



Oklahoma Technology Commercialization Center

Turning Innovation into Enterprise

Business Plan Guidelines for Technology Entrepreneurs

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BUSINESS PLAN GUIDELINES

The business plan is that all-important first impression. It is the appeal for money, an opportunity to promote the company, and the reason for someone to pick this deal to invest in over the many other excellent deals available. It will also form part of the contract of deliverables if someone does invest in your company. It is not just the story; it is “the plan”.

The target audience is potential investors, ... not a thesis review committee. Investors are much more interested in the business opportunity than in the technology. Use your space and their time wisely. Dedicate the plan to the potential investor, not to your peers who will be impressed with your product. Consider that investors are interested in only one thing: getting out with a lot more money than they put in. No, they do not have to understand the technology to invest in it.

First impressions are lasting impressions. Do not sink your plan by including incorrect spelling, bad grammar or punctuation; the use of unprofessional language; numbers that do not total, or poor organization. Avoid “slick” plans that are perceived to be “form over substance” and a waste of scarce resources. To look “professional” consider a binding that permits easy updates and a cover that looks good and includes all contact data. Include a detailed table of contents, numbered pages and identify each plan with a control number.

The Business Plan **should not exceed 30 pages** (and 20 is much better) including the Executive Summary. (Print front and back to make it look even shorter!) Imagine your reader is flying out of state and is going to take five plans with him. He will pick the skinny ones he can fit in his brief case. Those 50 page plans will stay back in his office until he “finds time” for really long plans. Get to the point. Present results not research.

OUTLINE

- I. **Executive Summary – write last. Cover all topics BRIEFLY. Limit to 2 or 3 pages. This may be the only part of your plan that is actually read. Should be a separate document or (detachable).**
 1. Company’s background not history – formed when? for what purpose? with what goals?
 2. Products and/or technology – What? Uniqueness? Proprietary? Barriers? Stage? Benefits?
 3. Management team – completeness? Brief relevant experience, highlight strengths!
 4. The Market – size, growth trends, recent and projected, estimated market share.
 5. Financial projections and exit strategy – boiled down, summary reports. 1 paragraph or chart.
 6. Funds Sought – how much, what for, for how long?
 7. Contact information (if detachable the cover will probably stay with the plan).

II. Company Overview & Background

1. Begin with the “Elevator Pitch”, the hook. Fast, Efficient, Clear, Exciting
2. Keep the content consistent with external information such as web site, D&B, etc.
3. Founding history.
4. Significant milestones achieved to date and critical success factors for the future.
5. Touch lightly upon the technology.
6. Mention strategic partnerships or relationships already established.
7. Include the mission statement.
8. Convey the team’s direction, foresight and philosophy to investors.

III. Products & Technology – Readers are investors not technologists.

1. Cover important aspects of the product (reserving technical specifications for appendices).
2. Hit hard on unique or competitive advantages.
3. Include helpful diagrams to help the investor (not the inventor).
4. Emphasize the benefit to the end-user.
5. Explain how customers will use the product. (Easy? Education required?)
6. Explain why they will need or pay for such a product.
7. Explain clearly why there will be an extremely high-demand in the near future.
8. Where will they buy, how will they buy it, what is their “switch” motivation.
9. Discuss manufacture-ability, customization issues, and supplier issues if relevant.
10. Discuss industry standards or requirements – FDA, OSHA, EPA, etc.

IV. Market Opportunity -What is the target market and to whom are you trying to sell? (May be different)

1. Speculate on the long-term growth prospects of the market and the company.
2. Opportunity to get investor excited about deal. Envision the upside.
3. Cite third party research to support your claims. Avoid top-down assessments. Start with reality and build your way up.
4. Stated or demonstrated interest from companies.
5. Size and growth trend of the target market(s).
6. Market segments.
7. Discuss affect of economic developments on this industry.
8. Discuss affect of government regulation on this industry.

V. The Loyal Opposition - Competition

1. Rule of thumb – there are always at least 3 competitors – other entrepreneurs, university researchers, and corporate labs. Know who they are and what they are doing in your area.
2. Discuss key competitors – size, strength and weaknesses, market share, reputation, prospects and major customers.
3. Be exhaustive in your research – for investors, bad news is much better offered than uncovered.
4. Diagram of competing companies and products if possible.
5. Show the barriers to entry that go beyond the protection of intellectual property.

VI. Marketing Strategy and Execution – if readers get this far they want to know exactly how you will do it.

1. Describe the target market by segment (geography, industry, and type of buyer).
2. What advantages/disadvantages does your company face with these segments?
3. How will you establish credibility (new company, new product)?
4. What and why of pricing strategy. High, moderate, low.
5. Will credit be extended? How do customers buy?
6. Will there be a warranty policy? What is the cost?
7. What attributes will be emphasized to generate sales?
8. What will be the image you strive for?

9. How will you do advertising and public relations? Budgets? Objectives?
10. What distribution channels will you utilize?
11. How will product/customer service be handled?
12. How will you sell the product? Sales staff, sales reps, distributors?
13. How will you compensate/motivate the sales effort?

VII. Management – The most important topic. Read second by investors. Know their depth and limitations.

1. One paragraph for each key founder/executive covering only relevant experiences and background. (Not entire resumes). Note functional responsibilities for each.
2. Summarize key hires for the immediate, intermediate and long-term future. Recognize the limits of the founding staff in relationship to the future company.
3. Provide an assessment of weaknesses; cite when and where the company will most benefit by changes in management. (Most successful companies have had 3 CEO's. Investors are impressed with entrepreneurs who know the score.) Discuss recruiting strategy and don't forget to include some serious recruiting costs in the financial model. (20% to 30% fee plus \$10K to 25K relocation expense per new executive hire).
4. List outside board members. Helpful, but not essential. Not intended to make up for weak management. Strong and independent is impressive.

VIII. Implementation Plan – Exactly how and when will you execute this strategy. A table, a timeline or a succinct discussion to show you know what to do when you raise the money.

1. Research and development – resources committed and expected results
2. Facility requirements – leased, purchased or both.
3. Labor requirements – local labor pool, skilled/unskilled, academic relationships.
4. Subcontracted production – sources, quality control, supply issues.
5. Capital requirements - equipment list, financing requirements.
6. Quality control – raw materials, manufacturing, finished goods.
7. Critical processes – capacity requirements planning, critical paths, cost components.
8. Seasonality – production planning, alternative use of resources.
9. Inventory control – inventory turnover, production operations, lead-times, storage requirements, waste/shrinkage factors, obsolescence.

VIII. Financials – Should be summaries only. Reserve the detailed worksheets for the appendices. Most readers look at the “top line” more than the “bottom line” and at the assumptions for believability.

1. Amount of funds sought
 - a. Equity – amount, terms, % given up.
 - b. Debt – amount, terms, % of interest.
2. Sales Targets – volumes or numbers, not dollars (that is #3)
3. Revenue growth – some product or segment detail here is fine.
4. Gross Profit
5. Operating expenses – save space. Lump them all into one line.
6. Net income
7. Cash flow
8. Balance Sheet
9. Table showing total headcount by period
10. Cover 3 to 5 years. (Save monthly detail for appendices).
11. Use of funds
12. Subsequent funding rounds required
13. Exit Strategies! (How and when do the investors get liquid again?)
 - a. Acquisition
 - b. Management buyout
 - c. IPO
 - d. other
14. Relevant ratios – ROI, Breakeven, etc.

- IX. **Appendices – don't forget your space requirements now. Optional.**
1. Resumes for each founder/executive.
 2. Detailed financial statements or worksheets
 3. Detailed product or technical description and patent grants.
 4. Relevant research material or articles.
 5. Sample of Marketing or Promotional materials.
- X. **Available Upon Request – These should be EXCLUDED from the plan, but ready to send.**
1. Customer/beta references
 2. Letters of intent
 3. Personal references
 4. Supporting financial worksheets
 5. Articles, publications, or research material to support business plan.
 6. Term Sheets

What are some reasons investors don't invest in your deal?

1. **Time** – on average, investors must exit in 5 to 7 years. This influences everything -- from their opinion of your deal to the term sheet. Later stage investment funds require even quicker exits.
2. **Management** – still the #1 reason a VC turns you down. No matter what a VC says about the fund, the economy, the technology, the business plan, etc., concerns about management kill deals 80% of the time. Investors avoid engineers, scientists and professors as CEOs, especially if they have no management experience. Without a complete, experienced team a deal is simply not as attractive.
3. **Lack of Sophistication** - Normally a company requires 2+ CEO's from founder to IPO. Often more. Skill sets vary. The founder CEO may be perfect for the startup. He may be perfect for managing the design and product development team, the fledgling company, and the beta test sites with the first customers, but he may have no experience running a fast growing business with rapidly growing sales and distribution and cash flow problems. He may have absolutely no experience running a public company. If the business plan addresses this in a logical and rational way, it gives the investors much more comfort in knowing the entrepreneur will be easier to work with down the road.
4. **Intellectual Property position.** The #2 reasons VC don't invest is the absence of a strong IP position. They want a major delay for competitors, a great barrier to entry and an absolutely unfair advantage.
5. **Finance** – the proposed exit strategy doesn't look right for them. It may be no problem to someone else, so shop it around. Liquidity is paramount. They don't want to invest forever. They want to get in and get out.
6. **Industry** –Some industries might be slow right now with many recent entries trading lower than their IPO price. Lackluster performance in the NASDAQ and NYSE backs up into the start up arena and causes investors to avoid certain early stage deals.

Shop deals around. Most funded deals were turned down many times.

Never forget that some deals will get funding in spite of violating any number of these suggestions. Sales covers a multitude of sins.

Many promising deals are burdened by a business plan that is too thick, too confusing, misdirected and therefore rejected without even a real look. The purpose of the business plan is not to get funded. It is to generate interest. You want them to say, "I would like to know more about your company". This is the first step in a series.

GOOD LUCK FROM YOUR FRIENDS AT OTCC!

