

TWELVE TOP TIPS FOR TERRIFIC, VENTURE CAPITAL ORIENTED BUSINESS PLANS

By Ronald H. Star

Venture Capitalists are not monolithic — they do not all look for exactly the same things when they consider an investment opportunity. But there are important common themes that we see. VCs expect some sort of Business Plan presentation — anything from an Executive Summary to a full blown Plan. And the best Business Plans share certain characteristics.

TIP #1: DEVELOP AND DISPLAY YOUR MARKET VISION

The most effective Plans present your vision of where the market is going and how your Plan perfectly intersects that vision in an exciting way. Entrepreneurial endeavors are dynamic; it's not about what is going on today — it's thinking about where the world will be in the future. If the investor agrees with your vision of the future, you'll have him/her listening intently for how you are going to be a key part of that future. If the investor does not agree with your vision, then you will find out very early in the meeting that you should not be wasting your or the investor's time.

TIP #2: VALIDATE THE CUSTOMER'S PAIN/NEED/DELIGHT

Be very clear about the problem you are solving and/or the way in which you are going to delight the customer. But even more important, find ways — through the words of the customers with whom you have spoken, through the words of industry observers, etc. — to clearly validate the importance of the problem you are solving. For example, if the industry association for the relevant market has surveyed its membership and determined that the problem you are going to solve is the #1 issue on the minds of your target customers, then you likely are on to something important. And remember — most entrepreneurial businesses have more than one relevant class of customers. It's not only about the ultimate consumer of your product or service, but your channels, partners, etc., are also "customers" for the purposes of planning your business strategy.

TIP #3: REFINE YOUR ELEVATOR PITCH

Be very clear about how you will describe your vision, your business opportunity and your Business Plan in just a few sentences. You will need to be able to make that "elevator pitch" and your entire written Business Plan should buttress and be consistent with your elevator pitch.

TIP #4: PUNCH UP THE PEOPLE

Investors say all of the time that they invest in people, not ideas. And our experience is that they mean it. Yet most Plans do a poor job of punching up the people. Make sure you address the backgrounds of the team, and, most importantly, why this is the killer team to carry out your Business Plan. And don't forget that your team includes your board members and your advisors!

TIP #5: DISPLAY INTENSE CUSTOMER KNOWLEDGE AND FOCUS

Too many Plans are overly focused on the product or technology. The most effective Plans are customer focused. Investors want to know that you really know everything about your target customers and their motivations, and that you are laser-focused on the customers' needs. Whiz-bang technologies that the customer does not want to buy are not interesting to investors. Plans that carefully consider the customer value proposition that is being offered are going to be more compelling.

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TIP #6: START WITH YOUR EXECUTIVE SUMMARY

There is some debate about whether to write the Executive Summary first or last. We favor writing it first to improve consistency in key messages throughout the Plan — the Executive Summary should provide the top level themes that all of the other sections should support, which is especially helpful if different members of the team are writing the other sections in parallel. But don't forget to revisit and revise the Executive Summary once you've finished writing the rest of the Plan!

TIP #7: COVER ALL FUNCTIONAL AREAS — AND DON'T FORGET OPERATIONS!

A complete Business Plan will display your careful planning for all of the functional areas of the business — for most businesses, this will include marketing, sales, finance and operations. Most Plans do a reasonable job of addressing marketing, sales and finance, but operations seems to be a neglected step-child. Your strategies for manufacturing, personnel, customer service, etc., are important elements of your Plan and should not be overlooked.

TIP #8: SIZE AND SEGMENT THE MARKET

Great Plans that address small markets are not interesting to top tier investors. It is said that top venture firms seek Plans that address markets that are at least \$1 billion in size (either now, or expected in the future). During some parts of the cycle, we've even heard that figure bumped to \$1.5 billion! You have to size the market you plan to address. And you have to intelligently segment that market — it's part of showing your careful focus on the target customer.

TIP #9: DETAIL YOUR LAUNCH STRATEGY

It's important to present the long term vision for your business, but it's also key to show how carefully you have considered and planned your start. Investors want to know the initial segment you plan to address, how you will launch your product or service, and (for many businesses) how you will obtain referenceable early customers and make your first dollar of revenue.

TIP #10: ADDRESS COMPETITION AND YOUR SUSTAINABLE COMPETITIVE ADVANTAGE

You have to be able to address how your company will fit within the competitive landscape and how you will obtain sustainable competitive advantage. It is the rare business that can say that there is no competition and there is no expected competition — in fact, we don't know that we've ever seen one, other than in a marketplace that is completely uninteresting! It is important not only to address where you fit in the competitive landscape, but how you will benefit from barriers to entry that will support an exciting long term investment opportunity for your investors.

TIP #11: IDENTIFY KEY PARTNERSHIPS

The growth and success of most entrepreneurial businesses are grounded in what we call the "Three P's." The first two, "Pennies" (i.e. raising the money you need) and "People" (i.e. the key employees and advisors for the company) are obvious areas of focus. But the third, "Partnerships," is often not well developed in Business Plans. Start-ups typically need partnerships with established industry players in order to realize their lofty dreams of growth. Identifying your key partnership needs, validating the interest of your partner targets and showing how you will make money for your partners are key.

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TIP #12: PROVIDE PERSUASIVE FINANCIAL PROJECTIONS

The financials for your Business Plan should be persuasive, but realistic. First, validate your key assumptions, on the revenue side and on the cost side, both from the top down (typically by looking at industry comparables and ratios) and from the bottom up (typically by looking at individual customer assumptions and at head count drivers). Second, be conservative and detailed about your cash flow estimates for the early years to properly and conservatively size your projected cash needs. Third, be reasonably optimistic (not wide-eyed crazy) for performance in later years so that your projected income statements make the case for the potential upside of the business.



If you have questions about any of the information mentioned in this article, please contact Ronald Star at 415.434.1600 or rstar@howardrice.com.