Writing a Business Plan

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Acknowledgement: Adapted from a Presentation by Bob Drazovich, CEO of Vité
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?
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”.

@ Bob Drazovich, 2006
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
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

- 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

Customer References: We Met Their Need

- Dell
- Procter & Gamble
- Hewlett Packard
- AT&T Wireless Services
- John Deere

Vité
The Leader in Project Design
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

- **ONE-TIME PROJECTS**
  - B-to-B portals & Benchmark & Process Info. Vendors (e.g., Citadon, Dell, Portera, SRI)
  - Integrators (e.g., CSC, EDS)
  - Strategic Mgmt (e.g., PRTM, Bain)
  - Industry Experts (e.g., DNV, ePM, IPS)
  - Vité
  - Project Scheduling Software (e.g., Primavera, MS Project)

- **RECURRING PROJECTS**

- **OPERATIONAL PROCESSES**
  - ERP, Supply Chain Vendors (e.g., SAP, I2, JD Edwards)
  - Process Simulation (e.g., Powersim, Scitor)

- **Community/Benchmarks**
- **Enterprise Software**
- **Consulting**
- **Modeling/Simulation**
- **Software**

- **Knowledge/Data Mgmt.**
- **Advice/Best Practices**
- **Resource Planning**
- **Scheduling**

Vité: The Leader in Project Design

- Model
- Simulate
- Analyze
- Optimize
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

Direct channel

License Fees

• software & solutions

Large companies

End-Customers

Consulting Partners

• consulting solutions

Indirect channel

License Fees

Usage Fees

Sales Leads

Project Management & Business Software/Integration Vendors

• software (reseller/OEM)

• knowledge

Publishers

• per-use software

• 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

**Product**
- Project
- Multi-project
- Enterprise

**Sales & Marketing**
- ~15 reference accounts
- Implement Sales & Marketing Processes
- Establish Market Presence
- Grow

**Partnering**
- Implement Partner Strategy
- Partner Presence in Key Markets/Areas
- ~5 Strategic Partners

**Revenues & Funding**
- Product Development
  - 1987
- Establish References
  - 1999-2000
- Establish Operations
  - 2001
- Grow & Internationalize
  - 2002
- Obtain Investor Liquidity
  - 2003

- $1.6M (cum.)
- $1.7 M
- $5 M
- $16 M
- $4.3 M
- $1.1 M + $ .5 M
- Profitable
- $? M

- SimVision 3.x → Knowledge Products
- SimVision 4.x →

- Research at Stanford U. (ongoing R & D)

- $0.75M in 2000
- $1.7 M
- $5 M
- $16 M

- The Leader in Project Design

- Model
- Simulate
- Analyze
- Optimize
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)

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