

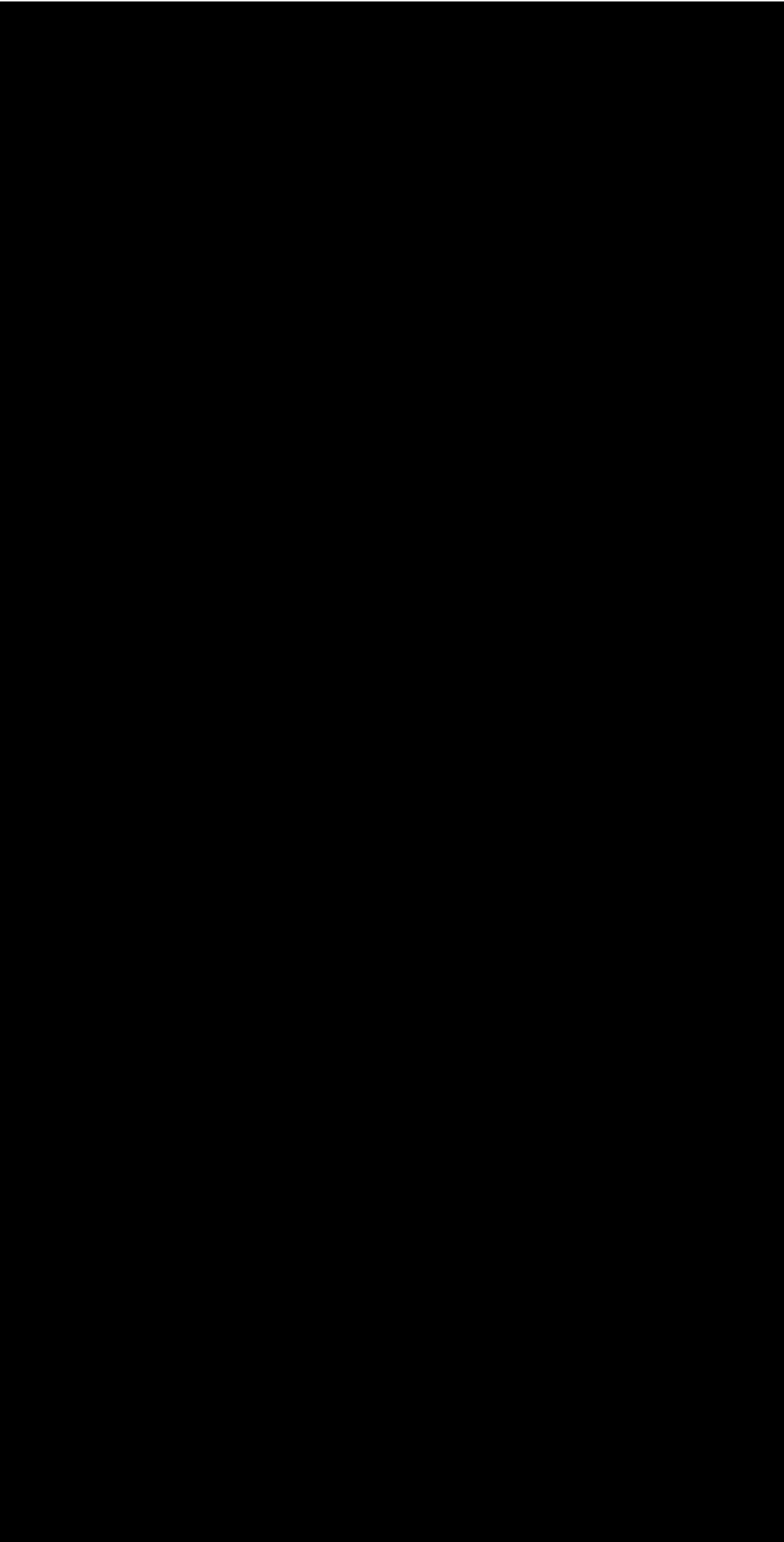
A miniature figure of a man in a trench coat and hat walking on a large ruler. The figure is positioned on the ruler, which is marked with numbers and lines. The background is a bright yellow color.

EMERGING AND
GROWTH MARKETS

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Quality In Everything We Do

Business Plan Guidebook





A well-written business plan can be an indispensable management tool. Many people have found that a properly prepared business plan can greatly improve their company's ability to obtain financing and to consistently establish and meet goals.

Emerging entrepreneurial businesses—or “future power companies”—have an abundance of assistance and resources available to them *after* they begin generating revenue. But entrepreneurs with only an idea and their life's savings in hand often have a hard time finding the help they need to successfully get off the ground.

Ernst & Young's Emerging and Growth Markets team can help leading VCs monitor and accelerate the growth of their portfolio companies. From Silicon Valley to Boston, Toronto, Paris, Munich, Tel Aviv, Hong Kong, Sydney and beyond, we are plugged in to a network of professionals dedicated to serving fast-growth businesses in the world's hotbed markets.

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What Is a Business Plan?

Business plans are the preferred mode of communication between entrepreneurs and potential investors. Experienced owners and managers of closely held businesses know that business plans can also be an indispensable management tool. Many have found that just completing the steps required to develop a business plan forces them to introduce discipline and a logical thought process into all of their planning activities. They have found that a properly prepared business plan can greatly improve their company's ability to consistently establish and meet goals and

objectives in a way that best serves the company's owners, employees, and investors.

A business plan can take many forms, from a glossy, professionally produced document to a handwritten manuscript in a three-ring binder that serves as the documentation for the goals, objectives, strategies and tactics of a company.

In any form, a business plan is simply a written representation of where a company is going, how it will get there, and what it will look like once it arrives.

Why Write a Business Plan?

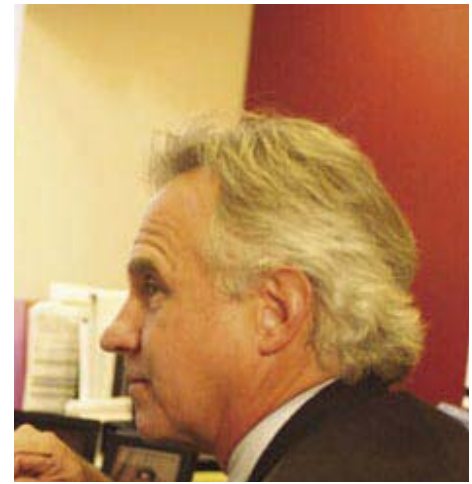
A business plan is a valuable management tool that can be utilized in a wide variety of situations.

In most companies, business plans are used at a minimum to:

- Set the goals and objectives for the company's performance.
- Provide a basis for evaluating and controlling the company's performance.

- Communicate a company's message to middle managers, outside directors, lenders and potential investors.

When utilized most efficiently, the same business plan, with slight modification, can be used for all three purposes.



Setting Goals and Objectives

The business plan for an early-stage company is, in many ways, a first attempt at strategic planning. An entrepreneur should use a business plan as a tool for setting the direction of a company over the next several years, and a plan should set the action steps and processes to guide the company through this period. Many entrepreneurs say that the pressures of the day-to-day management of a company leave them little time for planning. This is unfortunate because, without it, an owner runs the risks of proceeding blindly through the rapidly changing business environment. Of course, writing a business plan is not a guarantee that problems will not arise. But, with a thoroughly thought-out plan, a business owner can better anticipate a crisis situation and deal with it up front. Further, a well-constructed plan can help avoid certain problems altogether. All in all, business planning is probably more important to the survival of a small and growing company than of a larger, more mature one.

Performance Benchmarks

A business plan can also be used to develop and document milestones along your business's path to success. In the heat of daily operations, you may find that taking an objective look at the performance of your business is difficult. Often, the trees encountered daily obscure your view of the forest in which your company operates. A business plan can provide you and your management team with an objective basis for determining if the business is on track to meet the goals and objectives you have set.

tip

Carefully control the distribution of your business plan. Will it be distributed widely (e.g., to all your employees) or strategically (e.g., to management, partners or lenders)? Many business plans include ethical disclaimers that limit an individual's ability to redistribute the plan without your consent. In addition, if your business plan is being used to raise capital, a private-placement disclaimer is often required under law.



Internal and External Communications

Your company's story must be told and retold many times to prospective investors, potential and new employees, outside advisors, and potential customers. And the most important part of the story is the part about the future, the plan featured in a business plan.

Your business plan should show how all the pieces of your company fit together to create a vibrant organization capable of meeting its goals and objectives. It must be able to communicate your company's distinctive competence to anyone who might have an interest.

This booklet presents a generalized outline for writing a business plan. The outline is intended to be used in conjunction with *Ernst & Young's Business Plan Guide*,

published by John Wiley & Sons, which can be purchased at many bookstores.

Listed below are the steps you should follow in preparing your business plan, whether you are writing it for the first time or rewriting it for the twentieth.

Step 1: Identify Your Objectives

Before you can write a successful business plan, you must determine who will read the plan, what they already know about your company, what they want to know about your company, and how they intend to use the information they will find in the plan. The needs of your target audience must be combined with your communication objectives—what you want the reader to know. Once you have identified and resolved any conflicts between what your

target audience wants to know and what you want them to know, you are ready to begin preparing a useful business plan.

Step 2: Outline Your Business Plan

Once you have identified the objectives for your business plan and know the areas that you want to emphasize, you should prepare an outline based on these special requirements. The outline can be as general or detailed as you wish, but typically a detailed outline will be more useful to you while you are writing your plan.

Step 3: Review Your Outline

Review your outline to identify the areas that, based on your readers and objectives, should be presented in detail or summary form in your business plan. Keep in mind that your business plan should describe your company at a high level and that extremely detailed descriptions are to be avoided in most cases. However, you must be prepared to provide detailed support for your statements and assumptions apart from your business plan, if necessary.

Step 4: Write Your Plan

The order in which the specific elements of the plan are developed will vary depending on the age of your company and your experience in preparing business plans.

You will probably find it necessary to research many areas before you have enough information to write about them. Most people begin by collecting historical financial information about their company and/or industry, and completing their market research before beginning to write any part of their plan. Even though you may do extensive research before you begin, you may find that additional research is required before you complete it. You should take the time to complete the required research because many of the assumptions and strategies described in the plan will be based on the findings and analysis of your research.

Initial drafts of prospective financial statements are often prepared next, after the basic financial and market research and analysis are completed.

By preparing these statements at this time, you will have a good idea which strategies will work from a financial perspective before investing many hours in writing a detailed description of them. As you develop your prospective statements, be certain that you keep detailed notes on the assumptions you make to facilitate preparation of the footnotes that must accompany the statements, as well as the composition of other business plan elements.

The last element to be prepared is the executive summary. Since it is a summary of the plan, its contents are contingent on the rest of the document, and it cannot be written properly until the other components of the plan are essentially complete.

While preparing each element of your plan, refer to the outline in this booklet.

Step 5: Have Your Plan Reviewed

Once you have completed and reviewed a draft of your plan, have someone familiar with business management and the planning process review it for completeness (by referring to the outline in this publication), objectivity, logic, presentation, and effectiveness as a communications tool. Then, modify your plan based on your reviewer's comments

Step 6: Update Your Plan

Business plans are “living” documents and must be periodically updated, or they become useless. As your environment and your objectives—and those of your readers—change, update your plan to reflect these changes. Refer to this booklet each time your plan is updated.

Outline for a Business Plan

I. Executive Summary

The executive summary will provide a concise overview of the entire business plan and emphasize the plan's key points. It is vital to convey your company's unique competencies—those factors that will make your business successful in a competitive market.

A. The Purpose of the Plan

1. Attract investors/financing sources
2. Document an operational plan for controlling the business

B. The Company

1. The needs your company will satisfy
2. The products or services you will offer to satisfy those needs
3. Where, when and by whom the company was founded

C. Market Analysis

1. The characteristics of your target market (e.g., demographic, geographic)
2. The size of your target market in dollars
3. Competitors and major players in your target market
4. Customers (identify and describe)
 - a. Existing
 - b. Potential

D. Marketing and Sales Activities

1. Marketing strategy
2. Sales strategy
3. Keys to success in your competitive environment

E. Product or Service Research and Development

1. Major milestones
2. Ongoing efforts
3. Intellectual Property

tip

Potential investors and lenders review hundreds of business plans each year. More often than not, they do not get beyond a plan's executive summary. Therefore, your executive summary must give readers a useful understanding of your business and answer the question that most interests them: "What's in it for the investor?"

F. Leadership

1. Key management
2. Key members of the board of directors
3. Key members of the board of advisors

G. Financial Data

1. Funds required and their use
2. Historical financial summary
3. Prospective financial summary (including a brief justification for prospective sales levels)

II. Company Description

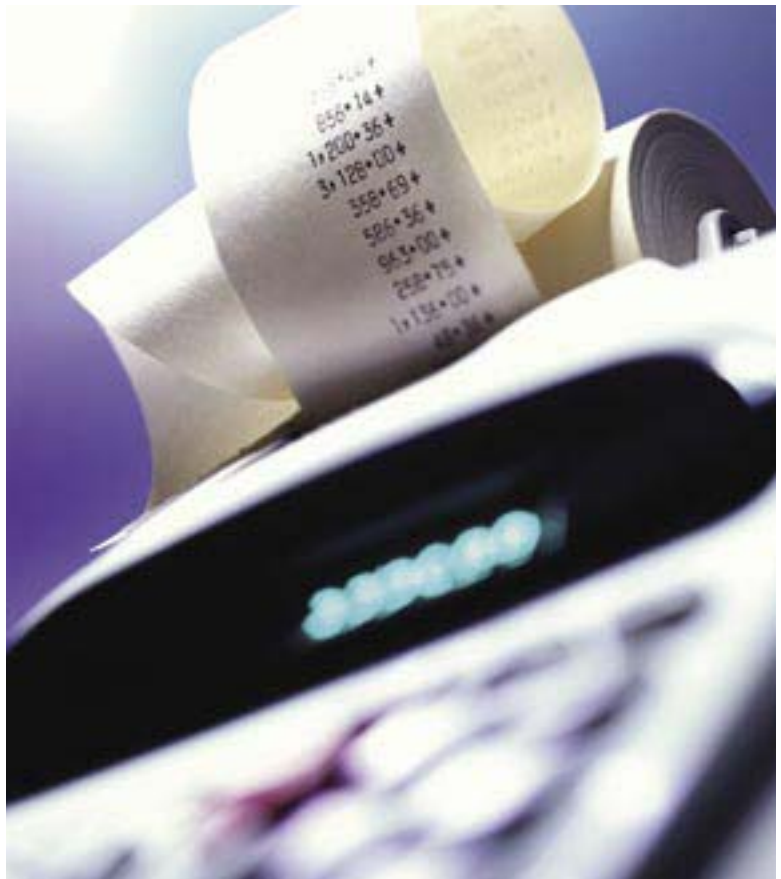
This section provides an overview of how all elements of your company fit together.

A. Nature of the Business

1. Marketplace needs that you aim to satisfy
2. Method(s) to satisfy those needs
3. Individuals or organizations with those needs

B. Unique Competencies

1. Superior satisfaction of customer needs
2. Proprietary attributes (e.g., trademarks)
3. Patents—registered and pending
4. Market share or “brand name” recognition
5. Production or service-delivery efficiencies
6. Personnel
7. Geographic location
8. Facilities
 - a. Own or rent
 - b. Size (square feet/m²)
 - c. State (degree of modernization)
 - d. Significant equipment



tip

The market analysis section provides the sole basis for your projected sales and costing. It must clearly demonstrate that the market needs the product or service, that the company understands this need and can meet it, and therefore can sell your product or service at a profit.

III. Market Analysis

This section should reflect domain knowledge and present highlights and analysis of the market research.

A. Industry Description and Outlook

1. Description of the primary industry
2. Size of the industry
 - a. Historical
 - b. Current
 - c. Projected growth
 - Five-year outlook
 - 10-year outlook
3. Industry characteristics and trends
 - a. Historical
 - b. Current
 - c. Future
4. Major customer groups
 - a. Companies
 - b. Consumers

B. Target Markets

1. Distinguishing characteristics of the primary target markets and market segments
 - a. Critical needs
 - b. Extent to which those needs are currently being met (i.e., by competitors)
 - c. Demographics
 - d. Geographic location
 - e. Buyers
 - f. Seasonal or cyclical trends
2. Size of the primary target market
 - a. Number of prospective customers
 - b. Annual purchases of products or services that meet identical or similar needs as your products or services
 - c. Geographic area
 - d. Anticipated market growth

3. Market penetration
 - a. Market share
 - Current
 - Anticipated (annual estimate of market penetration over the next five years)
 - b. Existing customers
 - Number
 - Profile
 - c. Potential customers
 - Number
 - Profile
 - d. Geographic coverage
 - e. Rationale for market-penetration estimates
4. Pricing and gross margin targets
 - a. Price levels
 - b. Gross margin levels
 - c. Discount structure (e.g., volume, prompt payment)
5. Methods by which specific members of the target market can be identified
 - a. Directories
 - b. Trade association publications
 - c. Government documents
 - d. Online information services or databases
6. Media through which you can communicate with specific members of your target market
 - a. Publications
 - b. Radio or television broadcasts
 - c. Internet
 - d. Sources of influence or advice
7. Purchasing cycle of potential customers
 - a. Identification of needs
 - b. Research for solutions to needs
 - c. Solution evaluation process
 - d. Purchase authority (e.g., executive, purchasing agents, engineers)
8. Key trends and anticipated changes within the primary target markets
9. Secondary target markets and key attributes
 - a. Needs
 - b. Demographics
 - c. Significant future trends



C. Market Test Results

1. Potential customers contacted
2. Information or demonstrations given to potential customers
3. Reaction of potential customers
4. Importance of satisfying targeted needs
5. Test group's willingness to purchase products or services at various price levels

D. Lead Times

(Time between customer order placement and product or service delivery)

1. Initial orders
2. Reorders
3. Volume purchases

E. Competition

1. Identification (by market segment and product line or service)
 - a. Existing competitors (include market share)
 - b. Potential (i.e., how long your "window of opportunity" will be open before your initial success breeds new competition, and who your new competitors are likely to be)
 - c. Direct
 - d. Indirect
2. Competitors' strengths (competitive advantages)
 - a. Ability to satisfy customer needs
 - b. Market penetration
 - c. Track record and reputation
 - d. Price
 - e. Product quality
 - f. Staying power (i.e., financial resources)
 - g. Key personnel
3. Competitors' weaknesses (competitive disadvantages)
 - a. Ability to satisfy customer needs
 - b. Market penetration
 - c. Track record and reputation
 - d. Price
 - e. Product quality
 - f. Staying power (i.e., financial resources)
 - g. Key personnel
4. Importance of the market to the competition

5. Barriers to entry into the market
 - a. Cost (investment)
 - b. Time
 - c. Technology
 - d. Key personnel
 - e. Customer inertia (e.g., brand loyalty, existing relationships)
 - f. Existing patents and trademarks
 - g. Market position

F. Regulatory Restrictions

1. Customer of governmental regulatory requirements
 - a. Domestic
 - Methods for meeting the requirements
 - Timing involved
 - Cost
 - b. International
 - Methods for meeting the requirements
 - Timing involved
 - Cost
2. Anticipated changes in regulatory requirements
 - a. Domestic
 - Methods for meeting the requirements
 - Timing involved
 - Cost
 - b. International
 - Methods for meeting the requirements
 - Timing involved
 - Cost

tip

Do not underestimate the importance of presenting a well-conceived sales strategy. Without an efficient approach to beating a path to the doors of potential customers, companies with very good products and services often fail.

IV. Marketing and Sales Activities

A. Overall Marketing Strategy

1. Market penetration strategy
2. Growth strategy
 - a. Internal
 - b. Acquisition
 - c. Franchise
 - d. Horizontal (i.e., providing similar products to different users)
 - e. Vertical (i.e., providing the products at different levels of the distribution chain)

3. Distribution channels (include discount or profitability levels at each stage)
 - a. Original equipment manufacturers
 - b. Distributors
 - c. Retailers
 - d. Direct (i.e., mail order)
4. Communication
 - a. Promotion
 - b. Advertising
 - c. Public relations
 - d. Personal selling
 - e. Printed materials (e.g., catalogues, brochures)
 - f. Internet presence or use

B. Sales Strategies

1. Sales force
 - a. Internal representatives
 - b. Independent representatives
 - Dedicated
 - Multi-line
 - c. Size
 - d. Recruitment and training
 - e. Compensation
2. Sales activities
 - a. Identifying prospects
 - b. Prioritizing prospects
 - c. Number of sales calls per period
 - d. Average number of sales calls per sale
 - e. Average dollar size per sale
 - f. Average dollar size per reorder

tip

In this section, it is important not to criticize the competition's products too severely; readers may empathize with the unrepresented party. Instead, concentrate on the ability of the new product or service to meet existing market needs, and allow readers to draw their own conclusions based on the information provided.

V. Products and Services

This section emphasizes the unique ability of the company's products or services to satisfy the needs of the marketplace.

A. Detailed Product or Service Description

1. Specific benefits of product or service
2. Ability to meet needs
3. Competitive advantages
4. Present state (e.g., idea, prototype, existing product or service)

B. Product Life Cycle

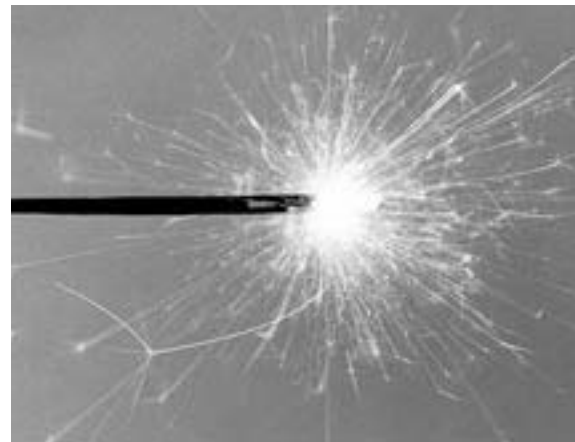
1. Description of the current position of the product or service within its life cycle
2. Factors that might change the anticipated life cycle
 - a. Factors that lengthen it
 - b. Factors that shorten it

C. Copyrights, Patents and Trade Secrets

1. Existing or pending copyrights or patents
2. Anticipated copyright and patent filings
3. Key aspects of your products or services that cannot be patented or copyrighted
4. Key aspects of your products or services that qualify as trade secrets
5. Existing legal agreements with owners and employees
 - a. Non-disclosure agreements
 - b. Non-competition agreements

D. Research and Development Activities

1. Activities in process
2. Future activities
3. Anticipated results of future research and development activities
 - a. New products or services
 - b. New generations of existing products or services
 - c. Complementary products or services
 - d. Replacement products or services
4. Research and development activities of others in the industry
 - a. Direct competitors
 - b. Indirect competitors
 - c. Suppliers
 - d. Customers



tip

Take special care to ensure that the specifics of company operations do not conflict with the information included in your financial statement projections. Any inconsistencies between these two areas will result in some unpleasant surprises down the road.

VI. Operations

A. Production and Service Delivery Procedures

1. Internal
2. External (e.g., subcontractors)

B. Production and Service Delivery Capability

1. Internal
2. External (e.g., subcontractors)
3. Anticipated increases in capacity
 - a. Investment
 - b. New costs (direct and indirect)
 - c. Timing

C. Employees

1. Full-time
2. Part-time
3. Contract or seasonal
4. Union
5. Non-union

D. Facilities

1. Own or rent
2. Size (square feet/m²)
3. State (i.e., degree of modernization)
4. Significant equipment

E. Competitive Operating Advantages

1. Techniques
2. Experience
3. Economies of scale
4. Lower direct costs

F. Suppliers

1. Suppliers of critical production elements
 - a. Primary
 - b. Secondary
2. Lead time requirements
3. Risks of critical element shortages
4. Existing and anticipated contractual relationships with suppliers.

tip

Every management team is unique—emphasize their background, skills, and how they will contribute to the company's success. This is particularly important when looking for financing. Remember: individuals invest in people, not ideas.

VII. Management and Ownership

Your management team's skills and talents are among the few truly unique aspects of your company. If you are going to attract investors, you must emphasize these skills and talents and indicate why they represent a distinctive competency that your competitors cannot duplicate easily.

A. Company Structure

1. Organizational chart
2. Narrative description of the chart

B. Key Management and Operating Personnel

1. Name
2. Position
3. Brief description of position, including primary duties
4. Previous experience
5. Unique skills and experience that add to the company's distinctive competencies
6. Compensation basis

C. Planned Additions to the Current Management Team

1. Position
2. Primary responsibilities and authority
3. Requisite skills and experience
4. Recruitment process
5. Timing of employment
6. Anticipated contribution to the company's success
7. Compensation basis and levels (ensure these are in line with the market)

D. Legal Structure

1. Corporation
2. Partnership
 - a. General
 - b. Limited
3. Proprietorship

E. Owners

1. Names
2. Percentage of ownership
3. Extent of involvement with the company

4. Form of ownership
 - a. Common stock
 - b. Preferred stock
 - c. General partner
 - d. Limited partner
5. Outstanding equity equivalents
 - a. Options
 - b. Warrants
 - c. Convertible debt
6. Common stock
 - a. Authorized
 - b. Issued

tip

Investors will be looking for alternative exit strategies. In developing these opportunities, try to be flexible and creative, taking into consideration options such as mergers, acquisitions, strategic partnering and going public.

F. Board of Directors

1. Names
2. Position on the board
3. Extent of involvement with the company
4. Background
5. Contribution to the company's success
 - a. Historical
 - b. Anticipated

G. Board of Advisors

1. Names
2. Position on the board
3. Extent of involvement with the company
4. Background
5. Contribution to the company's success
 - a. Historical
 - b. Anticipated



VIII. Funds Required and Their Use

Any new or additional funding reflected in the financial statement projections should be discussed here. Alternative funding scenarios can be presented if corresponding financial statement projections are presented later in the plan.

A. Current Funding Requirements

1. Amount
2. Timing
3. Type
 - a. Equity
 - b. Debt
 - c. Mezzanine
4. Terms

B. Funding Requirements Over the Next Five Years

1. Amount
2. Timing
3. Type
 - a. Equity
 - b. Debt
 - c. Mezzanine
4. Terms

C. Use of Funds

1. Capital expenditures
2. Working capital
3. Debt retirement
4. Acquisitions

D. Long-Range Financial Strategies

1. Going public
2. Leveraged buyout
3. Acquisition by another company
4. Debt service levels and timing
5. Liquidation of the venture

tip

Investors put this section under considerable scrutiny. If the numbers don't "add up," the business's credibility will suffer. If you do not have someone with sufficient financial expertise on your management team, you should consider obtaining the services of an outside advisor to prepare this material. Their specialized knowledge can be invaluable.

IX. Financial Data

This section contains the supporting financial data for all information presented elsewhere in the plan. Various scenarios can be included as appropriate.

A. Historical Financial Data

(past three to five years, if applicable)

1. Annual statements
 - a. Income
 - b. Balance sheet
 - c. Cash flows
2. Use of external accounting firms
 - a. Compilation
 - b. Review
 - c. Audit

tip

In some instances, the thicker the business plan, the less likely potential investors will read it thoroughly. The proper use of appendices and schedules will enable you to provide additional information and demonstrate that your analysis is well documented without compromising your plan's readability.

B. Prospective Financial Data

(next five years)

1. Next Year (by month or quarter)
 - a. Income statement
 - b. Balance sheet
 - c. Cash flow statement
 - d. Capital expenditure budget
2. Final four years (by quarter or year)
 - a. Income statement
 - b. Balance sheet
 - c. Cash flow statement
 - d. Capital expenditure budget
3. Summary of significant assumptions
4. Type of prospective financial data
 - a. Forecast (management's best estimate)
 - b. Projection ("what if" scenarios)
5. Level of CA involvement
 - a. Compilation
 - b. Review
 - c. Audit

C. Analysis

1. Historical financial statements
 - a. Ratio analysis
 - b. Trend analysis with graphic presentation
2. Financial statement projections
 - a. Ratio analysis
 - b. Trend analysis with graphic presentation

X. Appendices and Exhibits

A. Resumés of Key Managers

B. Professional References

C. Market Studies

D. Pertinent Published Information

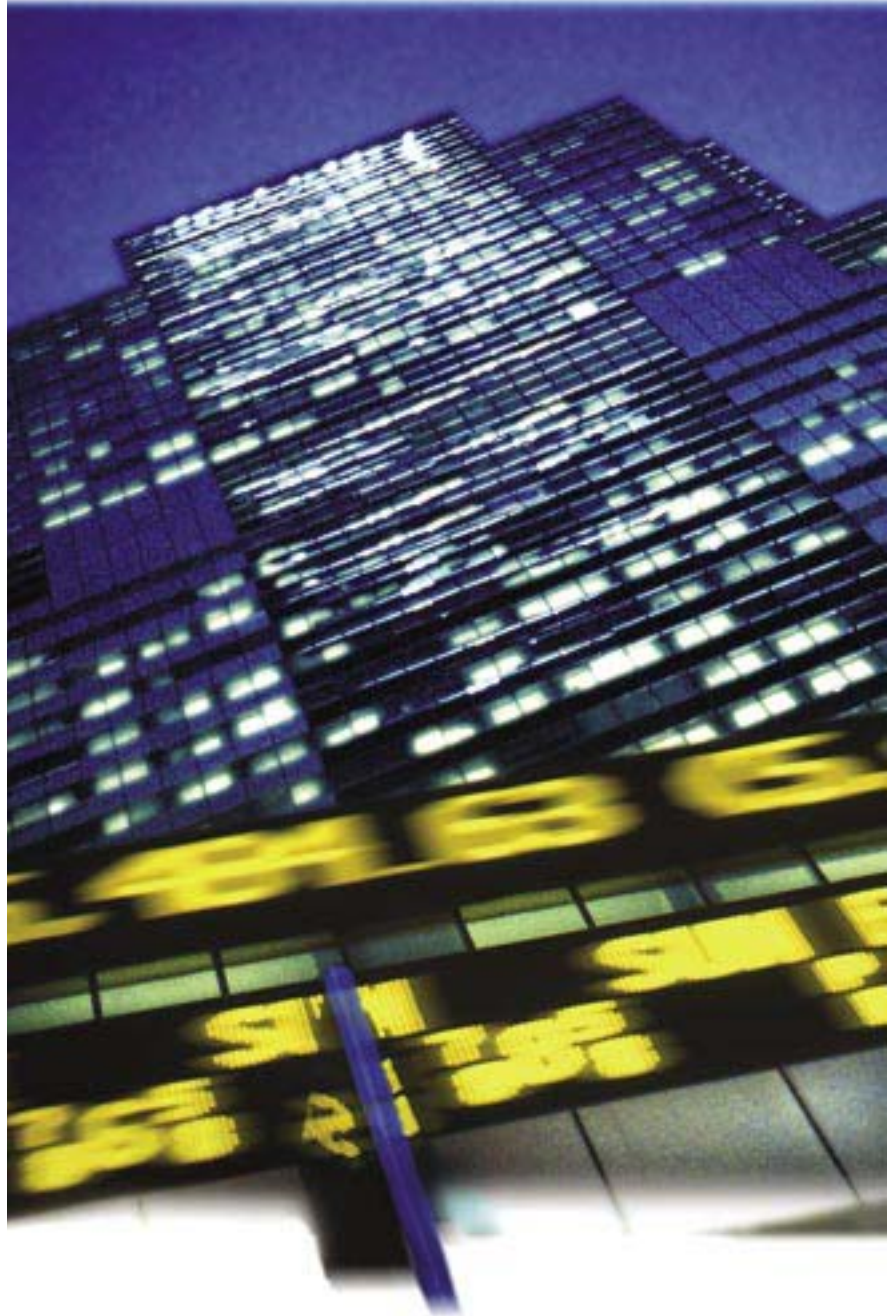
(i.e., on the company's products or services)

1. Magazine articles
2. Book references

E. Patents

F. Significant Contracts

1. Leases
 - a. Equipment
 - b. Building facilities
2. Sales contracts
3. Purchase contracts
4. Partnership or shareholder agreements
5. Stock option agreement
6. Employment or compensation agreements
7. Non-competition agreements
8. Insurance
 - a. Product liability
 - b. Officers' and directors' liability
 - c. General liability



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