
Writing a Business Plan

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Why Do a Business Plan?

- To clearly lay out your goals and plans
 - How much money do I want to make and by when?
 - What should my business look like?
- To help you manage your organization
 - Set goals and milestones
- To help you specify:
 - Your product or service
 - How you will market and sell your offerings
 - Your operations
 - **How much investment do you need?**

\$\$ to Grow & Operate Your Business

1. Understand How Much \$\$ You Need and When You Need It
2. Analyze the Best Way to Get the \$\$
 - “bootstrap” from operations (great if you can)
 - debt financing
 - equity financing — what kind?
3. Think about the complete “cost” of \$\$
 - reduced ownership and payout to founders, employees, ...
 - loss of control
 - your own personal financial risks (e.g., co-sign loans)
 - opportunity costs if you don't have enough \$\$;

So You Decided to Sell Equity!!

- Who do you approach for an investment?
 - Venture Capitalists (VCs)
 - Private Investors (“Angels”)
 - Corporate Investors (Strategic & Internal VCs)
- Do your homework on your “buyers”: **Match your company and its needs to investor interests**
 - Understand your investors investment criteria
 - Investors vary widely:
 - Most have specific goals – from their partnerships, bosses, etc.
 - What industries do they invest in and/or know about?
 - Do the investors have strategic (non-monetary) interests?
 - What is their “risk profile”? What does their portfolio look like?
 - What amounts they like to invest? In what time frame?
 - What rate of return are they looking for?

Business Plan Example du Jour!

- Vité
 - a Stanford research spin-off company
 - founded in 1996
 - developed & marketed SimVision software and related consulting & services
 - Simulation capability for designing fast-track project organizations
 - raised 3 rounds of financing for >\$5 million
 - sold in December, 2002 to corporate partner

Example Exit Strategies

- **“Home Run”** – build a large company with a strong market share that can complete an IPO and be traded on a public market for a high price!!!
- **Strategic Play** – develop a company that has a unique technology/product/service in a market niche that would be valuable to be acquired by larger companies in that market.
- **Cash Cow** – develop a sustainable high profit (not necessarily high revenue) company that provides significant dividends to its investors.
- **Look for investors who like your Exit Strategy!!**

“Elevator Speech” — Value Proposition

- **Describe your company quickly and effectively.**
 - **Example format:**
 - ***For:*** <target customers/buyers>
 - ***who:*** <key customer need or “pain point”>

 - ***MyCo’s:*** <product/service offering>
 - ***provides:*** <product/service with key differentiator>
-
- ***Unlike:*** <key competitors/current offerings>
 - ***MyCo.:*** <explain competitive differentiation>

Vité's Value Proposition: Mk I

- For:** senior executives and program/project managers
who: need to complete strategic projects *faster* & more effectively,
-
- Vité:** **work process & organization simulation software**
provides: a strategic project/portfolio design tool that
that: **empowers managers to optimize the structure & staffing** for their strategic business projects
-
- Unlike:** traditional consulting solutions or “*best practices*” notebooks,
Vité: empowers managers to develop an optimal project resource plan that improves use of available staff, and reduces risk of project cost and schedule overruns.

Vité's Value Proposition-Mk II

- For:** senior executives and program/project managers
who: need to complete strategic projects *faster* & more effectively,
-
- ePM's:** **strategic consulting solution**
provides: a project/program/portfolio organization design service that
that: **advises clients how to optimally organize and staff**
their strategic business projects.
-
- Unlike:** traditional consulting solutions or “*best practices*” notebooks,
ePM: delivers an optimal project resource plan that greatly
improves use of available staff, and reduces risk of project
cost and schedule overruns.

Business Plan: Most Important Points

- Your plan must convince investors that your company can succeed with acceptable (minimal) risks.
- 3 risks investors worry about most:
 1. **Technical Risk:** Can your company “build” and deliver the product/service you are offering? Can you do it “better” than anyone else (competitive advantage –technical (IP) or cost)?
 2. **Market Risk:**
 - Are there buyers who need/want the product/service your company is offering? – # of possible customers (market size)
 - Will they buy? How important is your offering to the customers (“must have” or “nice to have”)? – **evidence of market need**
 3. **Team/Operational Risk:** Does your management team have the ability to execute the plan you are proposing –experience, skills and industry knowledge/contacts.

Business Plan Form & Format

- Express Key Concepts Clearly
 - A picture is worth 1000 words. Graphics are good!!
 - Keep writing concise and jargon free
 - Actually, just enough jargon to impress the reader that you know the subject, but not enough to confuse him/her
- Business Plan Format
 - PowerPoint Document
 - Use “notes” format
 - The slide is a descriptive graphic; the “notes” area is the discussion.
 - Written Document
 - Well spaced & “appealing” to the eye;
 - Interspersed graphics; each section starts on a new page
- Keep the Entire Plan Short
 - Written plan ~10 pages; PowerPoint format: <15 pages

You are “setting the hook”; the goal is to pique the reader's interest. It is not a “closing” document, but gets you into “due diligence”.

Vité's Market: Corporate "Projects"

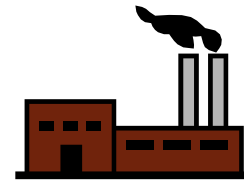
- ◆ **250,000 projects spending: >\$ 1.3 trillion** - annually in U.S.



- ◆ **Business systems/IT**
- ◆ **120K projects worth \$240B**



- ◆ **New Product Development**
- ◆ **40K projects worth \$200B**



- ◆ **Capital Projects**
- ◆ **90K projects worth \$900B**

- **Vité's direct market: >\$ 9 billion**

- 7% of project cost spent on project management > \$90 billion
- 10% of project mgmt. cost spent for software/consulting

- **Vité's Revenue potential:**

- **< 1% market penetration yields > \$80 million revenue**

Vité has Very Large Upside Market Potential



The Leader in Project Design

● Model

● Simulate

● Analyze

● Optimize

Customer Need

- Why would the customer purchase your product and/or service?
- Directly address customer's (buyer's) problem
- Negative/emotional appeals are often best
 - how much \$\$ will customer lose; how much time will be lost; will customer lose their job, ...
- Try to give specific examples of customer value
- Customer references are very important
 - The investor is likely to contact possible buyers to see if this need is validated
 - does the issue “strike a nerve” with the buyer
 - The question to the customer:
“Will you pay xxx €, £, ¥, \$... now for the product or service?”

Successful Project Performance Critical to Businesses

- **Hewlett Packard & Procter & Gamble** lose \$1 million/ day in revenues when a major product release is late
 - **Intel** loses \$2 million/hour when a fab. plant is late coming online
 - **Lockheed Martin** lost \$300 million & its reputation when a satellite launch vehicle failed
 - 70% of IT projects fail - often with a catastrophic business effect
 - Faulty ERP implementation causes Petsmart to declare bankruptcy
 - Jo-Ann stores reports poor Q3 results due to software installation project
 - Large Travel Agency's Java web site implementation fails – site never goes live
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- **Vité Buyers Know They Have a Problem:**
 - They know poor project execution costs their organization \$\$ millions.
 - They know their company's future can be a stake.
 - They know their future is at risk!!
 - Buyers have strong incentives to improve their chances of success!!!

Customer References: We Met Their Need

Shrink time-to-market without quality meltdown



Shortened strategic
IT project by 30%



Shrunk new product
development time by 40%



Accelerated product rollout
schedule by 3 months



Reduced facility
construction by 6 months



Accelerated rollout schedule for
new high-end server product

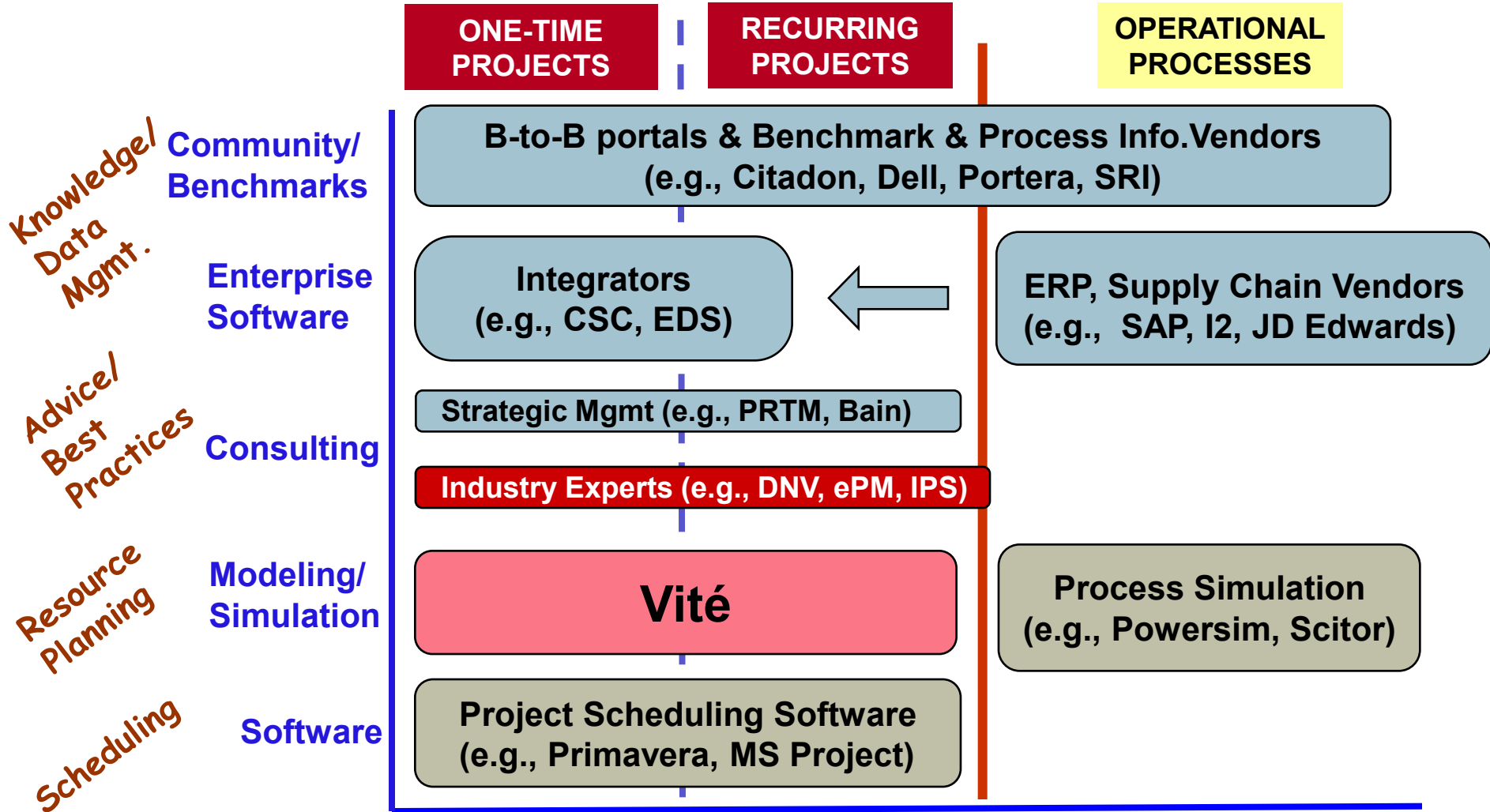


Sped rollout of wireless infrastructure
across multiple regions

Market Landscape & Competitors

- Explain how your offering fits in the larger market “landscape”
- Who else is solving the problem you are solving
 - Using your offering or a different offering?
- Who are the major competitors
 - either by name or by type
 - What is the weakness of those competitors? OR
 - What is your opportunity to enter this market? OR
 - Why will customers buy from you rather than your competitors?

Competitive Landscape for Corporate Project Management

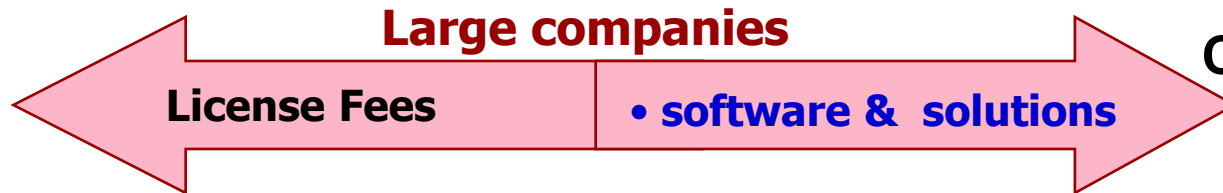


Marketing & Sales Strategy

- Describe how you will market & sell to customers
- Describe channel strategy & partners
- Marketing & Sales are different – cover both!
 - Marketing is the message & its delivery – generates sales leads
 - Sales are the “signed” purchase agreements
- Highlight key marketing partnerships or messages
 - e.g., for Vité, the early customers (from Stanford connections) were key
- Describe your pricing strategy
 - Mention margins, but no “deep” financials here

Vité Sales/Distribution Strategy

Vité
Direct
channel



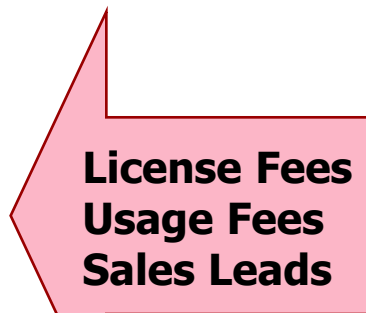
End-Customers



Consulting Partners

• consulting
solutions

Vité
Indirect
channel



Publishers

• per-use software
• knowledge

**Project Management
& Business Software/
Integration Vendors**

• software (reseller/OEM)
• knowledge

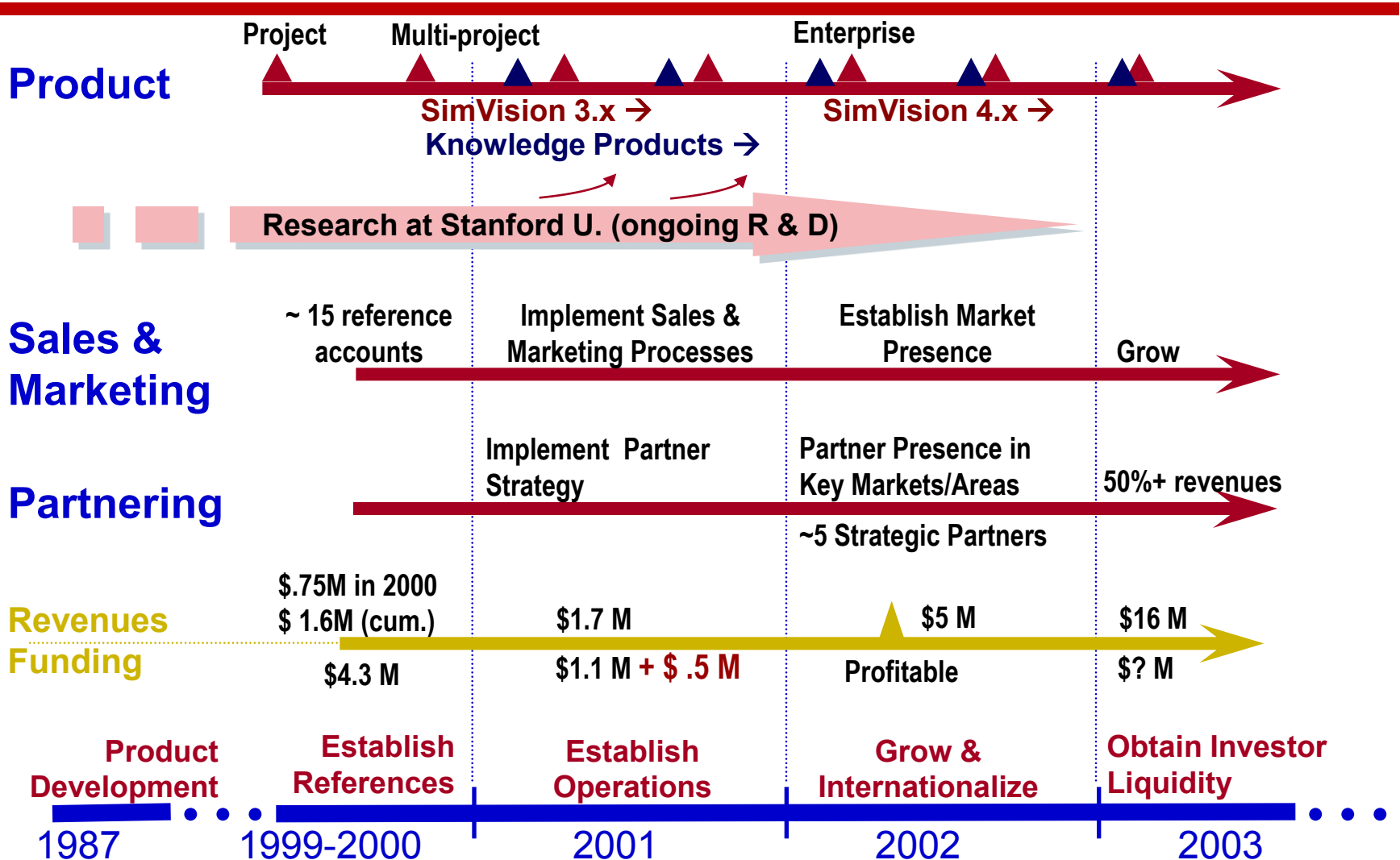
Management & Corporate Team

- The “team” includes executives, key contributors, Board of Director members, outside advisors, and previous investors.
- Provide some summary information on overall team
 - e.g., “top 4 execs have 25 years of direct industry experience”
 - emphasis is on “we have done this before”, “we know how to do it”, “we know this market and these customers”
- Include execs or key contributors who might be important to investor – because of role or background
 - give short (1-line) highlight on each person
 - e.g., VP Product Development: “built similar product 3 times before”
 - an annotated “org chart” is often effective

Corporate Plan

- Present a “process perspective” on what your company will do
 - very effective way to demonstrate that you know what you are doing
- Use a timeline format with key milestones for each functional area/activity in the company
- Highlight key financial events/results
- Summarize other key corporate information and notes

The Vité Plan



Financial Information

- Keep the financial information fairly high level and clear in the business plan
 - but have backup and be ready to defend the numbers
- Key items to cover:
 - **Income Statement**
 - **Cash flows/cash needs**
 - **Investment requirements**
 - **Valuation/Investor value**
- Build model for 5 years at most
 - 3 years is probably OK (the future is hard to predict)

Vité Financial Overview

■ Income Statement

(in \$ millions)	2000	2001	2002	2003	2004
Revenues:					
Software Licenses:	\$0.28	\$0.7	\$1.2	\$6.5	\$13.0
Partner Licenses & Fees:	\$0.10	\$0.3	\$1.0	\$6.0	\$14.0
Service & Maintenance Revenues:	<u>\$0.37</u>	<u>\$0.2</u>	<u>\$0.7</u>	<u>\$3.5</u>	<u>\$6.0</u>
Total Revenues	\$0.74	\$1.2	\$2.9	\$16.0	\$33.0
Expenses	\$3.6	\$2.4	\$2.9	\$13.7	\$26.6
Net Income	(\$2.8)	(\$1.2)	\$0.0	\$2.3	\$6.4
Net Profit Margin			0%	14%	19%

■ Investment (in \$ millions):

1 Preferred A Stock:	\$1			
2 Pref. B Stock + Convert. Note:	\$3.6	\$1.6		
3 Preferred C Stock:		\$0.50	← Q4 2001	
4 Future Rounds (institutional or corporate):				??

■ Valuation (in \$ millions):

Estimated Valuation:	\$6	\$15	\$80	\$150
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Summary of the Vité Opportunity

- Huge Market (>\$2 trillion spent on projects)
- Critical Need
 - companies must manage projects & resources more effectively
- Vité Provides a Unique and Powerful Solution
 - Based on breakthrough technology from Stanford University to **model & simulate complex business projects and processes**
 - Vité provides customers with unique insights & optimal plans
 - Vité has a strong/protected technology & strong core team
 - **Vité is positioned to grab a strong market position**
- Strong upside
 - Low market penetration required for corporate success
 - Vité is attractive for partnering or acquisition by large enterprise software vendors, integrators, or strategic consultants – **“best of breed” complement to their solutions**

An investment in Vité provides significant returns with reasonable risks