

The Business Plan

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STARTING UP: *Practical Advice for Entrepreneurs*

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In January I had the pleasure of organizing and moderating the Annual "Nuts and Bolts of Business Plans" seminar series at MIT. Although these seminars are aimed primarily at MIT students who are planning to enter the \$50K Business Plan Competition, many nonstudents attended as well. There were 12 excellent outside speakers covering the topics of marketing, finance, business plan basics and "war stories". In reviewing the notes I took during the series I was struck with how consistent the message was from these 12 speakers who never met each other and how similar that message was to what has been said by the 50 or so unrelated speakers who have participated in the series over the past six years. Here is a summary of those messages:

A Resume. The business plan is essential to obtaining financing. Like a resume, it doesn't get you the job/money but it may get you an interview.

Not An Offering. The plan should focus on the business and the opportunity. For a variety of reasons, including securities laws, it should not offer a specific deal-that is for negotiation and the formal offering documents. Again, think of the resume-you put down your qualifications; in a resume you don't say "I am willing to work for you for \$x and y weeks vacation."

Executive Summary. You need an Executive Summary of not more than 2 pages. It must be crisp so that the reader can quickly grasp what the business is. It must entice the reader to want to read on. Put in a summary chart giving a thumbnail sketch of projected 5-year revenue, margins and profits. Develop an "elevator speech" which ties to the executive summary- e.g. you get into an elevator with a venture capitalist in a high-rise building in the financial district, she turns to you and says "what line of business are you in"- you have thirty seconds to respond before she reaches her floor, what do you say?

Operating Plan. The Business Plan should be the core of your operating plan. It should state the vision for the company and function as a roadmap that you actually try to follow.

Everything Must Tie Together. The Business Plan should be internally consistent and tie to any presentation you will make. This seems obvious, but I can't tell you how many times I have seen plans which present a cluttered, inconsistent message. We all have difficulty critiquing our own work, so have your plan reviewed by several people who haven't been involved in putting it together and ask them for frank feedback.

Field of Dreams. The marketing section is usually the weakest section of the plan. Many marketing sections should be entitled "Field of Dreams" because they assume that if "I build

the product, they will buy it". Don't do "top down" market analysis- e.g., there are 60 million personal computers, 1% of the pc owners will buy our product at a price of \$50 so we will have sales of \$30 million. Instead do "bottom up" analysis- exactly who will buy the product and why? What is the compelling need that your product or service fills? Show that you have actually talked to potential customers.

Sales and Marketing. Once you have done the marketing analysis correctly make sure the sales strategy ties in. The sales section of many business plans basically say "we will sell through every known channel". This just isn't convincing. Demonstrate that you understand why a particular channel strategy makes sense given your market analysis.

Financial Projections. The financial needs of the business will depend greatly on the marketing and sales strategies. It all has to fit together in a coherent way. Remember: projections are just that- projections; they will never turn out to be correct. However projections do have to show an understanding of how all of the variables of the business interact. In the plan and in any presentation you make you must demonstrate that you "own" the numbers, that you really understand the financial implications of your strategy. Because they are projections, don't present the numbers to the penny; five significant digit accuracy may be critical in the engineering of your product but it has no place in business plan financials. Don't be creative in your presentation of the numbers- there is an accepted format. Help your reader out by calculating key percentages like gross margins.

Team is Critical. Some investors look at the product/market opportunity first and then the team, but most seminar speakers put the emphasis on the team. The general consensus was that a first rate team will figure out how to make the business a success. It's much easier to raise money if you have a few "success notches" in your gun. If you are new at the game surround yourself with experienced advisers with good reputations. A well thought out and written business plan is critical in attracting those advisers.

Important Practical Points. Plan length should be 20 to 30 pages max. Put the details in separate volumes which you make available upon request. Professional investors see hundreds of plans a year and often read them on airplanes or on the train home. Moral: don't put the plan in a large 3-ring binder- it's too big to fit in a briefcase. Preferences vary but many people seem to like a plastic spiral bound plan because it lays flat, which makes it easier to write notes on. First impressions are important so run the spell checker on your word processing program and have someone check your plan over for obvious grammar errors and for internal consistency. Finally, if you have followed all of this advice and you have the most interesting plan and business opportunity in the recorded history of entrepreneurial ventures and the investor is all set to give you the interview, make sure that you can be reached- put in your name, address, telephone, fax, e-mail etc. information. It seems obvious but you would be surprised how often this information is missing from business plans.

That's my summary of some of the important information conveyed by some 50 speakers in over 100 hours of practical presentations at the M.I.T. Business Plan Competitions Seminars over the past six years. No one can tell you how to succeed but if you avoid enough mistakes your ability to succeed will be enhanced. Good luck and happy hunting.

DISCLAIMER: This column is designed to give the reader an overview of a topic and is not intended to constitute legal advice as to any particular fact situation. In addition, laws and their interpretations change over time and the contents of this column may not reflect these changes. The reader is advised to consult competent legal counsel as to his or her particular situation.