Business Plan Preparation

A Guide for Sustainable Entrepreneurs

SUSTAINABLE ENTREPRENEURSHIP PROJECT

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About the Project

The Sustainable Entrepreneurship Project (www.seproject.org) engages in and promotes research, education and training activities relating to entrepreneurial ventures launched with the aspiration to create sustainable enterprises that achieve significant growth in scale and value creation through the development of innovative products or services which form the basis for a successful international business. In furtherance of its mission the Project is involved in the preparation and distribution of Libraries of Resources for Sustainable Entrepreneurs covering Entrepreneurship, Leadership, Management, Organizational Design, Organizational Culture, Strategic Planning, Governance, Corporate Social Responsibility, Compliance and Risk Management, Finance, Human Resources, Product Development and Commercialization, Technology Management, Globalization, and Managing Growth and Change. Each of the Libraries include various Project publications such as handbooks, guides, briefings, articles, checklists, forms, forms, videos and audio works and other resources; management tools such as checklists and questionnaires, forms and training materials; books; chapters or articles in books; articles in journals, newspapers and magazines; theses and dissertations; papers; government and other public domain publications; online articles and databases; blogs; websites; and webinars and podcasts.

About the Author

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Business Plan Preparation

Setting the Stage

Once a foundational principle and milestone in the launch of a new business, business plans have been criticized as dinosaurs and symbols of old and stale management practices. Just push forward and fix mistakes as they come up is often the wisdom imparted by entrepreneurial gurus. While it may be true that investing six months to create a thick document that could run hundreds of pages can cause an entrepreneur to miss a promising "market window", the fact of the matter is that it is still true that no business should be started or operated without a clear plan of what it intends to do and how it intends to accomplish its goals. In fact, the business plan is a byproduct of a company's larger strategic planning process which should be undertaken to assist management in articulating the main mission of the firm as well as the key objectives of the company's productive activities, facilitate the formulation of short and long-term growth strategies, and develop and implement programs for enhancing operational efficiencies and reducing the waste of available manpower, capital and other scarce resources. A business plan transforms the company's initial ideas into specific action plans for achieving its goals and monitoring the progress of the company toward its identified destination. The planning process will force the company to determine the specifications for the products and services it intends to sell, how those products and services will be marketed, how the business will be financed and managed and what human resources will be required in order to make the company's strategic initiatives successful. A well written and carefully researched business plan may also serve as a useful report card that allows managers to compare what actually happens to what was predicted at the time the plan was first written.

Key Topics Covered

Key topics covered in this chapter include the following:

- Purposes of a business plan
- Establishing processes for preparing a business plan
- Collecting and analyzing information
- Basic elements of a business plan
- Implementing and monitoring the business plan

Learning Objectives

After reading this chapter, you should be able to:

1. Explain the purposes of a business plan.
2. Explain the process for preparing a business plan.
3. Understand the steps involved in collecting and analyzing information to prepare a business plan.
4. Identify and explain the main sections of a typical business plan.
5. Explain how business plans are implemented and monitored.

§1 Introduction

This chapter discusses the key steps in the development and implementation of a business plan. Ideally every transaction or activity in which a company is involved should be related to, and consistent with, an overall business plan and strategy that has been carefully developed by senior management through the investment of sufficient time, effort and other resources. The chapter begins with a brief description of the purposes and uses of a business plan and the need to establish formal processes for collecting information for the plan and completing the drafting and review of the plan on a timely basis. The actual steps in collecting and analyzing information to be used to prepare the plan are described in detail including industry analysis, product and market analysis, competitive analysis, financial planning and analysis, organizational analysis, and risk analysis. The chapter also includes a description of the main sections of a typical business plan as well as a discussion of various specialized topics. While all business plans will differ depending on the company, its products and services, and its specific strategic goals and objectives, the plan will typically include a comprehensive analysis of competitive conditions; a description of the current status of the company, including the company's current and proposed products and services; a clear and extensive market survey and analysis; and a detailed explanation of the strategies established by management for leveraging the competitive advantages and related resources in each of the company's business functions to achieve the clear and measurable goals and objectives included in the plan. A brief overview of the challenges of implementing and monitoring the business plan is also presented.

§2 Purposes of a business plan

Ideally every transaction or activity in which a company is involved should be related to, and consistent with, an overall business plan and strategy that has been carefully developed by senior management through the investment of sufficient time, effort and other resources. While all business plans will differ depending on the company, its products and services, and its specific strategic goals and objectives, the plan will typically include a comprehensive analysis of competitive conditions; a description of the current status of the company, including the company's current and proposed products and services; a clear and extensive market survey and analysis; and a detailed explanation of the strategies established by management for leveraging the competitive advantages and related resources in each of the company's business functions to achieve the clear and measurable goals and objectives included in the plan.

The process of preparing a business plan also has other important byproducts, including the identification of potential markets, customers and investment opportunities and the organization and presentation of information necessary to obtain support from outside sources to expand operations. For example, the information may be included in disclosure documents prepared to raise capital from external sources, including investors and banks and other commercial lenders. In that context, the plan should be written to address the anticipated objectives of the readers with respect to obtaining the desired return on investment in the company's business activities. As a general rule, prospective investors use the disclosure document, generally referred to as an "offering memorandum," as a means for understanding the various strengths and weaknesses of the company, including the products and services offered by the company, the needs of the marketplace, the risks which may be posed by actual and potential competitors, the strategic plans of the company with respect to innovation, marketing and financing, and the overall business environment in which the company will be operating during the term of the investment. The business plan may also be reviewed by prospective business partners to determine if a basis exists for a joint venture or a long-term manufacturing or distribution arrangement.

No business should be started or operated without a clear business plan of what it intends to do and how it intends to accomplish its goals. In fact, the business plan is a byproduct of a company's larger strategic planning process which should be undertaken to assist management in articulating the main mission of the firm as well as the key objectives of the company's productive activities, facilitate the formulation of short and long-term growth strategies, and develop and implement programs for enhancing operational efficiencies and reducing the waste of available manpower, capital and other scarce resources. A business plan transforms the company's initial ideas into specific action plans for achieving its goals and monitoring the progress of the company toward its identified destination. The planning process will force the company to determine the specifications for the products and services it intends to sell, how those products and services will be marketed, how the business will be financed and managed and what human resources will be required in order to make the company's strategic initiatives successful. A well written and carefully researched business plan may also serve as a useful report card that allows managers to compare what actually happens to what was predicted at the time the plan was first written. While unforeseen events are an integral part of any business these days, if the company's actual performance deviates significantly from the plan it should be taken as a sign for management to re-evaluate the situation and determine if there are factors that are simply not being recognized or properly considered.

§3 Establishing processes for preparing a business plan

Strategic planning, including preparation of a comprehensive business plan and supporting operating plans, is best done as a formal process that is supported by sophisticated project management practices and tools.[1] When larger companies create and update their strategic plans that can often tap into the experience and resources that have been institutionalized in an in-house corporate planning department and will often expand those resources to include outside consultants. Smaller firms lack the time and money for this sort of approach; however, they can nonetheless benefit from following certain basic guidelines—identifying a working group with representatives from all key departments and business units that will be responsible for drafting the business plan; establishing a strict timetable for drafting and review of the plan among working group members; and establishing and executing a plan for collecting, organizing and analyzing all of the information regard the company, its customers, its competitors and the environment that will be needed in order to draft a meaningful business plan.

§4 --Selecting and organizing the working group

[1] For further discussion, see the chapter on "Strategic Planning Processes" in "Strategic Planning: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

The experience and talents of many people will be needed in order to prepare a business plan. Business planning should be a priority in every organization and command the attention of senior managers. The actual drafting task, however, will fall differently depending on the size of the company and the available resources. Consider the following examples:

- In a small- to medium-sized business, which may have anywhere from one to 100 employees, the drafting task may stay with the CEO. In turn, the CEO may ask the managers from one or more of the functional areas to provide some additional background information.
- In larger organizations, responsibility for the drafting of the business plan may be turned over to a group of middle-level managers from different areas of the company, including overseas subsidiaries. The end product will then be routed up to senior management for comment and action.
- In the case of an entrepreneur looking to start up a new business, the company will generally not have the staff resources to help with research or a track record of activities to build on. In this case, special care will need to be given to identifying actual market opportunities and potential risks.

In an ideal world, preparation of the business plan will be an interactive process involving experts from each of functional area involved in executing the final plan. As such, an effort should be made to obtain input and participation from functional specialists from engineering, manufacturing, marketing, sales, finance and legal. In addition, it is essential for one or more members of the senior management team to be closely involved in the development of the plan; however, it is not necessarily required that senior managers participate in every meeting or debate each detail. Involvement of senior management sends a message to the company and the members of the working group that formal business planning is an operational priority for the firm and that the strategies emerging from the process will be pursued seriously and aggressively.

While the discussion focuses on the necessary internal resources for developing and implementing a business plan, many companies will tap into the experience and skills of outside consultants during the planning process. For example, consultants can provide assistance in developing the plan, conducting market research and making suggestions regarding appropriate organizational structures and market entry strategies. Specialists in areas such as human resources can assist the company in locating appropriate candidates for new positions, particularly posts in new domestic and foreign markets that require personnel with local background and experience. These new recruits may join the working group at some stage once a determination has been made regarding target markets and priority activities.

§5 ----Engineering

It is important that someone be involved in drafting the business plan with a technical background. The technologist must be able to explain the technical aspects of the company's products or services and the relevant markets and industries. The analysis and discussion of technology in a business plan must take into account the state of knowledge and level of practice in each of the markets that will be impacted by the plan. For example, the company's ability to take advantage of the benefits of low-cost manufacturing in a foreign country will be dependent on how the company's technology is absorbed and understood in that country. If the technology is too advanced, the local laborers may have difficulties achieved the required standards of quality and performance. Similarly, the demand for a technology-based product in a new foreign market will depend on existing industry standards in the country and the actual needs of potential end users. In addition, the analysis of engineering and technology must include an assessment of the level of intellectual property protection that might be available in all relevant markets and the risks associated with actual or potential competition from substitute technologies or solutions.

§6 ----Manufacturing

For product-based businesses, the business plan must carefully describe how the company will produce the product, particularly when the product is new to the company or will require significant modifications to the version that is already being produced for consumption in existing markets. In order to collect this information, the working group should include someone with the requisite background in manufacturing, production or project management. If the company intends to use a third party for all or a portion of the required manufacturing, the planning team must be prepared to identify the relevant specifications and the general terms and conditions required of third party manufacturers in order for product to be timely and cost effective.

§7 ----Marketing and sales

The success of any launch of new products or services depends extensively on a clear and effective marketing and sales strategy. In fact, marketing and sales is often the most important part of the company's business plan and the challenge is generating demand for the product in each of the markets identified in the plan and educating potential customers about the utility of the product and way in which the product will satisfy their needs and requirements. Marketing personnel should conduct market research and provide recommendations regarding each of the traditional elements of a marketing plan for each target market—pricing, promotion, packaging and service and support offerings. In addition, sales personnel should provide input on sales techniques and special care should be taken to account for local tastes and customs when introducing products and service to new domestic or foreign markets. Marketing and sales representatives can also provide input on the appropriate distribution strategy, including the viability of direct sales efforts and the criteria for selecting local sales intermediaries.

§8 ----Finance

The availability and cost of capital is a fundamental determinant of a company's strategy and it is essential to include a representative from the company's finance department in the planning process, preferably someone with experience in preparing financial projections and identifying the describing the key assumptions underlying each of the number included in the projections. While an accounting background is certainly helpful, hopefully coupled with an understanding of reporting practices in key target markets, the finance person should also have management savvy and a good feel for the actual operational requirements of each proposed business activity. In addition, finance must be able to identify the resources and tools for minimizing the risk associated with any required investment by the company in its activities, including making arrangements for credit facilities from financial institutions and raising money from outside investors.

§9 ----Legal

While the ultimate responsibility for the preparation and content of the business plan lies with senior management, in-house counsel and attorneys from outside law firms should be closely involved in the drafting process. Obviously, one of the key challenges for any company in embarking on new business activities is identifying and overcoming the legal and regulatory hurdles created by domestic and foreign governments. In many cases, a company will not be able to enter a new foreign market unless and until it is able to identify and overcome the requirements of foreign investment and/or technology transfer laws, a process that will often delay the start of a new investment project or impact the costs associated with the investment. Counsel can also provide input on laws that may impact proposed new sales or manufacturing activities and, of course, expert counsel must be obtained when the company's products must be vetted by governmental approval processes before they can be marketed and sold. In addition, if and when the material in the business plan is being used as part of presentations to investors and other outside parties, counsel should be involved to ensure that the information conforms to applicable regulatory requirements (e.g., securities laws) and does not unwittingly compromise the confidentiality of the company's proprietary information.

§10 --Timetable for completing the business plan

Preparation and maintenance of the business plan should always be a high priority activity for the company and the members of the working group. It should be treated in the same way as any other "mission critical" task within the organization, such as new product development or creation and execution of a marketing campaign. The best way to be sure the plan is completed on a timely basis, and that the plan remains an important part of the ongoing strategic process of the company, is to establish a strict timetable for drafting and review among the working group members. Such a timetable might include the following elements:

- Initial meeting among senior managers to confirm the need for preparation of the business plan. This may sound too self-evident, particularly for small companies when almost everyone is a member of the senior management team; however, things have a way of falling through the cracks unless some sort of official directive has been issued.

- Determine the primary purpose of the plan and the specific issues that need to be covered as part of the plan. The emphasis of a business plan may vary depending on the company and the intended purpose.
- Depending on the purpose of the plan and the issues to be covered, assemble the group of experts and researchers that are best situation to collect the information and assemble it into a coherent plan.
- Establish a strict timetable for preparation of the initial draft of the various sections and circulation of the drafts for comment and revision. Time should also be set aside for the primary drafter to sift through the drafts and reconcile any overlap of content among the separate drafters.
- Identify ancillary resources that may be required to draft and/or execute the plan. For example, if overseas employees will need to be recruited, contacts with local search agencies should be initiated. In many cases, recruits can provide valuable input into the final stages of the business planning process.
- Make sure that all collateral materials are prepared and ready to use in any formal presentations of the plan. Collateral materials include slide presentations or short summaries that can be handed out at meetings. Members of the work group should always remember that they will often have to <u>sell</u> the plan to others, both inside and outside the company.
- Establish guidelines for monitoring the progress of the plan and the company's ability to meet designated milestones. The finance department of the company should be asked to prepare comparisons of actual performance to projections so that any variances can be analyzed. Regular meetings of the working group must continue after the plan is completed and the plan should be updated periodically. Whenever an update is contemplated, each section of the plan should be completely reviewed as if it had never been written before.

§11 Collecting and analyzing information

Strategies and suggestions for the preparation and content of business plans are abundant and there is no single correct way to proceed; however, it is fair to say that the group involved in preparing the plan will need to collect and organize the necessary information; perform an initial product and market analysis to understand the requirements of the company's target base of customers; survey the competitive and technological environment in which the company will be operating; prepare a financial analysis, including budgets and projections; perform a risk analysis that includes testing of the key assumptions underlying the goals and objectives of the plan and identification of alternative strategies for dealing with unforeseen scenarios; and, finally, prepare the formal document in a way that clearly communicates to the anticipated audiences all necessary information regarding the company's proposed business activities, including its products and services, and its strategies in key areas such as research and development, manufacturing, sales and distribution, finance and human resources.

§12 --Methods for collecting information

Business planning begins with information. One important part of the strategic value of the business planning process, and the formal written business plan that emerges from that process, is the knowledge that the founders and the other senior managers acquire while they are collecting the information needed to prepare the plan. Moreover, timely and complete information on all relevant aspects of the company's projected market and products and services is required in order to obtain the support of investors, banks and other prospective business partners. If the business plan fails to convey an understanding of the data that is most relevant is assessing the viability of the business concept then it is likely that the venture will fail due to its inability to attract the necessary resources from its environment. In addition, the steps taken to identify the best sources of information for the initial business plan should also serve as a foundation for creating a permanent system for collecting additional information in the future that can be used to measure the progress of the business and to make refinements to the strategic business plan as the company moves forward and environmental conditions change.

The process of collecting the information needed to prepare the business plan should begin with an examination of the industry sector(s) where the company hopes to compete with its products and services and, in particular, the specific markets within those industries that the company intends to target initially and in the future. Sector analysis should include a review of the overall performance of the sector in relation to the general economy and the collection of current and reliable information on forecasts, growth trends, and environmental factors. Market analysis focuses on the specific stakeholders that the company will need to include within organizational domain and should include customers, suppliers, distributors and competitors. Customer information is obviously critical and the company must be able to collect the data necessary to answer several basic questions—who are the customers, where are they located, what are they currently doing to solve the problem addressed by the company's products or services, and how might they use the company's products and services as an alternative solution. Information should also be collected on the current and projected spending habits of the customer base. With regard to competitors the goal is to collect enough information to understand their strengths and weaknesses and how they operate within the target market. In order to do this the company must gain access, legally, to information regarding competitors' product lines, customer base, manufacturing and distribution strategies, and financial condition.

Presumably, the founders and senior managers will have sufficient experience in the industry to allow them to get a good reading on the initial risks and costs associated with the proposed venture. However, there are a wide variety of other sources of planning information that might be useful in certain instances. For example, national governmental agencies (e.g., US Small Business Administration and the Department of Commerce) spend large sums of money on research and a number of government publications can provide statistics on the size of relevant markets and expenditures for research and development, manufacturing, marketing, and human resources. Government publications can be particularly useful when the business is planning on a significant volume of foreign sales activity. Local agencies, as well as nonprofit organizations, also provide assistance to persons interested in starting up a new business and can guide the founders and senior managers to information specific to the geographic area where the business will be organized. Trade associations may be able to provide a substantial amount of current information on business resources that are very industry and niche specific and can also provide an overview of relevant laws, regulations and competitive conditions. Finally, financial information released by listed companies involved in the same line of business may also be useful in putting together long-term projections and analyzing the ratios between income and expense items that might be set as goals for the new business. While information is abundant, there may be situations where the specific kind of information necessary for a particular part of the business plan is not available or is not sufficiently updated to provide readers with a current picture of all the relevant issues. This does not, however, mean that an issue should be ignored; it simply means that the founders and senior managers should make note of the shortcomings in the information base and how they might impact the decisions that need to be made during the strategic planning process.

While collection and assessment of information for use in the business plan is often a heavily quantitative process that involves a substantial amount of sophisticated statistical analysis, the founders and senior managers should not ignore the value of "business intelligence" that can be obtained through old-fashioned personal surveys. Before finalizing the business plan and circulating it to prospective business partners the founders should make direct contact with key parties within their developing organizational domain to gather further information and test some of the assumptions that may be guiding their thinking regarding the strategic planning process. For example, the founders and senior managers should visit sales outlets operated by potential competitors and also talk informally with prospective customers to find out directly what there concerns and requirements might be with respect to the proposed products and services to be offered by the company. Input from these personal survey techniques may be used as part of the formal business plan and, perhaps even more importantly, can be referred to as a sign of credibility in one-on-one meetings with potential investors and business partners who should appreciate the fact that the founders and senior managers are not relying solely on the library to define the vision for the company.

§13 --Industry analysis

The starting point for the planning process should be a comprehensive survey and evaluation of each industry in which the company operates, including an assessment of the current situation, future trends and the role that the company wishes to play within the industry over the next few years. Industry analysis is challenging under the best of circumstances since most industries are actually a collection of discrete markets defined on the basis of demographic, technological, cultural and other factors. However, it is essential for the working group to prepare a thorough description and analysis of each of the significant potential markets for the company's products and services, including a summary of the current size of each market, a forecast of the anticipated growth of each market over the next five to ten years, the chief characteristics of each market, the major types of customers in each market (e.g., large Fortune 500 companies, small firms, individuals, manufacturers, etc.), and the nature of each anticipated application of the products and services of the company. Also, each target market should be segmented by size and volume, the sophistication of the customers, the amount of innovation (e.g., any further research and development) necessary to satisfy the needs of customers, the degree of customization required in order to penetrate the market, and the importance of producing a "standardized" product.

§14 --Product and market analysis

No business can expect to be successful unless the founders and senior managers understand the relevant markets and develop a strategy for reaching potential users and educating them about the value of the company's products or services. It has been suggested that managers often underestimate, if not ignore, the role of customers as to actual assets of the firm. While emphasis is often placed on capital, technology, machinery, and human resources when listing and describing the assets of a business, they are actually only tools that a business uses to create and maintain a loyal group of customers willing to purchase the company's goods and services. As such, the important task for management is to understand and appreciate the needs of current and potential customers and develop product development and marketing strategies that will increase market share and customer satisfaction.

Presumably, serious consideration of a new business would not be undertaken unless the founders have some sense that a market will exist for the company's products and services. However, a mere "gut feeling" is not enough, and the preliminary planning for the new business must include a comprehensive and candid analysis of market characteristics and opportunities. In particular, the founders and senior managers should be able to provide clear and substantiated answers to each of the following questions:

- Can the company's products and services, the company's "reason for being," be described in terms that can be readily understood by potential investors, customers, and other business partners?
- Who will be the likely customers for the company's products and services?
- What are the important benefits of the products or services and what specific needs will the company's offerings meet in the marketplace?
- How will the company's products or services compare to those offered by direct or potential competitors? In particular, what competitive advantage might the company's products or services have over those offered by others? Can that advantage be sustained?
- What is the proposed pricing structure for the product or service?
- What methods should be used for distribution of the company's products to its identified customers?
- What marketing and promotional strategies will be needed in order to reach the potential customers, including advertising campaigns and public relations efforts?
- What ancillary products or services will (or should) the company be offering in connection with its core products and services? For example, does the company expect to take on any warranty or service obligations with respect to its products?

- What intellectual property rights are involved with the company's products or services? If intellectual property rights are essential to the company's business, what steps have been (or can be) taken to protect the company's position?
- What are the critical stages of developing and selling the company's products and services? Are there any processes in this cycle that have not yet been completed? If so, is there a clear strategy for getting the job done, including raising sufficient capital and recruiting the necessary personnel or business partners?
- What procedures should be implemented for tracking the success of the company's marketing plan and insuring continuous improvement in its products and services?
- What is the expected life cycle of the company's initial products and services? What plans, if any, have been developed for enhancing or expanding the company's portfolio of products and services? If enhancements or new products are anticipated, have the founders thought about how the necessary resources will be obtained?

Adding to the complexity of the developing a customer asset base is that there are actually several different types of customer markets, each of which have their own behavior and methods for determining how and why they purchase specific products and services. For example, in industrial markets, including manufacturers and contractors, the optimal promotional strategy may be personal selling. In contrast, when selling into consumer markets, emphasis may be placed on advertising and in-store displays. Other important markets, each of which may require their own unique strategies with respect to pricing, distribution, and promotion, include resellers (e.g., distributors and wholesalers) and government and nonprofit organizations. Further complications arise as companies expand from purely domestic markets into foreign countries, a trend that has been driven by rapid advances in communications and information technology that allow firms to quickly and easily enter markets around the world.

Studies have shown that successful technology-based firms demonstrate a discernable strategic focus with respect to the mode of market entry and product positioning. In most cases, successful firms opted for exploitation of a niche market that promised sufficient returns and was perceived as being defensible and/or of less interest to major competitors. Successful firms also selected markets that were both large and growing. Ideally, the selected markets are capable of rapidly embracing products and processes that provide substantial "added value" or contribute to rapid innovation in manufacturing techniques.

§15 --Site analysis and selection

Before completing their marketing plans the founders need to be sure that they are familiar with the specific area in which they intend to launch the business. This means taking the time to talk to potential customers and review the development of the market and potential future trends. Among the questions to be considered are the following:

- Have there been prior attempts to launch a similar business in the same location? If others have tried and failed, the founders need to understand the reasons for failure and how they can be avoided this time.
- What about competition in the immediate area? If there are similar businesses in near

proximity to where the new business is being launched, the founders need to ask whether or not there will be enough customers for everyone to survive.

- Are there complementary businesses in the same area? For example, if the founders want to start up a restaurant, an analysis should be done to see if there are other businesses and activities in the same area that might draw potential patrons. In this case, a nearby shopping mall or theater could bode well for increased interest in the restaurant.
- When might volume be highest and lowest in the particular area? Knowing when potential customers might be in the area can help the founders establish the appropriate hours for the business.
- What do the potential customers themselves say about the idea? The founders should take the time to go out and talk to individuals who live and shop in the area and ask them whether they think there is a need for the particular type of business.
- What changes might occur in the area in the future? The founders should be in this thing for the long haul and they need to step back and look at what the market might look like in three to five years. An easy example is the situation where disruptions in existing businesses in the area are anticipated as a result of development, construction, or the closing of a facility operated by a major area employer.

§16 --Competitive analysis

Decisions regarding products and target markets must be made in the context of the competitive and technological environment in which the business is operating. As a general rule, unless existing competitors are not able to meet demand for specified products, thereby creating an opportunity for new companies to sell identical or similar products, a new entrant must have a competitive advantage that can be translated into customer satisfaction in order to survive. Studies indicate that successful technology firms are able to develop and introduce new products or processes that offer some significant benefits over existing competition, be it in the areas of cost, functionality and/or performance. However, while an initial competitive advantage is important for a new firm to launch successfully the founders must also anticipate that new competitors, perhaps companies that have complementary resources, may enter the market in the future and should also be aware of technological changes that might make the company's products obsolete or require that the company spend significant sums on retooling its own technology through internal development or acquisition from outside sources.

Competitive analysis begins with identification of all principal elements of competition in the company's marketplace. There is no standard list that applies in each situation; however, it is not uncommon to find that companies compete on the basis of price, service, performance, product quality and reliability, adherence to standards and/or manufacturing efficiencies. Each of these factors can enhance the value to customer in terms of lower costs or improved product performance. Marketing, distribution, and acquisition of technical skills and resources are all supporting strategies and can also be an important part of the company's efforts to create a competitive advantage. In any event, a thorough analysis of competition calls for an examination of the following:

- The forces that drive competition in the industry (e.g., cost, manufacturing efficiencies, product reliability, technology, breadth of products, capacity, capital, distribution or service);
- The skills and resources of actual and potential competitors;
- Any barriers to entry that might be faced by new competitors;
- Potential "substitutes," in the form of products or services, that may provide either a better answer for the needs of the customer or change their requirements altogether; and
- The potential actions of parties already involved in the relevant value chain that might materially impact the market.

As part of the planning process, the working group must compile a list of the company's major competitors, including firms that may not currently be active in the market but which possess the assets and resources to enter the market at a later date. While companies historically confined competitive analysis to US firms, international business planning explicitly recognizes that more and more industries are now global in nature and that innovation and competition can come from almost anywhere. Accordingly, potential foreign competitors for market share in the US must also be identified. Due diligence should then be performed on each identified competitor to determine their strengths and weaknesses, and the founders should have a strategy to deal with the strengths of each of its competitors. The scope of potential competition should not be underestimated and consideration should be given to the possibility that other products and services, even if not identical to the company's products or services, could fill the same need that the company's products or services will fill.

The company must develop a procedure for monitoring competition and a strategy for capitalizing on its competitive advantages and minimizing the exposure that it may have to the strengths of others. The company must then be prepared to candidly assess its standing within the industry, both in terms of sales volume and with respect to the characteristics upon which the needs of the customers are satisfied. Based on this assessment, the company can both identify its competitive advantages and the distinctive competencies that will allow it to compete effectively and should be able to explain in the business plan how it will be able to compete with respect to the identified elements of competition. One method that can be used in order to identify the company's distinctive competencies is to ask a series of questions regarding the manner in which the company completes the tasks necessary for it to develop, produce, and distribute its products and services. This exercise, which is sometimes referred to as "value-chain analysis," is designed to establish the basis upon which the company will compete in the future and, to some extent, to identify those areas in which the company's skills fail to match the expertise of competitors. In any event, the following questions should be considered:

- Is the company able to compete on the basis of its strengths in procurement, processing or manufacturing?
- Is the company able to compete on the basis of its strengths with respect to sales, distribution, customer service, delivery, promotion, maintenance or field engineering?

- Is the company able to compete on the basis of the characteristics and capabilities of its products and services?
- Is the company able to compete on the basis of its human resources strategies?
- Is the company able to compete on the basis of its strengths in the area of research and development?
- Is the company able to compete on the basis of a unique technological advantage, which is either embodied in its product line or is utilized in the course of its manufacturing?
- Is the company able to compete on the basis of its financial assets or strategic business relationships?

The end product of this analysis should be selection of a strategy that is consistent with the company's competitive advantage and the needs of the marketplace. For example, while a given product may be technically "inferior," it may flourish due to exceptional distribution capabilities. Some companies may be able to become the lowest cost entry in the marketplace by virtue of its ability to use low-cost production facilities in an offshore location. A similar result may be achieved if the company is able to exploit its own proprietary technology to reduce production costs. In other cases, a company's technology can be used to develop a variety of new tools or applications that can be used to by customers to solve their own engineering or development problems.

§17 --Financial planning and analysis

One of the most difficult tasks for the founders of any new business is finding the capital necessary to get the business up and running. Before abandoning the financial security of their current positions, entrepreneurs need to carefully review the capital requirements for the proposed business, their own personal financial position, and the sources of financing for the new business. The issues in this area are challenging for technology-driven companies that will operate in a risky and uncertain environment and the founders should exercise caution when creating budgets and projections. While the founders obviously prefer to keep their investment in professional services manageable until the business is up and running, input from experienced accountants and financial consultants can be extremely valuable. The goal is to establish a practical and useful financial reporting system, including the ability to generate GAAP-based income statements, balance sheets and statements of cash flows, and procedures that will allow monitoring of the financial aspects of departmental activities and major inter-department projects. All forecasts and projections should be supported by key assumptions and should be rigorously and regularly tested through sensitivity analysis.

Budgeting and Financial Management

A "budget" has been defined as a plan for the coordination of resources and expenditures covering a definite period of time. While a budget can be created for the management of non-financial resources, such as manpower, the term is typically used in connection with the planned use of financial capital. Companies and other organizations generally rely heavily on short-term budgets that cover one year. However, common practice is to also prepare long-term budgets, particularly in those cases where large capital investments are required. Long-term budgets often extend out five years or more, but they are generally broken down into annual periods.

The process of preparing a budget forces management to identify appropriate choices for the firm's activities, determine the financial resources required to pursue each choice, and chooses those activities that promise the greatest reward (i.e., return on investment) in relation to the limited financial resources available to the firm. While the process of preparing the budget is an essential management activity, it is just one part of the larger task of financial management for the firm. Financial management involves identifying attractive investment opportunities, seeking and obtaining funds required to pursue the best of these opportunities, preparing the plans (i.e., budgets) for the utilization of these funds, and monitoring the progress of the projects in relation to the original budgets.

The budgeting process also has several other ancillary benefits. For example, by tracking the firm's performance against a plan or budget, management can quickly identify any variances that may require corrective actions or re-evaluation of the underlying premises for the original investment decision. In addition, a budget or plan is a good method for evaluating the performance of managers or departments within the firm. Finally, budget preparation provides a good opportunity for senior managers to review and integrate the plans and activities of different units within the firm.

In order for the budget preparation process to be effective, it should include answers to the following key questions:

- What are the overall business objectives for the firm? The budget is only useful in the context of specific performance goals for the firm, such as increasing sales or the firm's market share or reducing costs. By knowing the most important goals of the firm, the managers can set priorities among the various projects that could be implemented over the planning period.
- Who has the primary responsibility for seeing that the budget process is successfully completed?
- What parties must be involved in approving all or significant portions of the budget?
- Who has the primary responsibility for implementing and monitoring the budget once it has been approved?
- What review periods should be established within the budget?
- Does the budget process take into account the possibility of unforeseen events or problems that might alter original forecasts and projections? In developing countries, firms often run into unanticipated problems with sudden changes in foreign exchange rates or government regulations.

The budget process should produce a budget that is perceived as fair and acceptable throughout the organization. Persons or units that may be disadvantaged by a proposed decision should be provided with an opportunity to explain their position and come up with alternatives. Otherwise, morale will deteriorate along with commitment necessary to adhere to the performance requirements necessary to meet the budget. Management must remain committed to the budget during the planning period, and the budget should not be changed absent clear and compelling reasons and full analysis and discussion. If budgets are routinely abandoned or ignored, the entire process is trivialized. However, this does not mean that the results of periodic reviews should be ignored if it appears that changes are dictated.

Source: N. Kariuki, "Organizational Budgeting and Financial Management in Africa", in J. Waiguchu, E. Tiagha and M. Mwaura, Management of Organizations in Africa (Westport, CT: Quorum Books, 1999), 347.

§18 ----Costs and expenses

Financial planning and analysis begins with the projected costs and expenses associated with launching and operating the proposed business. Every business is different and the budget items will depend on the type and number of products and services, the functions to be performed by the company, and the location and scope of the company's business activities. For example, among other things, the founders may need to consider:

- Manufacturing and inventory costs, including the purchase or licensing of equipment or intangible assets;
- Employment costs, such as wages and payroll taxes;
- Facility costs, including payments for use of buildings and furniture; and
- Overhead costs, including payments to legal and accounting professionals.

New businesses must also attempt to conserve financial resources when selecting office and manufacturing space and the equipment required for operations. In most cases, the company should take advantage of rental and leasing opportunities to conserve cash and retain flexibility before making significant long-term investments in facilities and capital assets. This can be particularly important in situations where the technology underlying the business activities of the company is rapidly changing or unstable. Also, while the founders should certainly attempt to make accurate estimates of demand and unrelated capacity requirements, it often takes some period of time to identify realistic resource requirements. Other issues that may have an initial impact on financial reserves include improvements to facilities and security deposits.

Once the business is launched, the founders need to consider the ongoing costs and expenses that will be incurred in order to operate the business. The company may incur expenses in building up an acceptable level of inventory and may also need to absorb finance charges if customers are not able or unwilling to pay on a timely basis. If expansion of business activities is contemplated, consideration must be given to projected costs of new facilities and equipment and hiring new employees. The need to comply with financial reporting requirements and simply monitor the financial performance of the business means that cash and human resources must be invested in setting up and maintain a recordkeeping and reporting system.

It may seem like the list of costs and expenses to be incurred is endless. It may even discourage the founders from moving forward with the business. However, it is imperative to make the list as detailed as possible to ensure that the company has sufficient funds to make its operations ready for business prior to running out of cash. The more detailed the list and the more sufficient information that can be provided, the less chance there is of unpleasant surprises as the founders move down the stream to opening the business.

What expenses must be paid to allow the company to convert purchased merchandise to salable inventory? Certainly if the business entails sales of inventory, the company will have to purchase the merchandise from others or purchase the component parts and pay employees to assemble it. This may require a significant outlay of cash before the first dollar of sales is generated and received. In addition to the cost of manufacturing, consideration should be given to whether the company's productive capacity will allow it to generate enough inventory to support the level of predicted sales. If the sales forecast is above and beyond the company's ability to produce today, what changes in its operating environment must be made to meet the production levels? Will the company need additional employees, if so, how much will they cost? Does the company have to acquire additional machinery for shop operations? What is the cost of the machinery and when will the company have to pay for it? If production requires utilities to run machines or supplies, such as dispensable chemicals or packing materials that must be purchased prior to the sale of the inventory, the timing of payment must be taken into account. Additionally, the company needs to know the credit trade terms that its vendors are willing to advance. Does the company have to pay for inventory items on a COD basis or can it pay for them thirty or forty-five days after receipt?

Once the company has determined the cost of operating its production or service facilities, consideration must be given to what other expenses must be paid to keep the doors of the business open. For example, the company will typically have to pay rent for its offices or manufacturing facilities. Consideration must be given to how much the monthly payment is and when it has to be paid. Are there any other expenses relating to the lease, such as a deposit on first and last month's rent? When opening a new business, as opposed to purchasing an existing business, attention must be paid to the cash requirements for making the facility ready for the specific needs and purposes of the company. Will the company have to buy or rent furniture? Will it need to make tenant improvements or pay deposits for utilities and other services? The company should consider how often and in what amount employees must be paid and when their payroll taxes must be deposited.

§19 ----Cash flow

It is often said that “cash is king!” The life blood of any business is its ability to collect cash and pay bills as well as pay its managers and employees. Far too often, young businesses do not have enough operating capital to meet their current needs. Consequently, they may be forced to sell out to a stronger competitor, sell a portion of the company to investors at an undesirable price, or close the doors and put the company out of business. None of these alternatives are typically what the founders intended when starting the business.

The ability to forecast cash resources and uses is an art and is by no means a well-defined science. No one has a crystal ball and any cash forecast that is prepared by the management of a company or an outside consultant can be no more than a guess as to when the customers will pay and when the business will pay its obligations. Hopefully, the more effort that is put into cash forecasting the better will be the educated guess and the more accurate the resulting picture of the future operations of the business.

Cash flow projections can be very slow, time consuming and tedious to undertake. It is often very tempting for the founders to hire someone else to prepare the projections for them. There are a variety of individuals who can help, but the critical factor is that they only help. The managers of the business are the only individuals truly qualified to develop cash flow projections. Certainly a trained professional can offer guidance and ask pointed questions to be sure that consideration is being given to all of the necessary and sometimes hidden costs of operating a business. However, the more effort put into developing cash flow projections the more accurate they will be. This exercise may also help pinpoint potential cash savings which had not otherwise been considered.

One of the most significant factors to be considered in cash flow analysis is the volume of sales that will be generated for the period for which the forecast is being made. The sales forecast must be as fine-tuned as possible. In many cases, sales forecasts are based on assumptions, often unrealistic, regarding the size of the market for the company's products or services and the market share that the company will be able to capture. While these measures and targets can provide a good starting point for preparing the forecasts, reference should be made to actual experiences of similar businesses in comparable markets. Moreover, the forecasts should take into account other factors that might impact the level of sales at any point in time, such as new distribution arrangements, expansion or contraction of product lines, adding or eliminating sales representatives, seasonality and the relative state of the economy. Obviously the ability to forecast sales for the next month is better than it is to forecast three to five years from now. The amount of detail that must be included in the cash forecast is really a matter of preference. It can be based on per-unit sales extended out by the sales price of each type of unit or an average sales volume per day, week or month.

New businesses selling technology-based products and services may find it is difficult to estimate the average sales price for its products during the product launch period. While some reference can be made to comparable products, actual customer use and satisfaction will ultimately determine the sales price, as will the future impact of competition. Another factor to consider is the need for the company to offer discounts on products and services in order to create incentives for customers to use their products and services during the launch period. If discounts are planned in advance, they actually can be budgeted as a marketing expense. If, on the other hand, discounts are offered in response to market reactions after the projections have been finalized, they will reduce the projected sales revenues during this period.

Once a reasonable level of sales has been determined and the founders are comfortable with their forecasts, consideration must be given to converting sales into cash that can be used for the business. One of the most common problems for new businesses is their inability to promptly collect amounts due from customers. While hopefully that company will be able to generate a significant volume of cash sales, it is typical for businesses to engage in credit sales transactions that require that they carry accounts receivable. The forecasts should include realistic assumptions about the amount and collection of receivables, including the average amount of time between the date that a sale is booked for accounting purposes and the date that the income is collected. Also, the founders must not assume that all receivables will actually be collected and create reserves for returns and discounts that may be necessary in order to build customer trust and loyalty.

§20 ----Working capital

It is the fortunate, and rare, business that can match its expenses and income from operations from the first day. Instead, it is far more likely the founders will not to obtain some amount of working capital to continue operations until the business is profitable. The amount of capital will depend on the shortfall from operations identified by the projection of income and expenses, as well as the need to fund long-term investments that are not likely to reap returns within the specific planning period.

Working capital comes in a wide variety of forms and from a myriad of different sources. Obviously, the founders themselves can make capital available to the company from their personal resources. Commercial lenders can provide short-term capital that simply bridges the gap between the accrual of a sale and actual payment. Investors may provide financing to fund the initial product launch and investment in the development of new products and penetration of other markets. Capital may be in the form of equity, which generally is permanent and need not be repaid within a fixed period, or debt, which must be repaid on or before a specified date along with interest and other charges as agreed with the lender. While equity instruments tend to reduce the day-to-day costs of working capital, they do dilute the ownership interest of the founders in the ultimate appreciation in the value of the business. Moreover, equity investors seek some voice in the management of the business.

§21 --Organizational analysis

Organizational analysis should also be carried out before too much work is done on the business plan. Identifying and implementing any new strategic initiative makes little sense unless it provides an opportunity to address a specific organizational weakness or build on a unique strength of the company. This process of self-evaluation for the company should be ongoing so that management is always in a position to quickly evaluate new opportunities, regardless of where in the world they might arise. It is often helpful to use outside consultants to provide some sort of independent assessment since management is sometimes unable to see or appreciate shortcomings in the organization. The analysis should cover each of the main functional areas of the company's business, including production, marketing, logistics, and purchasing. In addition, given the importance of human resources to any business, an inventory should be taken of the managerial and technical skills of the company's existing workers. Once this analysis has been completed, management can develop specific organizational objectives that should be pursued in formulating and implementing any new strategies.

§22 --Risk analysis

While the underlying assumptions regarding the development and competitiveness of the company’s products and services, as well as the company’s financial projections, should always be tested during the initial analysis in those areas, some form of overall risk analysis can be a valuable final step in the planning process. Perhaps driven by regulatory concerns and the propensity for investor’s to litigate with founders and managers if things do not go well, the practice in the US is to include extensive “risk factors,” sometimes referred to as just “certain factors,” in investor disclosure documents.

While drafters have tended to create what are essentially "boilerplate" explanations of events and trends that might create problems for the company in the future, it is important to separately consider all the key risk factors that might be relevant to the company and its ability to attain its business objectives. Some of the questions that need to be asked include the following:

- How will the company's inability to raise all the required capital impact its product development plans ("financial risks")?
- What might be the consequences if the company is not able to complete development of its proposed products on a timely basis ("product development risks")?
- Are there other parties that might have a legitimate proprietary interest in a material element of the company's technology ("technological risks")?
- What might be the consequences of the company's inability to reach acceptable agreements with potential manufacturers or distributors for the company's products ("production and distribution risks")?
- What is the possibility of new or modified regulatory requirements that might apply to the company's products ("regulatory and litigation risks")?
- What might be consequences of the departure or unavailability of one or more of the members of the founding group ("management and employee risks")?

Obviously, this is not a comprehensive list—all businesses are subject to general environmental risks such as unforeseen shifts in the national and local economies—and reference should be made to public disclosure documents of other companies involved in similar business activities. While anticipating a risk does not always prevent the adverse event from occurring, it does allow the founders to take some precautions. Moreover, this is an area of great interest for potential investors, who will almost certainly require responses during their due diligence investigation.

§23 Basic elements of a business plan

The structure and focus of the business plan will be influenced by the type of business engaged in by the company and its stage of development. There are no formal requirements that must be satisfied in determining the contents of a business plan; however, there are certain guidelines that should be followed in order to insure that necessary information is collected and all the relevant issues are considered. While there are a variety of ways to organize a business plan, it is generally useful to begin by describing the company's current business and the main products or services offered by the company. The next step is evaluating the company's current position. This competitive analysis is crucial to determining the content of the balance of the business plan. Organizational changes should also be addressed in the plan since a new strategic initiative generally requires a substantial shift of resources. Finally, the working group should expect to prepare budgets, schedules and tactical plans.

The purpose of the business plan will dictate the structure. For example, an introduction and general background description of the business of the company will be appropriate in cases where the business plan document is prepared for circulation to investors who might not be familiar with the company. On the other hand, a plan for strictly internal use generally need not include a lengthy introduction or discussion of the historical development of the company, and projections of future financial performance will be emphasized over financial statements from prior years. A business plan drafting worksheet should be used to ensure that all the key questions and issues are considered before the text of the plan is finalized. Such a worksheet, an example of which appears below as Table 1, will include an extensive list of questions and information that should be answered and provided in a good business plan. In some cases, the items will overlap and the organization and emphasis of the business plan will vary depending on the type of business and the purpose of the plan. However, working through these items should provide a good starting point. Management and others involved in the drafting process should allow sufficient to thoughtfully answer each of the questions. In the plan itself, reference should always be made to independent research reports, as well as any other credible evidence to support the claims and strategies of the company.

Table 1
Business Plan Drafting Worksheet

I. Executive Summary

1. Briefly describe the company's business model and key business and financial achievements.
2. Describe the significant features of the company's products and services.
3. Describe the market potential for the company's products and services.
4. Describe the financial goals of the company (e.g., reaching $2 million in sales in the new market in two years, profitability in three years, and specified levels of sales and after-tax profits within four years).
5. Describe the purpose of the plan, its relation to the attainment of the company's financial goals and how investors or lenders will recover their investment.

II. Company Description

1. Describe the company's principal line(s) of business.
2. For each line of business, describe the company's products and services.
3. For each line of business and related product or service, describe the actual or anticipated customer base and their specific needs with respect to the types of products and services offered by the company.
4. Describe the specific steps taken by the company to identify customer needs, including interviews, market surveys and research, or beta testing.
5. For each identified customer base for the company's products and services, describe the company's distinctive competence or competitive advantage (i.e., why will those customers purchase the products and services of the company as opposed to those offered by competitors or substitutes).
6. For each product or service, describe the profitability structure, including anticipated sales price, costs, and profit margins.

III. Industry Background and Market Analysis

1. Describe the industry or industries in which the company is active.
2. Describe the size of each industry and the anticipated growth patterns over the next five to ten years.
3. Identify the major industry segments that would have an interest in the company's products and services.
4. Describe the business types that will likely be the major customers for the company's products and

services (e.g., Fortune 100, 500, or 1000 companies or small proprietorships).
5. Identify and describe any other major demographic or technological trends in the industry.
6. Describe the actual or potential impact of regulatory requirements on the company's products and services.

IV. Competition

1. Identify and briefly describe the major actual and potential competitors in each of the company's target markets.
2. Identify and describe the major factors of competition in each target market.
3. Candidly analyze how prospective customers will perceive the way that the company compares with competitors with respect to each of the aforementioned factors of competition.
4. Describe the steps that the company intends to take to exploit competitive advantages and/or reduce or eliminate competitive disadvantages.
5. Describe the anticipated response of major competitors to the steps enumerated in Item IV-4 above.

V. Marketing and Sales

1. Describe the company's overall marketing strategies and objectives (e.g., how is the company to be perceived in the market and what are its goals with respect to market share).
2. Describe the company's strategies with respect to distribution of its products and services (e.g., direct sales, independent sales representatives, distribution agreements with third parties, etc.).
3. Describe the company's promotion strategies.
4. Describe the company pricing strategies, including anticipated changes as brand acceptance develops.
5. Identify and describe the company's main "sales pitch" (i.e. the main messaging in its sales and promotion activities).
6. Describe the company's strategies with respect to service and support of customers and distributors.
7. Describe the company's sales strategies and activities (e.g., customer identification, sales staffing requirements and compensation, and sales goals and measures).

VI. Technology and R&D

1. Describe the key aspects of the technology required for the company to operate its business.
2. Describe the status of each element of the technology enumerated in Item VI-1 above (e.g., idea, prototype, small production runs, etc.).
3. Describe the company's ownership and/or usage rights with respect to each key element of its technology.
4. Describe the general status of technology in the company's main markets, including companies that have technology that is superior or equal to the company's technology.
5. Describe anticipated trends in relevant technology over the next five years, including specific new technologies that might become commercially viable during that period and factors that might restrict their development or acceptance.
6. Describe the company's key research and development activities and related milestones and risks.
7. Describe how the results of the company's research and development activities will be used in the company's business (e.g., new products, new production methods, updated versions of existing products that meet identified customer needs, etc.).
8. Describe the impact of regulatory approval requirements on the company's research and development activities.

VII. Manufacturing and Operations

1. Describe the company's manufacturing and operations activities and strategies.
2. Describe any significant agreements with third parties with respect to manufacturing.

3. Describe any competitive advantage or disadvantage of the company with respect to manufacturing activities and the steps the company intends to exploit/eliminate such advantages or disadvantages.

VIII. Management and Human Resources

1. Describe the management and organizational structure of the company, including all key foreign business units.
2. Describe the company's recruitment, training, and compensation policies.
3. Describe the company's internal information management structure.
4. In the case of a business plan used to raise capital, describe the skills and track record of the key managers and the company's plans for recruiting additional managers.

IX. Additional Items

1. Prepare a cover sheet which serves as the title page and includes basic information such as name, physical address, phone number and website address of the company, logo and the date that the business plan was prepared.
2. Prepare a table of contents.
3. Include financial information covering past, current and projected financing needs and sources of funds including detailed operational and financial plans showing how funds received from investors or lenders will be used; cash flow statements and budgets; balance sheet and profit and loss statement; income projections; and breakeven analysis.
4. Compile and include appendices and other supporting materials including resumes of founders, other senior executives and key employees; credit reports; organizational documents of the applicable business entity; copies of material contracts and other legal documents; personal and professional references; reports relating to company's industry and other relevant environmental factors; and other background documents referred to in the body of the plan.

The finished product for the business plan preparation process should have a professional "look and feel" and it is often useful to involve consultants that specialize in business plan preparation; however, senior management must own and understand every word in the plan and be ready to explain anything included in the plan to outside readers. Key points in the plan can be compiled into slides that can be used for oral presentations. While there is no standard regarding the length of the plan a good rule of thumb is not to exceed 30 to 40 pages and, once again, the executive summary should be clear and concise since it is often the only thing that is read before a decision is made as to whether to spend any further time on the contents of the plan. Distribution of the plan should be cataloged—each copy should be numbered and a record maintained as to who received each numbered plan—and copies should be retrieved from those persons who no longer have a need for the plan.

The Lightweight Startup Plan

The traditional "business plan", which generally ran anywhere from 40 to 60 pages, has been criticized as a waste of time and effort when trying to raise capital from investors. Many have argued for an emphasis on describing the steps taken to identify and execute the company's "business model" in order to demonstrate that the founders and other members of the management team have validated knowledge of their customers, markets and products and the value proposition that the company seeks to offer. Others have argued that all that companies need is a relative short executive summary accompanied by a "pitch deck" of no more than 20 to 25 slides that serves as a "lightweight startup plan". Recommended sections for such a plan include the following:

- **The Team:** This section should highlight not only the people who are involved in the day-to-day running of the company, but also the advisors and the mentors around the team. The section should cover the background and experience of current team members and should also identify the roles that will need to be filled in the future.
- **The Problem:** This section should describe the problem that the company is trying to solve and provide evidence, based on validated learning, of actual demand for the solution and willingness to pay for the solution. The company must be able to demonstrate that it understands what the problem is, has a clear plan to go about solving it, and has a thorough and detailed knowledge of the target customer segments.
- **The Product:** While the finished product may not yet be available, the plan must include, at a minimum, a prototype that makes it easily visualized—even if it's just wireframes, mockups, or a 3-D printed version of the future product (i.e., a "minimum viable product"). This section should also a timeline for product creation and any key milestones that may be coming up toward initial product delivery (and key activities that need to be completed for the initial product to be ready), as well as discuss future products that might be applicable to the target market and services you can provide as an add-on or up-sell to increase the company's average revenue per customer and strengthen the long-term customer relationship. If the company will need to develop or acquire any intellectual property, the plan should describe how this will be accomplished.
- **The Market:** In the section on market, the company should describe the external environment in which it will be operating and marketing and selling its products and services. The size, evolution and current state of development of the target market should be described along with information on actual and potential competitors, suppliers, barriers to entry, role of technology and intellectual property and other key partners (e.g., distributors) that the company needs to find in order to provide solutions to customers. Just like it's important for the company to "know its customer", "knowing the market" is also critical to success.
- **Customer Development:** While somewhat duplicative of information in other sections, the company should include an identifiable discussion of its plans for implementing the customer development methodology associated with the "lean startup" process including customer discovery, validation and creation. This ensures that the plan will address key questions such as channel selection and development, pricing tactics etc. and will demonstrate how the company has validated customer interest and established a foundation for building customer relationships. Efforts to gain traction in the marketplace prior to completion of the final version of the first product should also be discussed.
- **Financial Model:** This section should describe and demonstrate a thorough understand of the proposed revenue model for the company and also describe key assumptions regarding company growth (i.e., people, facilities and other tangible assets), customer growth, revenues, costs and other expenses and profits. The financial model should be based on key milestones in the company's development and provide readers with a sense of how much money will be need in order to get to each of the milestones, particularly "cash flow break even".

In addition to each of the sections above, the plan should address topics specific to the particular company such as any potential encumbrances on the company's "freedom to operation" (i.e., licenses to use intellectual property owned by others and/or talent shortages); barriers to entry; market adoption; regulations and exit strategy.

Source: R. Allis, How to Build a Startup Plan, http://startupguide.com/tag/executive-summary/

§24 --Introductory section

The business plan will generally begin with some form of introductory section. The introduction is composed of three parts—cover page(s), a table of contents, and an executive summary. In addition, many plans contain a mission and vision statement at the beginning of the document. The specific contents of the introduction will depend on the intended audience for the plan. For example, in the case of a plan that is to be circulated extensively to outsiders, such as prospective investors, the introduction will include various warnings and disclaimers to protect the confidentiality of the information and satisfy all of the requirements of applicable securities laws. Obviously, when the plan is solely for the internal use of the company, securities law legends are not necessary; however, it is still appropriate to include notices pertaining to safeguarding the confidentiality of the plan.

While the working group certainly anticipates, and hopes, that readers will carefully peruse the entire plan, as a practical matter most recipients will start (and often limit) their review of the plan by scanning the executive summary. As such, particular care should be taken to preparation of the summary, since text that is poorly written and unclear will adversely impact the credibility of the entire plan. The executive summary, which generally runs anywhere from one to four pages, should be prepared after the entire plan has been completed; however, it should not simply be a collection of highlights or a condensation or summary of the plan. Instead, the executive summary should be seen as a marketing tool that briefly describes the reasons for preparing the plan, the opportunities uncovered by the working group and the actions the company needs to take in order to exploit those opportunities. Since senior managers will be scanning the plan, the executive summary should provide some sense of the level of investment required and the anticipated return on the dedicated resources. When the summary is to be viewed by potential investors it should include a clear and concise description of the company's business, such as the industry sectors in which the company competes and the type of products developed and sold by the company; a summary of the significant features of the company's products and services; a characterization of the market opportunities for the company's products and services; a summary of any major product development milestones; a description of historical financial results and projected financial result (e.g., "growth at __% per annum to $__ million in sales by FY__, projected breakeven in _____ quarter of FY__, and continued growth to $__ million in sales and $__ million in after-tax profits by FY__"); and a description of how, and when, investors will be able to exit the investment with an acceptable rate of return. If applicable, recent material changes to the company’s business should also be mentioned and briefly explained.

As part of the executive summary, the company should include some form of “mission statement,” which clearly and succinctly integrates the company's unique competitive advantages with its major financial and market-related goals and objectives. A mission statement is a short and concise description—generally no longer than two or three sentences—of the fundamental purposes of the firm. In effect, management must be able to come up with an answer to the question of just what business the company is engaged in and the anticipated outputs and results from the conduct of the business. This mission statement can be derived from the discussions included in the plan covering the products and services of the company, the markets in which the company is participating and competitive factors. For example, a mission statement might include a general statement of the products and services that are to be provided by the firm, as well as a list of general performance targets such as profitability, cost-effective production and highest quality customer service. The process of identifying and drafting the mission statement is often one of the most difficult parts of the planning process and preliminary discussions within the management team often uncover widely divergent views regarding the mission and purpose of the business. It is important, however, to invest sufficient time to make sure that the mission statement is clear and it should be widely disseminated throughout the organizational structure of the company.

Once agreement has been reached on a mission statement, it can serve as a guide for setting specific organizational goals and objectives and making choices among various options that may be available in the marketplace. Goals and objectives should be set by senior management working in conjunction with representatives from all of the functional areas in the company and other interest groups. It is important to build a consensus as to the agreed priorities for the entire company, since it is likely that managers in different areas will have their own ideas regarding goals and objectives. The goals and objectives should be described clearly and in a way that can be verified and measured.

Some of the objectives may be long-term, as they will clearly require over a year to achieve and verify. Possible long-term objectives for a company might include such things as attaining profitability, incorporating "best practices" into manufacturing processes, providing specific products and services, or increasing the quality of working conditions. Other objectives will be short-term and management should be able to attach a firm timetable that will include a target date for completion within the next 12 months. In many cases, the short-term objectives are milestones that need to be completed in order for the company to realize the long-term goals. For example, if the firm is seeking to develop and introduce a specified number of new products and services over the next three to five years, the short-term objectives might include completion targets for a portion of the expanded product portfolio. If profitability is one of the company's long-term objectives, short-term benchmarks might include increases in revenue and the reduction of the production costs associated with particular products. Progress toward penetration of new markets might be tracked through expansion of distributor arrangements. Finally, the development of human resources can be tracked through the number of persons that complete a specific training certification program each year.

The importance of the executive summary in garnering the interest of potential investors cannot be overstated. As such, the executive summary should highlight those characteristics which investors generally consider to be most important in making an investment decision. For example, the executive summary might focus on evidence that the products or services of the company have been accepted in the marketplace or the company's strong intellectual property rights position. The executive summary, as well as the balance of the business plan, should also reflect the company's understanding of the needs of the investors, particularly their goals and objectives as to financial returns.

§25 --Description of background and current situation

The first major section of the business plan should briefly lay out the background for the information and proposals included in the balance of the document. The purpose of this section is to provide the reader with an overview of the development of the business of the company and an assessment of the current and projected business situation of the firm. The level of detail in this section will depend upon the audience. Obviously, when the plan is being written for internal purposes, this section can be relatively short and used only to provide readers with a point of reference while the plan focuses on how potential business activities—such as development of new product lines—can transform the current situation. If, however, the plan is being written for presentation to outside parties, generally investors, bankers and other capital providers, further detail will be necessary in order to educate readers who may be unfamiliar with the company and the industries and markets in which it conducts business.

In most cases, this section will include a summary of where the company currently stands with respect to the development and marketing of its main products and services, including information on revenues, expenses, profits and losses, and market share for a recent period. Beyond that, however, the competitive analysis conducted by the working group should be used to highlight strengths that might be exploited, and weaknesses that might be addressed, through new business strategies that will be discussed in the plan. For example, solid acceptance of one of the company's products in one market may signal an opportunity to introduce the product into a new foreign market with similar demographics. On the other hand, sagging sales for a particular product in the US market may dictate a closer look at introducing that product into a foreign market that is less sophisticated and perhaps eager for functions that might be obsolete in the US.

Obviously, it is very difficult to make generalizations regarding the contents of the description of the development of the company in the business plan. At a minimum, however, it is useful to describe how the company was originally formed. For example, in a number of cases involving companies active in the high technology area, the business began when the founders left their previous employers to develop a new technical or product concept that did not fit into the strategic plans of the former employers. Beyond formation, other milestones which might well be mentioned, as appropriate, include receipt of initial financing from investors; recruitment of experienced management personnel, if necessary; expansion of human resource capabilities in research, manufacturing, sales and finance; "beta-site" testing and initial sales of products and services; formalization of supply and distribution arrangements; and additional rounds of financing. Any significant financial milestones should also be mentioned, such as a material increase in dollar or unit sales.

If the company has a significant operating history the business plan should include historical financial information, including income statements and balance sheets. The historical financial information generally need not be audited or certified; however, every effort should be made to insure that the results of operations are accurately stated. The historical financial information, which should be presented in summary fashion in the body of the business plan, with the actual financial statements included as appendices, serves a variety of purposes. For example, a good number of the material assertions in the business plan regarding the past operations of the company's business can be verified through a review of the financial statement disclosures. In addition, the past performance of the company, particular when compared to any operating budgets of prior business plans, can be one of the best methods for determining whether the company's managers will be able to attain the objectives set out in the current plan. Finally, if there appear to have been any material deviations from any prior operating budgets, the business plan should contain a thorough explanation of the circumstances, including any remedial actions that may have been undertaken. Historical financial information should be accompanied by projections of future financial performance extending out over a reasonable planning period, generally from three to five years; however, projections are typically laid out in a separate section of the business plan.

§26 --Competition

The company should conduct a thorough competitive analysis before preparation of the business plan begins and the plan itself should include a discussion of important competitive factors that may impact the company and the effectiveness of its chosen strategy. Although the company may have a significant strategic advantage in its chosen market, perhaps in the form of innovative and proprietary technology, it can be expected that a properly chosen market niche that is expected to expand in the future will attract competition from a number of firms.

The business plan should discuss the specific competitive environment in which the company operates, including a listing of the company's major competitors; a description of the nature and area of their competition, be it direct or indirect; and a candid assessment of the company's standing within the industry, both in terms of sales volume and with respect to the characteristics upon which the needs of the customers are satisfied. Competition may come from specialized firms, as well as from larger companies with divisions capable of competing in the industry. It is also important to attempt to identify future competitors and the resources that they will bring to the marketplace. In addition, in discussing the competitive environment, it is important to consider whether or not other noncompetitive firms (e.g., manufacturers) which may interface with the company's products are willing to support the company's products due to warranty, liability, or other types of considerations (e.g., image or reputation).

The business plan should describe the company’s ability to effectively cope with the principal elements of competition in its chosen markets which may include one or more of the following: price; performance; product quality and reliability; financial stability; adherence to standards; marketing; distribution; technical resources; production capacity and manufacturing efficiencies; and production yields. If the company has any specific competitive advantage with respect to any of these elements the plan should illustrate how the company’s strategy will leverage that advantage. In turn, any competitive disadvantage with respect to the issuer due to the lack of breadth in its product line or otherwise should also be explained and the plan should outline plans for mitigating or eliminating those disadvantages such as implementing plans to lower manufacturing costs, introduce new products and improve production yields. Finally, the plan should describe any anticipated future changes in the competitive environment and the company's plans for remaining competitive in that changing environment.

The plan should also state the "basis for competition" within the industry and the various factors (e.g., cost, manufacturing efficiencies, product reliability, technology, breadth of products, capacity, capital, distribution, or service) the company believes may influence competition within the industry in the future. If the company's products and services fall into more than one market segment or applications field, then the plan should address each of these segments and fields. The business plan discussion should extend beyond a mere listing of competitive factors to an analysis of how the products and services of the company compare with those offered by the various competitors; the strength of the company's resources and assets in relation to competitors; the competitive strategies of other firms and, especially in those cases where the company is new to the market; and the anticipated response of competitors to the company's products and services.

The business plan should consider not only the current competitors in the market, but also the possibility that other firms will enter the market in the future. The risks presented by new competition are particularly high in new and innovative industries, especially when it is anticipated that significant profit margins can be realized and that the market will be expanding over the next few years. The business plan should consider some of the "barriers to entry" which might make it difficult for new competitors to enter the market, including the amount of capital required to effectively achieve any required economies of scale; the proprietary nature of any products or technology, as well as the importance of brand identification; "switching costs" for the customer base; the availability of appropriate distribution channels; the existence of any absolute cost advantages; and any regulatory requirements which might delay or reduce new competition.

In those cases where the company is a pioneer in a new market area, the business plan should describe any efforts that the company might be undertaking to establish its own barriers to new competition. If applicable, reference might be made to the company's strategies for developing a broad product line, a large installed base of satisfied and loyal customers, or the establishment and maintenance of a strong technology rights position. If the company is itself attempting to enter a new market dominated by established firms, the plan must address how the company proposed to overcome any existing advantages held by current market participants, such as rapidly achieving manufacturing competence through a strategic alliance with another firm, or by capitalizing on relationships which have been established with potential customers in other business areas.

§27 --Products and services

The business plan should include an extensive description of each of the company's principal products and services in each industry sector in which the company is active. In addition, the company should provide a description of the status of any new product or industry segment (e.g., whether such products are in the planning stage, whether prototypes exist, the degree to which product design has progressed or whether further engineering is necessary) that would require the investment of a material amount of funds or which is otherwise material to the company's future operating and marketing plans. From a formatting perspective, the discussion of existing and new products will often be broken out into separate sections, particularly when the business plan is being presented to investors and the development work on the new products is to be financed out of the proceeds of the proposed offering.

The discussion of products and services in the business plan should extend beyond a mere description to include an analysis of the key strengths that the company possesses that will make the development, production and sale of those products and services a profitable undertaking. For example, the discussion should identify any innovative features, potential applications or technological characteristics which may serve as a basis for a particular strategic advantage. This may require an examination of the revenue, cost, and overall profit structure associated with the products; the actual and potential markets for the products; the distribution channels that are used for the products; and the assets and resources of the company which are, and will be, needed to support the products in the future. The plan should also describe the current distribution strategies for the product or service and the manner in which the company provides key functional support, such as manufacturing and technical assistance to customers and other users.

Several different approaches can be used in the course of describing the company's product strategies. For example, a company may be seeking development through new technologies, the improvement of production efficiencies, cost reductions, quality enhancements or the creation of reliable documentation. While these strategies focus on the production process, another company may be focusing upon extending its existing product lines and developing new distribution channels through joint ventures, reciprocal development agreements and other strategies which are designed to facilitate the acquisition and distribution of new products. Allied strategies might also include enhancements to existing products, warranties and service capabilities.

Selecting the optimal portfolio of product offerings is a fundamental strategic factor for every company. In many cases, companies will be introducing their existing products into a market in which no comparable product exists. Alternatively, companies will need to determine what adjustments and modifications might be needed in order for its existing products to be successful in a new domestic or foreign market. Finally, a company might launch a product development effort to create new products that are geared to the local market but not replicated elsewhere in the company's global product mix. In any case, marketing managers must evaluate all of the relevant demographic, economic, political, regulatory, and cultural factors in each new market. In order for this process to occur, the company needs to collect information, through market research, regarding the relevant marketplace and the needs and requirements of the target customers.

§28 --Research and development

In order for a company to survive it must have processes and procedures in place for the creation and continued expansion of product lines that can be rolled out across multiple markets, including the US and key foreign countries. Success in this area is the byproduct of research and development ("R&D"), which is the process of developing new products, improving and enhancing existing products, and creating or adopting methods for enhancing the efficiency and cost-effectiveness of internal production and business systems. R&D activities can include applied research designed to solve specific problems and achieve agreed commercial results, adaptation of basic research (i.e., advanced knowledge and technology not originally created for commercial purposes), and acquisition and adaptation of technologies and ideas from third parties through licensing and other technology transfers.

It is often difficult to meaningfully distinguish the discussion of R&D from the company's strategies relative to development and launch of specific products. As a practical matter, while companies do invest resources in basic research that is not specifically related to a particular product, a good deal of the work carried out in R&D departments is essentially product development. As such, the R&D group must collaborate closely with other functions, notably marketing, engineering and manufacturing, to define R&D projects and their intended results. It is important therefore to develop, in advance, clear and supportable answers to each of the following key questions:

- Who are the intended users of the product?
- What is to be the product concept and product positioning in each market?
- What are the final product specifications and technical requirements?
- What are the final product features and characteristics?

In order for the product development effort to be successful, the R&D team must be provided with sufficient information gathered from market assessment and research in each market where it is proposed that the new product will be launched. Moreover, during the development process the R&D group should be prepared to quickly make necessary modifications based on the results of prototype testing and trial market sales in each of those target markets.

Historically, companies tended to adopt a centralized structure for R&D management with one central office or department responsible for deciding the type of research that would be performed and how innovations would be shared throughout the organization. Since all geographic divisions within the organization were dependent on the development of new ideas, it was thought to be essential that one central point within the company would serve as the clearinghouse. However, several recent trends have combined to challenge the notion of centralized R&D, including the new reality that innovation can be found throughout the world and not just in two or three countries, the need to develop localized solutions to production problems and customer requirements, and incentives from governments for foreign companies who are willing to set up R&D departments that utilize local scientists and collaborate with educational institutions in neighboring communities.

The business plan should describe the strategic objectives of the company with respect to future R&D activities and the steps that the company intends to take with respect to organizing its R&D resources to take advantage of opportunities around the world. Resolution of issues in this area requires a careful balancing act between centralization and localization. For example, while the R&D activities of global companies may be dispersed over a number of locations in different foreign countries, long-term strategic R&D goals of the company must still be established by senior executives at the top of the organizational hierarchy. At that level, the company can best determine if its main interest is in the development of a large portfolio of new products or in generating new technologies that can be licensed to third parties and also used to improve the quality of the company's own production processes. Initiatives to enhance and improve existing products in order to extend their life cycle should also be launched at the top in conjunction with the possible pursuit of new foreign markets for such products.

§29 --Manufacturing and purchasing

Manufacturing and purchasing (often referred to as "procurement") have become key strategic areas for almost all companies. Manufacturing involves a wide variety of different activities dedicated to the commercial production of a company's products in quantities, and at rates, which are consistent with market demand for the products. Manufacturing has matured into a complex discipline that demands expertise in such diverse areas as cost accounting, quality control, procurement, and technology management. In turn, each of these areas have become increasingly specialized, usually in response to globalization of opportunities in those areas, and the procurement function now involves a variety of activities such as acquisition of needed materials, supplies, equipment and related services that will allow the company to manufacture its products. While product development clearly can be quite expensive, manufacturing and procurement also represent significant costs to the company, and every effort should be made to reduce costs in these areas to obtain a pricing advantage over competitors.

The planning process with respect to manufacturing should focus, in large part, on attaining a competitive advantage for the company. Examples of how this may come about include the following:

- In cases where unit costs play an important role in determining the profitability of the product line, companies that can achieve the lowest manufacturing costs can realize a competitive advantage.
- If the manufacturing process is proprietary, perhaps even eligible for patent protection, a manufacturer can gain an advantage due to the difficulty confronting competitors in replicating the process.
- Use of automated equipment as part of the manufacturing process can lead to cost economies and perhaps a higher level of profitability in relation to competitors.
- Manufacturers can have an advantage over competitors if raw materials and/or labor inputs associated with the process can be obtained at a lower cost in relation to competitors.
- Strong supplier relationships can reduce manufacturing costs, create unique sources of supply, and often lead to further cost-saving technological advances through collaborations with suppliers.

- Internal manufacturing processes can be constantly improved through formal activities and programs focusing on quality control, training, cost reduction and other productivity enhancements.

It is important for management to carefully consider which, if any, of the aforementioned types of competitive advantage might be available to the company and to integrate the advantage into the overall business strategy of the firm. For example, if the company has developed or licensed technology that can be used to create the most efficient manufacturing process, this advantage can be built into the company's pricing strategies and should be protected through appropriate intellectual property registrations. On the other hand, if the company has developed a manufacturing process that can be easily transferred without significant risks to quality of the finished products, the firm strategy might focus on ancillary services for its customers, such as support and training.

While many companies perform a substantial amount of manufacturing activities "in house," it is common for businesses to outsource all or a portion of their manufacturing activities to outside manufacturers, often referred to as "contract manufacturers." Outside manufacturers may also perform other functions in relation to the company's products, such as distribution and/or service and support. A key issue that needs to be considered in developing the business plan is whether manufacturing activities should be shifted, in whole or in part, to locations outside of the US and, if so, whether offshore manufacturing should be done by a foreign contract manufacturer or under the direct control of the company in the form of a foreign subsidiary. Still another option that largely relies on a foreign manufacturer is the creation of a joint venture outside of the US pursuant to which the foreign partner provides most of the manufacturing services.

The process of making decisions in this area should begin with a comprehensive evaluation of the company's current manufacturing strategy and future requirements. In particular, the following issues should be addressed:

- Should the company manufacture and produce its products internally or should it subcontract with others for all or a portion of the manufacturing process? If the company will be subcontracting, are there any plans to develop an internal manufacturing capacity at some time in the future?
- Does the company, or its subcontractor, have any production advantages in relation to the company's competitors? If so, how long can that advantage be exploited and how is it protected?
- What is current production capacity? Is it sufficient to meet the requirements of the company in the future? If not, what plans does the company have for expanding such capacity and what costs and risks are associated with such plans?
- What are the critical parts or components in the production process? How are these parts/components acquired? Are any of these parts/components "single-sourced," or does the company have other suppliers? What lead times are required in order to acquire such parts/components, and how does this impact the ability of the company to meet increases in demand?
- What are the standard costs for production at various volume levels?

Taken together with the overall competitive analysis of the company's industry that should be conducted before the planning process begins, this information can be used to identify opportunities for outsourcing manufacturing requirements. For example, if the company believes that it does not have sufficient production capacity under its current scheme to meet future volume demands, plans must be laid for either increasing that capacity or partnering with outsiders. Also, if the company's standard production costs are too high in relation to competitors, plans must be made to address what will soon become a significant competitive impediment. Finally, export opportunities in certain countries may dictate the need for local manufacturing at a different price structure and with the capacity to modify product to suit the requirements of key foreign markets.

The manufacturing function is one that generally evolves as the company grows and matures. For example, small companies that are just starting out often rely on third parties for significant phases of the manufacturing process. These companies generally lack the funds to build and maintain their own manufacturing facilities. Moreover, younger companies lack the sales experience with their products that would allow them to make accurate long-term forecasts of manufacturing requirements that would be required to make an informed decision about building an in-house manufacturing capability. As time passes, however, it is common for growing companies to assume greater control over the manufacturing process since it may be possible to develop a material advantage over competitors based on efficient manufacturing strategies and at that point consideration should be given to developing and exploiting "world-scale manufacturing" capabilities. This strategy is based on the use of several manufacturing sites around the globe that have been selected based on obtaining access to lower labor costs and consistent supplies of necessary raw materials. Done correctly, a company may be able to realize substantial cost savings in serving global markets and may be able to use manufacturing as an entry into sales and distribution in new foreign countries. The savings in the manufacturing area can be used to support new product development and other activities. One of the main problems, however, with expanding the manufacturing function to distant locations is making sure that finished products adhere to firm-wide expectations regarding quality and reliability. This generally requires selection of experienced and skilled local partners, often in the context of a joint venture, who are able to understand the company's needs and are willing to make necessary investments in capital equipment and the workforce.

§30 --Sales and marketing

Although the company may have a significant competitive advantage and distinctive competencies, business success will only be achieved if the company is able to adequately assess the potential markets for its products and services and develop and execute a marketing plan which allows the company to successfully penetrate the market, anticipate and counter the activities of its competitors, and satisfy the needs and requirements of its prospective customers. When the business plan is being prepared to raise capital for the company business activities investors will be looking for information on the industries in which the company will be participating, the specific markets in which the company's products and services will be offered, and, finally, the marketing and selling strategies which the company proposes to adopt in order for it to succeed in the marketplace.

The business plan should provide prospective investors with the company's own sense of the industry in which it operates, its historical evolution and perceived future trends, as well as the role that the company is expected to play within the industry in the next few years. Accordingly, the company should provide a general overview of each of its industry segments and the various business, commercial and social problems which the industry, and the company in particular, is seeking to address in the conduct of its business activities. For example, a health care company might attempt to describe the breadth and severity of particular health problems which the company feels will support a market for its products. Also, with respect to each of the market-based "problems," reference should be made to the various "solutions" that may have been offered by existing products and services, and any shortcoming with such solutions that create opportunities for the company in light of its competitive advantages.

It is important to remember that there are advantages to being in the "right" industry, particularly when a company is in the midst of raising additional capital. In general, investors tend to favor new opportunities in industries which exhibit high growth potential, as evidenced by the financial results of other companies. The company should also recognize that investors will often have distinct preferences regarding industry segments and the markets in which they are willing to invest. For example, an investor may be more comfortable with investing in a company that is devoted to the exploitation of a specified technology, such as biotechnology, as opposed to a company involved in electronics. In fact, investment in "start-up" or "venture capital" situations has become so specialized, that investors now increasingly turn their attention to companies which are seeking and exploiting a definitive "niche" within a broader marketplace where they can be assured of some protection from competition.

The business plan should also thoroughly describe and analyze each of the potential markets for the company's products and services, including a summary of the current size of the market; a forecast of the anticipated growth of the market over the next five to ten years; the chief characteristics of the market; the major types of customers in the market (e.g., large Fortune 500 companies, small firms, individuals, manufacturers, etc.); the nature of each anticipated application of the products and services; and a discussion of significant industry trends. Also, each target market should be segmented by size and volume; the products and services used; the sophistication of the customers; the amount of innovation (e.g., any further research and development) required to meet the needs of the customers; the degree of customization required in order to penetrate the market; and the importance of producing a "standardized" product. The business plan should provide a summary of the company's major customer relationships, as well as a description of any major outlets for the company's products and services. Major customers generally include all customers from which the company may have derived a significant amount of revenues in recent years, as well any other customers which the company considers to be "material" to its future prospects. For due diligence purposes, the company should be prepared to provide potential investors with the names of one or more persons at each customer who could speak with investors regarding their relationship with the company.

Investment in adequate marketing resources is a prerequisite to success in developing and maintaining any business. Specifically, successful companies have each of the following available in their marketing function and strategy: marketing personnel or funds sufficient to adapt product advertising and promotion to meet the requirements of each target market; personnel who were able to adequately train sales and technical personnel; sufficient resources, including equipment and personnel, to provide adequate after-sales service for the company's products; and effective distribution channels for the products in each target markets.

The business plan should describe the company's proposed marketing strategy; however, many companies also prepare a separate marketing plan that includes more detailed information and supporting data. Regardless of how the information is presented the company will need to collect information regarding the preferences of potential customers in the company's target market, industry standards and business practices and regulatory requirements relating to packaging, labeling, instructions, warranties and the like. Armed with that information, the company should then provide information in the market section of the business plan relating to the requirements and needs of its customers; the manner in which customers currently attempt to fill those requirements; an analysis of the purchasing habits of the various persons and firms within the customer base; and the impact that the selection and use of the company's products and services will have upon a customer's business activities. In addition, the business plan should describe the key elements of the company's relationships with its customers, including the formal and informal contacts between company representatives and customers and the strategies utilized by the company for continuously monitoring the needs of its customers. The plan should discuss the results of any customer surveys regarding the company's proposed products or services.

Customer analysis requires an assessment of the effect that the use of the company's products and services might have on the business activities of potential customers. In conducting this customer analysis, the company might ask the following questions:

- What economic factors face the "decision-makers" at each of the company's major customers; what incentives might there be for them to switch or to use substitute products?
- How important is the company's product or service in the customer's own ultimate product or service, both technically and in terms of cost?
- How much savings will a customer realize from using the company's products or services; what investment return will the customer realize from purchasing the products or services?
- Will the use of the company's product or service necessitate any material changes in the manner in which the customer conducts its business activities (e.g., required purchase of other equipment, change in work habits, or modifications in organizational structure)?

- How sophisticated is the customer's information about the product or service offered by the company and the overall marketplace for such products and services?
- What changes are expected in the future regarding the customer's business activities and what effect will any of these changes have upon the customer's dependence and reliance upon the company's products and services?

The business plan should clearly demonstrate knowledge of the needs and requirements of the customer base. One method that could be used is to describe the mechanisms which may have been established and maintained by the company to motivate employees to understand customer needs. For example, it is important for the business plan to provide the reader with a good sense of how the company interacts with customers in order to keep track of their changing requirements. This may involve a discussion of the company's customer service procedures, including the amount of regular contacts between representative of the company and its customers. The day-to-day informal interaction between the company and its customers, which takes the form of routine inquiries and discussions regarding the terms of purchase and sale, warranties, returns and shipping dates, are important to retaining customer loyalties and continuously monitoring their changing needs and requirements. Similarly, a company might also establish a system of dedicated sales representatives and insure that top management remains attentive to important accounts and distribution relationships.

If at all possible, the business plan should address how customer needs are defined throughout the industry, and then give a description of how the company is addressing those requirements. For example, it is often said that customers seek “quality” as the most important factor in a vendor relationship. If that is the case, an effort should be made to describe the quality dimensions in the particular industry, including the manner in which “quality” is measured, the customers' perceptions of the quality component of different firms and how those perceptions were developed and altered over time. Quality is defined by the expectations of the customer, not by the producers. As such, the company will need to be cognizant of such things as durability, lack of defects, reliability and serviceability, special features or an overall “quality name” which is a function of historical customer satisfaction and promotional activities.

The quality and stability of each of the company's major customer relationships should be examined in the business plan. The key issue is whether the company has, through contractual arrangements or otherwise, established a relationship with each of its major customers such that those customers are unlikely to “switch,” either to another vendor or to self-production. Some of the factors which should be considered in this regard have already been mentioned, such as the consistency of the company's informal contacts with customers and the establishment of various incentives for company personnel with respect to promotional activities with existing customers. In addition, a description should be provided of the advertising information that is sent to the company's customers concerning the company, its products, personnel or services, including online content and traditional materials such as brochures; catalogues; mailers; publicity releases; newspaper or magazine articles.

In most cases, the company will have surveyed potential customers regarding its proposed products and services in order to determine whether a sufficient need exists in the marketplace to support the company's new business activities. The business plan should describe these customer surveys, including the type and number of firms contacted and their general reaction to the proposed products and services. If potential customers have been able to see or test a prototype of the product or service, the business plan should discuss their reactions and feedback, as well any actions which the company proposed to take in order to respond to any issues, questions, or problems raised by potential customers. If the company has actually been able to solicit serious indications of interest, or even orders, from prospective customers, this should be highlighted in the business plan.

In addition to the elements of customer analysis, the marketing section of the business plan should address the strategies that the company will use to distribute products in each target market and the decisions that must be made regarding the traditional five key elements of successful marketing—product, price, promotion, packaging and place (the "Five P's")—as well as service and support. Significant sales and distribution agreements should be discussed in detail, including the term of the agreement; any minimum quantity of products that must be purchased; the number of products purchased to date under the agreement; ordering procedures; any agreement with respect to scheduling; increasing or decreasing the amount of orders; charges for changes in delivery and product mix; and any agreement whereby the distributor could acquire the right to manufacture products. In the event that distributors meet significant competition themselves, this should be discussed, as should any factors which might affect the distributor's own customer base or product strategies. The company’s own internal sales and marketing organization should be described, including such things as the number of members of the company's sales force; the location and coverage of the company's sales offices; trade show and print advertising strategies; service and technical support capability; and warranty terms and coverage. Should the company be planning to make any significant modification in its marketing strategies, perhaps through the engagement of a third-party marketing partner, it should be discussed in this section.

It is absolutely essential that the marketing analysis section of the business plan be based on reliable information and on estimates which have a solid foundation. In many cases, a company will be base its projected sales on general information regarding the size of the market, the projected growth rate over the next few years, and the company's hopes with regard to its own future market share. However, this type of projection will be essentially meaningless unless the company is able to clearly and carefully define the real target market(s); the factors which might influence the size of the market in the future; the effect of competitive changes on pricing and customer requirements; and the steps which will need to be taken in order for the company to successfully implement its own marketing and selling strategies.

§31 --Technical service and product support

In addition to the difficult issues associated with designing and selling products that are suitable for each target market, companies must be able to address and complete a whole series of logistical activities. Tackling this area begins by listing each of the activities that need to be completed and this can be done by reference to the sequence of steps that needs to be followed whenever a company seeks to create and maintain a relationship with a specific customer:

- Delivery and installation of the product;
- Initial training of customers regarding use and maintenance of the product;
- Real time technical support for customers, including “debugging” and providing answers to questions that arise as the customer uses the product;
- Repair and maintenance services;
- Provision of spare parts; and
- Development of product upgrades and enhancements.

The challenge for the company is to perform each of these activities in an efficient and cost-effective manner. Given that many firms, particularly those that are relatively small, do not have the resources to re-create all the functional areas required for these logistical tasks, strategies must be implemented to tap into the expertise that already exist at the home office.

§32 --Organizational structure

The business planning process is the time when the company must make and implement crucial decisions regarding the overall management and organization of the company. Organizational structure can be a complex subject and there clearly is no single best method which should be used in order to organize the various functions and activities of a business firm. For example, a software development company may choose to organize itself by reference to distinct business activities, such as product development, systems integration, marketing and sales, system management, and service and support. Another option for companies is to organize around a particular product or service, drawing upon various functional specialists in each of the required areas (e.g., engineering, marketing, production, etc.). Regardless of the choice made at the time the firm is launched, it is likely that the optimal organizational structure for the firm will change over time, as the company continues to evolve and moves into different areas and changes begin to occur at the senior management level.

The business plan should describe how the company's employees are organized and how the chain of responsibility for particular functions has been laid out. The organizational structure must be strong enough to ensure that managerial authority is vested in those persons with the requisite skills and information to make the required strategic decisions. At the same time, the structure should be flexible enough to deal with unique problems that might arise in a specific market and allow for the assembly of functional teams to deal with new products and projects. Finally, procedures must be put in place to ensure that information flows quickly and easily within the organization, something that is a particular concern as companies grow and more functions and employees are located in foreign countries.

Whatever organizational structure is chosen, it is very important that the business plan demonstrate how new information regarding the company's business will be disseminated throughout the firm, as well as how goals and objectives will be set and performance monitored. The organizational structure also will provide guidance as to how customers, suppliers and distributors will be interfacing with the company. Finally, the structure should correspond to the company's financial and budget planning systems, so that senior managers will be able to track how funds allocated to a particular project or activity have actually been utilized.

Newly-formed companies will likely have a very simple structure, with most of their resources devoted to new product development, perhaps supervised by persons who are attempting to also serve in other management positions. In general, the focus on product development means that less attention is paid to the details of manufacturing and distribution. As such, the business plan must set out the company's plans for fully developing its organizational structure, first by bringing in experienced senior managers, and then by recruiting the necessary human resources to support the activity. The evolution of the organizational also means that the roles of various persons may change substantially over time. For example, a scientist who founded and managed the company in its earliest stages may ultimately return to his or her role of researcher and “technological guru” as new people join the business and take over many of the traditional management tasks.

§33 --Human resources

The basic discussion of human resources in the business plan focuses on providing information regarding the number of persons employed by the company and a description of compensation and employee benefit programs, although companies will usually include some additional information regarding the functional areas (e.g., manufacturing, research and development, finance) in which the employees are located. However, since the long-term success of a company is only insured if the company has a strong pool of human resources as well as a set of programs designed to continuously and positively motivate the employees to remain with the business, the business plan should describe the “human resource” strategy of the company, which should include a detailed analysis of the types of people that the company believes will be needed in order to achieve the firm’s overall strategic business objectives and a description of the programs that the company intends to launch and maintain in order to attract, develop and retain the personnel that will be needed in order for the firm to compete effectively in its environment. This is particularly important where the company is involved in an industry that is experiencing tremendous competitive pressures due to the perceived availability of market opportunities, since employees with specialized talents will be likely targets for the recruitment efforts of other firms.

Developing a human resources strategy should begin with an assessment of the company's culture, organizational structure, personnel skills and potential, and the existing human resources systems and programs (i.e., recruiting processes, training programs, performance appraisal and compensation practices). This assessment allows the company to identify gaps between where it is now with regard to human resources and where it needs to be in order to pursue appropriate business opportunities. The next step is to determine the changes that need to be made in each of key human resources systems area such as those listed above as well as manpower planning, communications and overall career development. Those changes should be the subject of action plans that include targets and dates for achieving key goals and objective methods for monitoring progress. Action plans should address all of the key areas of human resources management, which includes such tasks as employee recruitment and selection, training and education, compensation, performance measurement and rewards, employee communications, morale and termination of the employment relationship (including overall management of employee turnover). If certain types of programs are particular important in the company's industry (e.g., stock option plans or incentive bonus programs) they should be described in detail and, if appropriate, contrasted to similar programs offered by competitors.

§34 Special business plan topics

Depending on the circumstances, the business plan will also cover one or more special topics, including management and ownership, strategies for financing the company's business activities, facilities and equipment, information management, risk management strategies, and regulatory matters. These areas may be covered separately or integrated into the discussion of one or more of the main topics. For example, facilities and equipment must be considered when creating and implementing strategies for manufacturing activities. Also, while not discussed herein, the planning process for expanding business operations should include consideration of tax issues as well as selection of the proper form of business entity to conduct a particular activity.

§35 --Management and ownership

When converting an internal business plan into a disclosure document for investors it will be necessary to prepare and include extensive disclosures regarding the company's senior managers and major shareholders. For many investors, the quality and experience of the company's management team is almost as important as its products and services, particularly when it is clear that execution of the company's long-term business plan will depend on the ability of its managers to make the proper decisions in the future. The section of the expanded business plan relating to "management and ownership" should identify the company's senior managers, as well as any key employees who, while not currently holding formal management positions, are nonetheless essential to the company's strategic plans. In many cases, members of the management team may also be significant shareholders; however, it is important to differentiate between management and ownership, since a person awarded a substantial equity position for his or her scientific contributions to the enterprise may not have the interest or ability to serve in a senior management position.

§36 ----Skills, experience and performance record of managers

The business plan should describe the skills, experience, and performance record of each of the senior managers, and then attempt to relate these background items to the requirements of the company's specific business plan. While a person may appear to be well-qualified by virtue of his or her education and the titles of the positions held by such person at very sophisticated companies, it is impossible to determine whether the experience of the person is sufficient for the company's purposes unless one can gain a better understanding of what the person has actually done in the earlier stages of his or her career. Moreover, while a person might have experience in areas required to bring the company through to a certain stage of development, he or she may never have been involved in operating a more mature enterprise. In such situations, it may be better not to give a particular position (i.e., president/chief operating officer) to the person, only to have to recruit a replacement in a year or two when the job has outgrown him or her.

§37 ----Recruitment and compensation of managers

The business plan should describe how the company intends to recruit and compensate its key managers. Among the possibilities are equity compensation plans and/or incentive bonuses, perhaps paid out of revenues or profits which exceed certain milestones. In any case, the investors will closely examine the terms of any employment arrangement with key managers to get a good sense of whether the company can continue to offer a compensation package which compares favorably with any possible recruiting efforts of competitive firms. Many investors may insist that compensation arrangements be re-negotiated as a condition of their investment, generally with the objective that the equity interest of senior managers be tied to continuing employment with the company (i.e., vesting provisions) and that extraordinary compensation must be linked to the attainment of specific financial or technical milestones.

In the case of a “start-up” company, it is highly unlikely that all of the required managerial positions will be filled at the time that investors are approached for the first round of significant outside financing. The business plan should identify all of the anticipated managerial staffing requirements, as well as the company's plans for filling such positions. These plans should specify when the company believes it will be necessary to recruit someone for the position and the specific qualifications that the company will be looking for in reviewing candidates. For example, a young company may have no need for an experienced chief financial officer until it has raised significant funding; however, once the first round of investment has closed and/or the company is beginning to enjoy a flow of revenues from product sales, it is appropriate to recruit a chief financial officer with experience in the company's industry and/or in dealing with financial institutions in the company's geographic area.

§38 ----Background and experience of directors

Current members of the company's board of directors should be identified in the business plan, along with their background and experience and a description of how they became involved with the company. Most investors require that directors must be able to provide some nonmonetary "value-added" to the company, as well as being able to understand and contribute to the process of managing and directing the company as it grows and evolves. For example, it is typical for the investors to require that friends and family members of the founders be removed from the board of directors and be replaced either by investor representatives or by independent directors with substantial operating experience and contacts in the company's industry.

§39 ----Shareholders

A summary of the current ownership of the company should be included as part of the business plan, typically as an exhibit or appendix to the plan. The list should indicate the name of each major shareholder, the total number of shares owned by each such shareholder, and a brief summary of the circumstances surrounding their acquisition of such shares, including the price per share paid therefore. The holdings of all the small shareholders can generally be aggregated; however, readers must get an accurate idea of the number of shares that are outstanding and authorized. In addition, a summary of options, warrants, and other rights to purchase shares should be included in the disclosures. Finally, if the company already has reserved a specified number of shares for future issuance to specified persons or groups (e.g., new employees), this should be noted in the summary.

Obviously, the ownership structure of the company will be important in negotiating the terms of any actual investment in the future. However, if the company has already received some outside financing, new investors will look to the shareholder summary as a means for understanding the investment history of the company. For example, investors will look at the timing and pricing of the most recent round of equity financing and compare it to price per share (i.e., valuation) which the company is seeking in the current round of financing. In many cases, the new investors may conclude that the "markup" for the price paid in the previous round is too high and not justified by the progress made by the company in the interim period.

New investors will also be interested in the "quality" of the prior investors. The involvement of solid and successful venture capital investors is always considered a significant plus, even if they are not going to participate in the new round of financing. Many venture capitalists have a proven reputation for selecting "winners" in a given industry, and new investors will be impressed by the fact that a given venture capital firm has invested in the company and retains a representative on the company's board of directors. Moreover, the backing of specific venture capital firms can prove to be quite valuable if, and when, the company elects to make its initial public offering, since underwriters and institutional investors often choose among alternative opportunities by reference to the strength of the private investor group behind a particular company. Finally, the new investors will attempt to analyze how the sequence of prior financings compares to the original projections of the company. If the company was forced to utilize much higher levels of financing than originally expected, it may raise some concerns about the usage of the funds being raised in the current round of financing. Also, if the pricing levels of the previous financings do not reflect the progression which private investors typically expect, the new investors should then focus on any problems which may have arisen in the past, such as difficulties with product development or marketing, and determine whether or not such problems still exist in the company's current business plans and strategies.

§40 --Finance

Even the best product or service requires working capital to finance development of appropriate opportunities. In the case of a strictly domestic company, financing requirements will cover facilities, raw materials, salaries, and reserves to keep the company going as inventories are sold and collections are made from customers. Cash is also required to fund new product development initiatives that will not generate a return for several months or years in the future. When the company begins to make the transition to global activities additional cash will be required to develop the infrastructure for exporting products and services and establish new facilities and sales offices in foreign countries.

A variety of funding sources may be available for expand a company business activities. Of course, the company may fund internal operations out of cash that is generated from current activities. Investors may be brought in to provide funding for the entire business plan or investors may require that the capital they provide be allocated to specific new activities. Small- and medium-sized businesses may qualify for special government financing programs ranging from outright grants to loan programs at attractive rates to guarantees of loan that come directly from commercial lenders. In any event, the key issue in this area is making sure that the company has a clear and coherent plan for raising the funds necessary to complete execution of the entire business plan on a timely basis. Also, given the uncertainties associated with developments in a global economy, the plan should always include appropriate reserves that can be tapped when economic conditions deteriorate.

In some cases, it may be useful to include in the business plan a reference to various contacts which the company may have already developed in the financial community. For example, if the company has been able to establish an ongoing relationship with a commercial banker, this will be seen as evidence of the financial stability of the company by outside investors. Also, the company, or one of its shareholders, may have a relationship with an investment banker, perhaps because of participation by the investment banker in a previous round of financing. These types of relationships may well prove to be valuable if, and when, the company begins to consider a future public offering in which investors may be able to achieve some liquidity for their earlier investments in the company.

Obviously, if the company has outstanding loan obligations with a commercial lender, the business plan should describe the terms of the loan arrangement, including the amount owed, the rate of interest, the timing of payment obligations, the term of the loan, and any covenants or restrictions relating to operation of the company's business. The business plan should confirm the company's ability to satisfy its obligations to any commercial lenders. In addition, the plan of operations should discuss how the proceeds from the proposed offering relate to the any other existing sources of capital which may still be available under the company's lines of credit with commercial banks.

§41 --Facilities and equipment

In many cases, the description of the company's physical assets in the business plan is limited to a brief elaboration on the site and size of its business facilities. However, an assessment of the physical assets of the company should not be limited to a description of its facilities. Instead, an examination should be made of the suitability and adequacy of the company's facilities and the effect that the location and capabilities of those facilities will have on its business. For example, the location and conditions of the company's facilities can often have a substantial effect on the company's ability to recruit appropriate human resources, to move its products and services quickly into appropriate distribution channels, and to manufacture its products on a cost-effective basis.

A review should be made of the company's control over its production facilities and distribution systems. Particular attention should be paid to the ability of the company to inject new and innovative production technologies and ideas into its production and distribution systems in order to facilitate the cost-effective development and production of new products. In a sense, a company can compete on the basis of its ability to adapt assembly line facilities and expand its distribution structures over time. However, the company's ability to make such changes and adaptations really depends upon its rights under existing agreements relating to its facilities, its ability to expand its facilities and the amount of financial resources which are available for such purposes.

Equipment, including office furnishings, computers, fabrication machines, and other physical assets necessary for the conduct of the business should also be described in the business plan. The level of detail required in this area is not as great as the information relating to facilities; however, the company's ability to acquire the right to use key assets should be verified in the plan. There are a number of strategies that can be used to gain access to the necessary facilities and equipment including purchase and leasing options.

§42 --Technology

In cases where technology plays an important factor in establishing and maintaining competitive advantage in the industries in which the company is operating the business plan should have a separate section that includes a description of the historical evolution of the relevant technology; various approaches to recognizing and satisfying customer needs; and, if appropriate, the perceived problems with existing products and technology which may have led the company to enter the specific market. If relevant, the business plan should include a description of the importance of trademarks, patents and franchises to segments of the company's business. The importance of technology to a business enterprise may vary depending upon its purpose, mode of operations and the environment and markets in which it competes. The growth and development of a high technology firm clearly depends upon its ability to build and maintain a strong portfolio of technology "assets" in the form of patents, trade secrets, trademarks and copyrights. The strength of other firms may lie not in technology or research, but in its skills in production, marketing and distribution. Even in those cases, technical assets such as production "know how," trade secrets (e.g., customer lists and informational databases) and trademarks may play an important role in the success of the firm. It is important to strike a balance between technical detail and readability, although the investment community has developed a good deal of sophistication regarding the analysis of scientific research and development, often engaging experts in technical areas.

§43 --Strategic partners

While the achievement of a company's strategic objectives generally depends upon its competencies in a variety of areas, including research and development, manufacturing, distribution and service, it is the rare firm that is capable of providing all of the functions internally, particularly when the business has just been organized. Accordingly, it is more than likely that the company will look to one or more “strategic partners” as a means for assisting the company in executing its business plans. A strategic partner is a third party with which the company has entered into a contractual relationship to provide the company with products and services that are essential to the development, production, and distribution of the company's own products and services. Suppliers and distributors fall into this category, as would parties participating in joint research and development efforts. The business plan should describe each of the company's important strategic partnering relationships. In some cases, the relationship can be described in the context of the discussion of the particular functional area to which the relationship pertains (e.g., manufacturing or distribution). In other cases, the plan will include a separate description of the partner and the terms of the particular relationship. In some cases, a strategic partner may also be a shareholder of, or otherwise have a material financial interest in, the company, thereby providing capital in addition to products and services. If the company has one or more strategic partnering relationships with companies which are also shareholders, the new investors may be concerned about any adverse effect that any special rights granted to the partner-shareholder (e.g., marketing rights, technology licenses) may have on the ability of the company to generate a stream of future revenues that will accrue to the benefit of the other shareholders.

§44 --Operations

As part of the discussions of management structure and human resources in the business plan, or in a separate section, consideration should be given to some of the key operational areas of the business. In this case, the term “operations” refers to the nuts and bolts of keeping the company going on a day-to-day basis, including functions such as payroll, procurement, accounting and bookkeeping, and tax compliance.

Responsibility for operational activities will vary depending on the size and structure of the company; however, the following tasks must be considered:

- Establishing recordkeeping and accounting procedures, including recruitment of personnel trained in applicable accounting and tax laws. Outside tax and accounting experts will also need to be located in order to assist with preparation and filing of required reports and documents.
- Facilities management, including the purchase or lease of real properties.
- Contract management, including the development of standard form contracts for use in the company's business and management of internal contract managers and outside counsel.
- Collection, analysis and distribution of information, including output and quality reports on manufacturing processes.

§45 --Information management

One of the most important, yet often overlooked, issues in connection with expanding operations is making sure that the company has developed an effective information and communications system. This is particularly true for companies that expand their operations into foreign countries. For example, the computer systems for a global organization must automatically take into account differences in time zones when compiling and distributing scheduling and production information across multiple countries. In addition, work schedules may differ in various parts of the world. For example, some branches may begin and end work earlier in the day due to climatic conditions or local customs. Another consideration is different local practices regarding celebration of holidays and official vacation periods, each of which may cause delays in creation of information and/or manufacturing of products and other inputs that might be transferred to other regions. Globalization also requires attention to development and implementation of common standards for computer equipment used throughout the company. This would also include common software programs and configuration and access to local vendors with equivalent skills and experience throughout the organization.

§46 --Risk factors and risk management strategies

Every business confronts various risks regardless of the scope of its activities and the business plan should identify both the opportunities and risks relating to any proposed expansion of the company's business. While the ordinary day-to-day business risks of product liability claims, theft, destruction of property need not be given special emphasis, larger challenges such expropriation of foreign assets and suspension of raw material supplies due to political unrest in foreign countries should be dealt with in some detail. There are a variety of strategies that might be used with respect to risk management, including insurance policies and internal procedures to ensure receivables are kept up to date and that other parties perform their obligations to the company under contracts.

If the business plan is being prepared for use in raising capital from investors it is customary to include a separate section identifying "risk factors" associated with the company, its business, the markets in which it is operating and, if appropriate, the particular terms of the offering. Properly drafted, risk factors can be useful protection against future claims of nondisclosure in the course of the offering; however, the company should not rely solely on the risk factors and should make every effort to make sure that the disclosures made to investors are clear and accurate. Among the key areas of concern for start-up companies are the existence of product development risks, including the cost and uncertainty associated therewith; technological risks, which arise primarily from the possibility that others will develop superior technology to address the needs of the marketplace; manufacturing and distribution risks, which include factors which may preclude the company from producing its products on the appropriate scale or releasing them into the marketplace; and competitive risks created by the size and scale disadvantages that the company might have in relation to larger competitors. Also, in certain circumstances, the company may be faced with significant regulatory risks, if its products require approval by a governmental body, and with human resources risks caused by excessive reliance on the skills of one person or small group of persons.

§47 --Regulatory matters

Securities regulators, health, safety and environmental regulators, and “industry-specific” regulators, such as the Food and Drug Administration and the Federal Communications Commission, are all important parts of the company's operating environment. Depending on the circumstances, the business plan may need to include a detailed discussion of the impact that compliance with applicable federal, state and local laws and regulation will have on the company’s business and competitive position and the specific regulatory hurdles that must be overcome in order for the company’s products and services to be distributed and promoted in various markets. For example, if the company is involved in the development of new pharmaceutical products, the plan should describe regulatory procedures with respect to testing of the products to confirm their efficacy and safety. In particular, reference should be made to the amount of time required to obtain the necessary approvals and the additional costs that may be incurred in order to complete the review process.

The business plan should disclose the identity of those regulatory agencies that have jurisdiction over the proposed products and services of the company, the scope of their authority, and the review and approval process to which the company's products and services may be subject prior to the commencement of sales and distribution activities. The business plan should also include a description of the specific criteria imposed by each of the regulatory agencies for review and approval, including any required disclosures, applications, testing and certifications. If useful, an assessment of the duration of each stage in the approval procedure should be specified, based on the experience of the company or the publicly reported experiences of others in the industry. Each product and service of the company should be “placed” in the appropriate stage of the regulatory approval process in order to provide the reader with an accurate sense of when those products and services will be available in the marketplace and the risks associated with obtaining any future approvals. Any special relationship which the company may have formed with a strategic partner which might facilitate completion of the regulatory process should be mentioned. For example, small companies involved in the life sciences area often develop marketing and distribution relationships with larger companies that include an undertaking by the larger company to move the products through the regulatory process. Such companies typically have a good deal of experience in minimizing the time required for obtaining approvals.

As part of the larger planning and industrial environment discussion, the company should attempt to posit its assessment as to the direction of future regulatory efforts, many of which might be affected by governmental policies regarding research and concerns regarding perceived competitive disadvantages created by domestic procedures in relation to comparable procedures in foreign jurisdictions. If the company intends to undertake international sales and distribution of its goods and services, reference should be made to foreign regulatory procedures, perhaps with the assistance of local counsel in those areas.

§48 --Operational plans

As part of the process of preparing the business plan management should also develop operational plans for achieving each of the company's goals and objectives for the planning period. Not surprisingly operational plans can become quite elaborate; however, small- and mid-sized firms that have limited internal resources to devote to plan creation and monitoring will usually be adequately served by developing simple action plans that include the following:

- The action plan should begin with a description of the specific firm goal or objective that is being addressed by the plan. For example, the objective might be based on the desire to overcome one of the identified barriers to better firm performance, such as a shortage of skilled labor. In that case, the objective might be stated as increasing the percentage of the workforce that has attained appropriate licenses or certificates.
- The plan should then describe the key strategies that will be used in order to achieve the stated objectives. While much has been written about the definition and use of "strategies," in this context it is best to simply describe two or three activities that the firm believes must be completed in order for the objective to be attained. For example, it the firm is addressing skilled labor shortages, the strategies might include improvements in the areas of training and recruitment.
- Once the general strategies have been identified, a specific action program should be developed for each one. For example, to implement a strategy of improving the level of training, the firm may decide to initial contacts with local business colleges to develop in-house training programs or increase the budget for external education courses. Each of the action items should be accompanied by a detailed description of the financial and human resources needed in order to successfully complete the task.
- One person should be given primary responsibility for implementation of each action program. This assures accountability and also provides the coordinator with some degree of legitimacy when he or she is requesting need resources.

- Finally, each action program should have a timetable for completion, as well as a schedule for preparation and delivery of progress reports. The plan should identify the form of each progress report and to whom it should be delivered.

While preparing the action plans, attention should be paid to dealing with issues that might prevent effective implementation. For example, if coordination among two or more functional departments in the firm will be required, representatives from each of the departments need to be involved in preparation of the plan. In this way the manager can get a better idea of competing demands and resolve any potential problems with respect to scheduling and allocation of scarce resources. The plan should also attached priorities to each of the main action items. While, in general, each of the items should be of some importance to the company, there will usually be issues that are most important or urgent than the others. Realizing that other crises may emerge during the action plan period, it is important for everyone to have a good idea of issues warrant the most attention.

The full text of each operational action plan is generally are not included with the business plan in order to avoid creating undue complexity for the reader; however, when the business plan is being used as the foundation for a disclosure document to prospective investors the operational action plans can serve as the basis for creating and presenting a fairly specific plan of operations which extends from the date of the plan through some significant milestone date in the future, generally the projected date for the company's initial public offering. A detailed plan of operations will be particularly important in those cases where the company has yet to achieve "profitability," since that is one of the milestones that will be of greatest interest to investors. However, even if the company has generated revenues and is beginning to enjoy some degree of financial success, a plan of operations will serve as a guide to company expansion, as well as means for understanding how the proceeds of any new financing will be utilized.

At a minimum, the plan of operations should describe all material research and development activities; any proposed large acquisitions of plant and equipment; any anticipated changes in the number of employees in various functional departments; the target dates for the introduction of new products and services; and, in the case of privately-held companies, the projected date of the company's initial public offering. In addition, if the proceeds from the current proposed offering will not be enough to satisfy all of the company's cash requirements for execution of its strategic plan, the plan of operations should describe how, and when, additional funds will be secured (e.g., commercial loans, additional rounds of equity or debt investment financing). Assuming that the business plan is being prepared in order to facilitate the acquisition of outside funding of a specified amount, the plan of operations should also include a description of how the proceeds of the financing/offering are to be applied. While the company will certainly want to retain some degree of flexibility regarding the application of funds, the investors will always require some general breakdown among various areas, such as product development; acquisition of new technologies; facilities expansion; or hiring of new employees in one or more specified areas. In some cases, the investors will actually demand a covenant or agreement from the company that the funds will only be applied as described in the business plan, unless the consent of the investors is obtained.

§49 --Forecasts and projections

Forecasts and projections will appear in any business plan that is presented to outside investors and, in fact, the company's projections of its financial performance in future periods are generally the most important element that an investor must consider in deciding whether to make an investment in the company, particularly since the investor will usually rely on the projections to determine the total anticipated return on investment. The projections should normally extend for three to five years, and should include a pro forma income statement and balance sheet, pro forma cash flow analysis and, in appropriate cases, a break-even analysis which illustrates when the company will be able to finance its operations out of cash flow and bank financings, rather than by raising further equity capital. The income statement information should be presented on a month-by-month basis at least until the date that the company achieves break-even. Thereafter, the income statement information should be provided on no less than a quarterly basis. Pro forma balance sheet information is typically presented as of the end of each fiscal year during the projection period.

Disclaimers should be included regarding the company's ability to actually meet the milestones included in the projections and the projections should be accompanied and supported by a variety of assumptions regarding future economic and business conditions which the company made in preparing the pro forma information. In most cases, the assumptions should reflect performance in the company's industry, as well as reliable published information regarding such things as the general level of inflation, interest rates, and similar matters. If, for some reason, an assumption deviates substantially from historical industry performance, the must be prepared to provide a specific justification as to why it believes the assumption is credible. While it is not strictly necessary to identify the sources for the various assumptions, it is generally helpful if some reference is included as part of the materials.

The assumptions underlying the financial projections can be categorized in a variety of ways. For example, a number of the assumptions relate to the company's anticipated performance in relation to certain financial and operational ratios that often are used to analyze business performance. In addition, a company involved in manufacturing activities will make various estimates regarding its current ratio, gross margins, debt levels, period of collection on receivables, inventory turn, average payment period for cost of goods sold, composition of cost of sales, and the rate of taxation. These estimates may change over the period of the projections. Other measures of performance can include such things as the ratio of net sales to average number of employees, value added per employees, and net sales per salesperson.

While a good deal of emphasis will be placed on the financial projections in the memorandum, it is important to remember that the information is not, and should be construed as, a guarantee of the company's future financial performance. As such, it is essential that the company include language as part of the disclosure document which makes it clear that while management believes that the projections and underlying assumptions are both reasonable and reliable, the company is by no means warranting that the actual operations of the company will conform precisely to the picture laid out in the projections. Particularly in the case where the business plan is likely to be construed as an offer, due to the fact that the terms of proposed financing have been included, a bold-faced legend regarding the limitations of the projections should be included, along with a cross-reference to any specific risk factors described in the business plan.

Once the investors have received the required financial information, a good deal of effort is expended on analyzing the information in order to fully understand how the company's business operates and to identify any potential problem areas. The investors should attempt to formulate realistic best-case and worst-case projections and assign some probabilities to the anticipated financial performance of the company. This can be used as a basis for valuing the company and pricing the investment.

If an item in the projections proves to be problematic, the parties may wish to negotiate certain incentives to the company to operate the business in a manner which conforms to the projections. For example, if the investors' minimum required investment return depends upon the company's ability to attain one of the milestones included in the projections, such as a specified level of sales by a certain date, the parties might agree that management's failure to meet the projected level of performance might result in a change in control of the company's board of directors.

If the investors insist upon some penalty in the event that management fails to achieve its projected performance, management may argue that the investors should provide some concessions to the other shareholders (i.e., the founders and other management-shareholders) if the company's actual performance exceeds that which might be contemplated by the projections. For example, in some cases, the preferred stock issued to the outside investors will be automatically converted into common stock, thereby eliminating the investors' preferred rights, if the company's revenues or income for a specified period exceeds a certain percentage (e.g., 150%) of the projected amount for that period.

§50 Supplemental information

There is no standard list of exhibits or appendices that should be included as part of a business plan; however, there are various materials that are typically included in most plans to enhance the reader's understanding of the company’s strategy and goals. For example, in addition to all the financial information (e.g., financial statements, projections, analysis, and spreadsheets), it is common to also include copies of market studies, articles from trade journals and opinions prepared by third parties that support the company’s assessment of opportunities and challenges in target markets.

Additional charts, graphs, tables or narrative descriptions may be included to expand on information presented in the business plan. Some of the other items that might be included are resumes of the key managers of the company; lists of key customers, distributors and suppliers; professional references; summaries of major contracts;

photographs or drawings of products/prototypes; information on patents and pending patent applications; copies of advertising literature, company brochures and other promotional information; a description of transactions between the company and any of its managers, employees, or shareholders having a value in excess of a specified amount (e.g., a lease of property by the manager, employee, or shareholder to the company); a detailed summary of the compensation paid to certain senior managers and key employees of the company; a legal description of the outstanding securities of the company (e.g., par value, dividend rights, voting rights, etc.); and, if material, a discussion of legal proceedings relating to the company or any key employees. When changes in the organizational structure of the firm are contemplated the plan may include a structural chart and a description of job responsibilities for executive and managers identified as key players in implementing and monitoring the new strategy.

If appropriate, an appendix might be included which provides detailed information regarding each important strategic partnering relationship between the company and outside parties with a particular focus on the specialized resources and assets which the partner will be making available to the company. For example, the company may be licensing the rights to use, manufacture and distribute certain products from a strategic partner. In that situation, it may be useful to include a summary of the partner and brochures describing the partner's products as part of the business plan.

If possible, an index or table of contents of the exhibits and appendices should be prepared, and each exhibit or appendix item should be separately tabbed for easy reference by the reader. Some items, such as charter documents and shareholders' agreements, may not be included in the business plan but readers will be given information on how they can obtain copies of such items from the company.

§51 Implementing and monitoring the business plan

The business plan should be a living and working document that serves as a guide for operation and direction of the company. As such, drafting of the plan itself must also be accompanied by implementation of procedures and practices to monitor the progress of the company against the action items and performance goals included in the plan. While these procedures need not be part of the plan itself, they should be clearly understood by all responsible persons within the organization.

Implementation begins even before the plan is complete with the assembly of the working group. Once the plan has been drafted and approved by the relevant parties, such as the board of directors, a calendar should be prepared that lays out key milestones described in the plan and a schedule of meetings to review progress. In addition, provision should be made for periodic, yet quite regular, written reports that include financial and other business information for specified periods and a detailed comparison of operational results to the projections and goals included in the plan.

The process of monitoring and evaluation also needs to be carefully managed to ensure that the focus remains on essential activities. For example, many companies decide to measure a myriad of activities, creating reports that are often too lengthy and complex for management to digest and use. As a result, the entire monitoring process is abandoned or severely neglected. The better practice is to focus on a handful of items that are the most important to tracking the firm's performance, such as the costs of production, sales volume, and profits. While measuring final output, such as the number and the quality of finished products, is important, standards should also be established relating to intermediary products. This allows managers to focus on the efficiencies, or lack thereof, in the overall manufacturing process. Another important issue in the evaluation process is setting appropriate standards and benchmarks against which the firm's performance can be compared. In this area, it is essential to gather information about other firms engaged in comparable activities.

The importance of measurement and controls in the planning process places a premium on the company's ability to create and maintain adequate records. Using realistic performance standards is important in determining what types of corrective actions should be taken in the event that variances from the targets included in the business plan are uncovered. If the standards are appropriate than appropriate remedies must be taken. However, if the managers have established goals and objectives that are beyond the reach of the company's current resources or inconsistent with competitive practices, the goals themselves must be carefully scrutinized before process or organizational changes are considered and implemented.

Reporting and analysis of business performance should be accompanied by incentives for timely completion of the tasks enumerated in the plan. Incentives are quite common in situations where investors have been asked to supply capital to support a new initiative, such as launching operations in a new foreign market. For example, under an incentive program, managers might be rewarded bonuses for exceeding projections. On the other hand, failure of the management team to meet projections may trigger a right in favor of the investors to impose restrictions on managerial discretion and reduce salaries.

Summing Up

1. If motivation to prepare a business plan is needed, the best place to start is by explaining the expected outputs of the planning process: an understanding of the competitive conditions for the commercialization of the company's products and services; a candid assessment of the current status—strengths and weaknesses—of the company; an understand of the dynamics of the specific markets in which the company intends to participate; clear and concise statements of the company's performance goals and objectives and supporting strategies and operational plans; and a clear picture of the actions expected from each of the company's business functions to achieve the goals and objectives included in the plan. The process of preparing a business plan also has other important byproducts, including the identification of potential markets, customers and investment opportunities and the organization and presentation of information necessary to obtain support from outside sources (e.g., investors, banks and other commercial lenders and non-financial strategic partners) to expand operations.

2. When larger companies create and update their strategic plans that can often tap into the experience and resources that have been institutionalized in an in-house corporate planning department and will often expand those resources to include outside consultants. Smaller firms lack the time and money for this sort of approach; however, they can nonetheless benefit from following certain basic guidelines—identifying a working group with representatives from all key departments and business units that will be

responsible for drafting the business plan; establishing a strict timetable for drafting and review of the plan among working group members; and establishing and executing a plan for collecting, organizing and analyzing all of the information regard the company, its customers, its competitors and the environment that will be needed in order to draft a meaningful business plan. In any event, the experience and talents of many people will be needed in order to prepare a business plan, and business planning should command the prioritized attention of senior managers and be based on input and participation from functional specialists from the engineering, manufacturing, marketing, sales, finance, human resources and legal departments.

3. The group involved in preparing the plan will need to perform an initial product and market analysis to understand the requirements of the company's target base of customers; survey the competitive and technological environment in which the company will be operating; prepare a financial analysis, including budgets and projections; perform a risk analysis that includes testing of the key assumptions underlying the goals and objectives of the plan and identification of alternative strategies for dealing with unforeseen scenarios; and, finally, prepare the formal document in a way that clearly communicates to the anticipated audiences all necessary information regarding the company's proposed business activities, including its products and services, and its strategies in key areas such as research and development, manufacturing, sales and distribution, finance and human resources. Information should be mined from personal sources of the founders and senior managers, government sources, trade associations, reports released by listed companies involved in the same line of business, white papers and other reports available through private consultancies and current and prospective business partners (e.g., suppliers and customers). Before finalizing the business plan and circulating it to prospective business partners the founders should make direct contact with key parties within their developing organizational domain to gather further information and test some of the assumptions that may be guiding their thinking regarding the strategic planning process.

4. While all business plans will differ depending on the company, its products and services, and its specific strategic goals and objectives, the plan will typically include a comprehensive analysis of competitive conditions; a description of the current status of the company, including the company's current and proposed products and services; a clear and extensive market survey and analysis; and a detailed explanation of the strategies established by management for leveraging the competitive advantages and related resources in each of the company's business functions to achieve the clear and measurable goals and objectives included in the plan. Specific sections generally cover the following topics: products and services; research and product development activities; manufacturing and purchasing, if applicable; sales and marketing; technical service and product support; organizational structure; human resources; management and ownership; finance; facilities and equipment; technology and intellectual property rights; strategic partners; operations; regulatory matters; and operational plans. The planning process will also generate forecasts and projections which need to be mediated by a thorough understanding of the underlying assumptions and the risks associated with reliance on such assumptions. In fact, strategic planning should incorporate development of risk management strategies.

5. The business plan should be a living and working document that serves as a guide for operation and direction of the company. As such, drafting of the plan itself must also be accompanied by implementation of procedures and practices to monitor the progress of the company against the action items and performance goals included in the plan. Once the plan has been drafted and approved by the relevant parties, such as the board of directors, a calendar should be prepared that lays out key milestones described in the plan and a schedule of meetings of the working group to review progress. In addition, provision should be made for periodic, yet quite regular, written reports that include financial and other business information for specified periods and a detailed comparison of operational results to the projections and goals included in the plan. Reporting and analysis of business performance should be accompanied by incentives for timely completion of the tasks enumerated in the plan.

References and Resources

The Sustainable Entrepreneurship Project's Library of Resources for Sustainable Entrepreneurs relating to Strategic Planning is available at https://seproject.org/strategic-planning/ and includes materials relating to the subject matters of this Guide including various Project publications such as handbooks, guides, briefings, articles, checklists, forms, forms, videos and audio works and other resources; management tools such as checklists and questionnaires, forms and training materials; books; chapters or articles in books; articles in journals, newspapers and magazines; theses and dissertations; papers; government and other public domain publications; online articles and databases; blogs; websites; and webinars and podcasts. Changes to the Library are made on a continuous basis and notifications of changes, as well as new versions of this Guide, will be provided to readers that enter their names on the Project mailing list by following the procedures on the Project's website.

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