

Business Plans That Drive Transactions

By Peter S Buchanan

Most companies view business planning as a necessary evil. Senior executives would rather be building new technology or talking to customers. For early and growth stage companies, the goal of business planning is to obtain funding to start or expand the business. For more mature companies, the main goal is usually to drive either an acquisition by a larger player or faster growth and profitability. In reality, the major goal of business planning is to outline the structure and execution steps to create the best possible business. Over the past seven years, I have written dozens of business and operating plans that have driven transactions, and I have read hundreds more - many for companies that could have been market contenders if they had been more diligent about plotting out their future. My view is:

- Many business plans *do not demonstrate depth and operating rigor* and, in the post-bubble landscape of extreme due diligence, do not get funded even though the business may have the tools to be successful.
- Many business plans *make it hard for investors to get excited by an opportunity* because they *present information in the wrong order* and *fail to show that the management team has the ability to operate* the business on a daily basis.
- All of your materials - the business plan, operating plan, presentation, executive summary, financial model, and due diligence documents - need to *tell the same story* and must show that you *can operate your business* in a way that *outsiders can understand it and make a transaction decision quickly*.

For the smart entrepreneur, business planning is the *process of planning ahead, organizing your company for success, and then executing on that plan - it is continuous, rigorous, and most definitely not a one shot deal*. Once you create your first business plan, you update it every month or quarter. It is your roadmap for success, and, aside from your customers, products, shareholders and employees, it is your most valuable asset.

Where You Are Now

You are going full speed running your company. You have an operating business, a simple business plan, and some sales presentations and literature. As you continue to trudge on without growth funding, operating your business gets harder and harder. You believe in your market, and you think you have some customer validation, because your product is installed at a couple of companies. Investors may follow your company, but you can't get past the "feel good" first meeting or phone call. You need capital to grow, so that you can:

- Fund product development
- Hire executive talent
- Expand sales
- Get the word out to analysts and customers

You know you need a real business plan, so that more people can understand and fund your growth, but operating your company always gets in the way.

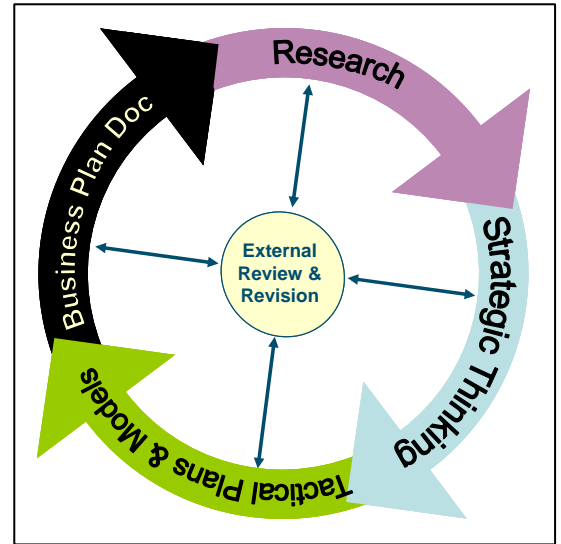
Where You Want to Be

Business planning is hard; however, at the end of the day, there is a simple way to approach it. To create a great business plan, an entrepreneur must answer three questions:



1. *What value does your company and its products provide to customers?*
2. *What value does your company provide to employees and shareholders?*
3. *What is your roadmap for becoming a highly-valued market leader with great customers and employees and highly appreciative shareholders?*

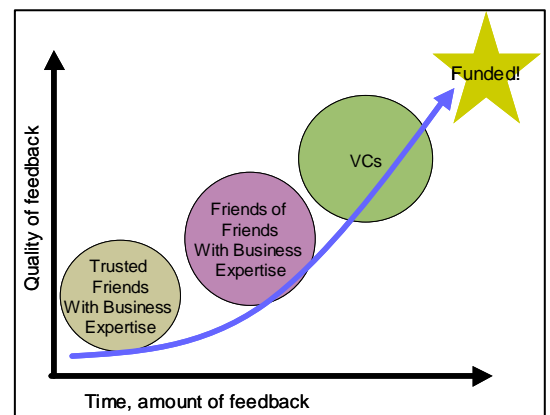
To answer these questions, an entrepreneur and his team must go through an iterative, intense process. Creating a great business plan has four, key steps:



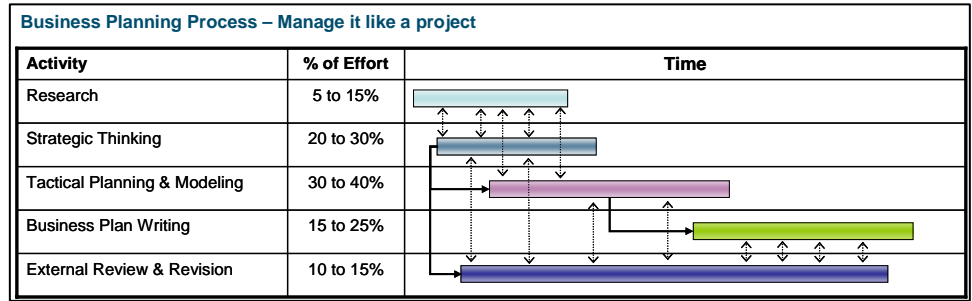
1. ***Do the research on your market and competition.***
Gather the facts from credible outside sources, like IDC, Forrester, Gartner, and Wall Street analysts. Most business plans lack sufficient description of the market and competition.
2. ***Do the strategic thinking*** to set your company's direction and get your team all on the same page. Be fact based and unemotional in assessing your market position and prospects for success, and identify weak areas where you need more facts and strategic help.
3. ***Build your tactical plan*** with a heavy focus on the milestones you need to achieve to be successful. While every milestone for each function won't end up in your business plan, you need to map out in detail the milestones for executing on your product and technology roadmap, sales strategy, marketing roll-out, human resource needs, and financial plan over the next 24 months. By the way, once you have written down these milestones, execute against them successfully along the way. Investors and buyers will watch your progress against your own goals. Finally, build a series of financial models to test your milestone assumptions. Prepare best, worst, and likely cases, and remember that a rational financial model is a good reflection on the management team.
4. ***Then begin writing.*** The business plan and investor presentation are the documents you write at the end of the process. They serve as the roadmap for your business for the next 24 to 36 months. To create a great roadmap, you need to have your facts in order first.

Finally, there is a saying that the favorite beverage of entrepreneurs is Kool-Aid, because entrepreneurs drink their own Kool-Aid constantly and many companies don't live to tell their story as a result. It's essential that you ***expose your ideas and thinking to intense criticism and listen to contrary points of view*** from outside the company. Here are the rules for outside review:

1. Get at least 3-5 outside reviews before you go to investors, not including your mom - unless your Mom is Meg Whitman.
2. Use friends, business leaders, board members, consultants - anyone who has industry or operating experience.
3. In your reviews, try to cover all of the key functions of your company - technology, sales, marketing, operations, and finance.
4. Try to use people you trust and keep tabs on documents that you believe are confidential, but remember that even investors and reviewers won't sign non-disclosure agreements to receive your plan.
5. The outside review process ought to hurt and challenge your thinking, or you are not getting the advice you need prior to beginning the funding process.



How do you know you're getting good advice? Well, the favorite beverage of a good outside advisor is crisp, cold water. The advisor doesn't drink it; he throws it in your face to make sure you're listening.



Before we get into what needs to be in your business plan, presentation, executive summary, and operating plan, let me just add one thing: Good business plans aren't built over a weekend. *It almost always takes 45 to 90 days to give birth to a business plan and accompanying presentation on paper.*

What Documents to Create and What to Include

Solid planning produces several documents that describe your business; each document serves a different purpose in the funding process. Here is the optimal set of documents that you need to produce:

Document	Description	Audience	Primary Use	Comments
Executive Summary	2-5 pages giving the highlights of your business opportunity and expected results	<ul style="list-style-type: none"> Investors Management candidates Partner candidates 	<ul style="list-style-type: none"> Overview of business concept; designed to get the first meeting 	<ul style="list-style-type: none"> Write this last, after you have completed the business plan Generally extracted from the business plan
Investor Presentation	15-25 page PowerPoint overview of business and business strategy	<ul style="list-style-type: none"> Investors Management candidates 	<ul style="list-style-type: none"> Overview of the business, markets, and operational strategy 	<ul style="list-style-type: none"> Focus on markets, products, sales, competition, expected financial results, and management team.
Written Business Plan/Private Placement Memorandum (PPM)	35-50 pages describing all elements of the business and business strategy; PPM additionally includes legal/financial introduction and sometimes risk factors	<ul style="list-style-type: none"> Investors Senior Management Board of Directors 	<ul style="list-style-type: none"> Detailed description of the company - idea/product, markets, business and operations strategy, and expected financial results 	<ul style="list-style-type: none"> Good, clear writing and passion are very important. Must show the ability to successfully operate and grow a business
Operating Plan (not required, but highly recommended)	60-80 page plan in PowerPoint for operating the business over a 24 to 36 month period	<ul style="list-style-type: none"> Investors Senior Management Board of Directors Employees 	<ul style="list-style-type: none"> Chart the course of the company in detail, including key milestones in all major business functions 	<ul style="list-style-type: none"> Serves as the guidebook for investor due diligence Provides an internal plan for senior management and Board for execution Update every quarter

Generally speaking, you create your set of planning documents in the reverse order of their use - beginning with the optional operating plan and ending with the executive summary. Every document should contain some version of these seven sections in increasing levels of detail depending on the length and purpose of the document:

1. **Executive Summary** - 2 to 5 business plan pages - provides a succinct and compelling description of your company. It should include a discussion of the key takeaways in all key areas of your business. The first paragraph or two should say clearly what you do, why it is compelling, and why your company wins in the market. The subsequent content on your market, products, current and target customers, competitive position, management team, and financials should factually support and amplify the beginning of the summary. If you have the time to build on your business plan before going to the transaction markets with a



summary, I would strongly suggest that you create the executive summary last - after you have documented the rest of your business - so that you have maximum knowledge of all key functions in your business.

2. **Market Overview** - 5 to 8 pages - describes the market opportunity, the landscape you compete in, and the market drivers that speed adoption of your products. You need to cite third party sources that support your description of the market opportunity and provide market forecasts that support your predictions of a high-growth market. Sources can include industry analysts (Gartner, Forrester, and IDC), financial analysts (Wall Street brokerage research), and academic and association studies focused on describing the market. You need to relate these market drivers to product capabilities you offer and activities you are actually seeing in the market. Finally, be sure to document the barriers to entry that will prevent your competitors - large and small - from devouring your company as a luscious but light, mid-afternoon snack.
3. **Products & Services** - 8 to 12 pages - is where the rubber really meets the road. Customers buy products, analysts track products, and investors and acquirers bet on products. Therefore, you absolutely and completely have to describe your products clearly and succinctly. Here is what you need to cover:
 - A clear and short overview of your products that articulates what the product does, the value it brings to customers, and why it is unique in the market
 - A description of the major components, capabilities, and benefits of the product or service
 - Your unique intellectual property:
 - i. How the technology is different from and similar to existing technologies?
 - ii. How hard is it replicate?
 - iii. Could it become "the standard" for the market? If so, how?
 - The status of product or service development, including the release date of the next (or first) version of the product or service (or key products if you work for a larger company)
 - How the product will evolve over time, including a brief description of the features that will be available in subsequent releases
 - If partners are required to deliver the product or service, the type of partners that are required and briefly provide examples of potential partnership candidates
 - An overview of how you currently - or will - implement your product for customers. For software products, this usually means building a professional services organization that follows specific implementation procedures.
 - How your product is positioned and priced in the market
 - Sample case studies - if you have them - that describe the benefits of your products in real-world use

Business Plan Table of Contents

1. Executive Summary
2. Market Overview
3. Products & Services
4. Go-to-Market Strategy
5. Competition
6. Operations & Management
7. Financials & Use of Funds

Most entrepreneurs love to rave endlessly about their products and technology. It becomes tempting to build a 20 page business plan section - or 10 slides in an investor presentation - to really make sure that an investor or acquirer "gets it"; however, it's better to make it crisp, clear, and concise. Remember that Products & Services is only one section out of seven.

4. **Go-to-Market Strategy** - 4 to 8 pages - describes how you get your products in the hands of customers. You must prove that your company has the ability to grow its customer base and that you know how to put together an effective go-to-market team. You should cover:
 - The Company's performance to date, including notable selling, partnership, and marketing highlights over the last 6 to 9 months
 - The sales strategy going forward, including the use of direct and indirect channels as appropriate

- Sales goals by channel for the next 12 to 24 months
- How you currently organize your selling efforts and how this will change in the future
- The types of people you have on staff - and will recruit - to execute your go-to-market strategy
- How you use - or will use - indirect channels to bring your products to market
- The marketing programs you expect to execute to help acquire new customers and influence the market

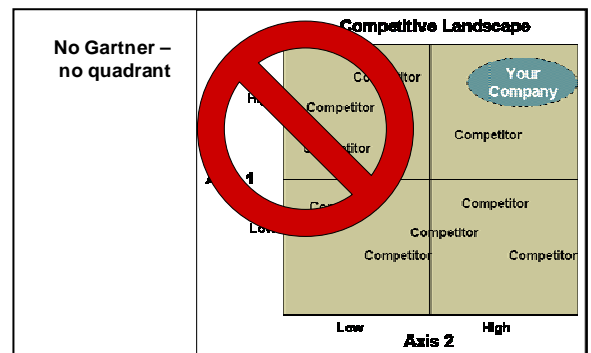
For technically-oriented entrepreneurs, this section can seem particularly daunting, because, as everyone knows, great technology sells itself. If you don't know how to organize a go-to-market strategy, go seek out expert advice. As a leader - who happens to be a technical genius - you are expected to be able to put together a logical, metrics-based go-to-market strategy and build the right team.

5. **Competition** - 3 to 6 pages - takes the market you described in the Market Overview and paints it from a competitive point of view. This section describes:

- The major competitors in the different market segments where you compete, including who is there now, who is entering, and who could enter but has not
- The major competitive groupings that define the competitive dynamic in the market (e.g. serving large vs. small enterprise; application vs. tool; direct vs. indirect, etc)
- The main competitors, how large and established they are
- The primary strategy/orientation of each established player and the new player entering the market
- The alternatives and substitute products and services available to customers
- Winning against the most important competitors - both in terms of classes of competitors and perceived direct competitors that can take money out of your pocket

It is very tempting to trash your competitors large and small alike; after all, your offerings and approach are obviously better. It's also tempting to describe them in such excruciating detail that investors and buyers run screaming in terror. The best approach is to create a high level, SWOT-oriented view based on more on facts and realism than passion for your product. Here are the rules you should follow:

- **Be fact-based** - Investors and acquirers will have their own sources of competitive information, which could be better than yours. You need to be credible - not incredible.
- **Place the competitors on a matrix with key competitive differentiators defining the two axes.** Then provide a factual description and comparison of the competitors on a second page. The goal is to show that there are opportunities in the market for your products that your competitors don't serve well.
- **There is always a competitor** - don't say there isn't - but break the types of competitors into groups that you can position against and determine how you can win against each group. In lots of markets, there appear to be 12 or 15 competitors, but, when you break down the market by target customer, product features, and other factors, perceived competitors can melt away - leaving your company with a manageable competitive universe.
- Be sure to **graphically depict how you win**, but remember that there's a trap here. A Magic Quadrant that shows you in or on the way to the top right box is a great thing, but only if Gartner created it. You're better off creating a graphic that shows some combination of differentiating features, product breadth, delivery time, market approach, or ROI/TCO.



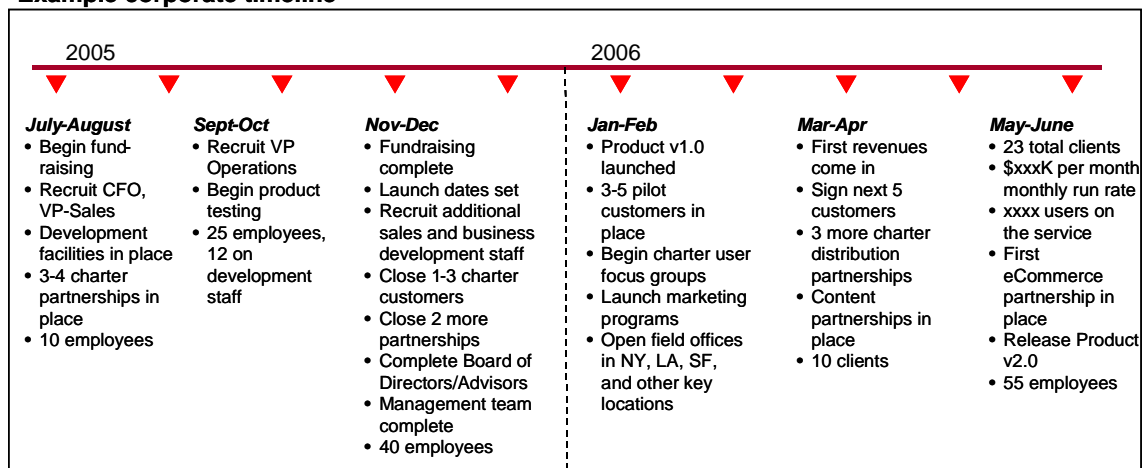


6. **Operations & Management** - 4 to 8 pages - describes in some detail the major tasks that must be accomplished to take your concept to reality. It also highlights the capabilities of your management team and the near-term management and employee additions you're going to make to strengthen your team. Specific contents include:

In Operations

- A description of the major milestones and tasks over the next 18 months, and how will they be accomplished (products, customer growth, key capacity in place, etc)
- The number of and types of employees that will be required to accomplish these milestones
- The external events and partnerships that will be required to accomplish these milestones
- The obstacles that must be overcome to meet these milestones

Example corporate timeline



In Management

- The key management personnel and their backgrounds. Present biographies (1/2 page on average) that are accomplishment and experience focused
- The Board of Directors and/or Board of Advisors and their backgrounds
- The major investors that will be adding value going forward
- The professional advisors the company has retained: law firm, accounting firm, consultants, etc
- The hiring plan and timeline for the next 30-180 days

Your market, products, go-to-market, and competitive strategies may seem like the meat of your plan, but, guess what, this section is equally important. First of all, you'll be outlining the key milestones for your business over the next 12 to 18 months. You should be aggressive and positive about your milestones, but remember that you have to meet them. Transactors on the other side of the table will measure your progress against those milestones. In management, you need to tout accomplishments, experience, and your HR plan, but don't embellish. Investors and buyers check bios and experience, and exaggerations can create a lack of trust. The bottom line is, management counts for a lot - up to 50 percent of your total grade if you're an early stage company - and achievability of milestones and personal credibility are king.

7. **Financials & Use of Funds** - 3 to 4 pages - contains your financial projections, major assumptions, and uses of funds. You should provide enough information for investors or buyers to understand your financial plan but not so much that you have divulged your entire financial strategy and approach. You should also avoid drowning the investor or buyer in financial detail early on. If there is transaction interest, you'll go through several sessions where you explain how and why you built your financial plan. Generally, this section should include the following financial information:



- Actual financial results (if applicable)
- Projected financial results (yearly) for the next 3-5 years. This always includes income statement and might sometimes include a statement of cash flows and balance sheet
- Revenue & cost assumptions that drive financial projections (units sold, headcount by function, development cost, etc)
- Required capital and major uses of funds

The information you include in your transaction documents is just the beginning. As the basis for executing a transaction, **you must create, maintain, and update a working, operations-focused financial model**. You should keep this model up-to-date monthly. In addition, you should test your assumptions against a series of rules:

- Make your numbers big enough to be exciting to transactors but realistic enough to be achievable
- Develop your financial projections using both a top-down and bottoms-up approach, so that you can defend your assumptions to a prospective investor
- Check your revenue projections against your addressable market size to make sure you are projecting an achievable market share
- Check your cost projections against market analogs to make sure your costs are in line with industry norms and investor expectations
- Do high, medium, and low scenarios for key assumptions internally to understand the impact of the major revenue and cost drivers. Pick the most realistic scenario for your transaction documents
- Test your assumptions with your outside advisors or trusted resources before your first investor meeting
- Get a professional to build your model unless you have great modeling skills
- The numbers must be *the same* in all the documents you deliver, so try to get it right the first time

Finally, more than any other part of your business plan, *your financial model proves that you - and your team - are sane and logical*. During the Internet Bubble, entrepreneurs produced many fanciful financial models that lacked both sanity and business logic. I remember showing one of my plans to a friend who ran investor relations for a publicly-traded company. She read the plan from cover-to-cover and dug it through the first six chapters; however, when she got to Chapter Seven, Financials and Uses of Funds, her reaction changed. I heard a loud whistle followed by the words, "What a bunch of hooley!" Fortunately for my client, the exuberance of the Internet marketplace carried the day, and a quality investor contributed \$3 million in funding. That wouldn't happen in today's market.

Some Important Final Words

Your business plan isn't the final word in making your business successful. Instead, it provides a vehicle for running your business more effectively and for pursuing the right transactions in the marketplace. For example, if you successfully raise funds, you earn the right to do even more difficult things every day - such as build a global sales force, branch out into new product areas, partner to reach new markets, and simultaneously manage shareholder, customer, and employee expectations. Your role - and the role of your senior team - is much more difficult than the business planning process, and I certainly admire you - as entrepreneurs - for taking up the challenge.

In closing, I wanted to pass on to you a few extra thoughts on business planning. These thoughts may seem mundane when compared to the meaty how-to stuff in the rest of this report, but they can make the difference between creating a plan that drives a transaction and the placement of a really cool decorative binder on your business bookshelf. Here are my final three rules:

1. **Good, clear writing makes the transactor's life - and yours - much easier.** If even your closest colleagues can't decipher or explain back to you what you wrote, find a good writer, explain your idea, and get out of the way. Transactors see hundreds of plans per year, and reading a plan takes a couple of hours. Most of these tomes are not The Da Vinci Code of business plans. Make it easy for them.



2. **Mixing pictures and words effectively gets a better result.** I have seen dozens of plans that basically consist of 50 pages of dense writing - justified on the right. Most of them were dizzyingly dull, and I like reading business plans. To avoid dizzyingly dull, remember this business planning rule:

When reading business plans, there are Word people and PowerPoint people. For maximum success, you have to serve both.

The right pictures, tables, and call-outs will amplify your story and make your business plan much more powerful. Also please note that, *in the transaction world, everyone is an Excel person.* The rules for rigor in your financial model still hold.

3. **Take the time to concentrate on business planning and build it as a team.** Business planning provides an opportunity to create great, cohesive teams, because many people have elements to contribute to the plan. A CEO can burn the midnight oil writing a masterpiece and hope the market agrees, or a team can visit the whiteboard, the Internet, the library, customers, advisors, and conferences and build the best possible plan. It is healthy to have constructive and contentious debate over what features will be delivered in each release of a product or which markets are right for a product at the outset. It is extremely important to set milestones as a team, and it is even better when engineering understands the approach that the sales team is taking towards customers.

Earlier in this document, I mentioned that it takes 45 to 90 days to build a great business plan. Consider it to be the necessary time it takes to start or jump-start a great company - you won't regret it.

About Chessiecap, Inc.

Chessiecap, Inc., is a team of transaction professionals that leverages exceptional investment banking, strategy and technology expertise to drive premium value transactions. Our Chessiecap Securities subsidiary is our vehicle for executing client transactions. Our *Prepare, Deliver, & Transact™* methodology strengthens growth and middle market companies and accelerates their access to capital markets. For more information, visit www.chessiecap.com.

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