TABLE 7.4 An annotated table of contents of a formal business plan.

Writing a complete business plan forces the entrepreneurs to crystallize key business issues in their minds. There are many ways to structure a business plan, with various references, structures, and templates available. The business plan process focuses on the venture's key success factors by posing questions that must be addressed for an idea to become a true opportunity. See chapters 2 and 19 for a discussion of the business story and concept. Additional references to other chapters are shown in this table.

Executive Summary

The executive summary is the most important part of the business plan. Many investors make their decision to proceed with further discussions (e.g., due diligence) based on this single section. The executive summary should encapsulate the key positioning and reasoning found in the rest of the business plan. Both the vision and mission statements should assist in succinctly communicating a compelling opportunity.

- Why is this a big problem and why are customers willing to pay for solutions?
- How does the venture plan on solving the customer problem or need?
- Why is this venture uniquely positioned to do this?
- How attractive are the economics? Why is this an exciting growth opportunity?
- Who is the team, and what key partnerships are in place?

I. Opportunity and Market Analysis

Investors like funding big problems representing large opportunities. Start strong by demonstrating a solid understanding of the customer and why this problem or pain is important to them. Performing customer segmentation will convince readers that the venture can grow to the size of the addressable market.

- What is the problem or need being solved by the venture?
- Who is the customer or customer segment(s)?
- How large is the total addressable market, and how much is it growing?
- How is the current market context favorable or not?

Reference: Chapter 2, 3, and 4

II. The Solution and Concept

Many product descriptions lose credibility by being too "big picture," relying on market hype, or being too product-focused in the hopes that simply explaining the technology will make it self-evident why the idea is valuable. It is important to balance the use of technical or industry-specific lingo with common, everyday language. In addition, detailing a value proposition and business model will ensure that the economics of the business are sound from the start.

- What is the product or service?
- Describe a "day-in-the-life" of the customer before and after adoption of the solution. What is the value proposition to a customer, and why it is compelling for them?
- Which customers have validated the product and are willing to pay for it?
- What is unique and defendable about the business?
- What is the business and economic model? How attractive are the financial margins?

Reference: Chapter 3, 4, 5, and 16

III. Marketing and Sales

This section of the business plan should clearly communicate an understanding of how to successfully market and sell your product to the identified customer segments. Understanding and communicating your customer development strategy is as important as your product development strategy. It should be done in sync with product development to improve the odds of success. Your business model and pricing strategy should also extend clearly into the selected sales strategies.

- What are the most appropriate marketing mediums to reach the customer segment(s)?
- What is the most appropriate type of sales channel for the product (e.g. direct vs. indirect sales)?
- Who is the customer decision maker with purchasing power, and who influences them to buy?
- What is the expected sales cycle length?
- Are there partnerships that can be leveraged to advertise and sell?

Reference: Chapter 5 and 11

IV. Product Development and Operations

At this point, the reader should be convinced that the entrepreneurs have identified a compelling market and know how to generate revenue. This section focuses on product development and how the product will be made marketable. Any key technologies being leveraged for development should be explained clearly (e.g., diagrams are helpful). Demonstrate that continued revenue growth is planned by specifying long-term product goals. This section largely drives the amount and timing of cash required for the business, making it a critical component of the financial model.

- What is the current state of development of the product(s)?
- What resources will be required to finish and ship the product? Be specific about what types of resources will be required (e.g., engineering, tools, suppliers, materials, partners, and customer involvement).
- What are the planned development timelines and key milestones targeted?
- What are the key risks that will be mitigated at each milestone?
- What does the value chain look like for production and product delivery?
- Do any patents, trade secrets, or other defendable advantages exist?
- Are there any regulatory hurdles that must be cleared?

Reference: Chapter 9, 13, and 14

V. Team and Organization

Building a team is a critical part of beginning a new venture and communicating credibly to outside parties. Understanding how the current team fits into the broader venture vision will help investors and partners understand what roles remain to be filled and how they can potentially assist.

- What are the backgrounds and roles of the founders and early key employees?
- Describe the passions and skills of the team and why the team is committed to the opportunity.
- What key hires must be made to fill out the team?
- What head count levels are forecasted in each functional department?
- Does the company, have advisors or board members that strengthen its story?

Reference: Chapter 10, 12, and 20

VI. Risks

A new venture is confronted with four major types of risk: technology/product, market/competition, management/team, and financial. Many of the opportunity-specific risks are interwoven into earlier parts of the business plan. For instance, potential competitive threats should be considered when framing both the product and go-to-market sections. In addressing company-specific risks, it is important to think clearly about how each risk factor can be managed in the coming year or two. Quantitative analysis will also aid the reader. It is critical to identify which risks need to be reduced so that the reader will be confident that the entrepreneurs understand how to build a business.

- What are the key product development risks and external dependencies?
- What is being done to mitigate product execution risks?
- Who are your main competitors, and how are you differentiated from them in the marketplace?
- Can large players easily enter the market? Are there product substitutes?
- What customer, partner, or product strategies can be used to mitigate competitive threats?

Reference: Chapters 4 and 6

VII. Financial Plan and Investment Offering

Although the financial plan is considered last, the implications of financial decisions appear throughout. If the company executes successfully across product development, marketing, sales, and other company functions, the financial results must be attractive enough to make an investment. Ensure that any financial assumptions and results are feasible by citing an enterprise that is analogous to the planned venture. Investors want to know how much funding is required and what measurable milestones will be reached. Staged financing allows both investors and entrepreneurs to better manage the risk associated with a new venture. Include a timeline that integrates company sales and product milestones, planned funding events, and cash flow position.

- What is the required funding to meet the market and product milestone goals? What amount is being asked for?
- When is the venture forecasted to be cash flow positive?
- What is the growth opportunity of the business if successful?
- What are the forecasted initial and steady-state financial margins?
- What other companies exhibit margins and growth similar to this venture?
- What are the key financial assumptions?

Reference: Chapter 15, 16, 17, 18, and 19

Appendix. Detailed Financial Plan

A more detailed set of financial projections and assumptions are generally included in an appendix. The forecasted financials and assumptions will serve as a starting point for valuing the venture. Be sure the methodology used to arrive at the financials is transparent to the reader.

- Five-year detailed cash flow statement, income statement, and balance sheet (monthly for first year and quarterly or yearly thereafter).
- Financial assumptions made in the construction of the financial estimates (e.g., customer penetration rates, pricing, and working capital assumptions).
- Are purchasing decisions cyclical in this industry?
- What are the largest costs of the business (e.g., engineering development, regulatory trials, manufacturing, and marketing)?
- How will product and sales costs change as volume grows?
- Has customer support and maintenance been factored in?

Reference: Chapter 16 and 17