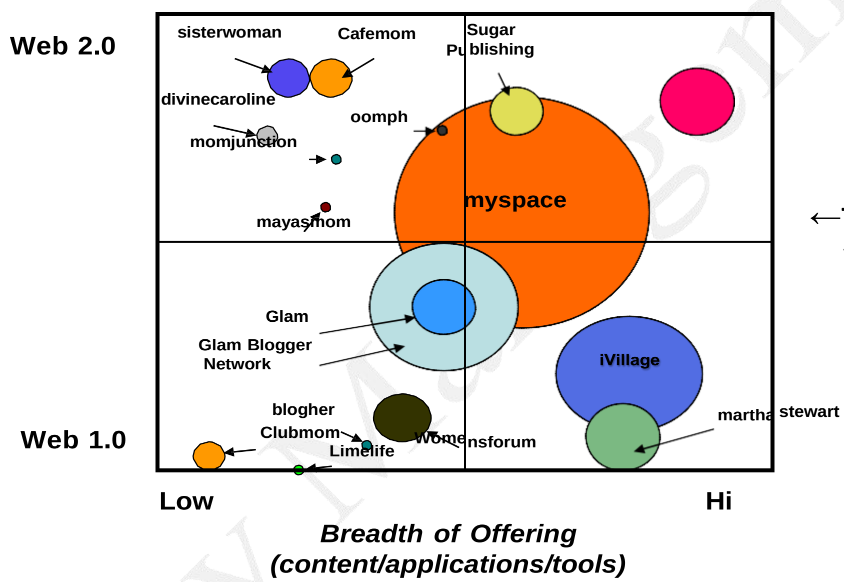
You don't need to include all these attributes, but you do need to be informative. Convince yourself and your potential investors that you thoroughly understand the competitive landscape. Never state that your product is unique and has no competition!

Discuss the three or four key competitors and why customers buy from them. Discuss why customers 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 a competitive grid. This information can be displayed in many different ways, but a couple of the most common methods 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. Interestingly below, in this graphic focused on the company, which did not make it, since no one saw Facebook coming…

Competitive Landscape



←This quadrant is exactly where you want to be.

Note: The size of the circles reflect the approximate size of audience (e.g. Monthly Unique Visitors)

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 only six years ago. Obviously, that's not so today. The point here is that competitors change, markets change, pricing strategies change and marketing tactics change frequently. You need to stay on top of your competitors.

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.

Measure	Whole House	✓	SM	SM	SM	✓	✓	✓
	All Circuits	✓	✗	✗	✗	✓	✗	✗
	Outlets	✓	✓	✗	✗	✗	✓	✗
Display	Web Portal	✓	✓	✓	✓	✓	✗	✗
Monitor	Control Therm./Dev	✓	✓	?	✓	✓	✗	✗
	Efficiency/ Renew. Anal	✓	✗	✗	✗	✗	✗	✗
	Proactive Alerts	✓	✓	✗	✗	✗	✗	✗
Mon. Other Sources	Gas/Oil	✓	✗	✗	✗	✗	✗	✗
	PV	✓	✓	✗	✗	✓	✗	✗
	Integrate EV	✓	✗	✗	✗	✗	✗	✗

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 a key differentiator when comparing your products and services to your competitors.

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

Ask yourself: What will differentiate my products and services and, most importantly, what value will my 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 own products and services. Would you be listening attentively or would you be 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 recession of 2008-2011 still fresh in every manager's head and a continuing unsure economy, and with spending authorizations reduced and tighter controls on proving returns over short periods, creating and demonstrating ROI and TCO models essential.

Hints:

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

• This is another great place for the use of charts and graphs. Let the pictures 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.

• Don't 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 of 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 a number of 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 brand new 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 if you plan to look for private equity money on an increased loan—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 or bankers 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 Survey Monkey, Zoomerang or Constant Contact. They are the best.
- 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 which are the best students and use that person's guidance to assist you.

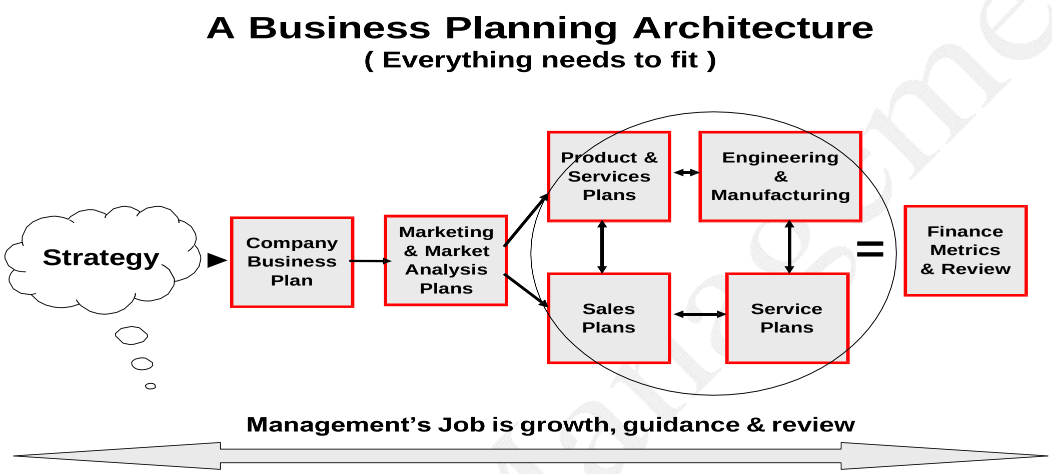
Do not believe that focus groups and surveys of prospects are only for very large corporations. Well done, they will answer any question that you need answered.

Although, surveys and any credible market research will cost you a couple of bucks, and may be a challenge given the nature of your enterprise, you will find that these will be the most important expenditures of your company's life.

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 sales model and sales process?"***

The Sales Plan Section should include:

1. Distribution channel strategies.

Convince the reader 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 a number of 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 they reach their planned quota. These could be specific sales models of hunter/farmer/scout.

Channel strategies need not be singular. You can simultaneously explore both direct sales 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 of thousands of dollars and never leave their office.

The challenge is to continuously break down the old ways of thinking about sales people 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 will change, your customers' needs will change, and the resulting sales model 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.

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 larger 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 channel managers.

There are exceptions to the rule, but we normally suggest that if possible, you move to a direct sales channel if you are planning to focus on growing your small business.

Part of this decision is based on the fact that you may not be able to identify the ideal salespeople for your industry. Personally, I don't buy this since I will most probably point out that your search process is lacking. Perhaps the more important reason for you to begin with a direct channel, however, is your need for increased direct connections with your customer.

The most common argument to use an indirect channel is always the expense and the cash flow associated with creating both insides and outside sales forces. The counterargument for starting with a direct channel using your own people is that you get….

- ✓ Unity of interest.
- ✓ Direct feedback regarding your offerings.
- ✓ Direct translation of your prospect's or 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 and cash flow effective. 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 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 and your salespeople to do just that.

Your sales plan does not need to go into all the specifics. However, you must convince your reader that you and your management team have the experience to make the forecast 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 400 clients, we have never seen a company fail because its product was inadequate. There have been 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 and an inability to effectively deliver the copmpany's value proposition. 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 use very effectively—with salespeople who find new customers acting as the hunters, and those who nurture customer relationships acting as the farmers, while Scouts focus only on lead generation—may be an approach you should explore in your business plan.

The second point is that 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 is a healthcare company started 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 services anywhere in the U.S. To most managers, it would be a natural to expand into New York, whether it was the City or Upstate. To this highly successful management team, New York has never been a consideration, and they decided to limit this expansion to New England. In fact, the penetration really focused on Maine, New Hampshire and eastern Massachusetts. The power of "Streets not States" resulted in a 10X return on our investment.

2. Online Sales Strategy.

Whether it's today or a couple of years from now, you'll have ecommerce and online sales and marketing strategies based on a multiple number of 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 are already an active corporate user of LinkedIn and that your business has very active Facebook and Twitter channels since these tactics are absolute baseline requirements today. Strategies of how you are planning to utilize blogs and online communities two or three years 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 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 service, lead qualification, telesales, 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.

Most of your customers will spend the majority 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, their technology apps, their CRM systems and 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 2.0 tools including CRM subscriptions and integrated apps that bolt seamlessly into their CRM systems. 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 ways to make your sales organization both more efficient and more effective. Even if you're not *exactly* there today, you need to be aware of what you will need to be doing over the next one or two years since these strategies of the "enablement" of your sales teams will be commonplace by 2015.

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, your board members and even potential investors will be instrumental in identifying 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, iPhones, iPads and anything Android and, online applications such as Webex, Adobe, Go-To-Meeting, and Brainshark.

• 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 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% 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 share-of-mind issue.

We absolutely do not recommend reps for the majority of our companies with the exception of a few markets such as retail. We believe they 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 and requiring more cash flow—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 typically 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 $200,000 per year, including a competitive base, expected commissions, travel and entertainment expenses and benefits. For an experienced inside salesperson, expect to pay $80,000 to $130,000 in total (base plus commissions and benefits).

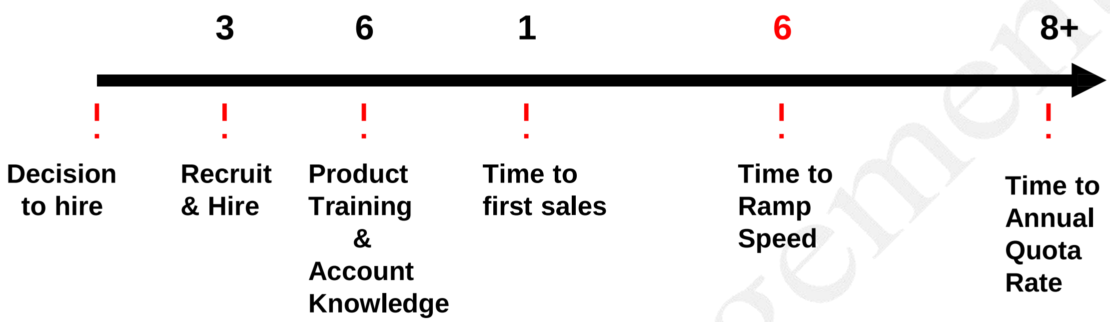
• For field salespeople, plan on paying car operating expenses plus $500 monthly in car allowances. Plan on paying for the use of a cell phone ($200 per month). For air travel and accompanying hotel costs, plan on $1,000 a day unless the travel is very regionalized.

• For each new salesperson, plan on three months until they become "marginally effective," and at least 12 (more like 18) months until they become "fully cost effective."

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 "cost effective." The salesperson is learning and personalizing the company's sales processes and tools. The mean time to cash recovery for a new salesperson may easily be 18 to 24 plus months after the time of hire.

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



It takes 24-30 months plus to reach “Time to Cash B/E”

• We have found that when the sales plans fail, it’s usually because the company didn’t hire (and therefore conduct tests for) 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 iPads, networked contact databases, immediate mobile access to the company’s CRM system and linked websites that quickly take the salesperson directly to product data sheets, sales templates and detailed technical support.

Build these tools, and your company's online strategies, into your sales plans and into your budgets. It’s now 2015, and our forecast is that by 2016, tablets will have almost totally replaced laptops for the majority of most salespeople…both inside and out.

• 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.

- **Understanding Sales Models**

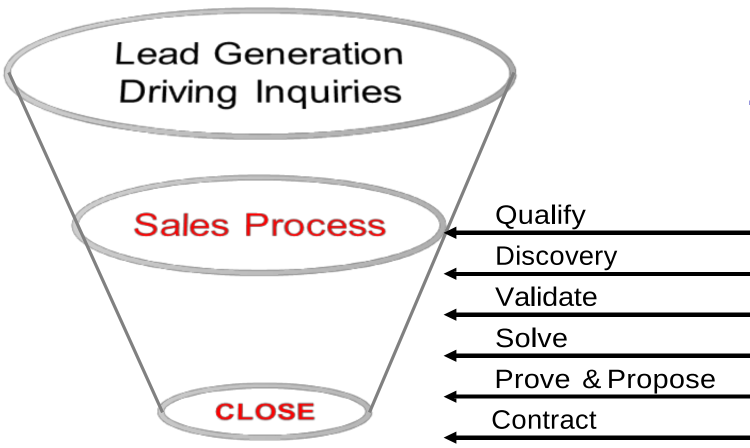
– You must calculate…	
– Hiring rate	time to recruit + hire
– Sales ramp #1	to first sale
– Sales ramp #2	to full effectiveness
– Attrition rate	% leave: voluntary and involuntary
– Average cost	base + plan + benefits + expenses
– Sales cycle	"hello to close"
– Trigger point rates	time between steps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

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

The sales process funnels we've included above and below are more than just graphics. Use it with your CFO, your head of sales and your salespeople in sales planning and in financial modeling of sales cycles. The trigger points coincide with the six 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 your sales process and the underlying math models to be addressed during early meetings with potential private equity 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 Trigger Points

# 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 and positioning, marketing activities and promotional campaigns. It summarizes the content of your company's more detailed company marketing plan in a condensed fashion—*you do have a written Marketing Plan that has been distributed to all of the departments of the company, don't you?*.

It should include:

1. Your market segmentation strategies-what, why now, evolution over time?

2. Your overall marketing strategies. These include your targeting, positioning, pricing and branding strategies along with your primary tactics, events, collateral materials and a summary of their costs and expenses.

3. Your pricing strategy. Convince the reader 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 of media opportunities that are going after the exact same customers as you are. Specificity counts.

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 growing company up to around $100 million, the marketing activity you define will be used for one thing and one thing only—lead generation—not PR, not branding … simple lead generation. Marketing's job is to fuel your highly experienced and expensive salespeople with qualified leads. This is the primary goal of any marketing organization, especially those in emerging companies and small businesses up to the $100 million level.

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 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 (somewhere around 3,600 B2B per week) 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, Mexico, 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 an extension to your first product or a new generation of existing products. Also outline the risks. You and your management team should be asking: *"What will you do if the product is 6 or 12 months late?"* Your response cannot be: *"It won't be."* Potential private equity investors, who; like you, are also looking for more rapid growth will 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!**

• One thing investors don't want to hear from—but often do—is:

- The second: The CEO has just discovered something—you can usually substitute "software" for "something"—critical in the product development cycle that will take six more months to complete.

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

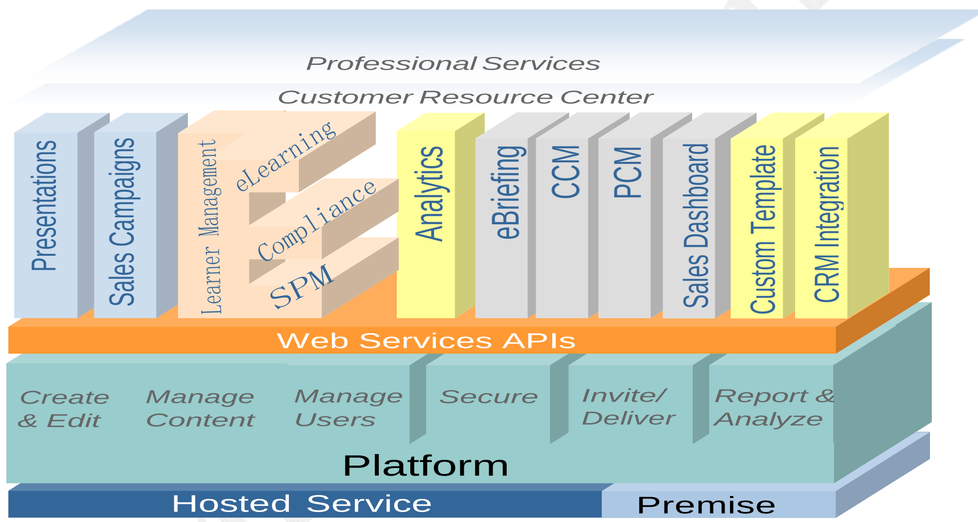
Case in point: We advised a medical company that concentrated on developing hardware while it negotiated a joint development agreement for its new disposables with a much larger corporation … a corporation that could be viewed, under "normal" circumstances, as an indirect competitor. By so doing, our 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, and it was worth it! Experience counts. It gets you to market on time!

A second case in point: Another of our clients virtualized all of 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—who 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 your product’s expected evolution. Below, you will find an outline of a “new product plan” created by one of our customers following the axiom of a picture being worth a 1000 words.

New Products Plan



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 three to five 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 complete through to successful onboarding and repeated use 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 distribution strategies for warehousing and shipping.

Hints:

• Some of the most successful companies 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 bankers and private equity investors, margin is the name of the 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 gross margin 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 created, 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 fully built out management team? When you don't yet 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 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 in so doing.

• 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 equity or debt 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 24 years, 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 scaling 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 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.

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4. Major capital requirements.

5. If Since this is an operating business, include the latest summary P&L's and balance sheets for the past two years, with brief statements of the major operating variances and sales and margin data by primary product lines. (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 your banker or if you are thinking about raising private equity money, you 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 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.

• 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:

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**

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**

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**	**$**	

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 venture, private equity or local banking community. 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 bankers or investors whom they would recommend.

The subsection, *"Exit Strategies,"* defines the amount of funding needed from the investor, 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 or banker 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 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 private equity placement deals involves estimating the future value of your business. It is highly subjective on one hand and highly quantitative on the other. Not something for the uneducated, which is why you will need professional advice on this subject.

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 experience and vision. 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 or an investment banker 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 potential future investors and your 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.

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 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 weigh no more than a quarter of a pound. Investors tend to read them on trains, planes, and in front of the television on weekends. If you make them unwieldy, too heavy or "unusual" in their size or format, they will be placed on the desk and stay there.

• 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, Google or Apple, so that when someone asks for a copy to be sent by email to another investor, there will be no formatting problems. PDF 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 other potential private equity investors. Although they may not tell you or answer your follow up calls, they may well tell their 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, exact responses, meetings and telephone, fax and email numbers.

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

• Remember, the business plan is mostly intended 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 them all 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 500-700 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 the two largest angel network groups in New England-**Common Angels** where I'm a partner and past-Chairman and **Launchpad** where George is on the screening committee. Besides being a Tufts professor in entrepreneurship and marketing, I also teach business planning and marketing in the Mechanical Engineering Department at MIT.

• 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…

• 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 from Dan Holland of One Liberty Ventures 20 years ago soon after the organization of Derby Management, and it still rings to be true.

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

• 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 200 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 PE 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 the 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 computer-displayed. 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 absolutely 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

• 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.

• We have 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 $725 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), and to **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 a number of 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 $725 million in both venture and private equity, we've also thrown in a number of 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.

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The WhiteBoarding Session typically involves me or my partners, George Simmons or Bob Creeden, so that you're receiving *extra* heavy emphasis on sales, marketing, operations and finance from guys who have co-founded more than a dozen companies and continue to be active investors in both early and later stage companies. 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?" 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

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 in 2004, Jack 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.

Jack is currently a Director Associated Industries of Massachusetts , Accounting Management Solutions, The Alliance Companies, Brainshark Corporation, Chase Corporation, Rome Snowboards, and Reiser Inc, where he is Chairman. Jack is also past Chairman of Common Angels Ventures, one of the largest angel funds in the U.S. Jack recently left the boards of Beacon Hospice and Hybricon Corporation, which were sold in successful transactions. He also recently resigned with the completion of his term from Research Frontiers.

Jack was been 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 is a frequent speaker at numerous business organizations including the MIT Enterprise Forum, the Small Business Association of New England, the Harvard Business School, and the WPI Venture Forum.

Jack is a professor at Tufts University's School of Engineering where he teaches a course in Marketing, and where he was awarded the School of Engineering's Teacher of the Year for 2014-2015. He is also a Lecturer at MIT where, for the past 17 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, the University of Chicago 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 $725 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 a number 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 $725 million for a variety of companies ranging from entrepreneurial start-ups searching for Series A venture capital to established companies who are seeking bank or PE 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.