



FUNDAMENTALS OF BUSINESS PLANNING

TOOLS FOR DEVELOPING EFFECTIVE BUSINESS PLANS

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DEVELOPING AN EFFECTIVE BUSINESS PLAN

Effective business and strategic planning is *critical* to a company's long-term success and its ability to raise capital and grow successfully. Business plans are also critical on an **intra-company** basis as the documents which justify and support the launch of a new product, service, project or division. It is also important to have the skills necessary to properly **evaluate** a Business Plan prepared by another party within the company or by a strategic partner as franchisee.

As a result, bankers, accountants, consultants and academics have written volumes about business plans. Yet, it seems that the more information there is, the more confused people get. There's no one right answer.

A Business Plan should tell a story, make an argument and conservatively predict the future. *All companies have different stories to tell, different arguments to make and different futures to predict, so they must resist the temptation to copy from others or to follow a rigid outline.*

Business planning is the process of setting goals, explaining the objectives and then mapping out a plan to achieve these goals and objectives. A well-written Business Plan maps out the best growth path and strategy as well as the rationale for the selection of the strategy over other alternatives. In essence, a Business Plan is the articulation and explanation of *why the* chosen game plan for building the company makes sense, *what* resources they will need to implement the vision, *who* the team will be that will have the skills and leadership to execute the vision, and *what* path they will follow to get there.

Nobody has a crystal ball to predict what will work and what won't—neither the most savvy investor nor the most veteran entrepreneur. The better the analysis, the better the chances that most of the goals set forth in the Business Plan will be achieved.



A well-written Business Plan doesn't oversell the good, undersell the bad or ignore the ugly! It is essentially an articulation of the company's plan to manage the risks and challenges involved in building or expanding the business. Business Plans should acknowledge that growth and success are moving targets by anticipating as many future events or circumstances that will affect the company's objectives.

Preparing the Business Plan

Set forth below is an outline of a sample Business Plan. A more detailed outline can be found at the end of this presentation.

I. Executive summary

- A. Brief history of the company/project/proposed division
- B. Overview of its products and services
- C. Background of the management team (summary)
- D. Mission statement (Why are we in this business?) (Really?)
- E. Summary of the company's financial performance to date (where applicable)
- F. Key features of the target market(s)

II. Company/Organization/Overview

- A. Organizational and management structure
- B. Operational and management policies
- C. Description of products and services (both current and anticipated)
- D. Overview of trends in the industry and marketplace in which the company competes (or plans to compete)
- E. Key strengths and weaknesses of the company

III. Growth strategy analysis



- A. How and why did the company adopt this growth strategy?
- B. What hurdles and risks might the company encounter in the implementation of this strategy?
- C. What resources will the company need to implement this strategy?

IV. Market analysis

- A. Extended description of the markets in which the company competes (size, trends, growth, etc.)
- B. Analysis of key competitors and likely future competitors (and how will the company's business model and growth strategy change or evolve to face the new competitors?)
- C. Description and analysis of key customers and clients (current and anticipated)
- D. Market research supporting current and anticipated product lines
- E. Analysis of barriers to entry and your sustainable competitive advantage

V. Marketing and advertising strategy

- A. Strategies for reaching current and anticipated customers/clients
- B. Pricing policies and strategies
- C. Advertising and public relations plans and strategies
- D. Discussion of potential market partners and strategic alliances

VI. Financial plan and strategies

- A. Summary of financial performance for last three to five years
- B. Current financial condition (includes recent income statements and balance sheets as attachments)
- C. Projected financial condition (forecasts for three to five years)



- D. Extended discussion of anticipated allocation of proceeds and parallel budgets

VII. Suggested exhibits and attachments

- A. Résumés of key members of the management team
- B. Organizational chart
- C. Timetables for completion of goals and objectives
- D. Copies of key documents and contracts
- E. Copies of recent media coverage
- F. Pictures of key products or advertising materials for services offered
- G. List of customer and professional references

Again, the objective is not to rigidly follow an outline or fill in the blanks with some generic business planning software, but to develop a document that *tells the company's story* and answers the following basic questions:

- Who are we? (Team)
- What are we trying to do? (Mission)
- What problem do we solve? (Faster/Better/Easier/Cheaper) (Customer)
- How are we going to get it done? (Operations)
- How do we reach our customer(s)? (Sales/Marketing/Distribution Channel)
- Who else is doing this? How do we obtain our initial customers? Where is the "lowest-hanging fruit?" What are the target customers' decisionmaking processes? What relationships do they have in place which will need to be terminated in order to do business with us? (Competition/Competitive Analysis)
- What market research have you done to be sure that anyone *wants* to buy this product or service at this price—or at all? (Substantiation)



Grow Fast  Grow Right

- Does your company truly modify the way business is being done in your industry (as a change agent) or is this more of a fad or a trend? (Market Trends/First Mover Advantage¹ (FMA))
- Are these targeted customer relationships profitable? How do we make money? (Business Model)
- What do we need to accomplish our goals? (Budget/Resources)
- When are we profitable? (Breakeven/Timetable)

¹ FMA is not as important as it used to be, especially in this more conservative marketplace.



TELL A GOOD STORY

Fiberless.Net was founded in 20__ by _____ and _____ for the purpose of

_____.

The Company has developed a proprietary product and system which

_____ (what problem do we solve?)

Our targeted customers are _____, _____ and _____.
 Our market research supports that these target customers will choose the products and systems developed by Fiberless.Net because (_____ cost?, efficiency? _____?) in lieu of the services and products currently offered by _____ and _____, however, this decision will involve

_____.

Our revenue model includes the following durable streams:

_____.

To date, the company is still in its pre-launch stage, having raised \$\$_____ in seed capital from its founders and _____,

which was used for _____, _____ and _____. The company is now seeking to raise an additional \$\$_____ for the purposes of

_____.

Ten (10) Common Myths and Misperceptions About Preparing A Business Plan

Be aware of some of the more common myths and misperceptions when drafting (or reviewing) a Business Plan, such as:



- #1 Myth: **BUSINESS PLANS ARE ONLY FOR START-UP COMPANIES.**
- REALITY: Companies at all stages of development need to prepare Business Plans either for the planning and financing of a specific project or for general expansion financing, mergers or acquisitions or the overall improvement of the company's financial and managerial performance.
- #2 Myth: **BUSINESS PLANS SHOULD BE AS DETAILED AND SLICK AS POSSIBLE. THE LONGER THE PLAN, THE BETTER CHANCE THAT THE COMPANY WILL BE FINANCED.**
- REALITY: Sophisticated investors will not have the time to review hundreds of pages of text. The plan must be concise, well-written and should focus on the lender's or investor's principal areas of concern, and not be cluttered with lots of exhibits or irrelevant market studies. Companies should typically prepare an Executive Summary, a 10-page version and a 30 to 40 page version. Avoid overly technical descriptions of the company's processes or operations. *Investors will commit funds based on the quality and clarity of the document, not its thickness.* Although Business Plans ought to be presented professionally, a very expensive binder or overly lavish presentation will often demonstrate inefficient resource management.
- #3 Myth: **BUSINESS PLANS SHOULD EMPHASIZE IDEAS AND CONCEPTS, NOT PEOPLE.**
- REALITY: Many entrepreneurs fear that if the success of a company depends too heavily on any specific person, an investor will shy away. Although this is partially true, any experienced angel investor or venture capitalist will tell you that ultimately they would prefer to invest in a company that has



great people and only a good concept, rather than a great concept and a weak management team. Ultimately, lenders and investors will commit funds based on the strength of the management team.

#4 Myth: **BUSINESS PLANS SHOULD BE PREPARED ONLY BY THE FOUNDING ENTREPRENEUR.**

REALITY: Most entrepreneurs are highly skilled in a particular profession or area of management. As a result, they may not necessarily possess the ability to prepare a Business Plan in a form which prospective lenders or investors are accustomed. Ideally, the plan should be developed by a team of managers within the company and then reviewed by qualified experts, such as accountants, attorneys and the board of directors. Conversely, the Business Plan should never be prepared solely by outside advisors without the input of internal management. A veteran investor will be quick to recognize a "cooked" plan or one which reflects the views and efforts of professional advisors rather than the company's management team who are responsible for running the company on a day-to-day basis. *The entrepreneur or founders must be in a position to defend the assumptions which support the Business Plan in meetings with prospective investors or strategic partners.*

#5 Myth: **BUSINESS PLANS SHOULD BE DISTRIBUTED AS WIDELY AS POSSIBLE.**

REALITY: The Business Plan will inevitably contain information that is proprietary and confidential *to the* company. Therefore, distribution should be controlled and careful records kept as to who has been provided with copies of the plan. The cover sheet should contain a conspicuously



positioned management disclaimer reminding the reader that these are only the *plans* of the company, the success of which cannot be assured, as well as a notice of proprietary information. All applicable federal and state securities laws must be carefully considered if the Business Plan is intended as a financing proposal, however, it should not be used in lieu of a formal private placement memorandum. Finally, certain institutional investors will consider investments only in certain kinds of companies or industries. Research these criteria before sending a Business Plan in order to save both the time and resources of all concerned parties.

#6 Myth: **A BUSINESS PLAN SHOULD FOLLOW A SPECIFIED FORMAT, REGARDLESS OF THE INDUSTRY IN WHICH THE COMPANY OPERATES.**

REALITY: While it may be true that all companies face certain common challenges in the areas of marketing, management, administration and finance, companies at different stages of growth facing different problems, and operating in different industries will require different sets of topics that must be included in the Business Plan. *For example*, plans for a start-up manufacturing company may be far more concerned with financing of the plant, equipment, patents, inventory, and production schedules than an already established service-oriented company which may be more focused on personnel, marketing costs and the protection of trade secrets and goodwill.



#7 Myth: **IN PREPARING THE BUSINESS PLAN, OPTIMISM SHOULD PREVAIL OVER REALISM.**

REALITY: The Business Plan should demonstrate the enthusiasm of the founders of the company as well as generate excitement in the reader; however, it should be credible and accurate. Investors will want to know all of the company's strengths *and* its weaknesses. In fact, a realistic discussion of the company's problems, along with a reasonable plan for dealing and mitigating these various risks and challenges, will have a much more positive impact on the prospective investor. As a general rule, investors will feel more comfortable investing in someone who has learned from previous business failures rather than a person who has never managed a company. Finally, any budgets, sales projections, company valuations, or related forecasts should be well substantiated with accompanying footnotes, for both legal and business reasons. Unrealistic or unsubstantiated financial projections and budgets will reveal inexperience or lack of attention to detail to an interested investor, or even lead to litigation by disgruntled investors if there are wide disparities between what was represented and reality.

#8 Myth: **BUSINESS PLANS ARE ONLY FOR START-UP COMPANIES.**

REALITY: Business plans are used by start-up companies as well as existing operating companies. *For example*, a company operating for 15 years (or more) will need to draft a Business Plan in order to raise the necessary capital to reach the next stage in its development. In any instance, the Business Plan should be prepared with the assistance of a financial



consultant, the investment banker, the internal management team, as well as, the input and editing by attorneys and accountants.

#9 Myth: **A WELL-WRITTEN BUSINESS PLAN SHOULD CONTAIN AN EXECUTIVE SUMMARY WHICH SHOULD BE WRITTEN BEFORE THE FULL TEXT OF THE DOCUMENT IS PREPARED.**

REALITY: Institutional investors are exposed to hundreds of Business Plans in any given month and as a result will initially only devote a few minutes to the review of each Business Plan. The *Executive Summary* (generally one to three pages in length) will be the first (and possibly the last) impression that the company makes on the investor. Thus, if the reader's attention is not captured in these first few minutes, he or she is not likely to complete the review of the plan. The Executive Summary should contain all of the information that will be critical in the investment decision, such as (a) the nature of the company and its founders; (b) the amount of money sought; (c) the allocation of the proceeds; (d) a summary of key financial projections; and (e) an overview of marketing considerations. The mistake often made by entrepreneurs in preparing the plan is writing the Executive Summary *first* (before the main components have been drafted). It is much more effective to prepare the main body of the plan, then draft the Executive Summary last in order to ensure consistency. The Executive Summary is then truly a preview of the details of the plan.



#10 Myth: **BUSINESS PLANS ARE ONLY WRITTEN WHEN A COMPANY NEEDS TO RAISE CAPITAL.**

REALITY: Although most Business Plans are written in connection with the search for capital, a well-written Business Plan will serve a variety of beneficial purposes to the company and its management team. The completed Business Plan serves as a (1) management tool to serve as a road map for growth; (2) realistic self-appraisal of the company's progress to date as well as projected goals and objectives; (3) foundation for the development of a more detailed strategic and growth management plan (especially after the proposed financing has been successfully completed).

The Importance of **Sensitivity Analysis** in Building An Effective Business Plan

As previously discussed, a well-drafted Business Plan becomes the roadmap for implementing the building of the company's foundation by outlining the steps on what needs to be done, when, how and by whom. ***But it must also deal with the inevitable contingencies.*** The company's ability to identify the specific tasks and translate them into a specific schedule will be affected by ever-changing capital markets, customer demand patterns, the entry of new competitors and general market conditions. The Business Plan must deal with the **"What if's?"** and be reflective of changing business models.

For example, if the success of the Business Plan relies upon the company's products being faster, cheaper, more reliable and capable of solving more complicated problems than those offered by their competitors, then how does the strategy change when a competitor introduces a product better, faster and cheaper than theirs? Or what if the customer is slow to adopt or even recognize the benefits of the new product or service?



Sensitivity analysis is a tool for looking at a wide range of variables and assumptions in the Business Plan to determine the impact on the company and the viability of the plan if and when these planning assumptions change – which they invariably and inevitably will.

Sensitivity analysis might raise the following kinds of questions:

- Will our Business Plan still be viable if 20% of the target customers that we assume will adopt this new product do not? 30%? 40%?
- What impact will it have on our Business Plan if two of the key potential competitors we have identified become actual competitors?
- What impact will it have on our Business Plan if we can't attract new employees or strategic partners that we have identified as critical to implementation?
- What if we can't raise the equity capital we need to implement the business model? What if we have to give up more ownership and control than we had anticipated to raise the capital? What if we need to raise more debt capital?
- If we planned to borrow money to implement the business model, what impact would higher interest rates have on the economics of the model? If our customers will need to borrow to buy our products and services, what impact will higher rates have on these buying decisions?
- What if the market rejects the pricing structure that underlies the introduction of the new product or service? What if deeper discounts need to be offered to incent customers to make the switch? What impact will this have on our margins?

The bottom line is that overly-optimistic or weakly-researched assumptions in your Business Plan can and will come back to haunt you. And even if you are conservative in your assumptions and conduct adequate research, there are still many variables that can and will



change that will have an impact on your Business Plan and your company. Sensitivity analysis seeks to *anticipate* the changes in these variables so that you are not caught by surprise. Variables Likely to Affect the Implementation of the Business Plan

No matter how carefully the Business Plan is prepared, things can and will change. Hundreds of variables will go into the development of the Business Plan which means that thousands of things could go wrong (or right) that will affect the company's actual-to-plan performance. The actual growth results may vary depending on a wide variety of factors, including:

- Demand for the company's products and services;
- Actions taken by the company's, including new product introductions and enhancements;
- Ability to scale the company's network and operations to support large numbers of customers, suppliers and transactions;
- Ability to develop, introduce and market new products and enhancements to your existing products on a timely basis;
- Changes in the company's pricing policies and business model or those of your competitors;
- Integration of the company's recent acquisitions and any future acquisitions;
- Ability to expand the company's sales and marketing operations, including hiring additional sales personnel;
- Size and timing of sales of the company's products and services, including the recognition of a significant portion of its sales at the end of the quarter;
- Success in maintaining and enhancing existing relationships and developing new relationships with strategic partners, including systems integrators and other implementation partners;
- Compensation policies that compensation sales personnel based on achieving annual quotas;



- Ability to control costs;
- Technological changes in the company's markets;
- Deferrals of customer orders in anticipation of product enhancements or new products;
- Customer budget cycles and changes in these budget cycles; and
- General economic factors, including an economic slowdown or recession.

Some Final Thoughts On Effective Business Planning

Effective business planning is not an easy process and entrepreneurs and executives are likely to make some of the classic mistakes. Having worked with hundreds of companies of all sizes and in many different industries over the years in reviewing Business Plans and developing growth strategies, I have pulled together below some tips, thoughts and observations that should govern their planning process (and your review and support of that process):

- **Have the right mix of talent to develop and maintain your plan.** The wrong planning team will yield the wrong planning decisions, leading the company down a path of disaster.
- **Think long-term but act short-term.** Be ready to modify the plan based on changes in market conditions but without taking your eye off the long-term goals.
- **Effective business planning is a continuing process, not a standalone task.**
- **Don't buy in to the mantra that planning is a thing of the past.** There are some who believe that market conditions are too dynamic and uncertain to make long-term business growth-oriented strategic planning possible – SIMPLY NOT TRUE! In fact, fast-moving business conditions make the need for strategic planning that much more critical, provided that the plan does not sit on a shelf but rather is monitored and modified as conditions may warrant.



- **Invest in systems that will gather competitive intelligence.** Information rules. If the company does not have reliable data on the trends affecting its competitors and customers, then they are dead in the water. The data gathered becomes a key component of the Business Plan and becomes the trigger point for changes to the plan or strategy selected.
- **Protect your key assets.** You can develop Business Plans until you are blue in the face, but if the success of the company's business model depends on your ability to keep and leverage your key intangible assets – then you must take the time to protect your intellectual property and to reward and motivate your employees.
- **Be sure to connect the dots.** A well-drafted Business Plan understands and anticipates how all of the market forces and players fit together, taking into account social, environmental, political and economic influences and figuring out how these factors come together to afford your growth plans. *One common mistake is when the strategic assumptions underlying financial projections do not fit squarely with the written text of the plan.* The ability to view things at 40,000 feet, 20,000 feet as well as at ground level, and the ability to see the dynamics of your markets at all of these levels is key to effective growth planning. And because these market conditions are never static and the relationships that connect the dots constantly change, you need to keep climbing the mountain to look down on the valley.
- **Build an organization that has a deeply rooted commitment to growth.** The commitment must begin with the leader or founder of the company whose mission and passion become contagious and everyone in the company focuses their efforts



on meeting business growth objectives. To achieve this, the company's leadership must clearly communicate and reinforce the growth plans, objectives and strategies, reward those who contribute to the achievement of these goals and monitor the company's progress, changing its course and direction as may be necessary. If the course does need to change, these shifts in direction must be regularly shared with the company's employees, together with an explanation for the need for the change. Employees at all levels will resent a change in direction without knowing it or understanding it and if they are not told how or why their positions and tasks must change to meet these new challenges.

- **Don't be afraid to measure and monitor performance.** It is critical to develop an objective set of metrics for each key area of the Business Plan that can be continuously monitored and periodically measured against your key goals. The metrics may include sales, profitability, the number of new customer relationships added, the growth market partners, the number of new employees, customer satisfaction, the level of employee turnover, inventory cycles, the number of new offices opened, warranty returns or even the number of new rounds of capital raised at favorable valuation rates. Regardless of the specific metric(s) selected, the growing company must build systems to track and measure these performance indicators and have the expertise in place to understand, analyze and properly react to this data once it has been reported.
- **Develop high quality products and services.** As veteran entrepreneurs and professional advisors will always tell you, a Business Plan will be completely ineffective if the "dogs will not eat the dog food." At the end of the day, all



Business Plans must revolve around a set of high quality products and services that genuinely customers want and need.



BUSINESS PLAN PREPARATION
(A MORE DETAILED SET OF GUIDELINES)

I. THE EXECUTIVE SUMMARY

A. General Overview

B. Goals: Financial and Nonfinancial

C. Strategies:

- Management
- Product or Service
- Marketing and Sales
- Financial

II. THE BUSINESS HISTORY

A. What are the milestones which your company has achieved?

1. Describe the history of the business.
2. What problems do you anticipate?

B. If new, what makes you think you can start a new company?

1. How did the business get started?
2. Have you ever started one before?
3. What problems do you anticipate?

C. Uniqueness: Given all the emerging companies there are in the world, what will make this one succeed?

III. THE MANAGEMENT TEAM



- A.**
1. Description of Management
 2. Summary of qualifications to operate the business
 3. Managerial style
 4. Board of Directors/Advisors
 5. What experience has the management team had in the industry? Has this team functioned as a team in any previous organizations?
 6. Do the key people have the technical knowledge necessary to operate this company in this industry?
 7. If missing any key management talent, how will the principals complete the management team? Do you already have someone in mind?
 8. Can this management team make the projections happen?
 9. What profit-and-loss responsibility have these people had?
 10. What functional responsibilities does each have?
 11. How financial committed is each? How much has each invested?
 12. Are they involved in other businesses?
 13. Who will be responsible on a full-time basis?
- B. Key Employees**
1. What are their skills in the industry? What makes them invaluable to the company?
 2. What are their responsibilities?
 3. Do you have or need employee agreements?
 4. Will you be providing additional training to augment their experiences?
 5. Can any one of these employees step in and take over in the event of an untimely death by any of the principals? If so, discuss his/her skills and importance.
- C. Consultants and Professional Advisory Team**



1. Which consultants and professional advisors have you selected?
2. What value do they add to the project and why?
3. What are your financial commitments to your advisory team?

D. All other employees

1. Discuss the number and tasks briefly. Full-time, part-time, white-collar, blue-collar, technical, non-technical, degreed and non-degreed?
2. Is there an adequate supply of quality labor force or must they be trained?
3. What is the relative cost of labor in this area versus other areas of the country for similar labor?
4. Is there a union? If so, what is the relationship with management?

IV. PRODUCT OR SERVICE

- A.**
1. What will you be selling?
 2. Why is the product or service useful? How is it unique compared to alternatives already available to target customers?
 3. Describe the features and benefits of the product or service. What does it do for the user? Why does the user buy it? How is it "faster, better, cheaper or easier to use" than the choices currently available to the target consumer?
 4. How is the product/service to be priced?
 5. What are the costs in producing the product or providing the service?
 6. Every product or service has a limited life cycle. What is the expected life cycle of your product/service?
 7. What will you do to compensate for reduced sales later on when the product no longer has the same appeal? Introduce new products/services? Improve the product in some way? Use the technology for another purpose?
 8. Is this product or service totally new or an addition to an existing market?
 9. What historical volume have others achieved with this product/service?



10. What are your sales projections? How will they be achieved?
11. Are there new products planned or on the market now that will help or hurt your company?
12. What potential product liability is associated with your product or service?
13. How durable is the product?
14. How will the product/service be protected under applicable intellectual property laws?
15. How will the product or service be positioned? Is it a highly-styled or lowly-styled item?
16. Is it a fad or a staple?

B. Competition

1. Who are your direct, indirect and potential competitors?
2. What advantages do you have over these competitors?
3. How do you compare with your competition? What are their strengths? Weaknesses?
4. What percentage of the market do they have?
5. If your competitor(s) fights back, what strategy is to be used to combat it?
6. Who do you compete with on a head-to-head basis? What can we learn from their current operations and strategy?
7. Are there substitutes for your product or service? How often is it substituted?
8. Who makes the substituted product or service?
9. What can be done to deter substitution?
10. What is the price differential between your product/service and the product/service of your competitors?
11. How do you expect the competition to react to your company?



C. Customer Need

1. Does this product/service meet a real need of the consumer or does it meet a perceived need?
2. How does your consumer recognize your product/service among all the others?
3. Does it have a brand name recognition? If no, what is the game plan for building the brand?
4. Is there only one type of buyer for the product/service?
5. Are you selling to one large company or to the government?
6. Are there repeat users or does the customer need to buy the product/service only once?
7. Where is the buyer located? His/her place of work? home? Shopping habits?
8. Age, income, family status of the buyer?

V. INDUSTRY CHARACTERISTICS

1. What are the keys to the success in your industry?
2. How do your company and its products fit into the industry? Describe total sales of the industry and your sales.
3. How do you anticipate your sales to grow over the next 3-5 years?
4. What are the basic trends in the industry?
5. How easy or hard is it for someone to get started in the same business you will be in?
6. What seasonality is there to sales in the industry?
7. Will you sell on a local, regional, national, or an international?

VI. MARKETING AND SELLING THE PRODUCT OR SERVICE



A. Marketing Strategy

1. What are the critical elements of your marketing strategy?
2. What will be your marketing strategy when the product/service or industry matures?
3. What is the size of the market?
4. How is the market segmented?
5. Where are you positioned in the market?
 - The leader?
 - High-priced?
 - High-quality?
 - Mediocre?
6. What market penetration have you had in the past?
7. What degree of market penetration do you project?

B. Research and Development

1. What dollars have been expended in the past on research and development?
2. What sales have resulted from those expenditures?
3. What are the projected expenditures on research and development for the upcoming years?
4. What type of impact will these expenditures have on the direction of the company and the sales level?

C. Marketing Uncertainties

1. What could go wrong with your marketing plan?
2. What is going on in the market that could destroy this company?
3. What new inventions are around the corner that would make your product obsolete?
4. What strategy might the competition use in the marketplace?



D. Advertising

1. What is your basic advertising program and how much does it cost?
2. Will advertising be handled by a public relations firm?
3. How important is advertising to your marketing plan?
4. How sensitive are your sales to advertising expenditures?
5. What type of advertising will you use?
 - a. Magazine/Newspapers
 - Display ads
 - Classified
 - b. Television
 - c. Radio
 - d. Billboard
 - e. Bus Transit
 - f. Direct Mail
 - g. Telemarketing
 - h. Trade Shows
 - i. Talks/Seminars/Conferences
 - j. Public Relations
 - k. Special Events
 - l. Signage/Banners
6. Why are these advertising strategies being selected? How will budgets be allocated? How do these promotional strategies compare to those used by your competition?

E. Sales

1. How will the product be sold? Direct? Through a distributor who will receive commissions? From referrals and leads? Mail order?
2. If will utilize your own sales force, how many sales people are required?
3. How many calls does it take before a sale is made? What are the typical customer decisional/buying cycles in your industry?
4. How do customers typically pay?
5. How long does it take to collect the funds once the sale is made?



6. Will there be international sales?
7. How difficult is a sale?
8. If direct selling is necessary, does the salesman call directly on the consumer or user of the product or service?
9. Does it take a relatively long time to complete the sale? or is it relatively simple and straightforward? What is the time lag?
10. Is the purchase of the product or service a large-cost item for the buyer or a small-budget item?
11. Does the government regulate your marketing efforts?
12. Why will customers buy price, convenience, and/or status?
13. What is the price? Will the market bear the cost?
14. Do you plan to provide on-going service the customer, if necessary?

F. Production

1. What is the capacity of your facility? Describe the current equipment and space utilization.
2. What are the key weaknesses of its capacity for manufacturing? That is, what component (such as quality control) is the main bottleneck in the operation?
3. How important is quality control? Do you have a plan for quality control?
4. What type of backlog exists now?
5. Explain the production cycle.
6. What type of health and safety problems are involved in this production process?
7. What liabilities might the company incur from workers injured during the production process?
8. Are there any revolutionary production processes on the horizon that would help or hurt the company?
9. Describe the time needed to manufacture the product. Will you manufacture the whole product or sub-contract parts?



10. Are there a large number of component parts?
11. How much value does the company add to the production process?
12. Will you have to meet any government regulations or require special permits?
13. Is it a sophisticated product that is difficult or easy to produce?

G. Production Uncertainties

1. If your product has never been produced before, why do you think you can produce it at the price you have projected?
2. Have you ever run a production facility?
3. Has anyone else on your staff done so? Has that person ever started a new production facility?
4. How do you plan for backlogs?
5. Can orders be canceled easily?

H. Suppliers

1. Who are the suppliers of the raw materials used in the production process?
2. Are any parts or supplies difficult to order (e.g., only overseas suppliers)?
3. Are you relying on one supplier for parts or supplies? If so, what are alternative plans if this supplier fails?
4. How much of the basic product is purchased from others in the form of subassembled parts?

VII. EQUIPMENT NEEDS

1. What type of equipment is absolutely necessary for the production of your product or service?
2. Is this special-purpose or general-purpose equipment?
3. Is it a problem getting parts for the equipment? How long does it take to arrive?



4. How old is your company's equipment? How much does it cost to repair each year?
5. What are your capital requirements for equipment over the next five years? This should be in your capital budget.
6. What type of equipment does the competition have?
7. Do your competitors have an advantage because of their equipment? Do you?

VIII. LOCATION, PROPERTY AND FACILITIES

1. Does the location which you have chosen maximize your opportunity to sell your products or services? How did you arrive at this decision?
2. What are the terms of the lease?
3. If you own the property, what did you pay for it and what is the balance owed on any mortgage?
4. Are the facilities adequate to meet future projections? What is the maximum volume which you can accomplish using the facilities that you are in now?

IX. FINANCIAL

A. Discussion of proposed financial outlook

1. Funds invested to date. Describe how those funds have been used.
2. Funds needed. Describe how these funds will be used.
 - Research and development
 - Marketing
 - Manufacturing
 - Equipment

B. Financing

1. Do you need it all at once or in stages?
2. When can investors begin to see a return on their investment? What type of return are you projecting? **NOTE: There are legal implications to providing**



projections and projected returns to your investors -- consult with your legal counsel.

3. If you are proposing a loan, what interest rate can you live with (meaning what can the business afford to repay)?
4. For how long do you need the money? Do you need interest-only payments or can you repay principal as well?
5. When you get the financing, specifically what do you plan to accomplish with the company?
6. If you can not get all of the financing, how will you handle the company's needs? Will you cut back on the sales forecast? Seek other sources? Cut back expenses?

C. Profit and Loss Financial Projections and Cash Flow Projections

1. Discuss why your projections have drastic changes.
2. Provide assumptions for every line in your projections.
3. Explain why sales, gross margins and key expense items are as you have set them forth.
4. How do your sales, gross margins and net income before taxes compare to other companies in your industry?
5. If you have projected your return on investment to be higher than competitors, explain why?
6. Precisely, how much money (financing) is needed to carry this company to the point of cash flow break-even?
7. What will you do if you don't break even, e.g., that, is if positive cash flow is not achieved in the time frame you are projecting.

D. Financial Reporting

1. Contract with a bookkeeper to produce monthly financial statements. This will help you better manage your company. These statements should also be provided to the financing source(s).
2. Update your company projections at least once or twice a year.



E. Taxes

1. Are there any special taxes levied against the company?
2. Are there any outstanding taxes today, such as payroll, income taxes?
3. How can the company shelter some of its income from taxes?

F. Contingent Liabilities

1. Have you guaranteed loans or other debts from some other business?
2. Are you legally liable to purchase a specific quantity of goods or services in the future?
3. Have you signed a lease that escalates rapidly?
4. Other contingent liabilities?

X. GOVERNMENT REGULATIONS

1. What are the state, local and federal regulations affecting the operations of the company?
2. Do any FTC, fair trade practice, OSHA, special IRS, SEC or other government regulations affect the company?
3. How can the company be helped or hindered by these government regulations?

XI. PATENTS AND TRADEMARKS

1. Do you have patents and trademarks protecting the key intangible assets of your company?
2. Has the patent been issued? Is it in your name or the company's? If it is in the name of the entrepreneur, has it been fully assigned with all rights to the corporation?
3. Have any licensing arrangements been entered into to give others the benefit of the patent?
4. Are patents being contested?



XII. LITIGATION

1. What suits have been filed against the company?
2. What suits has the company filed against others?
3. Have suits been filed by trade creditors, customers, or users?



BUSINESS PLAN DRAFTING GUIDELINES
EXAMPLES OF SAMPLE SECTIONS

On Competition

1. Unacceptable

- (a) We are so unique that we have no competition.
- (b) We have a lot of competitors but if we can capture only one percent (1%) of the marketplace...

2. Acceptable

We have identified the following companies as competitors _____ (WHO?) because _____ (WHY?). Our strengths are [HOW AND WHY ARE YOU BETTER, IF AT ALL?] and our weaknesses include [WHERE ARE YOU VULNERABLE AND WHY?]. [COMPETITIVE ANALYSIS] ENTRY BARRIERS?]

Our primary strategies for distinguishing ourselves from our competitors include _____ [EXPLAIN THE STRATEGY]. These strategies present the following risks and opportunities _____ [DISCUSS]. Our fallback plan would be to _____

3. Better than Acceptable

The information in 2 above, plus a distinction between direct and indirect competition, a more detailed analysis of key competitors (including any relevant trends, historical information or reasonable forecasting), a discussion of competitors that you face in the future as you grow (or will no longer face) and why, an analysis of the feasibility of turning enemies into friends (e.g. joint ventures and strategic alliances, etc.) the competitive forces in your initial and forecasted trading areas (e.g. do you have a local, regional, national or global focus?) and how do targeted consumers make buying decisions (*Note: one common business planning trap is to focus too much on how you perceive the competition instead of looking at the world through the customer's eyes, as set forth below*).

- (a) Unacceptable: We will smash the competition to bits by recruiting engineers with at least ten years of experience.



This does not explain how or why the years of experience is important to the targeted customer, how or why the customer uses this data to make purchasing decisions or why an engineer with eight years experience is inadequate. How or why is this a problem? How or why does it matter to the customer? How are you sure?

On Costs, Pricing and Profits

1. Unacceptable

We think we will be able to buy our widgets at price x, resell them at price y and then retire in comfort with all of the z.

2. Acceptable

We face certain challenges in acquiring raw materials at the following price ranges due to _____ and our other costs of goods sold will include _____ and _____. Our primary market research indicates a consumer price of _____ based on _____, leaving us a margin of _____ based on _____, which, given our administrative costs, etc. _____.

Also:

- * When and how do we see real cash flow?
- * How long will it really take to breakeven and why?

3. Better than Acceptable

All of 2 above, plus We recognize that there are many tangible and intangible factors influencing a customer's buying decision. We will/will not be driven by price along, (if yes, how do we replicate the Wal-Mart/Syms/Dell Computer/Charles Schwab operational efficiency) but rather (or not), look at decisional factors such as convenience (Domino's, 800-Flowers), quality of service (hassle free and educated staff – Nordstrom), speed (Jiffy Lube, McDonald's), reliability and dependability (Toyota, Timex, Maytag), consistent customer experience (Southwest Airlines, Federal Express, Starbucks) and even if not the best (Taco Bell) and the pleasantness of the transaction (Saturn – no confrontation with dreaded salesperson). We will strive to strive to shape and manage our customer's expectations by _____ and stress these factors as they relate to our pricing strategy.



Summary Biographical Information

Andrew J. Sherman, Esq. is a corporate and transactional attorney and an internationally-recognized authority on the legal and strategic aspects of business growth and intellectual property leveraging strategies. A summary of his accomplishments include:

- Mr. Sherman is a senior partner with **Dickstein, Shapino, Morin, and Oshinsky**), a prominent law firm with over 350 lawyers in Washington D.C. and New York City. He is the co-developer and practice leader for the MWE **Intellectual Property Protection and Leveraging Analysis (IPPLA)** special practice and has written and lectured extensively on intellectual property protection and leveraging.
- Mr. Sherman is one of the leaders of the firm's regional Emerging Business and Technology practice group as well the chair of the firm's international Franchising, Licensing and Distribution group. His current and previous clients include Intel, Apple Computer, America Online (AOL), Texaco, Panasonic, Chevron-Phillips, Revlon, Beatrice Foods, Caterpillar, Ikea, Invensys, Yum Brands (parent company of Pizza Hut, KFC, Taco Bell and other casual dining brands), the Scott-Fetzer Companies (a division of Berkshire Hathaway), Paul Mitchell Systems, the EasyGroup of Companies, IDT/Winstar Communications, the Edison Preservation Foundation, Bell & Howell, Rogers Communications (Canada), Sanyo, Tower Records, Bell & Howell, Indian Motorcycles, GAF, Caterpillar, Owens-Corning, Shell Oil, Sears, Metrocall, Bankers Trust, Household Finance Corporation, Pritzker Organization (Hyatt Hotels) and the Western Professional Hockey League.
- He is the author of twelve (12) books on business growth, capital formation and the leveraging of intellectual property, including the best-selling and critically-acclaimed **Raising Capital** (Kiplingers, 2000), **Mergers and Acquisitions from A to Z**, (AMACOM Books, 1998), **The Complete Guide to Running and Growing Your Business**, (Random House, 1997), **Franchising and Licensing: Two Ways to Build Your Business**, (3rd edition) (AMACOM Books, 1999), and **Fast Track Growth Strategies** (Kiplinger, 2002).
- He has appeared as a guest and a commentator on all of the major television networks as well as **CNBC's** "Power Lunch," **CNN's** "Day Watch," **CNNfn's** "StreetSmarts" and "For Entrepreneurs Only," **USA Network's** "First Business," and **Bloomberg's** "Small Business Weekly" and various other regional and local television broadcasts as well as national and local radio interviews for **National Public Radio (NPR)**, Business News Network (BNN), Bloomberg Radio, **AP Radio Network**, Voice of America, Talk America Radio Network and the USA Radio Network, as a resource on business growth strategies, capital formation, entrepreneurship and technology development.
- He has served as a top-rated Adjunct Professor in the Masters of Business Administration (MBA) programs at the **University of Maryland** for fourteen (14) years and at **Georgetown University** for nine (9) years where he teaches courses on Entrepreneurship and Business Planning, Growth Strategies and New Venture Financing, and has won various teaching awards including the Krowe Award for Teaching Excellence in 2000.



- He serves as **General Counsel** to several of the nation and region's leading entrepreneurship organizations, including the **Young Entrepreneurs' Organization (YEO)**, the **Collegiate Entrepreneurs Organization (CEO)**, the National Foundation for Teaching Entrepreneurship (NFTE), the Let's Talk Business Network (LTBN) and the Morino Institute's Netpreneur program, since the inception of these organizations. He was one of the co-founders of the Washington, D.C. regional chapter of the Association for Corporate Growth and serves on the Inner Circle and as a key advisor to the Dingman Center for Entrepreneurship at the University of Maryland. He is the co-founder and **Chairman of the Board** of the recently-formed **Small and Emerging Contractors Advisory Forum (SECAF)**, an education and networking resource headquartered in Washington, D.C. to support small and mid-sized government and defense contractors.
- Mr. Sherman is a frequent author, serves as a resource and has been quoted for articles in a wide variety of the nation's leading magazines, newspapers and websites including the **Wall Street Journal**, the **New York Times**, **Fortune**, **Investor's Business Daily**, **USA Today**, **Inc.**, **Nation's Business**, **Success**, the **Washington Post**, **Forbes**, **My Business**, **U.S. News and World Report**, **Business Week**, **Money**, **Chicago Tribune**, **Venture Capital Journal**, **Journal of Corporate Accounting and Finance**, **Drug Discovery** magazine, **The Technology Dealmaker** newsletter, **Legal Times**, **Washington Business Journal**, **Crain's**, **Entrepreneur**, **Reuters News Service**, **AP News Wire**, CNNfn.com, Inc.com, Fortune.com, Office.com, MSNBC.com, and the Kauffman Center for Entrepreneurial Leadership's EntreWorld.org websites. In the December/January 2002 issue of **Fortune Small Business**, he was recognized as one of the nation's top ten (10) gurus and thought leaders on entrepreneurship and the legal and strategic issues facing small and growing companies.
- Mr. Sherman is the Chairman of the Professional Advisory Board of the **National Commission on Entrepreneurship (NCOE)**, the Chairman of the Technology and Innovation Committee for the **Washington Board of Trade's** Potomac Conference, serves on the Board of Directors of Youth Services America, the Editorial Advisory Board of **Inc.** magazine's latest publication, **International Franchising**, the Board of Advisors to the **Collegiate Entrepreneurs Organization (CEO)**, the Research Institute for Small and Emerging Businesses (RISE Business), NFTE (Former Chairman 1993-1995), YEO, the **Washington Business Journal's** Editorial Advisory Board, **Inc.** magazine's Business Consulting Services Advisory Board, **Florida Atlantic University (FAU's)** Biotech and Emerging Business Advisory Board, the **Opportunity International** Board of Governors, the **Gazelles/Masters of Business Dynamics** Advisory Board and serves on the advisory boards of several business incubators and early-stage and rapidly-growing technology companies.
- Mr. Sherman serves as an on-line columnist for two of the internet's leading sites for small and emerging growth companies. He writes the "Can This Business Be Saved?" column for **FortuneSmallBusiness.com** as well as the "View from The Trenches" column for **AOL's Netbusiness.com** and serves as a key member of the **AOL Small and Emerging Business Champions Team**. He serves as one of the **Answer Men**, a weekly column that answers questions for entrepreneurs and small business owners which is published on **Fortune.com** and nationally syndicated in 1500 newspapers by Knight-Ridder. He is also a frequent contributor to



the "Leading Advisors" section of the Kaufman Center for Entrepreneurial Leadership's website, EntreWorld.org.

- He is a frequent national and international lecturer at business conferences where he has delivered speeches and lead seminars on entrepreneurship, capital formation, mergers and acquisitions, the protection and leveraging of intellectual property and business planning for organizations such as Inc. magazine (Growing Your Company, Capital Formation, ThINC.Out Loud and CEO Symposium Conferences), the MIT/Inc./YEO "Birthing of Giants" programs, the Association of Financial Professionals, the American Electronics Association, the Turnaround Management Association, Institutional Investor magazine, the Alliance of Merger and Acquisition Advisors (AMAA), National Small Business United, the Young Entrepreneurs Organization (international meetings and local chapter presentations), the National Restaurant Association, iBreakfast.com, the U.S. Chamber of Commerce, the New York Venture Group, the Dingman Center for Entrepreneurship, Netpreneur.org, the Baltimore-Washington Venture Group, the National Association of Credit Managers, PC Expo, the International Franchise Association, Microsoft's Small Business Crossing Seminar Series, the Regional Investment Bankers Association, the Collegiate Entrepreneurs Organization, the Association for Corporate Growth, the American Management Association, the Council for Growing Companies, and a wide range of other international and regional business organizations and conference management companies.
- He is the developer and lecturer for several different business growth courses and seminar series, including serving as the author of two workbooks and videos for Kiplinger's, entitled **Growing Your Business** and **Corporate Transition Management and Exit Strategies**, as well as a four-part cyber-conference and workbook on **Mergers and Acquisitions** for the Association of Financial Professionals, a seminar series on **Strategies for Protecting Your Intellectual Property** for Padgett-Thompson, a series of conferences on **Growth-Oriented Distribution Strategies** for the American Management Association and a series of conferences on **Strategies for Doing Business Abroad** for the International Franchise Association.
- Mr. Sherman can be reached at (202) 833-5000 or e-mail andrew@growfastgrowright.com.