
HIGH TECHNOLOGY INDUSTRY SPECIALTY

OUTLINE FOR PREPARING A BUSINESS PLAN

It is important to remember that this outline should be treated as a guide, and not as a rigid, all-encompassing format: each business is unique, and its plan should reflect as such.

It is also important to understand that no reasonable investor will look at your plan as indelibly etched in stone. As market conditions change, as company strategies evolve, as projections are surpassed or not reached, the plan should be updated to reflect revised scenarios.

A FEW GENERALIZATIONS ABOUT BUSINESS PLANS

- The Executive Summary is critical: This two to three page summary of the plan is where most investors turn first; it is where they decide to read on or to decline the opportunity.
- Focus: The plan should be clear as to products to be developed and markets to be addressed by the business. Do not say the company will develop a widget and sell it to General Motors and the grocery store down the street without detailing how it's to be done.
- Avoid unsubstantiated superlatives: The "trust me" school of thought doesn't work in business plans—if your product is going to be the best in the market, thoroughly describe why.
- Quantity does not equal quality: The well-written plan is succinct and to the point. The typical plan should be able to say it all in 30 to 50 pages.
- First impressions are lasting impressions: Incorrect spelling, grammar, punctuation; numbers that don't total; a poorly organized plan; all can add up to sink a proposal that might otherwise float. Take the time to have the plan proofread by at least three other members of your team.
- "Slick" plans can be a turnoff: Expensively prepared plans are often perceived as form over substance and frivolous spending. Don't waste scarce financial resources on a too-professional document.
- Avoid the use of non-assertive language: Qualifying words such as "might," "probably," "maybe," "perhaps," and the like can have a subtly negative effect on readers; be positive or don't say it at all.

Projection of when profits will begin

- Management -- How complete is the team Brief past experience Highlight strengths

IV. TABLE OF CONTENTS

Suggested sections might include:

- . The Company
- . The Market
- . Marketing Strategy/Plans
- . The Product(s)
- . Development Plan
- . Operations/Manufacturing Plan
- . Management
- . Financial

V. THE COMPANY

In this section, a more detailed description of the company is made, but it is essentially an expansion of the details in the Executive Summary.

- When founded and by whom?
- What markets to be pursued?

Is the company creating demand or is it responding to existing demand?

- What will the products do for buyers? Reduce costs; improve efficiency; etc.
- Who are the buyers (not specifically, but in general, i.e., disk drive manufacturers, semiconductor manufacturers, etc.)
- How many people in the company now; how many expected in the future?
- What technologies being used in production?

Generally, this section will run two to five pages in length and will serve to highlight details covered in greater depth in later sections.

VI. THE MARKET

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More often than not, this section proves to be one of the major obstacles to entrepreneurs in writing business plans. The section should provide an in-depth view of how the company perceives the market into which it will be selling:

Market size:

Recent past

Current

Projected (5 to 10 years)

Market trends:

Where is the market going and why?

What are the economic trends?

Maturity of market—growth stage or level?

Products in the market:

What is available?

How many suppliers?

Market players:

Who is buying? OEMS; end users?

Why are they buying?

What are they looking for?

On what factors are buy decisions made?

Market segments:

Natural splits—geographic, industries, volume

vs. unit buyers, etc.

Growth prospects within each segment

Market distribution:

How are products delivered to buyers?

. direct sales

. manufacturers' representatives

. distributors

Competition:

Who are they?

Strengths?

Weaknesses?
Markets addressed (segments)
Reputation

The better you know your competition, the better you'll be able to plan around them (and the more you'll impress potential investors).

How well you know the market will be demonstrated in this section. The sources for intelligence in any market are myriad:

- Existing manufacturers (competitors)
 - . product brochures
- Interviews with marketing people (which requires a degree of brashness, but don't be timid in asking a potential competitor to lunch to pick his or her brain).
- Trade publications: if you don't know what's available, ask someone who does; call editors for further suggestions on sources.
- Analysts' reports: available from many securities brokers (Merrill, Lynch; Hambrecht & Quist, etc.).
- Users of existing products:
 - . purchasing directors
 - . manufacturing directors
- Potential customers: it is an absolute must that you have as many discussions as possible with users before, during, and after formation of the company. Their feedback should be incorporated into both your products and plans.

VII. MARKETING STRATEGY/IMPLEMENTATION

After the thorough description of the market, this section identifies the market niche you will address. What is it about the segment that makes it right for your company? Is it a niche ignored by competitors or ill-served by competitors? If you go into it and make a profit, why won't a larger competitor enter it, also;

(revenue volume in niche too low; buyers in market are unit purchasers, etc.).

- Credibility: company and product, why should customers

buy a new product from an unproven company? are key components

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in imaging and should fit neatly with other strategies (i.e., high quality and low price may not appear to make sense—if they do, in your case, explain why).

- Advertising and public relations: Again, these strategies should match with others' (are ads in Modern Mechanics compatible with attempting to develop an image of quality?)
- Distribution Channels:
 - factory distribution
 - company-owned regional distribution
 - independent remote distribution
 - order lead times

Here, the idea is to describe the physical means by which product will be delivered to buyers.

- Servicing:
 - factory-only service
 - company field service engineers
 - contracted service
 - service contracts
 - . profit centers
 - . loss leaders

When the product breaks down, how are you going to fix it with the smallest cost to you and the minimum disruption to your customer?

- Sales
 - direct sales
 - reps
 - distributors
 - hybrid

How are you going to sell the product? If you use reps, what kind of incentives will you use to get them to know and push your products. Is it a highly technical product requiring skilled sales people? At what level in the buyers' organizations will sales be made? Should senior

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management in your company participate directly in the sales effort to establish company and product credibility? How will you compensate sales—commissions (payable on order of receipt of payment?), bonus?, salary?

VIII. PRODUCTS

Provide a detailed description of existing products and plans for future products. Are products market-ready and, if not, how long until they will be?

Description (illustration, if appropriate)

- Bill of materials (major components, not too detailed)
- Potential component supply problems
- Proprietary protection (trademark, copyright, patent)
- Advantages/disadvantages to competing products
- Price and cost
- Differentiation from competition—Here, a high level matrix comparing your products' capabilities, strengths, and characteristics to your competitors' is useful. (Be sure your product is more easily visible in the matrix—bold face print at top of matrix is appropriate).

Future Products

- Innovations to existing line
- New products
- Development time lines

IX. MANUFACTURING/RESEARCH & DEVELOPMENT

Depending on the nature of your company, these two areas might more appropriately be separated.

- Financial resources to be committed to R & D
- Facilities requirements
 - leased
 - purchased
- Labor requirements:

- local labor pool
- skilled
- unskilled
- full time/part time
- Subcontracted production
 - sole or multi-sourced
 - quality control
 - supply problems
- Capital needs
 - equipment list
 - financial requirements experiences of the management team that will combine to reduce the risk typically associated with a startup venture. Remember the venture capital axiom that a mediocre product with great management is always preferred to the opposite: the strength of management simply can't be overstated in an investment decision.
- Resumes—avoid excessive detail, but do hit on important past accomplishments and experience; include with phone numbers.
- Functional responsibilities—who's charged with what in the operations of the company.
- Management holes—important functional areas are not filled—what steps are being taken to fill them?

XI. FINANCIAL

While underlying detail should be available for further discussion, financial projections should include high level figures, not line item detail, department by department. Present five-year projections, monthly for at least the first year (but not more than two) and quarterly or annually for the remaining years.

- Profit and loss statement
 - units sold
 - reserves
 - costs of goods sold
 - operating expenses
 - net income (loss)

- Cash budgets
 - beginning cash
 - cash from operations
 - . sales
 - . interest
 - cash from other sources
 - . investors
 - . lenders
 - cash uses
 - . capital expenditures
 - . cash operating expenses
 - . interest expense
 - ending cash
- Balance sheet
 - current assets
 - . cash, investments
 - . receivables
 - . inventory
 - . other
 - fixed assets
 - . machinery and equipment
 - . accumulated depreciation
 - total assets
 - current liabilities . accounts payable . paid in capital . retained earnings (loss)
 - total liabilities and equity

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As supporting documentation to the financial projections, notes should be included detailing assumptions, payment policies, receivable policies, depreciation utilized, and any other information used in generating the figures.

For further information, please contact:

Ms. Susan Bicknell
ISC Capital Management
200 East Randolph Drive #81765
Chicago, Illinois 60601-6401
(312) 635-5371

ISC CAPITAL MANAGEMENT A FUJI MORI COMPANY