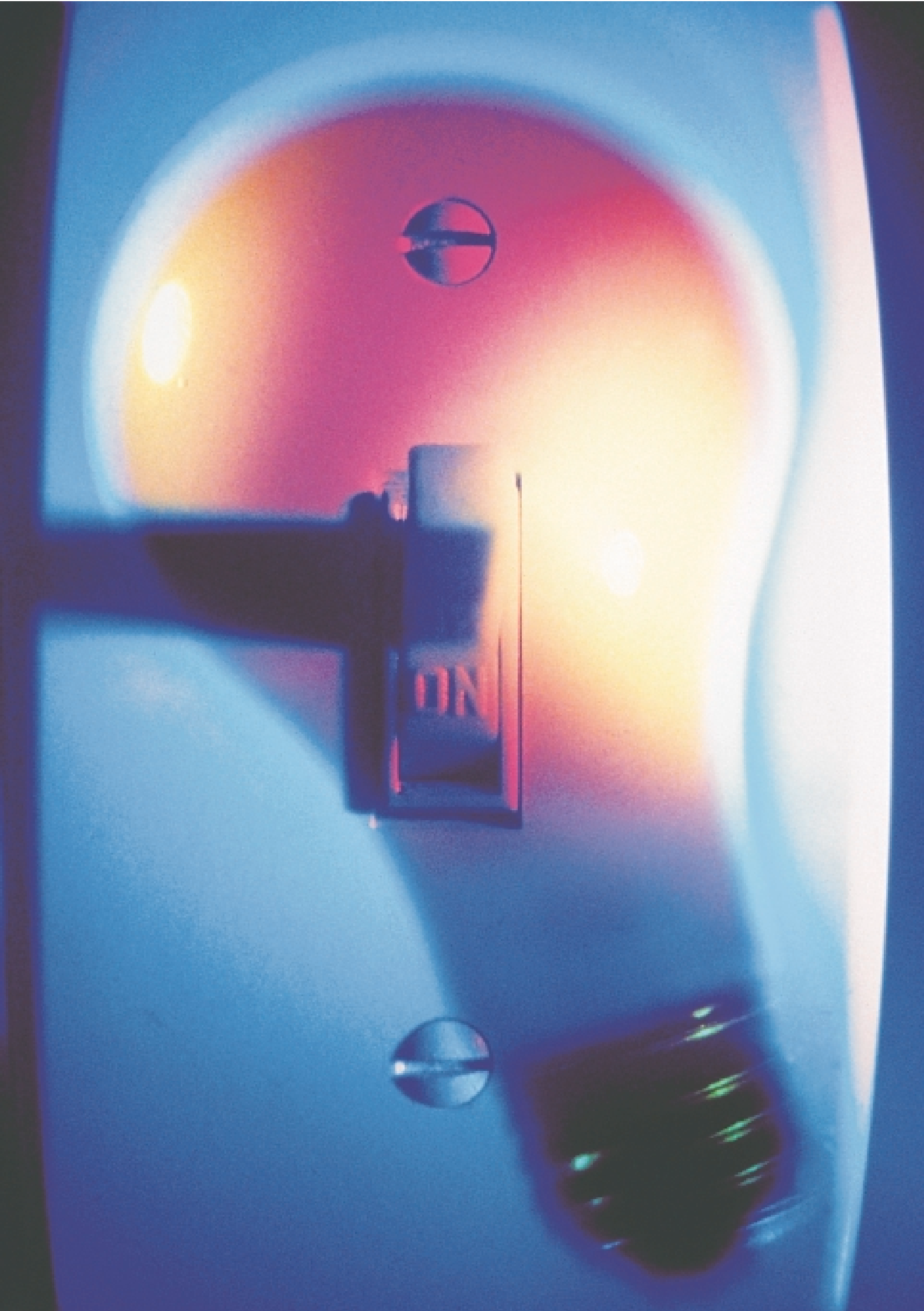


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# Guide To Producing A Business Plan



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# 1 Business Plan

**This document focuses on early stage technology and other high-tech businesses and the examples provided relate to the issues typically facing these businesses.**

Producing a business plan offers an excellent opportunity to consider all the facets of a business or a project, testing feasibility and providing greater confidence in decision-making. It will also identify future financing needs and is usually one of the necessary steps in raising external finance.

**The business plan is a key tool for an entrepreneur who is seeking to raise finance.**

The other tools that need to be prepared include:

- **elevator pitch**
- **overview presentation**
- **executive summary and**
- **financial model.**

The process of preparing a business plan can be quite time consuming. Many entrepreneurs are unsure of where to begin when preparing a business plan. The business plan should be prepared so as to articulate your business model in a form that is easily understood. Business plans are written for a number of reasons, including:

- **to help you understand an opportunity and what it will take to exploit it**
- **to recruit prospective partners and appropriate management team**
- **to monitor progress and keep you on track following start up**
- **to rejuvenate and re-focus a business following start up or**
- **to raise finance.**

The Ernst & Young Guide for Producing A Business Plan (primarily for early stage technology companies) is focused on the fundraising function.

Many investors have commented that they do not want to read 50 page business plans – so when raising finance and talking to venture capitalists (VCs) try to limit the business plan (excluding appendices) to 20 pages or less.

Companies that are looking for seed funding can usually prepare an executive summary document which should include a condensed version of the business plan sections as set out in Section 3, and should be no longer than two to three pages.

Always prepare a stand alone executive summary – a teaser.

This guide focuses on the necessary steps to produce a business plan for the purposes of raising finance, giving guidance on what to include in, and how to present, the plan. It also incorporates tips that are derived from Ernst & Young's substantial experience in assisting a wide range of clients to produce business plans for many different reasons.

# 2 Preparing a Business Plan

## 1 Getting Started

Guidance on writing the plan depends on its main objective. We answer the most common questions raised on writing business plans below, but the underlying rule is **WRITE FOR YOUR READER**. This means both writing in language that the reader will understand, and covering the issues that the reader will want to know about.

### EY Tip

**Some 85% of business plans are not seriously considered by investors. It is vital to identify the likely sources of finance at an early stage in order to Write For Your Reader.**

## 2 Drafting The Plan

### Who should write the business plan?

A business plan reflects your thoughts and plan for your business, and as such must be written by the entrepreneur/CEO. You may need some help from advisers in challenging your comments and assumptions, deciding on content and overall format, and you may also need assistance in preparing financial projections.

### What should the plan cover?

Any plan must include the key aspects of the market (including your route to that market), management team and the financial impact of the business model.

There is no agreed format for all business plans, however they should follow a logical flow in explaining the idea, the benefits and the results. To help with this we have set out in Section 3 a general outline of what should be covered and how the plan should be structured.

### How should it be presented?

Presentation should be entirely aimed at captivating the interest of the reader and ease of reading and understanding. For example, page and paragraph numbers should be used along with cross-referencing, simple graphs and graphics, and colour photographs, if this assists understanding (note: an appropriate diagram/graph can 'paint a thousand words'). Binding and covers should be practical and should avoid both amateurish and lavish appearance.

### 3 Preparing Financial Projections

The plan needs to include projected profit and loss accounts, balance sheets, cash flows and the underlying assumptions. The assumptions must be supported by, and consistent with, your descriptions and explanations in the rest of the plan, or differences explained. Financials for new businesses in undefined markets are hard to estimate, so you should be realistic when doing so. Build projections from the ground up, not the top down.

#### How can I forecast future results?

Forecasting the probable growth pattern and results of a business into the future is a difficult task. This is particularly so for early stage companies with no track record on which to base future financial results. The key starting point is the sales forecast, which must be based upon projected market and demand rather than capacity, sales force or service hours available.

It is recognised by financiers that the environment in which a business operates is subject to changing factors and the assumptions underlying projections must therefore similarly be capable of change.

#### Should my projections be optimistic?

It is advisable to be as objective and realistic as possible in compiling financial projections, particularly those relating to sales revenue. For early stage businesses it is equally critical that the timing of projected sales are as realistic as the magnitude, if the plan is to be credible to external funders.

### EY Tip

**Test the sensitivity of the projections and assess the financial risk implicit in them by assessing the impact of changes in the key assumptions which are most at risk. Consider your assumptions regarding fixed (i.e hardware) versus variable costs (i.e. employees) and review the impact on your cash requirements.**

Prospective investors do not tend to look in detail at the financial projections, as they believe that the majority presented are typically over optimistic.

Prospective investors are particularly interested in the underlying assumptions that have been used in preparing the forecasts. These assumptions indicate the “thinking” that been used to prepare the forecasts.

Focus the business model. Your strategy should be a rifle shot, not a shotgun blast. Always keep in mind the problem you are trying to solve.

Comb your target markets finely and restrict yourself to two or three well-defined segments.

We suggest a general outline below, although you may need to tailor the plan for your specific circumstances.

- 1 **executive summary**
- 2 **concept**
- 3 **market overview**  
– market analysis, competitors etc
- 4 **business strategy – the offer, USP etc**
- 5 **operational strategy**
- 6 **management & organisation**  
– management, organisational structure, rewards & ownership etc
- 7 **financial summary – key assumptions, P & L statement, Balance Sheet, Cash Flow etc**
- 8 **future prospects**
- 9 **funding requirements**
- 10 **appendices**

# 3 Outline Contents & Structure

## 1 Executive Summary

This section is particularly important when raising finance as potential investors receive many business plans and usually make their initial assessment of your business by reading the Executive Summary. The Executive Summary should only be a maximum of four pages, and should be focused on high-level issues.

The Executive Summary should summarise the key points of your proposal, including:

- **“mission statement”**
- **purpose of the plan**
- **the market**
- **management’s mission/goals**
- **the problem and the business opportunity**
- **the product or service offering, and unique selling points, intellectual property rights, etc**
- **business operations**
- **strategic alliances**
- **sales and marketing strategy**
- **management team, their experience and how they will realise the opportunity**
- **critical milestones**
- **financial projections and risks (including quick financial overview with key figures linking to the milestones)**
- **funding requirements**

### **EY Tip**

**The Executive Summary must attract the investors' interest by highlighting the potential idea and the ability of management to realise that potential.**

**For early stage technology companies, it is particularly important to stress the unique selling points of the company's product and service and what barriers to entry will exist or be created by the company to prevent other companies entering into the same market. It is also vitally important to identify what problems currently exist in the market, and how your product or service will overcome these problems. First mover advantage alone is rarely a sufficient and sustainable advantage in the eyes of external funders.**

**It is also very important in the eyes of the investors to have the right management team in place; a balanced team may be the differentiating factor when looking to raise funds. (Note that nowadays it's more often the case than not that the CEO is not the actual founder/entrepreneur.) Consider mentioning any members of your team early on, be they part of the management team or non-execs, that can add kudos and credibility to your business.**



## 2 Background

This should provide a brief summary of the business and the development of the business idea, company to date, previous funding, etc.

## 3 Product and Service

This section should explain, without technical jargon, your principal product OR service, its application, and distinguishing features (also include patents, IPR, etc).

The main purpose of explaining the product is so the reader can understand the market, any unique selling points and, consequently, the business opportunity. A checklist of some of the key questions are included in Appendix 1.

To demonstrate the distinguishing features, the principal markets and market needs should be highlighted, although they should be discussed in further detail in the following section.

Produce a summary of the critical success-factors of the business, along with its key strengths, weaknesses, opportunities and threats, noting how weaknesses and threats will be dealt with.

Any business idea will have risks, and the business plan will have much more credibility if those risks are identified rather than ignored. You should identify the main risk to the business, and show their potential impact on the financial projections. Trying to hide something that later comes out will lose you all the credibility of the business plan and team.

Explain what you will do to limit the chance of the risks occurring, and how you will minimise their impact if they do occur.

### EY Tip

**Be market-led. Distinguish your product or service via a tabular comparison with competitors, by key market factors such as price, delivery time, quality, payback period, etc. Try to illustrate your ideas through diagrams as well as words – an example as an appendix perhaps.**

## 4 Market Analysis

The market analysis section is of critical importance. It must clearly identify your understanding of the market, its characteristics, and your position and influence within it.

You need to convince a potential investor that there is a real commercial opportunity for the business and its products or services.

Customers and potential customers need to be identified, and factors such as customer-needs and decision-factors should be fully explained, and supported by third party comments.

An analysis should be undertaken of how your company fits into the market, and a comparison of your product or service with that of your competition (current and potential).

The absolute size of both your market or niche should be outlined, your current and forecast market share need to be included. The use of external reports or research is critical to strengthen the reader's understanding and belief in the market. Equally important is undertaking some form of market research, to demonstrate a strong understanding of your target market and its needs.

The prospects for the market, and the stage of development (ie, developing, growing, maturing, declining) should be included.

## EY Tip

**A common mistake is merely to state what profits will result if only a small market share is achieved. Your plan must explain what market share you expect to achieve and how you will achieve it.**

**Too many plans historically have not focused on the real market but have looked at global or European market data, when in actual fact this may be completely irrelevant to their actual market. Your business plan should only focus on the market that is within reach of your product or offering.**

Analysis of market segmentation can be one of the most significant parts of the plan and the different characteristics of each segment must be clearly explained. Identify your largest existing, and targeted, customers in each segment.

The identity, distinguishing features and expected plans of your major competitors should be given, along with an explanation

of any barriers to entry which prevent or hinder new competition.

A checklist of key questions to be covered in this section is given in Appendix 2.

## 5 Marketing and Selling

Having demonstrated that the market exists, you must still go out and win those customers. This section must explain and justify your sales and marketing strategies, including pricing. It must also demonstrate a viable business model, outlining how the company will generate revenues and cash. You must also quantify what resources you require to achieve your targets.

## EY Tip

**Include evidence of customer reaction, interest or references (make sure they are genuine!).**

Identify the various distribution channels that the company uses or plans to use, (ie WAP, hand-held computers, digital television, interactive television etc) as well as the more traditional distribution channels.

You will need to assess your competitors, explain how they are likely to react, and the impact on you and your plan. Your competitors will not simply shut down and watch you progress.

It is important that the following areas are addressed, as they are seen as central by investors:

- **marketing and promotion**
- **selling**
- **distribution**

### Marketing and promotion

Key issues include:

- **making the product/service known**
- **creating interest in the product/service**
- **various forms of promotion (online/offline) – direct mail, advertising, trade fairs, media coverage.**

### Selling

- **choices of sales methods (online/offline, in-house/outsourced)**
- **use of distributors, wholesalers or retailers.**

### Distribution

- **product delivery**
- **order processing fulfilment**
- **physical stockholding – dispatch**
- **outsourced or in-house**

If you have undertaken any sampling or trial runs with customers or potential customers, you should include a summary of the results.

A checklist of key questions to be covered in this section is given in Appendix 3.



## 6 The Management Team

By this stage your plan will have demonstrated the potential of your product or service. But at every stage of your business's development, the investor is primarily investing in people, and now you must prove that the management team is able, and likely, to realise that potential, particularly if the aim of the business plan is to raise finance.

You should identify your key members of the management team, explaining why they are key and demonstrating the relevance of their skills, previous achievements and experience to their responsibilities, by including a brief biography of each member as an appendix.

It is vitally important that you demonstrate that the management team has complementary skills/experiences. You must also demonstrate the commitment of the management team to the venture – ie, “sweat equity” – VCs want a team that has a craving, a desire to succeed.

### EY Tip

**Select management's background and skills that demonstrate THEY WILL make a success of this business. For early stage businesses it is crucial that the plan demonstrates that management has an understanding of the issues facing growing companies. Remember, investors are investing more so in the team than the business model.**

It may be useful to provide a current and projected organisation chart, clearly showing responsibility and reporting lines.

Key third party advisers should also be included, which may aid in providing additional credibility to your plan. Provide a synopsis of your potential alliances and partners.

Depending upon the stage of your business, the appointment of non-executive directors and/or an advisory board can assist in developing the company's strategies as well as adding significant value (ie industry expertise, contacts etc.).

### EY Tip

**Investors do not expect a full management team to have been recruited; however, they do expect to see that you have identified the gaps or limitations in experiences. Also, identify a plan of how you expect to recruit these people. These can then be addressed up-front with investors, often via suitable non-executive directors.**

A checklist of key questions to be covered in this section is given in Appendix 4.

## 7. Funding Requirements

The process of raising funds is very time-consuming and pressurised. VCs are now being much more cautious on their investments, and are spending more time on issues such as due diligence. You should be prepared to accept that the fund-raising may take a number of months.

You should state how much finance is required for your business and from what sources it will be raised (eg, management, venture capital, angel investors, other). This is a very important point, so provide a detailed analysis where possible.

The use of the funds should also be disclosed, together with a schedule of expenditure, including capital expenditure, sales and marketing, product/service development etc.

The current financial structure should be shown, including details of current shareholdings.

### EY Tip

**Prospective investors want to know how they will get their money back, their potential return on investment, and the likely time-frame. The following areas will need to be identified:**

- **projected timetable for the business to go 'live'**
- **projected time to break even, generate positive revenues**
- **likely exit routes (float, trade sale etc.)**
- **valuations achieved by comparable businesses (if available)**

**Supplying a potential exit plan to investors is key as they must understand your long-term plans for the business.**

**You need to be able to explain your personal plans – will you be running the business in five to ten years, or are you looking to move onto other ventures in a couple of years?**

**It is important to understand the timeframes that the investors are working on:**

- **Venture capital – usually three to seven years, with an idea for an exit strategy in place from day one**
- **Angel investors – potentially longer relationship, and usually more flexible on exit strategy**



## 8. Financial Projections

The assumptions behind your projections are critical; they require careful thought and must be consistent with the previous narrative. Too much financial information can be worse than too little. Each company must show those figures, the key result areas, that it believes are most important. Detailed financial data may be included in the appendices to the plan.

The amount of detail required in the financial projections will depend upon the stage that the business is at. If you are seeking seed funding, then the projections will not be very complex, and may only include an expense report for a period of 12 months.

Although it may be difficult to project trading operations for an early-stage technology business, you should try to assess sales, cost of sales, cash flows and working capital. You will need to prepare projected profit and loss statements, balance sheets and cash flows. Quarterly profit and cash flow forecasts should be given for at least the first one to three years (as a minimum).

Once you have developed a base forecast model, the key assumptions underlying the projections should be given and justified, as well as compared with historic and current achievements.

The reasonableness of the timing as well as the magnitude of projected revenue is critical. If revenue is projected too early then the credibility of the management team will be damaged.

You should also adjust your assumptions to review the impact that the changes make.

### **EY Tip**

**Many VCs have commented that they place little reliance on the financial projections, as they believe that they are always over-estimated. VCs put greater emphasis on the assumptions underlying the projections as they wish to see the thought process used to develop the projections.**

## 9 Key issues – Risk Assessment

Demonstrate an understanding of the key risks, as follows:

- **competitors – analysis, etc**
- **markets – timings, exposure, etc**
- **team – Management, second tier, etc**
- **technology trends – platforms, networks, systems, etc.**

## 10 Action plan and milestones

List the key stages necessary to achieve the plan, in chronological order with a note of responsibility for completion, and the current status of each stage. For tech start-ups, this should lead up to at least the product launch, or key milestones for the next 12-24 months, whichever is longer.

## 11 Strategic Alliances

A key consideration with early stage technology businesses is to decide whether strategic partnerships are required.

### What is a strategic alliance?

A strategic alliance is a business relationship between organisations in which they share risks, pool strengths, or integrate business functions for mutual benefit. Each of the partners in an alliance remains a distinct entity, unlike a merger, where the assets are combined. The importance of strategic alliances lies in how they can significantly decrease the cycle-time for start-ups by allowing them access to someone else's world-class resources.

Having a strategic alliance strategy is a key way of expanding into new markets, acquiring technical know-how, adding credibility, improving competitive position, and filling any skill gaps.

## 12 Appendices or Exhibits

(where applicable)

Appendices can be effective presentation tools, if they are used to supply important supporting detail which contributes to the reader's understanding and confidence, without being critical to understanding the opportunity.

- **management biographies**
- **financial projections**
- **sales and marketing plan**
- **product/technology overview**
- **project plan**

The following items should be included if available/appropriate:

- **pictures or sales literature of the product/prototype (or examples of where it has been piloted)**
- **professional references**
- **market research and articles from trade journals**
- **patents/other intellectual property**
- **role of advisers/engagement letter**
- **customers letters/validity of orders placed**

# 4 Raising Finance

**One of the main uses of a business plan is as an external document to assist in raising finance, which is why we discuss below the most common questions arising from business trying to raise finance.**

## **Who should we send the plan to?**

Whether the document should be sent to an angel investor, VC, corporate finance house or other investors is determined by the level of risk suffered by any investor, the use to which the funds are to be put (and therefore the type of funds sought), and the amount that management wishes to raise.

Note that very few early-stage companies get funding through approaching VC's directly. VC's are increasingly only using their network of trusted service providers to find new investment opportunities. The scarcer the funds become, the more they require a "middleman" who adds credibility to their business plan.

It is important not to flood the venture capital market with copies of your plan, and not to waste valuable time by sending it to inappropriate investors. If you require some guidance on the right investors, in terms of market sector, location, or capital they provide, take a look at the following: [www.bvca.co.uk](http://www.bvca.co.uk), the British Venture Capital Association's website, and [www.evca.com](http://www.evca.com), the European Venture Capital Association's website.

## **Is venture capital or bank loan finance preferable?**

The decision on the appropriate type of finance depends on a number of factors including the level of projected gearing, the risk attaching to the investment, the projected level of return and cash generation, and the period for which funding is required. There is no hard and fast rule that can be adopted. Each venture and each proposal must be considered on its own merits. However, practically all early stage technology companies are likely to be perceived as principally an equity risk and hence their debt-raising ability is likely to be limited. In addition, for companies that are not yet generating revenues, they have no way of servicing a loan, let alone making repayments to the lending institution.

It may be possible to arrive at a package of finance, drawing on a number of different sources, which enables the overall cost of finance to be reduced.

## **How should we structure the finance required?**

Management teams often feel obliged to suggest a suitable financial structure for the required finance. In practice most investors will wish to make this judgement themselves so as to meet their required rates of return and other investment criteria. While it is not necessary, therefore, for management to be overly concerned with this aspect, it is advisable that they consider the amount of debt which the venture can bear, subject to cash flow and security considerations, thereby minimising the amount of equity required. Management should seek professional advice from corporate financiers who conduct the deal structuring and negotiation on their behalf.

## **What sort of return will a VC require?**

VC's invest in unquoted companies, many of which are relatively immature businesses and thus carry considerable risk. To compensate for this, venture capitalists seek high returns, typically of 30 to 60% per annum and sometimes higher for very early stage investments.

**Will investors expect me to sell the business at a later date?**

The investor's return will generally be provided by a running yield, such as dividends, and a capital return. However, for early stage companies there are often insufficient resources to pay dividends.

The eventual sale of the business, whether by sale to another party or by flotation, is the most likely way of achieving the capital returns for both investor and management, although certain investors are prepared to invest for longer terms if conditions are right.

**The management team can only invest a relatively small amount of capital – how can we retain a significant equity share in the business?**

VCs and other equity investors are familiar with this situation – it is a rare exception when management are able to put up more than a minority share of the required funding. This situation may be solved by the use of debt finance, and different classes of equity. Investors are aware of the need to retain the motivation of the management team and will always wish to ensure that they are left with the potential for a return. Investors will also ask for a different class of share, so that if the company does not succeed, they will receive any funds prior to that of existing shareholders.

Management are often incentivised by ratcheting the VC's proportion of the business to management's achievements.

A strong performance may result in management retaining a greater proportion of the business.

**How much cash will management be required to put up?**

There are no definitive rules on this. In principle, the outside investors will look for a significant financial and personal commitment by the founders/management and in absolute terms this will vary according to the wealth of the individuals concerned. Some look for a years salary as an initial measure. Commitment can be demonstrated in other ways. For example, time, effort and money spent in bringing a project to the point when it can be presented to outside investors ('sweat equity').

**What are financial covenants?**

Whilst financiers will often commit funding for a fixed length of time, minimum profit and cash flow ratios may be set by the funding agreement, and investors and bankers may get additional rights if those ratios are not achieved.

**What level of dilution should I expect?**

There is no hard fast rule to follow, key points to note are that with each funding round the existing shareholders' equity is diluted. You will probably not retain 30% ownership when you go for an IPO or trade sale. This is a typical scenario encountered in a fast growing business. Always ensure that you have legal and accounting advice when negotiating funding and share ownership structure.

**What is due diligence?**

This refers to the investigation and appraisal procedures adopted by VCs and other investors prior to making an investment. Such procedures will extend not only to checking out the individuals concerned but also an examination of all other aspects of the project. Often industry/technical specialists are employed to help assess the validity of the product and address the market aspects of a project (commercial due diligence). For early stage technology companies the latter is likely to be far more important to prospective funders than looking at historic financial results.

**Must I have the full management team in place before approaching investors?**

As management has been identified as a critical issue, it is preferable to have the full team in key areas in place before any approach to investors. However, where gaps exist in the management team these should at least be identified and the steps necessary to fill them outlined.



### **How do I maintain confidentiality?**

Where the plan is being produced for external readers, there may be a reluctance to disclose certain information. We recommend that all plans carry a confidentiality clause restricting the use of information therein and that external readers are checked for potential conflicts of interest (although in practice the legal protection from these is minimal).

It may well be that certain sensitive areas, such as product designs, need not be included with a plan merely identifying the benefits from the new design.

Many VCs do not sign confidentiality agreements (NDAs), though they are potentially looking at competitive business plans at the same time as yours. There is to a large extent a level of integrity and professionalism that is expectant of investors, though they may not sign NDAs to demonstrate this.

However, you can have a confidentiality agreement prepared for presentation to all potential investors.

### **What legal implications exist?**

Care should be taken when sending a business plan to individuals to ensure that the provisions of the Financial Services Act are complied with and, in particular, that the document is approved as an investment advertisement when necessary. In addition, it is important to have regard to the Companies Act which requires all offers of securities to the public to be accompanied by a prospectus. Copies of the plan should be controlled and distribution recorded.

### **What are the costs of raising capital?**

Raising capital can cost a start up business anything from 10 – 15%, or an even higher proportion of the total amount raised.

Lawyers, bankers, VCs, corporate financiers, auditors and other advisors incur costs as they seek to create the most favourable deal for your business. This is a necessary investment and should be accounted for as such.

# 5 How Ernst & Young Can Help

If you would like assistance in producing your business plan or are looking to raise finance for a business venture then contact us to discuss your plans.

Ernst & Young is a leading adviser on business planning and raising finance and has strong contacts with the regular readers of business plans, such as venture capitalists, banks and parent companies. Through our extensive experience and knowledge of the marketplace, we can usually indicate which institutions are most likely to be interested in your particular proposal.

In Entrepreneurial Services, the Business Accelerator and Corporate Finance, we have specialists that focus on technology businesses and have an in-depth understanding of the key issues facing such companies and of the way these companies are evaluated by prospective funders.

Please contact us if you require any further help, our offices and contact details are listed at the back of this brochure.

# 6 Appendices

## Appendix 1

### Products or Services Checklist

- What needs does your product or service satisfy?
- Does it alter the current market that it is entering?
- How do competitors satisfy or fail to satisfy those needs?
- Are you the first in the market?
- What is the impact of customer-buying on your product or service?  
(Are changes in methods, or complementary purchases necessary?)
- How will potential customers be convinced as to the suitability/superiority of your product?
- What is the barrier to entry for other competitors to enter the market?
- What development do you expect from competitors, and when do you expect them?
- What future research and development is necessary for upgrades to existing products and new products?
- If you are developing products in-house, the following issues will need to be addressed:
  - What is the cost of production, and how does it vary with volume?
  - What is the production capacity?
  - Are you subject to movement in costs outside of your control, which form a large part of the production process?
  - Are your quality control systems in place?
  - What are the capital expenditure requirements?
- What are the critical aspects of achieving your unique selling point? For example:
  - leading edge product (continued research and development)
  - quality (customer service)
  - delivery time (distribution network)
  - costs (lower transaction costs)
- How is the business going to make money? What is the revenue model?
- What is the likely life cycle of the product or service?
- What intellectual property protection does your product have  
(key point and should be well thoughtout)?
- How reliable is your product and what are the technical risks?
- How secure are your IT systems?
- Is the product or service vulnerable to advances from another company?
- What is your time to market (NB very important: how long it takes to develop your product/service and set up infrastructure to support revenue)?

## Appendix 2

### Market Analysis Checklist

- What markets are you currently in, or targeting?
- How big is the market now (country by country analysis)? What is the forecasted growth of the market in five or ten years? (Be as specific as possible – make sure you have researched your market and know who is currently playing in it; be able to demonstrate this understanding of the market to the VC.)
- What growth, or changes are shown by third party public reports?
- What are the chief characteristics?
- What are the major trends in the industry?
- Is the industry mature or rapidly changing, and if so how?
- What are the barriers to entry?
- Who are, or will be, the major customers?
- What companies do you and will you compete with (including future entrants to the market) in each product or service line?
- How do you compare with other competitive companies?
- What is the market share of each existing competitor?
- Are there opportunities to collaborate with competitors rather than compete head-on?
- Which companies sell complementary products and services? Are there opportunities to integrate products and services so you can benefit from offering customers a one-stop shop solution and/or a lower cost-route to market?



## Appendix 3

### Sales and Marketing Checklist

- What marketing strategy will you employ (specialisation, market share objectives, image)?
- Distribution (direct, indirect, web-based or retail)? What resources are required to effectively support your route to market, ie, number of direct sales personnel/number of personnel supporting indirect channels?
- Consider the variety of sales and marketing strategies that have evolved from the new distribution channels (ie, internet)
- What is your pricing policy (demand, value added or cost-based pricing, volume discounts, show how pricing will change over time)?
- How will you achieve geographical penetration (domestic, Europe, USA, etc)?
- How will you set priorities among segments, applications and capture marketing activities?
- How do you and will you identify prospective customers, and how do you obtain their interest?
- Who will typically make the buying decision within the prospective customer organisation? How do you ensure you reach the right individual?
- How efficient is or will the selling operations be (for example, sales per head of sales personnel)?
- What is or will your initial order size/typical order size be? What is the likelihood and size of repeat orders?
- What barriers will you face in ultimately generating sales and how will these be overcome? (eg, credibility of early stage company.)
- What will you do regarding customer-focused marketing?
- What, if any, external consultancies/agencies will you engage, and what will they do?

## Appendix 4

### The Management Team Checklist

- Who are your key managers?
- What are the individual and objectives of key management?
- How do you intend to retain or attract and compensate key people (ie share options, incentive schemes, etc)?
- What are their skills and, particularly, their achievements experience, and how does this relate to the success of your venture?
- What management additions do you plan, when, and with what required qualifications?
- Who is on your board of directors?
- What second tier management do you have?
- How many employees do you have and how many will you require?
- What are your recruitment policies and how will you train new employees?
- Are your employees likely to be affected by any legal, trade or union requirements (Show sample organisational structures both current and projected, if significantly different)?
- What levels of remuneration do you or will you offer? How do these compare to competitors?
- What are the long-term personal objectives of management (ie, personal wealth vs. business success)?

# Ernst & Young Contacts

## Entrepreneurial Services

	Contact	Title	Telephone	Email
<b>National</b>				
National Head	David Wilkinson	Partner	020 7951 2335	dwilkinson@uk.ey.com
<b>Scotland &amp; Northern Ireland</b>				
Aberdeen	Alastair Macdonald	Senior Manager	01224 653 250	amacdonald@uk.ey.com
Edinburgh	Jim Bishop*	Partner	0131 777 2244	jbishop@uk.ey.com
<b>North Region</b>				
Hull	Peter Duffield	Partner	01482 590391	pduffield@uk.ey.com
Leeds	Peter Whiteley*	Partner	0113 298 2427	pwhiteley@uk.ey.com
Liverpool	Barry Flynn	Partner	0151 210 4235	bflynn@uk.ey.com
Manchester	Steve Smith	Partner – Corporate Finance	0151 210 4235	ssmith10@uk.ey.com
Newcastle-upon-Tyne	Mark Hatton	Partner	0151 210 4235	mhatton@uk.ey.com
<b>Central Region</b>				
Birmingham	Andy Glover*	Partner	0121 535 2200	aglover@uk.ey.com
Cambridge	Alasdair Stewart	Partner	01223 557122	astewart2@uk.ey.com
Luton	Peter Klauber	Partner	01582 643130	pklauber@uk.ey.com
Nottingham	Keith Richards	Senior Consultant	01159 542103	krichards1@uk.ey.com
<b>South Region</b>				
Bristol	Gerald Baker	Partner	01179 812201	gbaker1@uk.ey.com
Bristol	Richard Jones	Partner – Corporate Finance	01179 812216	rjones4@uk.ey.com
Cardiff	Richard Coppock	Director – Corporate Finance	029 2027 3230	rcoppock@uk.ey.com
Exeter	Stephen Gratton	Partner	01392 284439	sgratton@uk.ey.com
Exeter	Stuart Crebo	Director – Corporate Finance	01392 284383	screbo@uk.ey.com
Reading	Andrew Jupp	Partner	01189 281374	ajupp@uk.ey.com
Reading	Kevan Leggett	Partner – Corporate Finance	01189 281320	kleggett@uk.ey.com
Southampton	Kim Hayward*	Partner	023 8038 2153	khayward@uk.ey.com
Southampton	Kevan Leggett	Partner – Corporate Finance	01189 281320	kleggett@uk.ey.com
<b>London</b>				
Business to Business	David Wilkinson	Partner	020 7951 2335	dwilkinson@uk.ey.com
Business Accelerator	Peter Junker	Assistant Director	020 7951 6420	pjunker@uk.ey.com
Consumer Products	Rupert Eastell	Partner	020 7951 1954	reastell@uk.ey.com
Entrepreneurial Services	Richard Hall	Partner – Corporate Finance	020 7951 6478	rhall2@uk.ey.com
Technology Communications and Entertainment	Stuart Watson	Partner	020 7951 5601	swatson1@uk.ey.com
Sales	Gordon Lynch	Director	020 7951 2948	glynch2@uk.ey.com

\* Regional Leader

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