

BUSINESS PLAN SECTIONS

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2 - Executive Summary

This section should summarise the business plan and provide an overview, principally to catch the interest of prospective financing sources. It is often more productive to write this last (despite it being the first section) to ensure it contains all the relevant information.

Things to include: -

- What the business is and its target market.
- How the product/service is different from that of competitors and the need that it will fill.
- How the venture will succeed in a competitive environment.
- Description of the management team, relevant experience and specialist knowledge/skills of each executive. Incorporate any plans to eradicate any weaknesses within the team and state when they will be implemented.
- A summary of key financial projections for the next 3-5 years, incorporating profit and loss accounts, cash flows and balance sheets.
- A synopsis of funding requirements i.e. amounts of capital needed and how it will be spent.

3 - Introduction/Background & History

This section should tell potential investors about the history of your business so that they can evaluate its future. If your business is new and has little history, concentrate on describing the management team and their relevant experience and the routes and channels to market for your product or service.

Details to include: -

- When the business was founded.
- Description of the founders (relevant experience and role within the company).
- Progress of the business to date.
- Distribution of the equity. Summary of the company's capitalisation, classes of stock, shares outstanding and other relevant data.
- Past loans to, or investments in, the company by outside sources, as well as management's investment in the company. Detail any outstanding equity options or warrants as well as other financial commitments, including the names of those involved and principal terms (price, expiration date etc) of each commitment.
- Products/services the company has developed or marketed and the success of each.
- Current developments of products/services to include any further approvals necessary, upgrades or development it must still undergo.

If past performance is not a reliable indicator of future potential then state this in this section including the reasons.

The more the history of the company shows an ability to change direction, adapt and thus continue to grow in a volatile or hostile business environment, the better the plan is likely to be received.

4- The Product/Service

Topics to be covered in this section: -

- Description of main products and services stating in layman's terms precisely what is to be sold and for what purpose.
- The advantages of your product/service e.g.

- What unique features does it have?
- Is it cheaper than similar products/services on the market? If so how?
- Is it better quality?
- How will customers benefit from using it?
- What are its disadvantages?
- Current status of the product/service e.g.
 - Any further research and development required?
 - Does it already have an established market?
 - Mid way between the above?
- What is the likely longevity of your product/service? Are any new products/services to be introduced in the future?
- Are there any new products/services to rival yours? If so, what are your plans to combat this competition?
- Does your product require government approval; are there any industry standards to be met?
- What is the profitability of your products or services?

5 - Technology, Intellectual Property Rights (IPR) and Research and Development

With technology businesses this is obviously a key section.

- The section should set out at a technical level what it is that the business has. Industry and scientific standard acronyms and technical terms can be used, but avoid excessive jargon, and do not create terms to “window-dress” the technology. It will be read either by non-technical investors who if they do not understand can decide whether they wish to continue, or technical investors who will want to very quickly assess the strength of the technology. Detailed technical supporting documents, etc should be incorporated as appendices. The section should identify clearly the unique core technology and provide a brief technical summary of the main benefits/distinctions between the proposed and existing solutions. (Remember the investors maxim that for a product to be adopted in the market it should be “10 times better and 10 times cheaper” than existing solutions.)
- Legal protection (e.g. patents, copyrights, etc) that has been sought or will be required for a product. Will there be any impact of this legal protection on the marketability of the product? The annual cost of this protection should be noted.
- What stage is the protection at, initial application, examination or patent granted? What feedback has there been from the patent examiners.
- How vulnerable is the product or service to further technological change or development? Again be honest and broadminded, there are often several ways to solve technical problems.
- What is the “technology roadmap”, i.e. is there a possibility to develop your product, with second, third,... generations planned? If so are you likely to require another round of funding?
- The R&D program should be summarised, clearly identifying the projects, the annual forecast budgets/project, key milestones, key risks and areas of particular technical difficulty. An activity chart included as an appendix is a good way of summarising this information.
- Set out the technical credentials – e.g. technical partnerships with universities, companies, sponsored development programs, etc.

6 - Management and Personnel

This section should include: -

- A summary of key managers showing: -
 - Their roles within the company preferably demonstrating that you have a balanced team. If not be honest about the gaps and when they are to be filled.

- Age, experience and expertise. It is important to stipulate the size of their previous companies and tasks undertaken.
- CV's can be attached as appendices NOT included here.
- Relationship between owners and management, including the long-term objectives of key people.
- Remuneration policies.
- An organisation chart should be included in the appendices showing the position now and proposed chart for the future (3-5 years time).
- Do you have any non-executive directors and what are their roles?
- Will you need any extra management personnel in the future and how will they be recruited?
- Identify any vacant positions or weaknesses and set out plans to rectify this. If mistakes have been made in the past explain how these were rectified.

If appropriate also include details on other managers and employees for example: -

- Brief analysis of their roles and skills
- Remuneration policy
- Union recognition
- Future requirements
- Training and recruitment policies.

7 - Markets and Marketing

Things to include: -

Market

- Your general market and future prospects incorporating market size and anticipated growth.
- Is the market growing? If so why? (Include recent market history if relevant and details of why the market will grow in the future).
- Current/anticipated market share.
- Your particular niche within this market? Include any statistics you may have regarding this (which may require the commission of some independent market research).
- Describe your customers: -
 - Who are they?
 - Where are they?
 - Why do they purchase your product/service
 - When do they buy?
 - How do they buy? (E.g. by tender or order?)
 - Typical order size?
 - Requirements of your customer?
 - What affects your customers purchasing habits (is your product/service recession proof for example?)

8 - Competition

This is a very important section. Competition today is global, so do global due diligence. Six hours on the Internet could save you six years of wasted effort. An investor will instantly lose faith in a prospective investee if due diligence discovers a competitor that was not known about. Competitors may not offer exactly the same service that you propose to offer, but "tangential competitors" can quickly erode your market and if not considered, quickly erode investor interest in your venture.

- Who are they?
- Where are they?
- How big are they and what is their potential for growth?

- What is their market share?
- Their strengths and weaknesses.
- How will you compete successfully against them?
- What will be their response to your business and its plans?

Being honest and realistic about competition is very important and adds credibility to your plan.

9 - Marketing

- Which territory are you going to cover i.e. is the business regional, national, etc?
- What is your pricing policy? Cost or demand based? How do you expect prices to move in the future? Your pricing policy should show that you will achieve market penetration, increase in market share and make a profit. Do you have a return on investment (ROI) model for your customer?
- What are your support and after sales service and warranty arrangements?
- What will be your minimum order size?
- What are your credit terms?
- Advertising and Promotion proposals. E.g.
 - Branding
 - PR
 - Advertising
 - Trade Shows
 - Sales incentives
 - Promotional Literature
 - Cost of the above and when it will be applied and benefit derived.
- Distribution of product.
- Current and potential orders.
- Endorsements from current and potential customers (include how familiar they are with your product).

10 - Manufacturing Process (if applicable)

You will need to include: -

- Step by step description of the production process.
- Facilities available (property and plant).
- Production capacity (now, future and any steps to expand).
- Yield and waste, how this is monitored and controlled and factors affecting it.
- Security of raw material source and alternatives.
- Availability of required workforce.
- Advantages of your production method over competitors.
- Quality control procedures.
- Costs at different volumes of production.
- If a new product, outline how you will scale production from the prototype model.

11 - Financial Information

The appendices should include the full audited accounts; historic audited accounts – showing trends; management accounts showing the company's current position and detailed forecasts (3-5year period). However, the business plan should contain some summary information. The type of information would be: -

- Sales
- Gross profit margin
- Earnings Before Interest Tax Depreciation and Amortisation (EBITDA)
- Earnings Before Interest and Tax (EBIT)

- Net profit before tax
- Cash generated/used
- Capital expenditure
- Balance Sheet
- Cash Flow

Some commentary should be provided explaining the figures. It should relate to the timing of the investment from initial outlay to sales being achieved to profits being earned through to cash being generated. It should comment on the strength of the balance sheet and draw attention to any off balance sheet assets (e.g. intellectual property rights) or liabilities (e.g. performance bonds) which might affect valuation.

A statement of assumptions will need to be included showing how you have arrived at your figures.

In this section you need to state your funding requirements and a proposed exit route for the venture capital investor. Make sure that you do not underestimate your capital requirement.

Outline present management information systems and any planned changes.

12 - Risk Factors and Rewards

Highlight risks and explain how you and your management team are going to overcome them. This can be done by carrying out a sensitivity analysis and including a summary of the results.

13 - Summary

14 - Appendices

It is unlikely that all of the below list will be included, however typical documents are: -

- Glossary of terms used
- Product literature and technical specifications
- Organisation Charts
- CVs of key managers
- Market surveys
- Patent details
- Financial forecasts – profit and loss, cash flow and balance sheets
- Assumptions
- Latest audited accounts
- Latest management accounts and
- Third party confirmations where available.

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USEFUL TIPS

- Keep the executive summary to 4-6 pages.
- The business plan should, excluding appendices be no more than 25-30 pages in length.
- Be clear about why investment monies are needed and how they will be spent.
- Benchmark your business against competitors, reputation, size, and relative value.
- Remember the monies are an investment; the investor will want to know why they should buy the shares and when and how they can sell them.