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PARTNERING WITH VENTURE CAPITALISTS AND FINANCING THE DEVELOPMENT AND COMMERCIALIZATION OF INVENTIONS

BUSINESS PLAN DEVELOPMENT FOR NEW INVENTION-BASED VENTURES

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1. Venture capitalists (VCs) review business plans as a first step in determining which venture to fund. The business plan should include a one or two-page Executive Summary, i.e. a summary of the business plan. The Executive Summary must rapidly convince a VC that you have a business concept that meets his investment goals. If it does, he will read the business plan. If not, he will move on to another plan in the stack.

2. You must convince your VC that you have a unique idea that can produce demand in the relevant marketplace, that you have the product or service that will meet that demand and the resources to produce the product or service, and that you have the management team that can successfully operate the venture. You do not necessarily have to have these business elements actually in place, but you do need to convince your VC that you have a viable plan to acquire them. Remember that your VC might have as many as 200 business plans to review at any given time.

3. Your VC wants an Executive Summary that provides such information as will make his preliminary decision rapid and easy. “But I have so much to say,” many readers will protest; I am sorry, you may indeed have a lot to say, but those are the rules of the funding game. The VC will take something between 30 seconds and a minute to get the “feel” of your business. If he likes what he reads, then he may just read the other parts of the Executive Summary. If he likes the Executive Summary, then he may be interested in more information, namely the business plan. The Executive Summary is the document that makes the important first impression.

4. Once your VC is satisfied, on reviewing the Executive Summary, that your venture is of interest, he will review the business plan. It is important to understand that a business plan is not a sales brochure, but rather a document that proclaims the benefits of your business venture. If it is over 30 pages in length it probably will not be read; 20 or less is better. Your plan should make your VC want to discuss your opportunity, elicit further details and meet you and your team.

5. Your VC will be interested in your product or service only if he feels that it can make money. Your VC has money, and wants to invest it where it will produce a reasonable return for him. You, as an entrepreneur, usually have your interest focused on your product or service, your technology, and so on. Each of you has a different perspective, yet you can make good team members, so do keep your VC’s perspective in mind when you write your business plan.

6. VCs seek evidence of customer acceptance demonstrated by actual sales or by potential customers. Your plan is not the place to write “I would like to sell into the XYZ industry,” which indicates that you have an idea but not a good potential customer. You want to be able to say, “ABC, Inc. is using it.” This is not always possible of course, but if it is it gives your plan credibility.

7. Do you have an idea of your VC’s needs? Your plan must define how VCs can buy into your deal, and how and when they will get the possibility of their investment. Finally, an exit strategy, such as a return on being bought out by another venture or making an initial public offering (IPO), must be presented in your plan.

8. Concentrate on the strengths of your venture; tell them what you do best. Focus on the most appropriate objectives. You should obtain the exclusive rights in your product or service, if possible, and state clearly why you believe that to be the case.

9. Successful people must be available to manage a successful business. The “management” section of the plan is very important: “it absolutely has to show that the current or the proposed management team has the talent that your venture needs. If a position on your team is vacant, describe the qualifications that a candidate would need to fill it.

10. You should place the emphasis of your plan on the market, not on the product or service; you may have a great product or service, but your VC will ask: “will it sell and make a profit for the venture? If so, why, and how?” Not having the proper focus can distort your approach to the market. There are many ventures that failed because they emphasized the product or service without considering the market elements that make for business success.

11. You should strive to produce market estimates that are not different from industry averages. Are your goals realistic? Many a product or service developer says: “everyone needs my service, or one of my products.” That may be true, but the real question is “how many people will actually buy it?” What facts do you have to back up your claims? You need to have strong backup information on your industry averages, and on how you will do in relation to those averages. Most technical entrepreneurs have considerable technical information, but very little in the way of market information and fair estimates.

12. VCs do not like to read business plans that have unrealistic sales and growth projections. Growth rates need to be believable and based on facts. One problem that new ventures often have is an inability to do the proper and necessary market research. Such research can be carried out quite inexpensively by means of a mail or telephone survey, or by simply collecting articles from trade journals. Every piece of “evidence” that you can produce to show a demand or potential demand will strengthen your plan. When you include a growth rate, explain how the rate compares with industry standards, and how you are going to maintain or improve on that rate for your business. Your VC will ask for this type of information; you should review it with him, either in writing or in person, before he has a chance to ask for it. Including all of this information in the business plan would take up too much space, so summarize it in one or two paragraphs.

13. At the back of your business plan list your backup documentation. It shows that you have done your research in order to prove a need for your product or service, and that you have the backup information for them to consider.

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