

Business Plan Basics

Robin Jones
January 18, 2006

Why A Written Plan... Isn't it All About PowerPoint?

- An exercise in thoroughness- find your holes
- Forces objective planning and strategizing
- Ferret out risk factors and plan for them
- Reality check- are you fooling yourself?
- Align your team around a common plan
- VCs will ask for it, even if they don't read it



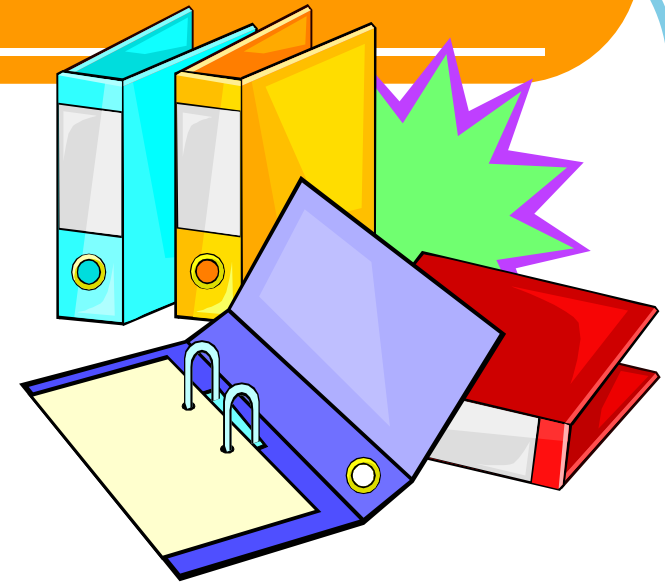
Key Questions to be Addressed

- What problem are you solving?
- How does your product/service solve the problem?
- How do you plan to improve upon alternative solutions?
- How does this create financial value for your company and its investors?



Components of the Plan

- Executive Summary (2-3 pages)
- Company Description (0.5-1 page)
- Products and Services (2-4 pages)
- Markets (1-2 pages)
- Technology (2-3 pages)
- Competition/Competitive Advantage (1-2 pages)
- Business Model/Key Customers (2-3 pages)
- Operations (1-2 pages)
- Management (1 page)
- Financial Projections (1 page)
- Financing and Use of Proceeds (0.5-1 page)



Executive Summary

Write this last....

Company Description



- Vision
- Basic product offering
- Company history
- Markets to be served
- Company location
- Stage of business

Products and Services

- Basic outline:
 - What is the product?
 - What are the benefits to users? (vs. features)
 - How does it work?
 - What's next on your roadmap?
- *Tips:*
 - Must be meaningful to laypeople and experts.
 - Don't use too much technical jargon
 - Use diagrams and photos

Markets

- **Market Dynamics**

- Why is this a good opportunity now?
- Customer trends, regulations, technological advances

- **Market Sizing**

- Analyst reports AND bottom-up analysis

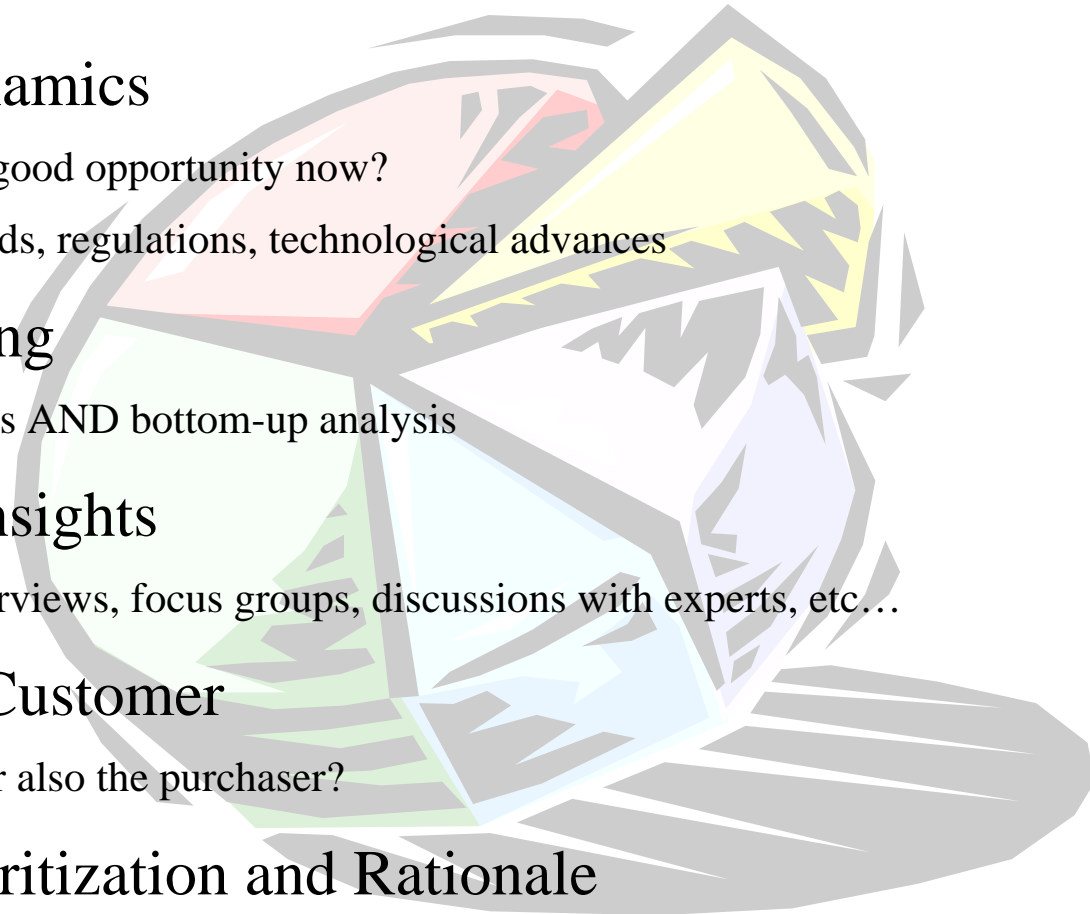
- **Customer Insights**

- Customer interviews, focus groups, discussions with experts, etc...

- **Define the Customer**

- Is the end-user also the purchaser?

- **Market Prioritization and Rationale**



Technology

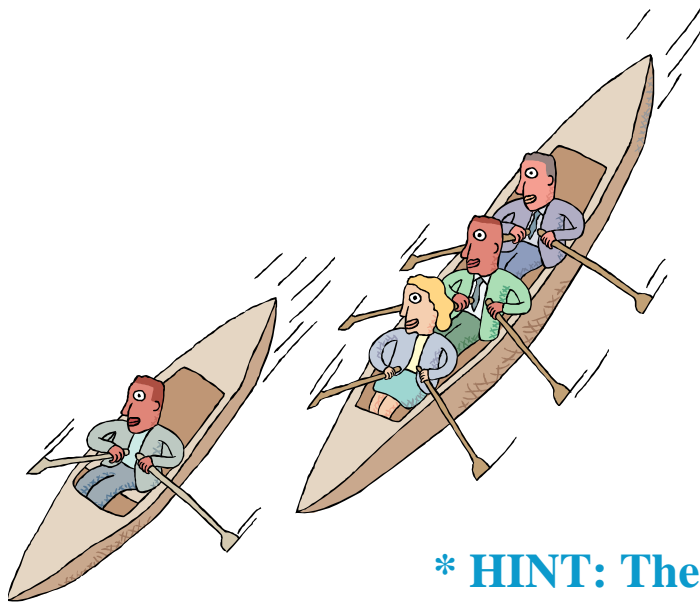
Here's where you can use some technical jargon (but just some)...

- Describe the following:
 - Main components of solution
 - Features and functionality
 - Underlying technology
 - Development environments
 - Compatibility with other relevant products
 - How your product fits the relevant technology value chain
- Patents and Patents Pending
- Save the deep technical description for a white paper

Competition/Competitive Advantage

Competitors include:

- Direct competition
- Substitute solutions
- Potential entrants

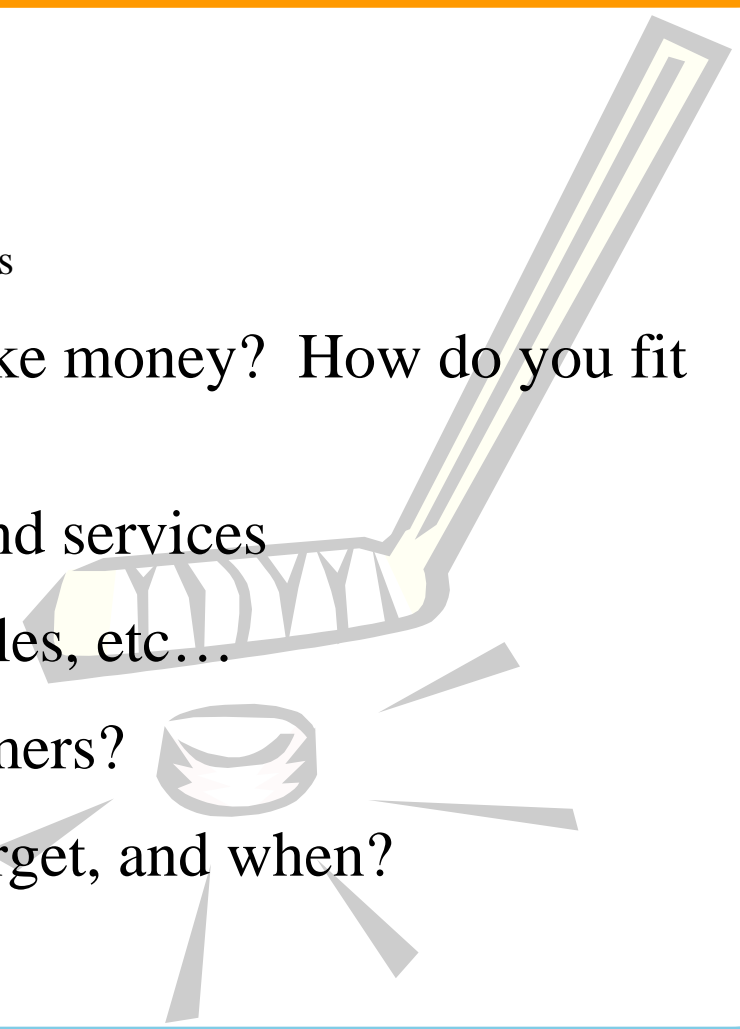


Barriers to Entry may include:

- Patents (pending)
- Key partnerships
- Key customer relationships
- Expert management team
- Superior product, functionality
- Time to Market
- Cost advantages
- Switching Costs

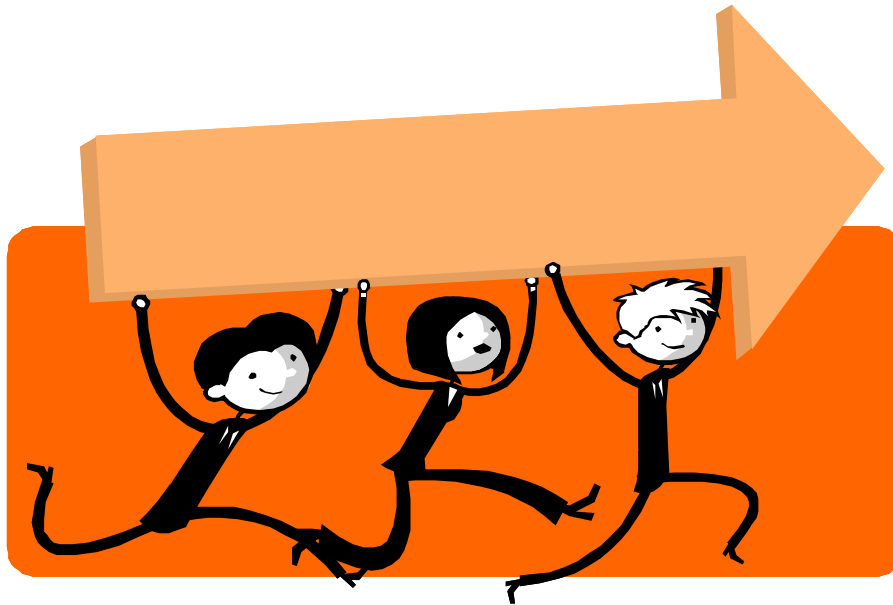
*** HINT: The competition section is a good place to indicate who your comparables will be for valuation's sake.**

Business Model/Key Customers

- How will you make money?
 - Product sales, royalties, licensing
 - Upfront payments vs. recurring revenues
 - How does your customer make money? How do you fit their picture?
 - Products versus consulting and services
 - Maintenance, upgrades, upsales, etc...
 - Who are your existing customers?
 - Which customers will you target, and when?
 - Be reasonable
- 

Management

- Include bios of key team members
- Point out any VP/Sr. Director holes you may have



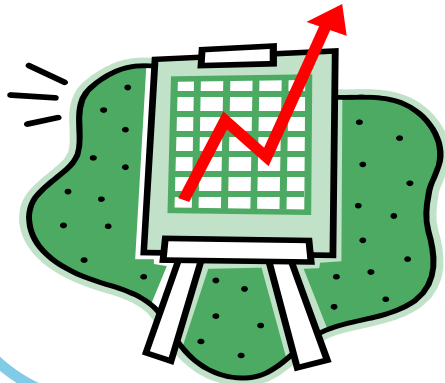
Operations

- Who will manufacture your product?
- How will you organize customer and technical support?
- Will you have in-house or outsourced QA?
- Other things that give VCs warm-fuzzies:
 - Documentation procedures
 - Financial systems



Financial Projections

- Build forecasts from bottom-up and include key assumptions (be able to validate analyst forecasts)
- Projections for 5 years, highlight break-even
- Plan for 20-25% market penetration by year 5
- Discuss and forecast headcount ramp
- Include additional financing rounds
- Give 'em a chart and a graph:



	2005	2006	2007
Revenue	776	9,191	33,200
Cost of Goods Sold	(216)	(1,010)	(3,544)
Expenses	(17,084)	(15,157)	(23,342)
Depreciation	(968)	(1,282)	(1,470)
Net Income	(17,492)	(8,258)	4,844
EBIT	(17,042)	(7,923)	5,074

Financing and Use of Proceeds

- Include:
 - Funding required
 - Milestones
 - Hire key management
 - Growth capital
 - Technology development
 - Manufacturing
 - Future financing requirements
- DON'T include a valuation



Executive Summary

- Write it LAST
- Make it a stand-alone document
- Start with a problem/solution paragraph
- Summarize each section of the business plan
- But, spend most time on:
 - Product description
 - Competitive advantages
 - Business model & projections
 - Management team
- Keep it short- 2-3 pages

Additional Tips

- Include your contact information!
- Spell check
- Have non-experts read and give feedback
- This is a living document and will need to be modified as you get feedback.
- Create a versioning system to keep track of any updates.
- Keep track of who has your plan, and which version they have (you'll get specific questions)



Parting Notes

- Moonlighting is tough
- Be tenacious but polite
- Spend the necessary time to line up a great management and advisory team
- Hire a consultant controller or someone analytical who can jam out due diligence materials
- Network, network, network
- Give yourself at least 9 months to fundraise before you need \$\$
- Speak at venture forums
- Know your financing market
- It ain't over till the check's in the bank

Make sure you really like and respect your team!

Thank You!

Robin Jones
Wireless Strategy/Business Development Consultant

robinj@stanfordalumni.org
415-254-2650