The new economy has revolutionised the way we are doing business and the way businesses are created. Underlying the changes is the way venture capital has made it possible to finance an idea or a team even before there is any product or patent. In 1999, "gold rush entrepreneurship" flourished and was fed by an abundance of funding. However, the times when anyone could get financed are over; investors are looking for well-structured, credible projects. Negative sentiment to internet start-ups means e-business plans need to be at least as solid as traditional business plans.

This article aims to help entrepreneurs wanting to start a business. The objective is not to provide a template for a business plan, but to give hints, based on the experience of those who have already done it, be they entrepreneurs or investors.

Writing a business plan develops understanding and provides a focus on the essentials. It may seem a time-consuming, even painful, exercise, but the returns are worth the effort.

**Structure**

The business plan summarises a project in a way that makes it understandable and attractive to potential investors, business partners or employees. It should contain a clear message for the target audience and has to be tailored, in the same way that a curriculum vitae needs to be modified to match each job position.

The business plan is a communication document. It has three objectives:

* To give a clear, understandable description of the opportunity.

* To provide convincing arguments that make the opportunity credible.

* To formulate a direct request to investors, strategic partners, or potential employees.
Keep in mind that the first review of a business plan is an elimination process, rather than a selection process. The challenge is to stimulate readers’ curiosity and allow them to read the plan easily. Venture capital companies have to go through many proposals, all competing for the same money: you miss out important details at your peril (see Figure 1). The objective should be to get an invitation to make a detailed presentation, which is the real selection process.

Three types of document should be prepared: an “elevator pitch”, an executive summary and the business plan.

The elevator pitch is a one-paragraph description of the business, presented as if you were in a lift with an investor. You would have 30 seconds to stimulate interest. The pitch can be printed on a business card or a flyer. The executive summary is what readers should remember. It should be no longer than four pages and can be sent to initial contacts.

Finally, the business plan gives the details in no more than 20 pages, or 30 slides for a presentation. Longer documents force readers to make their own selection, which may not be in your favour. It is more difficult to write a short document than a long one. By getting to the essentials, you will gain a better understanding of the important issues.

Contents

The business plan should start with a clear value proposition. What matters to the reader is the value your business will create. A clear value proposition will answer the following:

* What kind of business are you in?

* What do you provide and how?

* Who are your target customers?

The plan should clearly identify the problem, not only the solution. Many projects are too solution-driven; success resides in a good understanding of the problem. First confirm the need, then build the product. Show you understand the problem and your solution will be more convincing.

Be focused. With an e-business plan, it is no longer necessary to point out that the number of internet users will be growing exponentially and that the market will be worth billions in 2003. Avoid industry description and focus on the business. Define the target market and provide the relevant description, with figures that show the size of the market. Projects that bet on capturing a small fraction of a huge market, which may in theory represent billions, are unlikely to fly. If this principle worked “we should all be selling tea in China”.

Highlight the "so what". If you want readers to reach your conclusions, rather than their own, you need to steer them. It is not enough to describe facts.

Different readers may draw different conclusions. For example, the fact that some people don’t wear shoes doesn’t indicate whether there is a huge potential market for shoes or no market at all.
Show some evidence of market acceptance, in particular with a new product or concept. Consumer behaviour is hard to predict. A common pitfall is to assume customers will behave in the way you expect. Reality is different and common sense is the least accurate way to predict people's attitudes.

Describe the implementation approach. A good idea is unlikely to be unique. If it's good, expect a few other people to be thinking about it. If it's really good, you may find others working on it already. The difference is in execution. This is the real challenge. Even if the idea is not unique, you can make a difference in the way you implement it - this is what investors are looking for.

Be coherent with figures. There will never be accurate figures until the business is underway and even then some pieces may be missing. However, it is always possible to use comparisons, benchmarks and reference points. Use them to estimate market size, market share and profit margins. Unless you really miss the point, you should be much better positioned than anyone else to find the best figures. If it is difficult to find estimates, potential investors are even less likely to find better estimates.

At first, investors will not be able to check the figures. They would rather look at the coherence of figures and check that they are consistent with the strategy. If a key factor for success is to reach critical mass rapidly, focus on customer acquisition and put in the resources up-front to do that. A timid approach, taking a percentage of revenue for marketing, is unlikely to match a jump-start strategy.

The format

Use an easy-to-read format, be creative in composing the document, but don't go to extremes. Find a balance; complicated documents are irritating and flat text with long paragraphs is boring. Think about the way people read a newspaper; they check the headlines first and focus on interesting stories. Readers of business plans are no different. They like catchy titles, tend to read in diagonals and have a short attention span. So, make it easy to get the essentials. Use margins for quotes or comments and appropriate graphics. End with the points you want people to remember.

Don't use small type and never exceed 30 pages, including appendices. If readers want more, they can ask; if they want less, they don't know what to leave out. Keep in mind that the file may have to be sent by email. Large files take time to download, particularly in hotel rooms.

What to include

Use a simple style, common vocabulary and avoid abbreviations. Use analogies, without being too vague. (For example, don't say you want to be the Amazon for Africa.) Describe the business in a way that makes it easy to understand. It is not enough to say you want to build a reference portal for mobile phone users; you may need to explain what your business is about and how you will be doing it. As a general rule, start with the "most important", then go to the details and finally go back to the important again.
Business description

First describe the need to be addressed and the market opportunity it represents. Next, explain how this need will be met. Then show how you want to implement the idea; the business approach. Illustrate the product or service with examples. Use customer scenarios or storyboards to explain how it will work. Always take the client's perspective and never expect them to do something you wouldn't.

Team and organisation

Draw the organisation chart as it should be at maturity, not to fit the current team. Highlight the team's capabilities and don't hesitate to identify gaps.

This shows awareness of future needs. Mention the strategy to recruit other key people and the top executives who are willing to join the team once financing is found. (However, this may not be taken seriously because it doesn't show commitment.)

An advisory board adds credibility, in particular if it is composed of well-known experts. However, be careful with name-dropping; the world is small and serious investors are diligent. In summary, show the competencies you already have, but stay realistic, humble and credible.

Your team is your most valuable asset; choose people very carefully. They will determine the success of the business. The team is the first element investors look at.

Competitive analysis

It is a mistake not to include a thorough analysis of potential competition. If there is no direct competitor, look for alternatives or substitutes for the product.

If there is no competition it is not necessarily a positive point; in fact it may be very negative, because there is no market for the idea.

Once competition has been covered, show the differentiating points. Avoid the line of "better, cheaper and faster". Keep in mind that what you see of existing competition is only the tip of the iceberg. If two companies are already offering a similar service, there are probably a dozen preparing to launch.

Also take into consideration the schedule competitors may be following. For example, if you want to offer features that competitors are not offering, but it will take six months before you start up, competitors - particularly on the web - might by then have added those features.

Don't underestimate competitors' ability to catch up and don't forget bricks-and-mortar companies moving online. Geographic barriers are not always high, but have to be taken seriously if the business has multinational ambitions. Scheduling needs care; if your ambition is to cover several countries, speed is vital. If you aim to launch in one country in year 1, another two countries in year 2 and arrive in the next three large markets in year 3, it will be difficult convincing investors that the final markets will wait. Just think about the web three years ago and the speed at which applications are transferred.
Marketing strategy

Marketing and sales are strategic components of any business. Focus on how this will be done and remember that the marketing approach may provide a competitive advantage. It has to match strategy and objectives. If the business relies on building a critical mass of customers, initial investment in client acquisition should be a priority.

Estimate marketing costs in terms of the costs of customer acquisition, rather than fixed budgets or percentage of revenues. Use reference points and comparisons to estimate the average cost of acquiring a new customer in your business category.

Implementation and logistics

The most important determinant for success is the ability to execute. Implementation is the real differentiator. This includes all aspects, from the choice of technology to customer service. On the web, first-mover advantage has proved to be insufficient to dominate the market. The game is about speed and scalability. The first one to scale up is most likely to keep the competitive edge.

As e-businesses become more interdependent, it is vital to find a place in the industry value chain. Strategic alliances are critical and can be very valuable at an early stage. With a smart approach, possible competitors can turn into allies or collaborators.

Evaluating the business

Attributing value to a young business is not easy. The variability is very wide and methods used by investors keep on changing. Traditional ratios are in most cases impossible to calculate. The use of comparisons often helps. Evaluation can still be very difficult, in particular for novel applications. At a later stage, profit-making will be the bottom line and traditional methods become much easier to apply. At the idea stage, venture capitalists tend to use very simple formulas to evaluate potential, such as:

Potential size = market size
   x market growth
   x your contribution

No matter what the valuation is, think of the business as a way of creating assets. The assets can be anything that contributes to the value of the company.

Influence the choice of valuation method by defining some measurable assets that can be used. Assets are always a mix of tangible and intangible, such as goodwill or brand name, or human capital and intellectual property. A customer (or supplier) base can also represent a measurable asset.

In choosing a particular asset, make sure your implementation gives absolute priority to maximising this asset's value and how to measure it.
As a general guideline for early stage valuation, here are some rules:

1: *An idea is worth nothing if it remains an idea*

2: *Nothing can be protected, even with a million patents*

3: *Take the money when it's available; windows of opportunity are narrow.*

4: *All evaluation methods are good; none makes sense*

5: *Time is money; don't waste it on negotiation*

6: *Focus on the investors' value added and not on valuation*

Always include a section analysing the risks that may affect the business. An accurate assessment of risks will help convince investors that you are fully aware of the threats the business may face. It also shows that you are prepared and capable of responding to the challenge.

Don't forget to state clearly what is expected from the target audience. The conclusion should include your funding request. You can also include a bullet-point summary to help the readers find what they have to take away. Remember, attention span is short, retention is low and the memory decay curve is steep.

**Conclusion**

- Use the business plan as a communication tool.
- Be simple, realistic and use common sense.
- Don't look for funding, but for raising interest.
- At the first stage, success is to get to the second round.
- Be ready to support any statement with detailed information.

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