

WHERE INNOVATION MEETS INVESTMENT

Enterprise Partners Venture Capital Business Plan Guide

This outline serves as a guide for the creation and articulation of a business plan. Enterprise Partners Venture Capital (EPVC) has observed significant, distinguishing benefits to those companies that engage in a rigorous business plan process. It is the planning, and not the plan, that results in a clear articulation of the company's soul, mission and direction.

The role of EPVC professionals in this process can be to serve as facilitators for the management team to complete and articulate a plan.

EPVC would like to have company management create a business plan in connection with an initial financing and prior to subsequent financings. Management may decide on their own to review the plan on an annual or some other periodic basis. This is a guide, and not a formula, for discussion among senior management in charting their plan for success.

1. Vision – What are Your Core Values, Your Purpose and Your Mission?

Core Values and Purpose

- What do you want your company to be in five years?
- How do you want your company to be regarded by your customers, employees, and shareholders?
- With your answers to the above in mind, what are the “Golden Rules” (the credo) for you and your company? “Above all else, we value and we provide...”

Mission

- What is your company's mission, and to be achieved in what timeframe?
- What market are you going to change and dominate?
- What competitor are you going to crush?
- In what timeframe?

2. Strategy – Why and How Will Your Company and Its Products Win BIG in Your Market?

- Who precisely is your customer? Who is going to buy? Be very precise – specific names and examples.
- What precisely are the products/services that your company will sell to your customers?
- Why precisely will the customers buy the products/services from your company?
- When precisely will the customers buy? Will they have urgency to buy?
- What is the compelling, sustainable competitive advantage that your company and its products/services will have over current and future competition?

Consider:

- Is there an incumbent technology that you are replacing?
 - What is it? How often is it replaced/upgraded? At what price to the customers?
 - What is the typical sunk cost investment and level of satisfaction by customer in the incumbent technology?
- How will you overcome adoption barriers related to incumbent technology?

3. Your Market – How Do You Define Your Market and Market Size?

- As precisely as possible, can you define the market opportunity (size and concentration) for your company's products/services?
- Does the market exist today or do you need to create or convert the market?
- What are the macro market dynamics that are shaping and transforming your target market? Is the market growing and for how long?
- How many and who are the customers that comprise the majority of the market opportunity?

Consider:

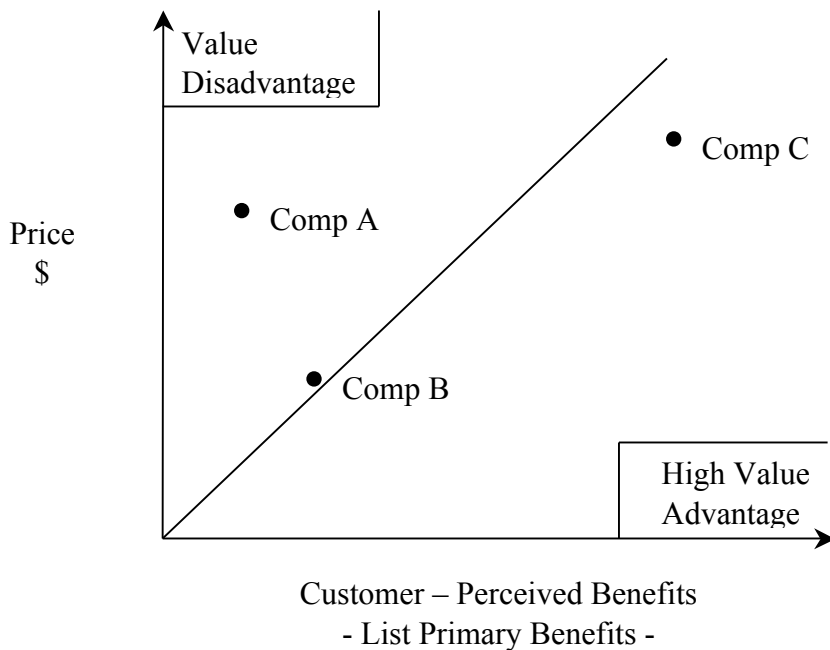
- Take top three customer targets for the identified market for your products/services and ask:
 - Do they have money to spend?
 - Do they have a clear, simple-to-articulate need?

- Will they be in hurry to buy? Why?

- Go-to market strategy
 - How are your end customers used to buying?
 - How will you deliver the end product/service to them?

4. Competition – What is Your Customer Value Proposition *versus* Your Competition?

- Who are your competitors? Against competing products/services/technology addressing your target market, can you map each competitor’s value advantage position as you believe perceived by your target customers? Place each of your competitors on the value map.



Consider:

- What are the embedded competitive alliances that will need to be overcome? How will you do this?
- Who is the 800 lbs. embedded guerilla and how do you beat him?
- How does your positioning on the value map uniquely allow you to address your customer’s needs?
- What are the top three criteria that will allow you to win head to head against your competitors?

5. **Pricing – How Do You Set Value, Not Price?**

- As precisely as possible, can you define and quantify customer value for your products/services? Almost always there is a distinct difference between customer-perceived value and what the supplier believes it is delivering. In response to setting value, focus on the view from the customer’s perspective.
- How big is the problem you are solving in your customer’s eyes?
- As precisely as possible, can you map the stream of commerce (the food chain) that your products/services are part of and who is the ultimate end customer?
 - Where do your products/services fit in the food chain? Start with the ultimate end products and the ultimate end customer and work backwards as to what are all of the elements (goods and services) supplied by various suppliers to make, deliver and support the end products/services.
 - What are the prices paid for the end products and services and for each of the sub-elements delivered along the food chain?
 - Who in the food chain is making all the money and why?
- With respect to your immediate target customer (the buyer) for your products/services in the food chain, what product/service is your customer delivering to its immediate customer and at what price? Is your customer enjoying high or low margins from its immediate customer?
- As precisely as possible, can you define and quantify (\$\$) the benefits (value) of your products/services as your customer sees (or should see) them?
- Given the definition and quantification of the value proposition as you believe your customer should see it, within what price range for your products/services should the buying decision be compelling for your customer?

6. **Setting and Managing Price**

- Who in your company “owns” pricing?
- How are pricing decisions made? What is your company’s pricing philosophy and approach? Is it aligned with customer value?
- What is your pricing menu for (i) a standard product/service and (ii) a range of additional products/features/services/support?
- How are these presented to, and selected by, your customers?

How do you control holes in your pocket?

- Discounts and rebates
- Stock or Kanban allowances
- Extended payment terms
- Freight
- Marketing or advertising funds
- Returns/Service/Rework
- Free Betas

7. Sales/Revenue Ramp – From Time Products/Services Developed and Beginning Introduction, What Do You Expect Sales Revenues to Be?

- Each quarter for first 2 years of commercialization and for full year 3?
- Who will be the key early adopters?
- Who are the top three customers who can launch your sales ramp, how are they representative of your channel segmentation strategies?
- What will their buying ramp look like? Why?
- What will be the impact of competitive responses to ramp profile?

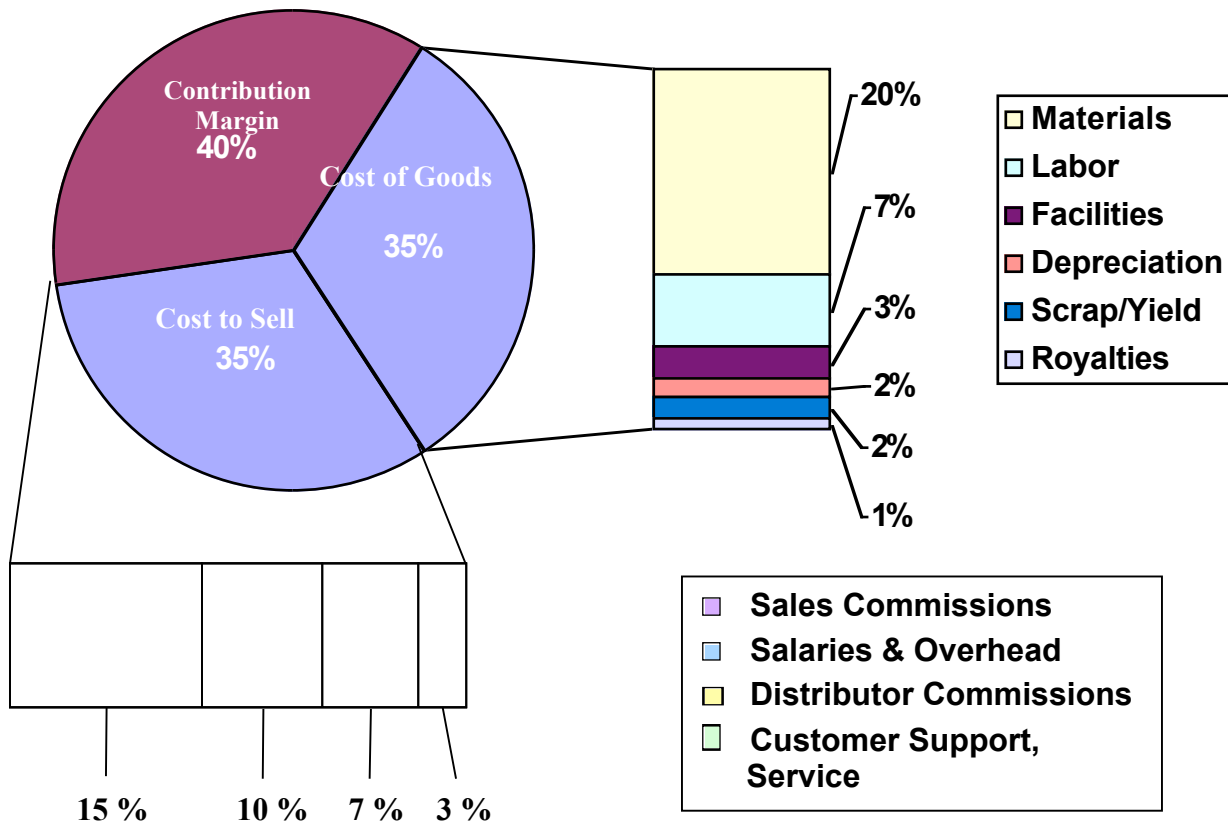
8. Contribution Margin – How Much Money Do You Make on the Sale of Each Category of Products/Services?

- Contribution margin = actual sales price collected minus cost to make/provide your products and services, minus cost to sell. Understanding “contribution margin” requires an understanding of the cost to produce and sell your products/services. These costs are separate from (and do not include) the costs of developing your products/services and the general administrative costs to operate the company.
 - Everyone in your company should understand your contribution margin and how their activities as employees impact the elements that determine contribution margin.
 - Rigorous understanding, communication, measurement, over-communication, rewards of all aspects of contribution margin always has a profoundly positive impact on any company’s ability to execute as a team.

- By major products/service group, can you analyze and model the contribution margin from each product/service? Present the data in a pie-chart, or other graphical format. Start by first listing and quantifying all elements of (i) cost of goods/services and (ii) costs of sales and then present as ratios of net sales.

For example:

Contribution Margin = Net Sales Collected – Cost of Goods (COG) – Cost of Sales (COS)



- As net sales grow, what should happen to your COG and COS as a percentage of net sales? Why
- Have you considered different (i) productions strategies (in-house *versus* contract; integration and test *versus* subassembly) and (ii) sales strategies (direct *versus* distributor; OEM)? What effect on contribution margin? What about a licensing strategy *versus* supply of finished goods?
- Who has ownership of the major cost factors of COG and COS? Do these individuals have expertise and knowledge to manage and reduce these costs? Do they have a track record of sourcing materials, services, and support from lower cost countries? What are their mission, plan and target to reduce the costs?

9. Product Development – What Products? What Resources? Completed When?

- What products and how many products are being developed at one time? Too many?
- Do products in development fit the market, customer and internal strategic requirements for creating value? How do they fit?
- How much money/resources – by product or development project, what are the estimated costs and resources to complete the product development?
- How does the company measure and verify completion of product development?
- When completed – what is the time schedule for completion with major milestones and with continue/stop decision points? Map it out. – Product Roadmap

10. Intellectual Property – Are You Creating Valuable Intellectual Property?

One critical measure of value of a company is the strength and breadth of its intellectual property position. In most cases, intellectual property is the currency in which the value of a company is measured. A strong and deep, yet reasonably priced, intellectual property strategy must be an important component of your business plan.

- What is your intellectual property strategy?
- Does your intellectual property strategy match your business and marketing plan?

Example strategies:

Example 1. Because cost, battery life and size are the three biggest demand drivers for our technology, most of our filings will address one or more of these market drivers.

Example 2. As we anticipate that our technology will ultimately be embodied in an industry standard, we seek to patent aspects of our system that will be required by the standard.

Example 3. Because the only common technical element between our strongest market competitor's technology and our own is the drug delivery mechanism, in addition to seeking protection on our drug formulation, we will emphasize our drug delivery technology in our patent filings.



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Example 4. As our core technology is primarily embodied in software, we will file a handful of patents on our key aspects of system such as the human interface, the system level architecture and the scatter/gather algorithm. In order to preserve our copyright and patent rights, we will address the open source issues through education among the coding staff, segmentation of the code, strict code documentation requirements and mandatory pre-release code walk-throughs.

- Have you conducted a patent search of third-party patents against your technology to know whether you have freedom to operate?
- Who in your company owns your patent process?
- In what countries do you expect to have a significant market and to consider patent protection?
- Do you have trade secrets or copyrights in your technology?

11. Human Resource Plan – Who Do You Need, When and How Much?

- With reference to your product development needs, sales/revenue ramp and entry point into the market, and the key drivers of contribution margin, what critical talent/seasoned experienced senior personnel does your company need? When?
- Can you estimate headcount growth and composition over the next three to five years? Quarterly for the next three years?
- Can you estimate headcount and salaries by department and seniority?
- Can you estimate benefits, infrastructure, space, other overhead by headcount?

Consider:

- Outsourcing vs. in-house for production, service/support (buy vs. build).
- Beware of the gotchas: severance contracts, option accelerations, guaranteed bonuses, individual side deals, and leasing too much space.
- How much compensation/rewards as a percentage of total compensation is tied to financial success of the company (variable compensation)?



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12. **Break Even Analysis – At What Annualized Level of Revenue Does Your Business Break Even?**

- How much annualized contribution margin do you need to cover all costs (annualized) not accounted for in contribution margin (i.e., annualized R&D, general and administrative costs, working capital for inventory, receivables, and capital expenditures)?
- Therefore, how much annualized revenue?
- With reference to your estimated sales/revenue ramp, how long to reach a break even run rate?
- What actions can you consider (and when) to make break even earlier?

Consider:

- Shifting costs to become more variable with revenues
- What happens if you slip revenues by six months?

13. **Adequate Capital – How Much Money Does Your Company Need to Reach Break Even?**

- How much money needed before business expected to break event?
- How much equity? Amount and when?
- How much debt (equipment lease and/or account receivable financing) and when possible?
- Are you eligible for SBIR or grant funds?
- Any licensing/deals to raise money?
 - From whom?
 - For what?
 - When?

Consider:

- What are the appropriate inflection points that will show an up-tick in valuation or enable you to raise more money?
- Are there transactional risks (corporate governance, founder, or preference issues) that need to be addressed up front?



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14. Financial Model – Can You Create a Three-Year Financial Model, Modeling the First Two Years by Quarter and the Third Year in Total?

- Does the projected income statement fit the introduction timetable, sales/revenue ramp, contribution margin and break even analysis?
- What will be your working capital need for inventory and receivables?
- What are your estimated capital expenditures?
- Can you model estimated balance sheets for the end of each quarter for the next year?
- Same for cash flow? Quantify estimated cash burn by quarter.

Consider:

- How sensitive your plan is to fluctuation and slips in revenue
- What are the prime cost drivers and how can you manage if revenues are late?

15. Company Value Opportunity – Will the Journey be Worth it??

- What will your company be worth in three years? In five years?
- What are comparable companies in your market?
 - What are their growth rates?
 - How profitable are they?
 - What are their market capitalizations?
- Who ultimately might buy your company? Why?
- What have other companies in your market sold for? When?

Consider:

- What is the critical mass that you will need to reach before becoming an exit target (M&A or IPO)?
- What critical strategic alliance do you need to scale your business and will the alliances help or hurt future ability to sell the business?



As stated in the introduction, EPVC professionals can facilitate the business planning process with company management. This can be integrated with the financing process with EPVC.

To help company management reflect on various aspects of building a business, set forth below, are a number of recommended books:

- Competitive Advantage: Creating and Sustaining a Competitive Advantage by Michael Porter
- Who Stole My Cheese?!! by Ilene Hochberg and Kenneth Lie
- Beyond Entrepreneurship: Turning Your Business Into an Enduring Great Company by James C. Collins and William C. Lazier
- Good to Great: Why Some Companies Make the Leap...and Others Don't by Jim Collins
- Topgrading by Bradford D. Smart, Ph.D.
- The One Minute Manager by Spencer Johnson and Kenneth H. Blanchard
- Accounting for Dummies by John A. Tracy