

by many. A better alternative was needed. This realization was what led Aydin to start bOK Systems ([www.bOKnow.com](http://www.bOKnow.com)).

bOK Systems was Aydin's first major start-up and was proving to be a great learning experience. It was now October 2007, nearly 18 months after graduation, Aydin worked full-time for a large multinational telecommunications equipment manufacturer and was discovering that living the life of an entrepreneur had its glamour and fun times but it also had its share of challenges, stressful decisions, and sleepless nights.

### The Solution

The structure of cellphone plans in Canada led Aydin to wonder if there was a way to transform all outgoing calls into incoming ones. If such a method could be discovered, then this would potentially give him the opportunity to make as many calls as he wanted to without using up his daytime minutes. The idea was simply this:

Instead of just calling someone directly, one could...

1. Compose a text message that contained the destination number.
2. Send this text message to the bOK number.
3. Receive an incoming call. Pick up and talk.

For example, assume that Amanda lives in Ottawa and would like to call her friend Jill in New York. Amanda creates a text message that contains nothing but Jill's phone number in New York, which is: 7185207734. She sends this text message to the bOK Ottawa number, which is: 6132552437. After about 5–10 seconds, both Amanda and Jill receive a local incoming call on their phones. When they pick up, they can start talking. In the process, Jill will not notice a difference in the way she receives the call. Amanda saves money and the friends can talk for as long as they want.

The advantage here was that one could initiate a call as an incoming one rather than an outgoing one and anyone with an unlimited incoming call plan, would not use up their minutes. The destination party would not notice a difference between a call initiated through bOK and one initiated through conventional means.

This all sounded very nice. However, there was a long way to go. Aydin spoke to his brother Amin at McGill about the idea and together they set forth the plan to complete the project. The process was long and arduous. Aydin and Amin decided

to bring two other engineers on board, an accomplished mathematician from Chicago also studying at McGill and a cousin in Toronto to help create the final product. After about three to four months of work, the first version of bOK was ready. The first version was really more a test than anything else.

The founders started using bOK on their own. They told a few friends but made sure to tell them not to spread the word. Almost overnight, about 150 people started using the system to make their phone calls. The traffic was too high for the platform in place at the time to handle. It was for this reason that the founders had to shut down the system and go back to the drawing board. Except, what they realized was that there was a lot of interest in the product that they had put together. This was very exciting and it was the beginning of their business endeavour. The founders realized that this could be turned into a very viable operation if a good business model were put together.

The business model originally conceived would allow users to call any location in North America or internationally for prices lower than what phone cards offered. bOK would be able to undercut phone card prices as they would be dealing directly with end consumers whereas phone card companies had to deal with many intermediaries before their product reached their target customers. This was a unique business model and everyone was quite excited about the possibilities.

### Alternatives

The bOK founding team had to make a decision on what to do and it needed to act fast as things were changing rapidly around them. The truth was that bOK was late to market and this made things difficult. At the time, a few options came to mind:

1. Quit and try a new idea.
2. Tweak the idea to make bOK ahead of the game.
3. Obtain venture capital/angel funding.
4. Attempt to sell the product/firm.
5. Bring in a new CEO.
6. Quit all other engagements and focus on bOK full time.

The options were many and each required further analysis. Aydin wondered as CEO, which option he should choose? There may be no "right answer" in business, but some paths were better than others. And how would he go about implementing his decisions?

## C · H · A · P · T · E · R

# 4

## THE BUSINESS PLAN

*Madame, enclosed please find the novel you commissioned. It is in two volumes. If I had had more time I could have written it in one.*

Voltaire

### RESULTS EXPECTED

Upon completion of this chapter, you will be able to:

1. Utilize a business plan model proven and refined through years of use.
2. Determine what needs to be included in the plan, why, and for whom. Remember, the business plan (which is not the business!) is written for an intended audience.
3. Identify some of the pitfalls in the business plan preparation process and how to avoid these.
4. Appreciate what has to be done to develop and complete a business plan for your proposed venture.
5. See that a well-articulated business plan is an important part of the entrepreneurial process, not an end in itself.
6. Critically examine a business plan developed by a young entrepreneur to raise capital for Chide.it—a new crowdsourcing Internet venture.

RESULTS EXPECTED

### DEVELOPING THE BUSINESS PLAN

The business plan itself is the culmination of a usually lengthy, arduous, creative, and iterative process that, as we explored in Chapter 3 and the accompanying exercises, can transform a raw idea into a magnificent opportunity. The plan will carefully articulate the merits, requirements, risks, and potential rewards of the opportunity and how it will be seized. It will demonstrate how the *Four Anchors* noted below (and in the online exercises for Chapter 3) reveal themselves to the founders and investors by converting all the research, careful thought, and creative problem solving from the online Venture Opportunity Screening Exercises into a thorough plan. The business plan for a high potential venture reveals the business's ability to:

- *Create* or add significant value to a customer or end-user.
- *Solve* a significant problem, or meet a significant want or need for which someone will pay a premium.



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- **Have robust market, margin, and moneymaking characteristics:** large enough (\$50-plus million), high growth (20-plus percent), high margins (40-plus percent), strong and early free cash flow (recurring revenue, low assets, and working capital), high profit potential (10 to 15 percent after tax), and attractive realizable returns for investors (25 to 30 percent IRR).
- **Fit well with the founder(s) and management team at the time, in the marketplace, and with the risk-reward balance.**

The plan becomes the point of departure for prospective investors to begin their due diligence to ascertain potential and various risks of the venture: technology risks, market risks, management risks, competitive and strategic risks, and financial risks. Even if you do not intend to raise outside capital, this homework is vital. The collisions between founders and investors that occur during meetings, discussions, and investigations reveal a great deal to all parties and begin to set the code for their relationship and negotiations. Getting to know each other much more closely is a crucial part of the evaluation process. Everyone will be thinking: Are these intelligent people; can we work well with them during thick but especially thin times; are they creative; do they listen; can they add value to the venture; is this the right management; do I want them as business partners; are they honest; are we having fun yet? Recent research points to the important role that "storytelling" plays in securing funding.<sup>1</sup> Martin Martens of Concordia University, Jennifer Jennings, and Dev Jennings both of the University of Alberta discovered that effective narratives convey credible information to those that are in a position to invest.

The investors who can bring the most insight, know-how, and contacts to the venture, and thus add the greatest value, will reveal themselves as well. The most valuable investors will see weaknesses, even flaws, in how the market is viewed, the technology or service, the strategies, the proposed size and structure of the financing, and the team, and will propose strategies and people to correct these. If it is the right investor, it can make the difference between an average and a good or great venture.

### The Plan Is Obsolete at the Printer

The authors have argued for four decades that the plan is obsolete the instant it emerges from the printer. In today's fast-paced climate, **it is obsolete before it goes into the printer!** The pace of technological and information-age change, and the dynamism of the global marketplace, shorten the already brief life expectancy of any business plan. It is nearly impossible to find a year-old venture today that is identical in strategy, market focus, products or services, and team as the original business plan described.

### Work in Progress—Bent Knees Required

**In such a rapidly changing environment, flexibility and responsiveness become critical survival skills.** Developing an idea into a business, and articulating how this will be done via a business plan, **requires an open mind and "bent knees,"** along with clear focus, commitment, and determination.

The business plan should be thought of as a work in progress. Though it must be completed if you are trying to raise outside capital, attract key advisors, directors, team members, or the like, it can never be considered finished. And as Yuval Deutsch of York University and Thomas Ross of the University of British Columbia point out, having good reputable directors onboard allows a young firm to send a positive signal of high quality.<sup>2</sup> Like a cross-country flight plan, many unexpected changes can occur along the way: a thunderstorm, smoke-impaired visibility, fog, or powerful winds can develop. One has to be prepared to continually adjust course to minimize risk and ensure successful completion of the journey. Such risk-reward management is inherent in the business planning process.

### The Plan Is Not the Business

**Developing the business plan is one of the best ways to define the blueprint, strategy, resources, and people requirements for a new venture.** It is this document that focuses and communicates the founder's vision. The vast majority of INC.'s 500 fastest growing companies had business plans at the outset. Without a business plan, it is exceedingly difficult to raise capital from informal or formal investors.

Too often first-time entrepreneurs jump to a simplistic conclusion: All that is needed is a fat, polished, and enticing business plan and the business will automatically be successful. They confuse the plan with building the business. Some of the most impressive business plans never become great businesses. And some of the weakest plans lead to extraordinary businesses. Mitch Kapor's original business plan for Lotus Development Corporation, creator of the 1-2-3 spreadsheet, was a brief letter, some descriptions of the personal computer market, a description of nearly 10 separate products, a one-year monthly start-up budget, and a five-year goal of \$30 million in revenue, which would require about \$200,000 to \$300,000 in capital. Venture capital backers Sevin-Rosen basically discarded the plan, the strategy, the product mix, the capital requirements, the launch plan, and the vision for the venture's first five years. These venture capitalists concluded the opportunity was much bigger, that \$1 million of start-up capital was required, that the company would either be several hundred million dollars in revenue in five years, or would not be in business, even at \$30 million in sales. The first-mover advantage of a warp-speed launch strategy was vital, and the rocket needed to be lit. The rest is history. Lotus Development reached \$500 million in revenue in the first five years. Though the business plan called for sales of \$1 million the first year, actual sales were \$53 million. The following year, sales reached \$156 million. The company was later purchased by IBM for \$3.5 billion. But on the whole, evidence suggests that good business plans lead to prosperous businesses. According to Kevin Hindle of the Australian Graduate School of Entrepreneurship and Brent Mainprize of Royal Roads University: "With a good plan in hand, an entrepreneur should not let a lack of resources inhibit his or her pursuit of opportunity."<sup>3</sup>

The message here is two-edged. The odds can be shaped in your favour through the development of a business plan. But just because you have a plan does not mean the business will be an automatic success. Unless the fundamental opportunity is there, along with the requisite resources and team needed to pursue it, the best plan in the world won't make much difference. Some helpful tips in preparing a business plan are summarized in Exhibit 4.1.

### Some Tips from the Trenches

The most valuable lessons about preparing a business plan and raising venture capital come from entrepreneurs who have succeeded in these endeavours. Thomas Huseby, founder and head of SeaPoint Ventures, is a remarkable entrepreneur who has raised more than \$80 million of venture capital as CEO of two telecommunications start-up companies that subsequently became publicly traded. Consider the following wisdom gleaned from his own experience on both sides of the negotiating table: entrepreneur/CEO and venture capitalist.

#### RE: Venture Capitalists

- There are a lot of venture capitalists. Once you meet one you could end up meeting all 700-plus of them.
- Getting a "no" from venture capitalists is as hard as getting a "yes," qualify your targets and force others to say "no."
- Be vague about what other venture capitalists you are talking to.
- Don't ever meet with an associate or junior member twice without also meeting with a partner in that venture capital firm.

#### RE: The Plan

- Stress your business concept in the executive summary.
- The numbers don't matter; but the economics (e.g., value proposition and business model) really matter.
- Make the business plan look and feel good.

**EXHIBIT 4.1** Do's and Don'ts for Preparing a Business Plan**Do**

- Involve all of the management team in the preparation of the business plan.
- Make the plan logical, comprehensive, readable, and as short as possible.
- Demonstrate commitment to the venture by investing a significant amount of time and some money in preparing the plan.
- Articulate what the critical risks and assumptions are and how and why these are tolerable.
- Disclose and discuss any current or potential problems in the venture.
- Identify several alternative sources of financing.
- Spell out the proposed deal—how much for what ownership share—and how investors will win.
- Be creative in gaining the attention and interest of potential investors.
- Remember that the plan is not the business and that an ounce of can-do implementation is worth two pounds of planning.
- Accept orders and customers that will generate a positive cash flow, even if it means you have to postpone writing the plan.
- Know your targeted investor group (e.g., venture capitalist, angel investor, bank, or leasing company) and what they really want and what they dislike, and tailor your plan accordingly.
- Let realistic market and sales projections drive the assumptions underlying the financial spreadsheets, rather than the reverse.

**Don't**

- Have unnamed, mysterious people on the management team (e.g., a "Mr. G" who is currently a financial vice president with another firm and who will join you later).
- Make ambiguous, vague, or unsubstantiated statements, such as estimating sales on the basis of what the team would like to produce.
- Describe technical products or manufacturing processes using jargon or in a way that only an expert can understand, because this limits the usefulness of the plan.
- Spend money on developing fancy brochures, elaborate PowerPoint and Flash presentations, and other "sizzle"; instead, show the "steak."
- Waste time writing a plan when you could be closing sales and collecting cash.
- Assume you have a done deal when you have a handshake or verbal commitment but no money in the bank. (The deal is done when the cheque clears!)

- Prepare lots of copies of published articles, contracts, market studies, purchase orders, and the like.
- Prepare very detailed résumés and reference lists of key players in the venture.
- If you can't do the details, make sure you hire someone who can.

**RE: The Deal**

- Make sure your current investors are as desperate as you are.
- Create a market for your venture.
- Never say "no" to an offer price.
- Use a lawyer who is experienced at closing venture deals.
- Don't stop selling until the money is in the bank.
- Make it a challenge.
- Never lie.

**RE: The Fund-Raising Process**

- It is much harder than you ever thought it could be.
- You can last much longer than you ever thought you could.
- The venture capitalists have done this before and have to do this for the rest of their lives!

This is particularly valuable advice for any entrepreneur seeking outside capital and anticipating dealing with investors.<sup>4</sup>

What about the possible loss of critical members of your new ventures team? The Chide.it sample business plan (found at the end of this chapter) value proposition is based

heavily on the knowledge and skill found within key individuals. Shelley MacDougall of Acadia University and Deborah Hurst of Athabasca University point out that "knowledge-intensive businesses in the fast-moving high technology sector are dependent upon the creation and transfer of knowledge among skilled employees. Ironically, this critical feature of organizational success resides with employees who tend to be somewhat transient." MacDougall and Hurst identify how entrepreneurs can work to become adept at coping with these challenges by: (1) maintaining an environment that fosters creativity, thus encouraging employees to stay and (2) managing the departure of those that leave.<sup>5</sup>

Reaching that receptive audience is key; particularly, if the venture is pushing a product or service in a new realm. A certain amount of specific knowledge would be required to assess Chide.it's business model. Knowledge-based businesses in general may not be readily appreciated. Research by Gary Gorman of Memorial University of Newfoundland, Peter Rosa of the University of Edinburgh, and Alex Faseruk of Memorial University of Newfoundland examines how new knowledge-based ventures fare compared to ventures in traditional industries when it comes to external financing. The risk assessment practices of chartered banks and government agencies have modified traditional lending approaches to meet the needs of knowledge-based firms. Their findings show that specialized processes are only partially developed and still evolving to handle these new types of ventures. Those providing external financing very much learn during the course of the due diligence and the conclusion is that such lenders must be purposefully sought out!<sup>6</sup>

**How to Determine If Investors Can Add Value**

One of the most frequently missed opportunities in the entire process of developing a business plan and trying to convince outside investors to part with their cash is a consequence of sell-sell-sell! myopia by the founders. **Selling ability is one of the most common denominators among successful entrepreneurs.**

Too often, however, entrepreneurs—typically out of cash, or nearly so—become so obsessed with selling to prospective investors that they fail to ask great questions and do little serious listening. As a result, these founders learn very little from these prospects, even though they probably know a great deal about the technology, market, and competitors. After all, that is the investor's business.

**Entrepreneurs who not only succeed at developing a great business concept but also attract the right investors who can add a great deal of value to the venture through their experience, wisdom, and networks are usually very savvy listeners.** They use the opportunity, beyond presenting their plan and selling themselves, to carefully query prospective investors: You've seen our concept, our story, and our strategies, what have we missed? Where are we vulnerable? How would you knock us off? Who will knock us off? How would you modify our strategy? What would you do differently? Who do we need with us to make this succeed? What do you believe has to happen to make this highly successful? Be as blunt as you wish.

Two powerful forces are unleashed in this process. First, as a founder, you will begin to discern just how smart, knowledgeable, and, most important, creative the investors are about the proposed business. Do they have creative ideas, insights, and alternative ways of thinking about the opportunity and strategy that you and your team may not have thought of? This enables you, the founder, to ascertain just what value the investors might add to the venture and whether their approach to telling you and your team that you are "all wet" on certain things is acceptable. Would the relationship be likely to wear you out over time and demoralize you? In the process you will learn a great deal about your plan and the investors.

The second powerful force is the message implicitly sent to the investors when you make such genuine queries and listen, rather than become argumentative and defensive (which they may try to get you to do): We have given this our best shot. We are highly committed to our concept and believe we have the right strategy, but our minds are open. We listen; we learn; we have bent knees; we adapt and change when the evidence and ideas are compelling; we are not granite heads. Investors are much more likely to conclude that you are a founder and a team with which they can work.

## The Dehydrated Business Plan

A dehydrated business plan usually runs from four to 10 pages, but rarely more. It covers key points, such as those suggested for the executive summary in the business planning guide that follows. Essentially, such a plan documents the analysis of and information about the heart of the business opportunity, competitive advantages the company will enjoy, and creative insights that an entrepreneur often has.

Since it can usually be prepared in a few hours, it is preferred by entrepreneurs who find it difficult to find enough slack time while operating a business to write a complete plan. In many instances, investors prefer a dehydrated plan in the initial screening phase.

A dehydrated plan is not intended to be used exclusively in the process of raising or borrowing money; it can be a valuable compass to keep you on track. Consider it a map of the main battleground ahead, but remember that it will not provide the necessary details and tactics necessary to conduct the battle.

## Who Develops the Business Plan?

Consideration often is given to hiring an outside professional to prepare the business plan, so the management team can use its time to obtain financing and start the business.

There are compelling reasons why it is not a good idea to hire outside professionals. In the process of planning and of writing the business plan, the consequences of different strategies and tactics and the human and financial requirements for launching and building the venture can be examined, before it is too late. For example, one entrepreneur discovered, while preparing his business plan, that the major market for his biomedical product was in nursing homes, rather than in hospital emergency rooms, as he and his physician partner had previously assumed. This realization changed the focus of the marketing effort. Had he left the preparation to an outsider, this might not have been discovered or, at the very least, it is unlikely he would have had the same sense of confidence and commitment to the new strategy.

## Who is the Business Plan For?

Identifying and understanding the audience is important. Allan Riding, Deloitte Chair in the Management of Growth Enterprises at the University of Ottawa, notes, "I usually recommend multiple plans, varying according to the purpose. One business plan for VCs might stress the upside potential while a business plan for getting a loan might stress the value of the assets and the track record of the owner(s). Likewise, I would use an entirely different plan for managing day-to-day operations. So, my question back to the entrepreneur is always 'what is the purpose of this particular plan?' In my view the purpose should be stated right up front... along with a demonstration that the team and product have the vision and talent to make it all work!"

The sample business plan provided in this chapter, Chide.it, is intended for a venture capital audience that might provide an A round of risk capital. This business plan from the real world is not perfect and some confidential information has been omitted. The goal for this business plan was to open doors and get a dialogue started. The plan contains greater justification for projected revenue generation but far less detail on the expense side. Is this enough to scare off readers? Does the reader need greater explanation for payroll expenditures? Do the increases in rent seem justifiable? What about salary and server costs?

## A CLOSER LOOK AT THE WHAT

### The Relationship between Goals and Actions

Consider a team that is enthusiastic about an idea for a new business and has done a considerable amount of thinking and initial work evaluating the opportunity (such as thoroughly working through the Venture Opportunity Screening Exercises, found online at [www.mcgrawhill.ca/olc/timmons](http://www.mcgrawhill.ca/olc/timmons)). Team members believe the business they are considering has excellent market prospects and fits well with the skills, experience, personal goals, values, and aspirations of its lead entrepreneur and the management team. They now need to ask about the most significant risks and problems involved in launching the enterprise, the long-term profit prospects, and the future financing and cash flow requirements. The team must determine the demands of operating lead times, seasonality, facility location, marketing and pricing strategy needs, and so forth, so they can take action.

These questions now need to be answered convincingly with the evidence for them shown *in writing*. The planning and the development of such a business plan is neither quick nor easy. In fact, effective planning is a difficult process that demands time, discipline, commitment, dedication, and practice. However, it also can be stimulating and fun as innovative solutions and strategies to solve nagging problems are found.

The skills to write a business plan are not necessarily the ones needed to make a venture successful (although some of these skills are certainly useful). The best single point of departure for, and an anchor during, the planning process is the motto "Can Do," and is an apt one for planning and for making sure that a plan serves the very practical purpose for which it is intended.

Further, if a venture intends to use the business plan to raise capital, it is important for the team to do the planning and write the plan itself. Investors attach great importance to the quality of the management team *and* to their complete understanding of the business they are preparing to enter. Thus, investors want to be sure that what they see is what they get—that is, the team's analysis and understanding of the venture opportunity and its commitment to it. Investors usually correlate a team's ability to communicate the vision with their ability to make it a reality. They are going to invest in a team and a leader, not in a consultant. Nothing less will do, and anything less is usually obvious.

### Segmenting and Integrating Information

When planning and writing a business plan, it is necessary to organize information in a way that it can be managed and that is useful.

An effective way to organize information with the idea of developing a business plan is to segment the information into sections, such as the target market, the industry, the competition, the financial plan, and so on, and then integrate the information into a business plan.

This process works best if sections are discrete and the information within them digestible. Then the order in which sections are developed can vary, and different sections can be developed simultaneously. For example, since the heart and soul of a plan lies in the analysis of the market opportunity, of the competition, and of a resultant competitive strategy that can win, it is a good idea to start with these sections and integrate information along the way. Because the financial and operations aspects of the venture will be driven by the rate of growth and the magnitude and the specific substance of the market revenue plans, these can be developed later.

The information is then further integrated into the business plan. The executive summary is prepared last.

### Establishing Action Steps

The following steps, centred around actions to be taken, outline the process by which a business plan is written. These action steps are presented in the exercise found at the end of the chapter, "The Business Plan Guide."

- **Segmenting information.** An overall plan for the project, by section, needs to be devised and needs to include priorities—who is responsible for each section, the due date of a first draft, and the due date of a final draft.
- **Creating an overall schedule.** Next, create a more specific list of tasks, identify priorities and who is responsible for them. Determine when they will be started, and when they will be completed. This list needs to be as specific and detailed as possible. Tasks need to be broken down into the smallest possible component (e.g., a series of phone calls may be necessary before a trip). The list then needs to be examined for conflicts and lack of reality in time estimates. Peers and business associates can be asked to review the list for realism, timing, and priorities.
- **Creating an action calendar.** Tasks on the do list then need to be placed on a calendar. When the calendar is complete, the calendar needs to be re-examined for conflicts or lack of realism.
- **Doing the work and writing the plan.** The necessary work needs to be done and the plan written. Adjustments need to be made to the do list and the calendar, as necessary. As part of this process, it is important to have a plan reviewed by a lawyer to make sure it contains no misleading statements, unnecessary information, and caveats. The plan also needs to be reviewed by an objective outsider, such as an entrepreneurially minded executive who has significant profit and loss responsibility, or a venture capitalist who would not be a potential investor. No matter how good the lead entrepreneur and his or her team are in planning, there will be issues that they will overlook and certain aspects of the presentation that are inadequate or less than clear. A good reviewer also can act as a sounding board in the process of developing alternative solutions to problems and answers to questions investors are likely to ask.

## PREPARING A BUSINESS PLAN

### A Complete Business Plan

It may seem to an entrepreneur who has completed the online exercises for Chapter 3 and who has spent hours informally thinking and planning that jotting down a few things is all that needs to be done. However, there is a great difference between screening an opportunity and developing a business plan.

There are two important differences in the way these issues need to be addressed. First, a business plan can have two uses: (1) inducing someone to part with \$250,000 to \$2 million or more, and (2) guiding the policies and actions of the firm over a number of years. Therefore, strategies and statements need to be well thought out, unambiguous, and capable of being supported.

Another difference is that more detail is needed. (The exception to this is the dehydrated business plan discussed earlier in this chapter.) This means the team needs to spend more time gathering detailed data, interpreting it, and presenting it clearly. "Exploitation should begin based primarily on when an entrepreneur's ignorance has been sufficiently reduced through knowledge accumulation."<sup>8</sup> For example, for the purpose of screening an opportunity, it may be all right to note (if one cannot do any better) that the target market for a product is in the \$30 to \$60 million range and the market is growing over 10 percent per year. For planning an actual launch, this level of detail is not sufficient. The size range would need to be narrowed considerably; if it were not narrowed, those reading or using the plan would have little confidence in this critical number. And saying the target market is growing at over 10 percent is too vague. Does that mean the market grew at the stated rate between last year and the year before, or does it mean that the market grew on average by this amount over the past three years? Also, a statement phrased in terms of "over 10 percent" smacks of imprecision. The actual growth rate needs to be known and needs to be stated. Whether the rate will or will not remain the same, and why, needs to also be explained.

Preparing an effective business plan for a start-up can easily take 200 to 300 hours. Squeezing that amount of time into evenings and weekends can make the process stretch over three to 12 months.

A plan for a business expansion or for a situation such as a leveraged buyout typically takes half this effort because more is known about the business, including the market, its competition, financial and accounting information, and so on.

Exhibit 4.2 is a sample table of contents for a business plan. The information shown is included in most effective business plans and is a good framework to follow. Organizing the material into sections makes dealing with the information more manageable. Also, while the amount of detail and the order of presentation may vary for a particular venture

### EXHIBIT 4.2 Business Plan Table of Contents

I. EXECUTIVE SUMMARY	VII. MANUFACTURING AND OPERATIONS PLAN
Description of the Business Concept and the Business Opportunity and Strategy.	Operating Cycle.
Target Market and Projections.	Geographical Location.
Competitive Advantages.	Facilities and Improvements.
Costs.	Strategy and Plans.
Sustainability.	Regulatory and Legal Issues.
The Team.	VIII. MANAGEMENT TEAM
The Offering.	Organization.
II. THE INDUSTRY AND THE COMPANY AND ITS PRODUCT(S) OR SERVICE(S)	Key Management Personnel.
The Industry.	Management Compensation and Ownership.
The Company and the Concept.	Other Investors.
The Product(s) or Service(s).	Employment and Other Agreements and Stock Option and Bonus Plans.
III. MARKET RESEARCH AND ANALYSIS	Board of Directors.
Customers.	Other Shareholders, Rights, and Restrictions.
Market Size and Trends.	Supporting Professional Advisors and Services.
Competition and Competitive Edges.	IX. OVERALL SCHEDULE
Estimated Market Share and Sales.	X. CRITICAL RISKS, PROBLEMS, AND ASSUMPTIONS
Ongoing Market Evaluation.	XI. THE FINANCIAL PLAN
IV. THE ECONOMICS OF THE BUSINESS	Actual Income Statements and Balance Sheets.
Gross and Operating Margins.	Pro Forma Income Statements.
Profit Potential and Durability.	Pro Forma Balance Sheets.
Fixed, Variable, and Semi-variable Costs.	Pro Forma Cash Flow Analysis.
Months to Breakeven.	Breakeven Chart and Calculation.
Months to Reach Positive Cash Flow.	Cost Control.
V. MARKETING PLAN	Highlights.
Overall Marketing Strategy.	XII. PROPOSED COMPANY OFFERING
Pricing.	Desired Financing.
Sales Tactics.	Offering.
Service and Warranty Policies.	Capitalization.
Advertising and Promotion.	Use of Funds.
Distribution.	Investor's Return.
VI. DESIGN AND DEVELOPMENT PLANS	XIII. APPENDICES
Development Status and Tasks.	
Difficulties and Risks.	
Product Improvement and New Products.	
Costs.	
Proprietary Issues.	

according to its circumstances, most effective business plans contain this information in some form. (The amount of detail and the order in which information is presented is important. These can vary for each particular situation and will depend upon the purpose of the plan and the age and stage of the venture, among other factors.)

### A Final Checklist\*

This list will help you allocate your time and maintain your focus!  
These points will also be important as you prepare for an oral presentation of your business plan.

#### Make Your Point Quickly and Give Hierarchy to Your Data—The Details Matter!

- ✓ Hook the readers, especially in the executive summary, by having a compelling opportunity where you can:
  - Identify a need or opportunity in a large and growing market.
  - Conceptualize a business that will fill that need, or take advantage of that opportunity.
  - Demonstrate that you have the know-how and the team to effectively build a profitable and sustainable business (or identify how you will create such a team).
- ✓ Prioritize the points you are making into three categories:
  - Essential—without this the plan makes no sense.
  - Good to know—directly supports and gives context to your essential points.
  - Interesting—provides a higher level of understanding of market dynamics, industry, etc., but may not relate directly to the nuts and bolts of your business plan. Interesting information should be relegated to the appendix so it doesn't get in the way of the reader.
- ✓ Articulate the size of your market: who are your customers, why they will purchase your product or service, how much they will buy at what price.
- ✓ Include evidence of customers—this will increase your credibility.
- ✓ Discuss the competition, and why the customer will buy your product or service versus the alternatives.
- ✓ Articulate your marketing strategy. How will customers become aware of your product and service, and how will you communicate the benefits?
- ✓ Be specific when discussing your team. Articulate what relevant experience each brings to the business. If you can't identify key managers, you should outline the type of experience you want and a plan for recruiting that person.
- ✓ Edit for the details—clarity and typos—a sloppy presentation says a lot!

\* The authors are grateful to Greg White of Chicago Venture Partners who developed this list and to longtime friend and entrepreneur Frederic Alper for sharing this with us.

## INTERNET IMPACT: OPPORTUNITY

### Small Business Commerce

An eBay-commissioned telephone survey of companies with less than 100 full-time employees consisted of two sampling components: a random sample of 200 businesses that fit the target criteria, and a random sample of 200 similar businesses that had, in addition, used eBay for purchasing in the past 12 months.

Fifty-one percent of the respondents indicated that the Internet had improved their profitability, and 58 percent said the medium had helped their businesses to grow or expand.

Fully one-third of the participants in the survey sold goods and services online, and 15 percent said the Internet was essential to their survival.

Not surprisingly, survey participants themselves were e-commerce consumers: 54 percent said that they've purchased computers and office technology online, 48 percent have acquired capital equipment and supplies, and 21 percent bought office furnishings. One-third purchased inventory to resell online and 59 percent used the Internet to purchase other business-related goods.

### Chapter Summary

1. The business plan is more of a process and work in progress than an end in itself.
2. Given today's pace of change in all areas affecting an enterprise, the plan is obsolete the moment it emerges from the printer.
3. The business plan is a blueprint and flight plan for a journey that converts ideas into opportunities, articulates and manages risks and rewards, and articulates the likely flight path and timing for a venture.
4. The numbers in a business plan don't matter, but the economics of the business model and value proposition matter enormously.
5. The plan is not the business; some of the most successful ventures were launched without a formal business plan or with one that would be considered weak or flawed.
6. Preparing and presenting the plan to prospective investors is one of the best ways for the team to have a trial marriage, to learn about the venture strategy, and to determine who can add the greatest value.
7. The dehydrated business plan can be a valuable shortcut in the process of creating, shaping, and moulding an idea into a business.

### Study Questions

1. What is a business plan, for whom is it prepared, and why?
2. Why not hire someone else to write your business plan?
3. How is the plan used by potential investors, and what are the four anchors they are attempting to validate?
4. Please explain the expression: The numbers in the plan don't matter.
5. How can entrepreneurs use the business plan process to identify the best team members, directors, and value-added investors?

### Mind Stretchers Have you considered?

1. Under what conditions and circumstances is it not to your advantage to prepare a business plan?
2. Some of the most valuable critiques and inputs on your venture will come from outside your team. Who else should review your plan; who knows the industry/market/technology/competitors?
3. A good friend offers you a look at a business plan. You are a director of a company that is a potential competitor of the venture proposed in the plan. What would you do?

## EXERCISE The Business Plan Guide

### An Exercise and Framework

This Business Plan Guide follows the order of presentation outlined in Exhibit 4.2. Originally developed by Leonard Smollen and Brian Haslett, based on more than 30 years of observing and working with entrepreneurs and actually preparing and evaluating hundreds of plans, it is intended to make this challenging task easier.

There is no single best way to write a business plan; the task will evolve in a way that suits you and your situation. While there are many ways to approach the preparation for and writing of a business plan, it is recommended that you begin with the market research and analysis sections. In writing your plan, you should remember that although one of the important functions of a business plan is to influence investors, rather than preparing a fancy presentation, you and your team need to prove to yourselves and others that your opportunity is worth pursuing, and to construct the means by which you will do it. Gathering information, making hard decisions, and developing plans comes first.

The Business Plan Guide shows how to present information succinctly and in a format acceptable to investors. While it is useful to keep in mind who your audience is and that information not clearly presented will most likely not be used, it also is important not to be concerned just with format. The Business Plan Guide indicates specific issues and shows you what needs to be included in a business plan and why.

You may feel as though you have seen much of this before. You should. The guide is based on the analytical framework

described in the book and builds upon the online Venture Opportunity Screening Exercises. If you have not completed these exercises, it is helpful to do so before proceeding. The Business Plan Guide will allow you to draw on data and analysis developed in the Venture Opportunity Screening Exercises as you prepare your business plan.

As you proceed through the Business Plan Guide, remember that statements need to be supported with data whenever possible. Note also that it is sometimes easier to present data in graphic, visual form. Include the source of all data, the methods and/or assumptions used, and the credentials of people doing research. If data on which a statement is based are available elsewhere in the plan, be sure to reference where.

Remember that the Business Plan Guide is just that—a guide. It is intended to be applicable to a wide range of product and service businesses. For any particular industry or market, certain critical issues are unique to that industry or market. In the chemical industry, for example, some special issues of significance currently exist, such as increasingly strict regulations at all levels of government concerning the use of chemical products and the operation of processes, diminishing viability of the high capital cost, special-purpose chemical processing plants serving a narrow market, and long delivery times of processing equipment. In the electronics industry, the special issues may be the future availability and price of new kinds of large-scale integrated circuits. Common sense should rule in applying the guide to your specific venture.

### The Guide

Name: \_\_\_\_\_

Venture: \_\_\_\_\_

Date: \_\_\_\_\_

#### Step 1 Segment Information into Key Sections

Establish priorities for each section, including individual responsibilities, due dates for drafts and the final version. When you segment your information, it is vital to keep in mind that the plan needs to be logically integrated and that information should be consistent. Because the market opportunity section is the heart and soul of the plan, it may be the most difficult section to write; but it is best to assign it a high priority and to begin working there first. Remember to include such tasks as printing in the list.

Section or Task	Priority	Person(s) Responsible	Date to Begin	First Draft Due Date	Date Completed or Final Version Due Date

#### Step 2 List Tasks That Need to Be Completed

Devise an overall schedule for preparing the plan by assigning priority, persons responsible, and due dates to each task necessary to complete the plan. It is helpful to break larger items (fieldwork to gather customer and competitor intelligence, trade show visits, etc.) into small, more manageable components (such as phone calls required before a trip can be taken) and to include the components as a task. *Be as specific as possible.*

Task	Priority	Person Responsible	Date to Begin	Date of Completion

#### Step 3 Combine the List of Segments and the List of Tasks to Create a Calendar

In combining your lists, consider if anything has been omitted and whether you have been realistic in what people can do, when they can do it, what needs to be done, and so forth. To create your calendar, place an X in the week when the task is to be started and an X in the week it is to be completed and then connect the Xs. When you have placed all tasks on the calendar, look carefully again for conflicts or lack of realism. In particular, evaluate if team members are overscheduled.

Task	Week														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15

**Step 4 A Framework to Develop and Write a Business Plan**

As has been discussed, the framework below follows the order of presentation of the table of contents shown in Exhibit 4.2. While preparing your own plan, you will most likely want to consider sections in a different order from the one presented in this exhibit. (Also, when you integrate your sections into your final plan, you may choose to present material somewhat differently.)

**Cover**

The cover page includes the name of the company, its address, its telephone number, the date, and the securities offered. Usually, the name, address, telephone number, and the date are centred at the top of the page and the securities offered are listed at the bottom. Also suggested on the cover page at the bottom is the following text:

This business plan has been submitted on a confidential basis solely for the benefit of selected, highly qualified investors in connection with the private placement of the above securities and is not for use by any other persons. Neither may it be reproduced, stored, or copied in any form. By accepting delivery of this plan, the recipient agrees to return this copy to the corporation at the address listed above if the recipient does not undertake to subscribe to the offering. Do not copy, fax, reproduce, or distribute without permission.

**Table of Contents**

Included in the table of contents is a list of the sections, subsections, and any appendices, and the pages on which they can be found. (See Exhibit 4.2.)

**I. Executive Summary** The first section in the body of the business plan is usually an executive summary. The summary is usually short and concise (one or two pages). The summary articulates what the opportunity conditions are and why they exist, who will execute the opportunity and why they are capable of doing so, how the firm will gain entry and market penetration—it answers the questions we asked in Chapter 3: “For what reason does this venture exist and for whom?”

Essentially, the summary for your venture needs to mirror the criteria shown in Exhibit 3.7 and the Venture Opportunity Screening Exercises available at [www.mcgrawhill.ca/olc/timmons](http://www.mcgrawhill.ca/olc/timmons). This is your chance to clearly articulate how your business is durable and timely, and how it will create or add value to the buyer or end-user.

The summary is usually prepared after the other sections of the business plan are completed. As the other sections are drafted, it is helpful to note one or two key sentences, and some key facts and numbers from each.

The summary is important for those ventures trying to raise or borrow money. Many investors, bankers, managers, and other readers use the summary to determine quickly whether they find the venture of interest. Therefore, unless the summary is appealing and compelling, it may be the only section read, and you may never get the chance to make a presentation or discuss your business in person.

Leave plenty of time to prepare the summary. (Successful public speakers have been known to spend an hour of preparation for each minute of their speech.)

The executive summary usually contains a paragraph or two covering each of the following:

- A. *Description of the business concept and the business.* Describe the business concept for the business you are or will be in. Be sure the description of your concept explains how your product or service will fundamentally change the way customers currently do certain things. For example, Arthur Rock, the lead investor in Apple and Intel, has stated that he focuses on concepts that will change the way people live and/or work. You need to identify when the company was formed, what it will do, what is special or proprietary about its product, service, or technology, and so forth. Include summary information about any proprietary technology, trade secrets, or unique capabilities that give you an edge in the marketplace. If the company has existed for a few years, a brief summary of its size and progress is in order. Try to make your description 25 words or less, and briefly describe the specific product or service.
- B. *The opportunity and strategy.* Summarize what the opportunity is, why it is compelling, and the entry strategy planned to exploit it. Clearly state the main point or benefit you are addressing. This information may be presented as an outline of the key facts, conditions, competitors' vulnerabilities (“sleepiness,” sluggishness, poor service, etc.), industry trends (is it fragmented or emerging?), and other evidence and logic that define the opportunity. Note plans for growth and expansion beyond the entry products or services and into other market segments (such as international markets) as appropriate.
- C. *The target market and projections.* Identify and briefly explain the industry and market, who the primary customer groups are, how the product(s) or service(s) will be positioned, and how you plan to reach and service these groups. Include information about the structure of the market, the size and growth rate for the market segments or niches you are seeking, your unit and dollar sales estimates, your anticipated market share, the payback period for your customers, and your pricing strategy (including price versus performance/value/ benefits considerations).
- D. *The competitive advantages.* Indicate the significant competitive edges you enjoy or can create as a result of your innovative product, service, and strategy; advantages in lead time or barriers to entry; competitors' weaknesses and vulnerabilities; and other industry conditions.
- E. *Sustainability.* Discuss the social, economic, and environmental sustainability of your business model. Summarize the employment opportunities that your business is likely to create, and describe any plans for outsourcing or using offshore labour and how that might impact the community and your labour pool. Briefly describe any environmental issues related to your business with regard to resources, waste generation, and legislative compliance.
- F. *The team.* Summarize the relevant knowledge, experience, know-how, and skills of the lead entrepreneur and any team members, noting previous accomplishments, especially those involving profit and loss responsibility and general management and people management experience. Include significant information, such as the size of a division, project, or prior business with which the lead entrepreneur or a team member was the driving force.

- G. *The offering.* Briefly indicate the dollar amount of equity and/or debt financing needed, how much of the company you are prepared to offer for that financing, what principal use will be made of the capital, and how the investor, lender, or strategic partner will achieve its desired rate of return. Remember, your targeting resource provider has a well-defined appetite and you must understand the “Circle of Venture Capital Ecstasy” (Exhibit 3.1).

*Yoon?*  
**II. The Industry and the Company and Its Product(s) or Service(s)** A major area of consideration is the company, its concept for its product(s) and service(s), and its interface with the industry in which it will be competing. This is the context into which the marketing information, for example, fits. Information needs to include a description of the industry, a description of the concept, a description of your company, and a description of the product(s) or service(s) you will offer, the proprietary position of these product(s) or service(s), their potential advantages, and entry and growth strategy for the product(s) or service(s).

**A. The industry.**

- Present the current status and prospects for the industry in which the proposed business will operate. Be sure to consider industry structure.
- Discuss briefly market size, growth trends, and competitors.
- Discuss any new products or developments, new markets and customers, new requirements, new entrants and exits, and any other national or economic trends and factors that could affect the venture's business positively or negatively.
- Discuss the environmental profile of the industry. Consider energy requirements, supply chain factors, waste generation, and recycling capabilities. Outline any new green technologies or trends that may have an impact on this opportunity.

**B. The company and the concept.**

- Describe generally the concept of the business, what business your company is in or intends to enter, what product(s) or service(s) it will offer, and who are or will be its principal customers.
- By way of background, give the date your venture was incorporated and describe the identification and development of its products and the involvement of the company's principals in that development.
- If your company has been in business for several years and is seeking expansion financing, review its history and cite its prior sales and profit performance, and if your company has had setbacks or losses in prior years, discuss these and emphasize current and future efforts to prevent a recurrence of these difficulties and to improve your company's performance.

**C. The product(s) or service(s).**

- Describe in some detail each product or service to be sold.
- Discuss the application of the product or service and describe the primary end use as well as any significant secondary applications. Articulate how you will solve a problem, relieve pain, or provide a benefit or needed service.
- Describe the service or product delivery system.

- Emphasize any unique features of the product or service and how these will create or add significant value; also, highlight any differences between what is currently on the market and what you will offer that will account for your market penetration. Be sure to describe how value will be added and the payback period to the customer—that is, discuss how many months it will take for the customer to cover the initial purchase price of the product or service as a result of its time, cost, or productivity improvements.
  - Include a description of any possible drawbacks (including problems with obsolescence) of the product or service.
  - Define the present state of development of the product or service and how much time and money will be required to fully develop, test, and introduce the product or service. Provide a summary of the functional specifications and photographs, if available, of the product.
  - Discuss any head start you might have that would enable you to achieve a favoured or entrenched position in the industry.
  - Describe any features of the product or service that give it an “unfair” advantage over the competition. Describe any patents, trade secrets, or other proprietary features of the product or service.
  - Discuss any opportunities for the expansion of the product line or the development of related products or services. (Emphasize opportunities and explain how you will take advantage of them.)
- D. Entry and growth strategy.**
- Indicate key success variables in your marketing plan (e.g., an innovative product, timing advantage, or marketing approach) and your pricing, channel(s) of distribution, advertising, and promotion plans.
  - Summarize how fast you intend to grow and to what size during the first five years and your plans for growth beyond your initial product or service.
  - Show how the entry and growth strategy is derived from the opportunity and value-added or other competitive advantages, such as the weakness of competitors.
  - Discuss the overall environmental and social sustainability of your growth plan. Consider the effect on the community if the growth strategy involves offshore manufacturing or outsourced labour. Examine the potential environmental impact of your business as it grows.

**III. Market Research and Analysis** Information in this section needs to support the assertion that the venture can capture a substantial market in a growing industry and stand up to competition. Because of the importance of market analysis and the critical dependence of other parts of the plan on this information, you are advised to prepare this section of the business plan before any other. Take enough time to do this section very well and to check alternative sources of market data.

This section of the business plan is one of the most difficult to prepare, yet it is one of the most important. Other sections of the business plan depend on the market research and analysis presented here. For example, the predicted sales levels directly influence such factors as the size of the manufacturing operation, the marketing plan, and the amount of

debt and equity capital you will require. Most entrepreneurs seem to have great difficulty preparing and presenting market research and analyses that show that their ventures' sales estimates are sound and attainable.

#### A. Customers.

- Discuss who the customers for the product(s) or service(s) are or will be. Note that potential customers need to be classified by relatively homogeneous groups having common, identifiable characteristics (e.g., by major market segment). For example, an automotive part might be sold to manufacturers and to parts distributors supplying the replacement market, so the discussion needs to reflect two market segments.
- Show who and where the major purchasers for the product(s) or service(s) are in each market segment. Include national regions and foreign countries, as appropriate.
- Indicate whether customers are easily reached and receptive, how customers buy (wholesale, through manufacturers' representatives, etc.), where in their organizations buying decisions are made, and how long decisions take. Describe customers' purchasing processes, including the bases on which they make purchase decisions (e.g., price, quality, timing, delivery, training, service, personal contacts, or political pressures) and why they might change current purchasing decisions.
- List any orders, contracts, or letters of commitment that you have in hand. These are *the most powerful data* you can provide. List also any potential customers who have expressed an interest in the product(s) or service(s) and indicate why; also list any potential customers who have shown no interest in the proposed product or service and explain why they are not interested and explain what you will do to overcome negative customer reaction. Indicate how fast you believe your product or service will be accepted in the market.
- If you have an existing business, list your principal current customers and discuss the trends in your sales to them.

#### B. Market size and trends.

- Show for five years the size of the current total market and the share you will have, by market segment, and/or region, and/or country, for the product or service you will offer, in units, dollars, and potential profitability.
- Describe also the potential annual growth for at least three years of the total market for your product(s) or service(s) for each major customer group, region, or country, as appropriate.
- Discuss the major factors affecting market growth (e.g., industry trends, socioeconomic trends, government policy, environmental impacts, and population shifts) and review previous trends in the market. Any differences between past and projected annual growth rates need to be explained.

#### C. Competition and competitive edges.

- Make a realistic assessment of the strengths and weaknesses of competitors. Assess the substitute and/or alternative products and services and list the companies that supply them, both domestic and foreign, as appropriate.

- Compare competing and substitute products or services on the basis of market share, quality, price, performance, delivery, timing, service, warranties, and other pertinent features.
- Compare the fundamental value that is added or created by your product or service, in terms of economic benefits to the customer and to your competitors.
- Discuss the current advantages and disadvantages of these products and services and say why they are not meeting customer needs.
- Indicate any knowledge of competitors' actions that could lead you to new or improved products and an advantageous position. For example, discuss whether competitors are simply sluggish or nonresponsive or are asleep at the switch.
- Identify the strengths and weaknesses of the competing companies and determine and discuss each competitor's market share, sales, distribution methods, and production capabilities.
- Review the financial position, resources, costs, and profitability of the competition and their profit trend. Note that you can utilize Risk Management Association data for comparison.
- Indicate who are the service, pricing, performance, cost, and quality leaders. Discuss why any companies have entered or dropped out of the market in recent years.
- Discuss the three or four key competitors and why customers buy from them, and determine and discuss why customers leave them. Relate this to the basis for the purchase decision examined in Part IIIA.
- From what you know about the competitors' operations, explain why you think they are vulnerable and you can capture a share of their business. Discuss what makes you think it will be easy or difficult to compete with them. Discuss, in particular, your competitive advantages gained through such "unfair" advantage as patents.

#### D. Estimated market share and sales.

- Summarize what it is about your product(s) or service(s) that will make it saleable in the face of current and potential competition. Mention, especially, the fundamental value added or created by the product(s) or service(s).
- Identify any major customers (including international customers) who are willing to make, or who have already made, purchase commitments. Indicate the extent of those commitments, and why they were made. Discuss which customers could be major purchasers in future years and why.
- Based on your assessment of the advantages of your product or service, the market size and trends, customers, competition and their products, and the trends of sales in prior years, estimate the share of the market and the sales in units and dollars that you will acquire in each of the next three years. Remember to show assumptions used.
- Show how the growth of the company sales in units and its estimated market share are related to the growth of the industry, the customers, and the strengths and weaknesses of competitors. Remember, the assumptions used to estimate market share and sales need to be clearly stated.

- If yours is an existing business, also indicate the total market, your market share, and sales for two prior years.
- E. *Ongoing market evaluation.*
- Explain how you will continue to evaluate your target markets; assess customer needs and service; guide product improvement, pricing, and new product programs; plan for expansions of your production facility, and guide product/service pricing.

*Jase + Chris* **IV. The Economics of the Business** The economic and financial characteristics, including the apparent magnitude and durability of margins and profits generated, need to support the fundamental attractiveness of the opportunity. The underlying operating and cash conversion cycle of the business, the value chain, and so forth need to make sense in terms of the opportunity and strategies planned.

#### A. Gross and operating margins.

- Describe the magnitude of the gross margins (i.e., selling price less variable costs) and the operating margins for each of the product(s) and/or service(s) you are selling in the market niche(s) you plan to attack. Include results of your contribution analysis.

#### B. Profit potential and durability.

- Describe the magnitude and expected durability of the profit stream the business will generate—before and after taxes—and reference appropriate industry benchmarks, other competitive intelligence, or your own relevant experience.
- Address the issue of how perishable or durable the profit stream appears to be. Provide reasons why your profit stream is perishable or durable, such as barriers to entry you can create, your technological and market lead-time, and environmental sustainability, which in some cases can be a driver for cost reduction.

#### C. Fixed, variable, and semivariable costs.

- Provide a detailed summary of fixed, variable, and semivariable costs, in dollars and as percentages of total cost as appropriate, for the product or service you offer and the volume of purchases and sales upon which these are based.
- Show relevant industry benchmarks.

#### D. Months to breakeven.

- Given your entry strategy, marketing plan, and proposed financing, show how long it will take to reach a unit breakeven sales level.
- Note any significant stepwise changes in your breakeven that will occur as you grow and add substantial capacity.

#### E. Months to reach positive cash flow.

- Given the above strategy and assumptions, show when the venture will attain a positive cash flow.
- Show if and when you will run out of cash. Note where the detailed assumptions can be found.
- Note any significant stepwise changes in cash flow that will occur as you grow and add capacity.

*AI + JAS*

**V. Marketing Plan** The marketing plan describes how the sales projections will be attained. The marketing plan needs to detail the overall marketing strategy that will exploit the opportunity and your competitive advantages. Include a discussion of sales and service policies; pricing, distribution, promotion, and advertising strategies; and sales projections. The marketing plan needs to describe *what* is to be done, *how* it will be done, *when* it will be done, and *who* will do it.

#### A. Overall marketing strategy.

- Describe the specific marketing philosophy and strategy of the company, given the value chain and channels of distribution in the market niche(s) you are pursuing. Include, for example, a discussion of the kinds of customer groups that you already have orders from or that will be targeted for initial intensive selling effort and those targeted for later selling efforts; how specific potential customers in these groups will be identified and how they will be contacted; what features of the product or service, such as service, quality, price, delivery, warranty, or training, will be emphasized to generate sales; if any innovative or unusual marketing techniques will enhance customer acceptance, such as leasing where only sales were previously attempted; and so forth.
- Indicate whether the product(s) or service(s) will initially be introduced internationally, nationally, or regionally; explain why; and if appropriate, indicate any plans for extending sales at a later date.
- Discuss any seasonal trends that underlie the cash conversion cycle in the industry and what can be done to promote sales out of season.
- Describe any plans to obtain government contracts as a means of supporting product development costs and overhead.
- Describe any sustainability advantages you have or can develop, and how these aspects relate to building customer loyalty and community support for your product(s) or service(s).

#### B. Pricing.

- Discuss pricing strategy, including the prices to be charged for your product and service, and compare your pricing policy with those of your major competitors, including a brief discussion of payback (in months) to the customer.
- Discuss the gross profit margin between manufacturing and ultimate sales costs and indicate whether this margin is large enough to allow for distribution and sales, warranty, training, service, amortization of development and equipment costs, price competition, and so forth, and still allow a profit.
- Explain how the price you set will enable you (1) to get the product or service accepted, (2) to maintain and increase your market share in the face of competition, and (3) to produce profits.
- Justify your pricing strategy and differences between your prices and those for competitive or substitute products or services in terms of economic payback to the customer and value added through newness, quality, warranty, timing, performance, service, cost savings, efficiency, and the like.

- If your product is to be priced lower than those of the competition, explain how you will do this and maintain profitability (e.g., through greater value added via effectiveness in manufacturing and distribution, lower labour costs, lower material costs, lower overhead, or other cost component).
  - Discuss your pricing policy, including a discussion of the relationship of price, market share, and profits.
- C. *Sales tactics.*
- Describe the methods (e.g., own sales force, sales representatives, ready-made manufacturers' sales organizations, direct mail, or distributors) that will be used to make sales and distribute the product or service and both the initial plans and longer-range plans for a sales force. Include a discussion of any special requirements (e.g., refrigeration).
  - Discuss the value chain and the resulting margins to be given to retailers, distributors, wholesalers, and salespeople and any special policies regarding discounts, exclusive distribution rights, and so on, given to distributors or sales representatives and compare these to those given by your competition. (See the online Venture Opportunity Screening Exercises.)
  - Describe how distributors or sales representatives, if they are used, will be selected, when they will start to represent you, the areas they will cover and the head count of dealers and representatives by month, and the expected sales to be made by each.
  - If a direct sales force is to be used, indicate how it will be structured and at what rate (a head count) it will be built up; indicate if it is to replace a dealer or representative organization and, if so, when and how.
  - If direct mail, magazine, newspaper, or other media, telemarketing, or catalogue sales are to be used, indicate the specific channels or vehicles, costs (per 1,000), expected response rates, and so on. Discuss how these will be built up.
  - Show the sales expected per salesperson per year and what commission, incentive, and/or salary they are slated to receive, and compare these figures to the average for your industry.
  - Present a selling schedule and a sales budget that includes all marketing promotion and service costs.
- D. *Service and warranty policies.*
- If your company will offer a product that will require service, warranties, or training, indicate the importance of these to the customers' purchasing decisions and discuss your method of handling service problems.
  - Describe the kind and term of any warranties to be offered, whether service will be handled by company service people, agencies, dealers and distributors, or returns to the factory.
  - Indicate the proposed charge for service calls and whether service will be a profitable or breakeven operation.
  - Compare your service, warranty, and customer training policies and practices to those of your principal competitors.

E. *Advertising and promotion.*

- Describe the approaches the company will use to bring its product or service to the attention of prospective purchasers.
- For original equipment manufacturers and for manufacturers of industrial products, indicate the plans for trade show participation, trade magazine advertisements, direct mailings, the preparation of product sheets and promotional literature, and use of advertising agencies.
- For consumer products, indicate what kind of advertising and promotional campaign will introduce the product, including sales aids to dealers, trade shows, and so forth.
- Present a schedule and approximate costs of promotion and advertising (direct mail, telemarketing, catalogues, etc.), and discuss how these costs will be incurred.

F. *Distribution.*

- Describe the methods and channels of distribution you will employ. Discuss the availability and capacity of these channels.
- Indicate the sensitivity of shipping cost as a percent of the selling price.
- Note any special issues or problems that need to be resolved or present potential vulnerabilities.
- If international sales are involved, note how these sales will be handled, including distribution, shipping, insurance, credit, and collections.

**VI. Design and Development Plans** The nature and extent of any design and development work and the time and money required before a product or service is marketable need to be considered in detail. (Note that design and development costs are often underestimated.) Design and development might be the engineering work necessary to convert a laboratory prototype to a finished product; the design of special tooling; the work of an industrial designer to make a product more attractive and saleable; or the identification and organization of employees, equipment, and special techniques, such as equipment, new computer software, and skills required for computerized credit checking, to implement a service business.

A. *Development status and tasks.*

- Describe the current status of each product or service and explain what remains to be done to make it marketable.
- Describe briefly the competence or expertise that your company has or will require to complete this development.
- List any customers or end-users that are participating in the development, design, and/or testing of the product or service. Indicate results to date or when results are expected.

B. *Difficulties and risks.*

- Identify any major anticipated design and development problems and define approaches to their solution.
- Discuss the possible effect on the cost of design and development, on the time to market introduction, and so forth, of such problems.

C. *Product improvement and new products.*

- In addition to describing the development of the initial products, discuss any ongoing design and development work that is planned to keep the product(s) or service(s) that can be sold to the same group of customers. Discuss customers who have participated in these efforts and their reactions, and include any evidence that you may have.
- With regard to ongoing product development, outline any compliance issues relating to new, pending, or potential environmental legislation. Discuss any green technologies or production capabilities that could enhance sustainability.

D. *Costs.*

- Present and discuss the design and development budget, including costs of labour, materials, consulting fees, and so on.
- Discuss the impact on cash flow projections of underestimating this budget, including the impact of a 15 to 30 percent contingency.

E. *Proprietary issues.*

- Describe any patent, trademark, copyright, or intellectual property rights you own or are seeking.
- Describe any contractual rights or agreements that give you exclusivity or proprietary rights.
- Discuss the impact of any unresolved issues or existing or possible actions pending, such as disputed rights of ownership, relating to proprietary rights on timing and on any competitive edge you have assumed.

**VII. Manufacturing and Operations Plan** The manufacturing and operations plan needs to include such factors as plant location, the type of facilities needed, space requirements, capital equipment requirements, and labour force (both full- and part-time) requirements. For a manufacturing business, the manufacturing and operations plan needs to include policies on inventory control, purchasing, production control, and which parts of the product will be purchased and which operations will be performed by your workforce (called make-or-buy decisions). A service business may require particular attention to location (proximity to customers is generally a must), minimizing overhead, and obtaining competitive productivity from a labour force.

A. *Operating cycle.*

- Describe the lead/lag times that characterize the fundamental operating cycle in your business. (Include a graph similar to the one found in the online Venture Opportunity Screening Exercises.)
- Explain how any seasonal production loads will be handled without severe dislocation (e.g., by building to inventory or using part-time help in peak periods).

B. *Geographical location.*

- Describe the planned geographical location of the business. Include any location analysis, and so on, that you have done.
- Discuss any advantages or disadvantages of the site location in terms of labour (including labour availability,

whether workers are unionized, wage rates, and outsourcing), closeness to customers and/or suppliers, access to transportation, provincial and local taxes and laws (including zoning and environmental impact regulations), access to utilities (energy use and sustainability), and so forth.

C. *Facilities and improvements.*

- For an existing business, describe the facilities, including plant and office space, storage and land areas, special tooling, machinery, and other capital equipment currently used to conduct the company's business, and discuss whether these facilities are adequate and in compliance with health, safety, and environmental regulations. Discuss any economies of scale.
- For a start-up, describe how and when the necessary facilities to start production will be acquired.
- Discuss whether equipment and space will be leased or acquired (new or used) and indicate the costs and timing of such actions and how much of the proposed financing will be devoted to plant and equipment.
- Explain future equipment needs in the next three years.
- For start-ups expecting to outsource manufacturing, indicate the location and size of the firm, and discuss the advantages, risks, and monitoring regime.
- Discuss how and when, in the next three years, plant space and equipment will be expanded and capacities required by future sales projections and any plans to improve or add existing plant space. Discuss any environmental impacts related to those expansion requirements. If there are any plans to move the facility, outsource labour, or move production overseas, discuss the impact on the local community. Indicate the timing and cost of such acquisitions.

D. *Strategy and plans.*

- Describe the manufacturing processes involved in production of your product(s) and any decisions with respect to subcontracting of component parts, rather than complete in-house manufacture.
- Justify your proposed make-or-buy policy in terms of inventory financing, available labour skills, and other nontechnical questions, as well as production, cost, and capability issues.
- Discuss who potential subcontractors and/or suppliers are likely to be and any information about, or any surveys that have been made of, these subcontractors and suppliers.
- Present a production plan that shows cost/volume/inventory level information at various sales levels of operation with breakdowns of applicable material, labour, purchased components, and factory overhead.
- Describe your approach to quality control, production control, and inventory control; explain what quality control and inspection procedures the company will use to minimize service problems and associated customer dissatisfaction.
- Describe the environmental sustainability of your operations, including the activities of your subcontractors and suppliers.

E. *Regulatory and legal issues.*

- Discuss any relevant provincial, federal, or foreign regulatory requirements unique to your product, process, or service such as licences, zoning permits, health permits, and environmental approvals necessary to begin operation.
- Note any pending regulatory changes that can affect the nature of your opportunity and its timing.
- Discuss any legal or contractual obligations that are pertinent as well.

**VIII. Management Team** This section of the business plan includes a description of the functions that will need to be filled, a description of the key management personnel and their primary duties, an outline of the organizational structure for the venture, a description of the board of directors, a description of the ownership position of any other investors, and so forth. You need to present indications of commitment, such as the willingness of team members to initially accept modest salaries, and of the existence of the proper balance of technical, managerial, and business skills and experience in doing what is proposed.

A. *Organization.*

- Present the key management roles in the company and the individuals who will fill each position. (If the company is established and of sufficient size, an organization chart needs to be appended.)
- If it is not possible to fill each executive role with a full-time person without adding excessive overhead, indicate how these functions will be performed (e.g., using part-time specialists or consultants to perform some functions), who will perform them, and when they will be replaced by a full-time staff member.
- If any key individuals will not be on board at the start of the venture, indicate when they will join the company.
- Discuss any current or past situations where key management people have worked together that could indicate how their skills complement each other and result in an effective management team.

B. *Key management personnel.*

- For each key person, describe in detail career highlights, particularly relevant know-how, skills, and track record of accomplishments that demonstrate his or her ability to perform the assigned role. Include in your description sales and profitability achievements (budget size, number of subordinates, new product introductions, etc.) and other prior entrepreneurial or general management results.
- Describe the exact duties and responsibilities of each of the key members of the management team.
- Complete résumés for each key management member need to be included here or as an exhibit and need to stress relevant training, experience, and concrete accomplishments, such as profit and sales improvement, labour management success, manufacturing or technical achievements, and meeting budgets and schedules.

C. *Management compensation and ownership.*

- State the salary to be paid, the stock ownership planned, and the amount of equity investment (if any) of each key member of the management team.

- Compare the compensation of each key member to the salary he or she received at his or her last independent job.

D. *Other investors.*

- Describe here any other investors in your venture, the number and percentage of outstanding shares they own, when they were acquired, and at what price.

E. *Employment and other agreements and stock option and bonus plans.*

- Describe any existing or contemplated employment or other agreements with key members.
- Indicate any restrictions on stock and investing that affect ownership and disposition of stock.
- Describe any performance-dependent stock option or bonus plans.
- Summarize any incentive stock option or other stock ownership plans planned or in effect for key people and employees.

F. *Board of directors.*

- Discuss the company's philosophy about the size and composition of the board.
- Identify any proposed board members and include a one- or two-sentence statement of each member's background that shows what he or she can bring to the company.

G. *Other shareholders, rights, and restrictions.*

- Indicate any other shareholders in your company and any rights, restrictions, or obligations, such as notes or guarantees, associated with these. (If they have all been accounted for above, simply note that there are no others.)

H. *Supporting professional advisors and services.*

- Indicate the supporting services that will be required.
- Indicate the names and affiliations of the legal, accounting, advertising, consulting, and banking advisors selected for your venture and the services each will provide.

**IX. Overall Schedule** A schedule that shows the timing and interrelationship of the major events necessary to launch the venture and realize its objectives is an essential part of a business plan. The underlying cash conversion and operating cycle of the business will provide key inputs for the schedule. In addition to being a planning aid, by showing deadlines critical to a venture's success, a well-presented schedule can be extremely valuable in convincing potential investors that the management team is able to plan for venture growth in a way that recognizes obstacles and minimizes investor risk. Since the time to do things tends to be underestimated in most business plans, it is important to demonstrate that you have correctly estimated these amounts in determining the schedule. Create your schedule as follows:

1. Lay out (use a bar chart) the cash conversion cycle of the business for each product or service expected, the lead and elapsed times from an order to the purchase of raw materials, or inventory to shipping and collection.

2. Prepare a month-by-month schedule that shows the timing of product development, market planning, sales programs, production, and operations, and that includes sufficient detail to show the timing of the primary tasks required to accomplish an activity.
3. Show on the schedule the deadlines or milestones critical to the venture's success, such as:
  - Incorporation of the venture.
  - Completion of design and development.
  - Completion of prototypes.
  - Obtaining sales representatives.
  - Obtaining product display at trade shows.
  - Signing of distributors and dealers.
  - Ordering of materials in production quantities.
  - Starting of production or operation.
  - Receipt of first orders.
  - Delivery on first sale.
  - Receiving the first payment on accounts receivable.
4. Show on the schedule the "ramp up" of the number of management personnel, the number of production and operations personnel, and plant or equipment and their relation to the development of the business.
5. Discuss in a general way the activities most likely to cause a schedule slippage, what steps will be taken to correct such slippages, and the impact of schedule slippages on the venture's operation, especially its potential viability and capital needs.

**X. Critical Risks, Problems, and Assumptions** The development of a business has risks and problems, and the business plan invariably contains some implicit assumptions about them. You need to include a description of the risks and the consequences of adverse outcomes relating to your industry, your company and its personnel, your product's market appeal, and the timing and financing of your start-up. Be sure to discuss assumptions concerning sales projections, customer orders, and so forth. If the venture has anything that could be considered a fatal flaw, discuss why it is not. The discovery of any unstated negative factors by potential investors can undermine the credibility of the venture and endanger its financing. Be aware that most investors will read the section describing the management team first and then this section.

*Do not omit* this section. If you do, the reader will most likely come to one or more of the following conclusions:

1. You think he or she is incredibly naive or stupid, or both.
2. You hope to pull the wool over his or her eyes.
3. You do not have enough objectivity to recognize and deal with assumptions and problems.

Identifying and discussing the risks in your venture demonstrate your skills as a manager and increase the credibility of you and your venture with a venture capital investor or a private investor. Taking the initiative on the identification and discussion of risks helps you to demonstrate to the investor that you have thought about them and can handle them. Risks then tend not to loom as large black clouds in the investor's thinking about your venture.

1. Discuss assumptions and risks implicit in your plan.
2. Identify and discuss any major problems and other risks, such as:
  - Running out of cash *before* orders are secured.
  - Potential price cutting by competitors.
  - Any potentially unfavourable industry trends.
  - Design or manufacturing costs in excess of estimates.
  - Sales projections not achieved.
  - An unmet product development schedule.
  - Difficulties or long lead times encountered in the procurement of parts or raw materials.
  - Difficulties encountered in obtaining needed bank credit.
  - Larger-than-expected innovation and development costs.
  - Running out of cash *after* orders pour in.
3. Indicate what assumptions or potential problems and risks are most critical to the success of the venture, and describe your plans for minimizing the impact of unfavourable developments in each case.

### JAYE + CHRIS

**XI. The Financial Plan** The financial plan is basic to the evaluation of an investment opportunity and needs to represent your best estimates of financial requirements. The purpose of the financial plan is to indicate the venture's potential and to present a timetable for financial viability. It also can serve as an operating plan for financial management using financial benchmarks. In preparing the financial plan, you need to look creatively at your venture and consider alternative ways of launching or financing it.

As part of the financial plan, financial exhibits need to be prepared. To estimate *cash flow needs*, use cash-based, rather than an accrual-based, accounting (i.e., use a real-time cash flow analysis of expected receipts and disbursements). This analysis needs to cover three years, including current- and prior-year income statements and balance sheets, if applicable; profit and loss forecasts for three years; pro forma income statements and balance sheets; and a breakeven chart. On the appropriate exhibits, or in an attachment, assumptions behind such items as sales levels and growth, collections and payables periods, inventory requirements, cash balances, and cost of goods need to be specified. Your analysis of the operating and cash conversion cycle in the business will enable you to identify these critical assumptions.

Pro forma income statements are the plan-for-profit part of financial management and can indicate the potential financial feasibility of a new venture. Because usually the level of profits, particularly during the start-up years of a venture, will not be sufficient to finance operating asset needs, and because actual cash inflows do not always match the actual cash outflows on a short-term basis, a cash flow forecast indicating these conditions and enabling management to plan cash needs is recommended. Further, pro forma balance sheets are used to detail the assets required to support the projected level of operations and, through liabilities, to show how these assets are to be financed. The projected balance sheets can indicate if debt-to-equity ratios, working capital, current ratios, inventory turnover, and the like are within the acceptable limits required to justify future financings that are projected for the venture. Finally, a breakeven chart showing the level of sales and production that will cover all costs, including those costs that vary with production level and those that do not, is very useful.

- A. *Actual income statements and balance sheets.* For an existing business, prepare income statements and balance sheets for the current year and for the prior two years.
- B. *Pro forma income statements.*
- Using sales forecasts and the accompanying production or operations costs, prepare pro forma income statements for at least the first three years.
  - Fully discuss assumptions (e.g., the amount allowed for bad debts and discounts, or any assumptions made with respect to sales expenses or general and administrative costs being a fixed percentage of costs or sales) made in preparing the pro forma income statement and document them.
  - Draw on Section X of the business plan and highlight any major risks, such as the effect of a 20 percent reduction in sales from those projected or the adverse impact of having to climb a learning curve on the level of productivity over time, that could prevent the venture's sales and profit goals from being attained, plus the sensitivity of profits to these risks.
- C. *Pro forma balance sheets.* Prepare pro forma balance sheets semi-annually in the first year and at the end of each of the first three years of operation.
- D. *Pro forma cash flow analysis.*
- Project cash flows monthly for the first year of operation and quarterly for at least the next two years. Detail the amount and timing of expected cash inflows and outflows. Determine the need for and timing of additional financing and indicate peak requirements for working capital. Indicate how necessary additional financing is to be obtained, such as through equity financing, bank loans, or short-term lines of credit from banks, on what terms, and how it is to be repaid. Remember they are based on cash, not accrual, accounting.
  - Discuss assumptions, such as those made on the timing of collection of receivables, trade discounts given, terms of payments to vendors, planned salary and wage increases, anticipated increases in any operating expenses, seasonality characteristics of the business as they affect inventory requirements, inventory turnovers per year, capital equipment purchases, and so forth. Again, these are real time (i.e., cash), not accruals.
  - Discuss cash flow sensitivity to a variety of assumptions about business factors (e.g., possible changes in such crucial assumptions as an increase in the receivable collection period or a sales level lower than that forecasted).
- E. *Breakeven chart.*
- Calculate breakeven and prepare a chart that shows when breakeven will be reached and any stepwise changes in breakeven that may occur.
  - Discuss the breakeven shown for your venture and whether it will be easy or difficult to attain, including a discussion of the size of breakeven sales volume relative to projected total sales, the size of gross margins and price sensitivity, and how the breakeven point might be lowered in case the venture falls short of sales projections.
- F. *Cost control.* Describe how you will obtain information about report costs and how often, who will be responsible for the control of various cost elements, and how you will take action on budget overruns.
- G. *Highlights.* Highlight the important conclusions, including the maximum amount and timing of cash required, the amount of debt and equity needed, how fast any debts can be repaid, etc.
- XII. Proposed Company Offering** The purpose of this section of the plan is to indicate the amount of money that is being sought, the nature and amount of the securities offered to investors, a brief description of the uses that will be made of the capital raised, and a summary of how the investor is expected to achieve its targeted rate of return. It is recommended that you read the discussion about financing in Part IV of this book.
- The terms for financing your company that you propose here are the first steps in the negotiation process with those interested in investing, and it is very possible that your financing will involve different kinds of securities than originally proposed.
- A. *Desired financing.* Based on your real-time cash flow projections and your estimate of how much money is required over the next three years to carry out the development and/or expansion of your business as described, indicate how much of this capital requirement will be obtained by this offering and how much will be obtained via term loans and lines of credit.
- B. *Offering.*
- Describe the type (e.g., common stock, convertible debentures, debt with warrants, debt plus stock), unit price, and total amount of securities to be sold in this offering. If securities are not just common stock, indicate by type, interest, maturity, and conversion conditions.
  - Show the percentage of the company that the investors of this offering will hold after it is completed or after exercise of any stock conversion or purchase rights in the case of convertible debentures or warrants.
  - Securities sold through a private placement and that therefore are exempt from SEC registration should include the following statement in this part of the plan:
  - The shares being sold pursuant to this offering are restricted securities and may not be resold readily. The prospective investor should recognize that such securities might be restricted as to resale for an indefinite period of time. Each purchaser will be required to execute a Non-Distribution Agreement satisfactory in form to corporate counsel.
- C. *Capitalization.*
- Present in tabular form the current and proposed (post-offering) number of outstanding shares of common stock. Indicate any shares offered by key management people and show the number of shares that they will hold after completion of the proposed financing.
  - Indicate how many shares of your company's common stock will remain authorized but unissued after the offering and how many of these will be reserved for stock options for future key employees.
- D. *Use of funds.* Investors like to know how their money is going to be spent. Provide a brief description of how the capital raised will be used. Summarize as specifically as possible what amount will be used for such things as product design and development, capital equipment, marketing, and general working capital needs.

- E. *Investors' return.* Indicate how your valuation and proposed ownership shares will result in the desired rate of return for the investors you have targeted and what the likely harvest or exit mechanism (IPO, outright sale, merger, management buyout, etc.) will be.

**XIII. Appendices** Include pertinent information here that is too extensive for the body of the business plan but that is necessary (product specs or photos; lists of references, suppliers of critical components; special location factors, facilities, or technical analyses; reports from consultants or technical experts; and copies of any critical regulatory approval, licences, etc).

### Step 5 Integrate Sections

Integrate the discrete sections you have created into a coherent business plan that can be used for the purpose for which it was created.

### Step 6 Get Feedback

Once written, it is recommended that you get the plan reviewed. No matter how good you and your team are, you will most likely overlook issues and treat aspects of your venture in a manner that is less than clear. A good reviewer can give you the benefit of an outside objective evaluation. Your lawyer can make sure that there are no misleading statements in your plan and that it contains all the caveats and the like.

## CASE

## SCAVENGER ENERGY: FROM THE GROUND UP

### Preparation Questions

- With no significant assets and no track record as a CEO, can Raza Hasanie make it?
- What financing structure will satisfy investors?
- How much will Raza Hasanie have to give up?

On the kitchen counter of Raza Hasanie's Calgary home, there were a dozen neatly bound copies of a business plan, ready for distribution to prospective investors. Hasanie, a geologist, had developed the business concept while studying for his MBA.

The plan outlined an oil-and-gas opportunity that could exploit suspended wells to yield a 5 to 15 times return on investment, and called for roughly \$1 million in seed-capital funding. The business model was a common one for hundreds of small-scale companies and independent operators: Scavenger would bid on mineral rights for sites with intact wells, equipment, and infrastructure left over from previous drilling activities, and extract smaller deposits left behind by large-scale exploration and extraction operations. These bypassed opportunities weren't individually big enough to meet the investment hurdle rates set by large energy firms, but could offer excellent returns for a company ready to pursue many bypassed wells in parallel — precisely Scavenger's business model.

But there was a hitch: The company existed only in the pages of Hasanie's business plan. Scavenger Energy had no employees, no operations, and no customers. Its CEO, freshly graduated from business school, had no resources of his own to invest in the firm. In fact, Hasanie was still working a day job at IBM's geological software group. And while he was a skilled earth scientist, he had no experience leading a start-up company.

Hasanie needed to work his personal networks to get in front of investors. But even if he could find angels to pitch to, it would be a tough sell: The young entrepreneur would be asking investors to take a million-dollar gamble on an unproven founder with little to offer but some technical know-how and an idea.

### First Pitch

Hasanie's first calls were to a handful of well-connected supporters. While completing his MBA in Ontario, he pitched the Scavenger concept in a pair of business-plan competitions, netting him some \$15,000 in prize money and providing an introduction to two seasoned angel investors and an Ottawa venture capitalist. The VC provided Hasanie with introductions into a small circle of Ottawa investors, to whom Hasanie made his first pitch.

That pitch took place in the national capital during the summer of 2004. Not one potential investor could boast of any experience in the energy industry, but everyone's ears perked up when a particular phrase rose above the technical lingo: "5x to 15x returns."

The story they were being told was about overlooked opportunities. There were millions of barrels of oil left behind in the Alberta oilfields, Hasanie explained to his audience, ignored and all but forgotten by Canadian energy companies. Hasanie himself had exploited one of these wells while with a small Calgary firm, and turned the company's \$30,000 investment into \$300,000 in natural gas production.

It wasn't just dumb luck: With the right software and technical expertise, public-domain information could be used to zero in on only those wells with a high chance for hydrocarbon recovery. Hasanie did enjoy some good fortune too, however — because the oil and gas industry is built on high risks and stratospheric rewards, few energy-industry titans were eager to pick through the modest remains of shut-in wells when they had larger, more attractive opportunities to pursue.

This case was written by Lukas Neville, Ph.D. student, Queen's School of Business, and Professor Elspeth J. Murray, CIBC Teaching Fellow in Entrepreneurship, Queen's School of Business, Queen's University. This case was developed with the support of the CIBC Curriculum Development Fund at the Queen's Centre for Business Venturing, for purposes of classroom discussion.

The only people interested in these overlooked opportunities were independent operators and very small-scale companies, which would pursue wells individually and within certain geographical boundaries—the oilpatch version of a lifestyle business. Each individual well would ultimately yield under half a million dollars—enough to keep slow-growth individual operators comfortable, but far less than needed to attract the interest of the energy giants. By pursuing large numbers of these small opportunities, Hasanie hoped to develop a low-risk, high-margin business—profitable after the first operation, and reaching after-tax net annual income exceeding \$3.5 million by the third year.

The Ottawa investors followed up Hasanie's pitch with several rounds of meetings and due diligence. Their interest had been piqued, and by the end of the summer, they had informally committed \$500,000 in financing to launch Scavenger.

### Feedback

That half-million wouldn't be enough. The same summer, in parallel with his Ottawa meetings, Hasanie met with a number of Calgary oil-and-gas investors and consultants, hoping they'd validate his concept and maybe lead him to some industry "grey-hair" who would join his advisory board. Following a meeting with one energy-sector private equity lender, Hasanie dashed off an email to a former professor, a trusted advisor. "He's concerned that I'm only looking for \$500K," he typed. "He was thinking upwards of \$5 million would be needed. I'm not sure we need that much, but he did make some good points about the cost of delays or problems in the field. The first shut-in well I did with my previous company went flawlessly, so I hoped Scavenger would have similar luck. That might be a bit naive."

Scavenger's approach was incredibly economical, avoiding the immense costs of drilling, testing, and surface-rights negotiation usually borne by traditional exploration companies. "We're not even going after low-hanging fruit," Hasanie joked in his presentation. "This is picking up the berries off the ground." But Hasanie quickly discovered that everyone felt he needed more—whether it was oilpatch veterans saying \$5 million or his conservative advisors in Toronto, who suggested a minimum of \$2 million. Scavenger's expenses would come from its analysis process, land purchases, facility-use negotiations, and the cost of extraction. Using publicly available data, Scavenger would identify sites with the right mineral rights and infrastructure available, and then select those with a reasonably high recoverable amount of natural gas. With sites identified, they would bid on the land in an auction, negotiate usage rights for the facilities, and hire independent contractors to reopen the well. Commodity price increases could lead to volatility in labour markets and in auction prices for mineral rights. Moreover, it was entirely possible that problems with decades-old well equipment could push up costs. "I do need to take into consideration that field problems will ultimately occur," Hasanie wrote to his advisor, "and I should be pre-

pared to 'spend' my way out of trouble when needed." Hasanie worked in consultation with his advisors and experts to arrive at a more realistic target for his fundraising. After three rounds of revised financials, it was clear he would need to expand his financing round beyond his early supporters in Ottawa—and would need to be seeking some \$2 million in financing, with at least \$750,000 in the immediate term.

Hasani returned, hat in hand, to his alma mater. He met with prominent alumni over drinks at the storied National Club in Toronto and was reunited with one of the judges from his business-plan competition. That judge, a serial entrepreneur and angel investor himself, wanted to help: "What I wanted to do is to give the business a chance to succeed," he explains. "So I helped him get the right supporters with the right resources." With Hasanie ready to seek a larger and more complicated financing deal, he'd need top-notch legals. The B-plan judge introduced Hasanie to a senior partner and the chair of Stikeman Elliott, a white-shoe Toronto law firm. The partner agreed to help Hasanie with complimentary legal work.

Hasanie's new evangelist also helped introduce him to potential investors. Meeting at his alma mater's satellite office in downtown Toronto, Hasanie pitched to a host of high-profile business leaders, venture capitalists, and angel investors. They, too, were attracted by Scavenger's risk-and-reward profile. But they also had a range of serious concerns.

First, Hasanie had no "skin in the game"—he had sunk a few thousand dollars of B-plan prize money into registering his business and doing preliminary research, but the investors wanted to see more on the line for the young CEO. Hasanie noted to the investors that his family and close friends were all willing to invest, but the angels were not necessarily keen on that idea: It would secure founder commitment, but it would also add complexity and risk to the capitalization structure. The investors were concerned that a cluttered list of investors would make governance and the structure of an eventual exit more difficult.

Secondly, the investors were nervous about the lack of operational experience—Hasanie had never run a company, they noted. Lacking oil-and-gas experience themselves, they wanted a director from the energy industry, something Hasanie hadn't been able to secure.

Finally, there was a considerable challenge in terms of ownership and founder incentives. While there was interest on all sides to keep the founder happy and focused on growing the business, the angels couldn't justify giving the founder a fifth of the business simply for having the idea. They needed Hasanie to invest upfront—or find a way for him to earn his equity stake.

Hasanie, grappling with the feedback from investors, wrote again to his former professor to convey his concerns. "It looks like my ownership of the company is going to be significantly reduced from what I had expected," he confessed. "Once the investors and lawyers get their hands into the agreement, my stake is going to be pretty diluted."

## SAMPLE BUSINESS PLAN

**chide.it**  
empowering feedback

### I. EXECUTIVE SUMMARY

#### The Premise

Criticism is something that everyone loves to provide. The trouble is that sometimes criticism can be *constructive* (good) and other times it can be *baseless* (bad). Criticism, *if done correctly*, and most importantly, *constructively*, can prove to be tremendously beneficial in improving ideas, businesses, studies, philosophies, fashions, and an endless list of other areas.

#### The Problem

The problem is that in the real world, criticism and the process of providing constructive feedback is an *inefficient* and mostly *unproductive* phenomenon:

- **There is no way** to differentiate between constructive and baseless criticism.
- **There is no way** to tell if a criticism is good, proper, and popular.
- **There is no way** to freely and anonymously express one's own constructive feedback.
- **There is no way** to solicit "constructive feedback" from the community and organize that information.

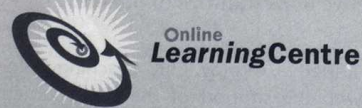
#### The Pitch

**IF** there were a way to:

- Tell the difference between a constructive criticism and a baseless one.
- Provide constructive feedback on a topic anonymously.
- Gather all constructive feedback on a topic in one location and sort it.
- Find out what the most popular and agreed upon constructive feedback is amongst experts in the community.

**THEN** this would have a tremendously positive impact on all topics being analyzed and constructively criticized. It would bring the power of the community together to improve ideas, philosophies, products, services, etc. from around the world.

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Find more great exercises and additional study tools on the Online Learning Centre at [www.mcgrawhill.ca/olc/timmons](http://www.mcgrawhill.ca/olc/timmons)

## The Solution

Chide.it is a comprehensive Web crowdsourcing tool that harnesses the power of the Internet community to gather, sort, and rank constructive criticism from people around the world. It is a community based on constructive feedback. It is a place where anyone can be a critic and where only the best critics rise in popularity. It is a community that is focused on "constructive feedback" and rewards those who provide it.

## Target Market

Chide.it is initially targeting tech savvy and analytical people that have strong opinions and make it a point to express these opinions. Bloggers are a major part of this category. Chide.it is also targeting tech savvy individuals/organizations that want to receive constructive feedback from the community.

## Current Status

Chide.it is currently a federally incorporated company with an office in Ottawa, Canada. Chide.it has a strong management team with a track record of building successful companies. The company has a strong development team of four and is committed to agile development.

The company has launched an alpha version of its product and is actively testing the product to prepare for the beta release. A current version of the product can be viewed at [www.chide.it/](http://www.chide.it/).

## What is the Business Model?

The Internet is becoming more and more cluttered every day. In order to get exposure, one must obtain prime real estate on popular Web sites. If one uploads a video onto YouTube today, chances are that the video will not get much attention since over 10,000 videos are uploaded onto YouTube daily. If a video, however, were listed on the front page of YouTube, it would indeed get attention from the community.

Chide.it intends to apply the YouTube analogy to its business model. If one wants to have his posting appear on the front page of chide.it, he has to bid for space on the front page. The highest bidder will have the most prominent placement on the front page of chide.it. With prominent placement, more people will view the topic that is posted, and more people will provide constructive feedback.

Chide.it intends to revenue share with the critics who provide the best constructive feedback, as determined by the community through voting and ranking. Through revenue sharing, chide.it will entice its group of expert critics to provide high quality constructive feedback.

Through ranking and voting by the community, a true crowdsourcing approach, chide.it will identify the top experts in a broad range of topics and categories. This community of expert critics will be a very valuable and differentiating asset for chide.it.

## Scalability/R&D/Open Source

Chide.it is currently using a new python-based Web platform called "Django." Django is an open source platform that allows for rapid and agile development while keeping in mind scalability at all times. Chide.it is a big supporter of open source. Open source has allowed chide.it to build faster and focus most of its efforts on its differentiating intellectual property (i.e., ranking algorithms and branding) and not on commodity technology.

## Financial Projections

Chide.it will have revenues of approximately \$200,000 in year 1, \$1.5 million in year 2, and \$6.25 million in year 3. The revenues will come primarily from organizations using the Web site as a crowdsourcing tool. Chide.it will also serve targeted advertisements on its Web site in order to add to its revenue streams.

## Competition

Because chide.it begins its life as a tool to facilitate the process of gaining constructive feedback with the help of the Internet community, it can be considered a crowdsourcing application. Crowdsourcing refers to the process of using the community to get a task done for free or by only paying for results. Crowdsourcing is a fairly new phenomenon that is gaining ground fast. Some of the most interesting and relevant crowdsourcing organizations in existence today are:

- Amazon Mechanical Turk
- InnoCentive

By specializing in constructive criticisms and providing tools to further the process, chide.it will establish itself in this niche.

## Management Team

### Aydin Mirzaee, Co-founder, CEO

- Founder and CEO of bOK Systems Corp.
- Design team leader at Nortel Networks in the Platform Network Management division of the company.
- Assistant to the executive director of the Student World Assembly.
- Graduated from the Electrical Engineering/Management program at the University of Ottawa with a near perfect GPA.

### Eli Fathi, Co-founder, Chief Strategist

- Founder and CEO of OrbitIQ, a business accelerator company with globally deployed channels to market.
- Founder of Telexis—acquired in May 2000, and became March Networks.
- Serves on a number of boards including, Ottawa Centre for Research and Innovation from 1999 to 2007, Ottawa Chamber of Commerce, and the Canadian Advanced Technology Association. Serves on the board of C-Com, a publicly traded company on the TSX-V.

### Peter Okulich, VP Operations

- Co-founder and vice president Global Operations (Administration, Finance, and Legal) of OrbitIQ.
- Over 30 years with both start-up and international companies: Peleton Photonic Systems, Telexis (March Networks), Mitel Corporation, Digital Equipment Canada, Leigh Instruments, and Consolidated Computer Inc.

## Advisors

### Peter Craig, Sales Advisor

- Has over 20 years of experience in leading teams in sales.
- Served as founder and managing director of Maxima Consulting Group and as president of Telax Systems Inc.

- Member of a 3,000 person sales force at Nortel, he regularly placed in the top 1 percent of sales leaders.
- Held senior sales and marketing positions, up to the vice president level, with firms such as AT&T, Scientific Atlanta, Paradyne, and Computer Task Group.

#### Dr. Alan Aitkin, Marketing Advisor

- From the University of Strathclyde, Scotland he holds a Ph.D. in applied physics.
- Held senior positions at Nortel and Mitel.
- In 1994, he received 1 of 10 IEEE Ottawa, 50th Anniversary "Pioneers in Technology" awards.
- Recently served as vice president in March Networks, a broadband applications company headed by Terry Matthews in Kanata, Ontario.

#### Dr. Sorin Cohn, Marketing Advisor

- Has over 30 years of global management experience.
- Co-founder and president of OrbitIQ.
- Co-founder and CTO of Wireless Multimedia Solutions.
- Held senior management positions with Nortel Networks and Bell Northern Research.
- Has several patents and has published over 50 journal articles.
- Holds a Ph.D. in electrical engineering from McMaster University, an M.Sc. in physics from the University of Calgary, and an M.Eng. from the Polytechnic Institute of Bucharest.

#### Peter Griffiths, Technology Advisor

- Has worked in the communications industry for over 30 years for Morganite Research, Tandata, Newbridge Networks, and March Networks.
- Holds qualifications in chemistry, electronics, electrical engineering, computing, and data processing; he is also a member of the Royal Society of Chemistry.

#### Development Team

- Amin Mirzaee
- Samuel Cormier-Iijima
- Marc-Andre Plouffe
- Andrew Pitt

#### The Ask

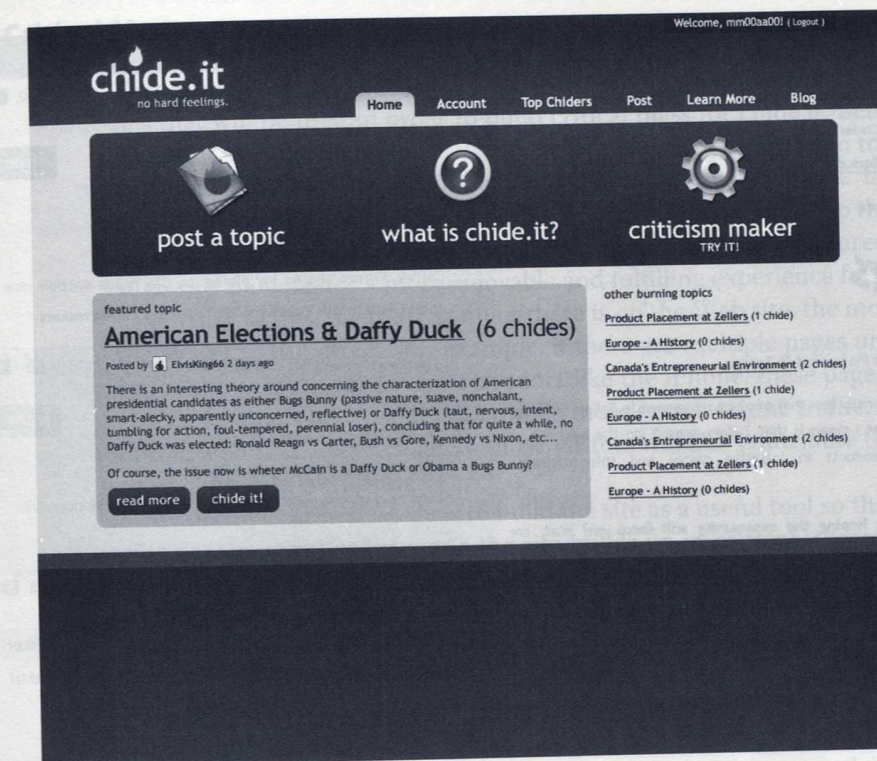
Chide.it is looking to raise \$1 million Series A round of financing, 6 to 12 months from now.

## II. WHAT IS CHIDE.IT?

Chide.it begins its life as a tool to facilitate the process of gathering, sorting, and understanding constructive feedback. Chide.it is a tool that anyone can use to gain constructive feedback from a given audience. The vision for chide.it is to develop a tool that people can easily use. As the content on the Web site increases, community features will be built around it. Eventually, chide.it will become a portal with many different verticals (business, health, science, philosophy, products, services, etc.). Each of the verticals will contain a wealth of information making chide.it a Wikipedia (user generated encyclopedia) of constructive feedback from topics around the world.

At the same time, through ranking and voting, chide.it will be able to identify experts in each of the verticals on the Web site. These experts will be a tremendous asset to chide.it.

TABLE 1 Chide.it Homepage



The opinions and feedback of these critics is what will drive marketers to use the Web site and the community surrounding it to conduct focus groups and gain market feedback.

As chide.it develops as a community, the top ranking critics will establish a place for themselves on the Web site and gain celebrity status. Other users can become fans of the celebrity critics and follow the content that they produce. These VIP users will have the ability to develop reputations on chide.it that will make them first in line for private focus groups conducted on the Web site (as described in the "business model" section of this document) for which they will be paid—a true example of crowdsourcing.

#### What Makes Chide.it Different from Other Web sites?

It is true indeed that there are many Web sites on the Internet that give users the option to comment and even vote on the best comments. Chide.it is building a tool that will do much more than this and will focus on building a niche instrument with features that will facilitate the process of providing "constructive" feedback. Most Web sites out there will give users a "blank textbox" to provide comments/suggestions. The trouble with this approach is that it is very difficult to separate and categorize content that is generated by the users.

The analogy to this is the concept of a focus group with a moderator. In focus groups, the purpose of the moderator is to guide the participants by asking specific questions and preventing them from sidetracking. Chide.it as a tool acts like the moderator in a focus group and asks the right questions to get the right type of feedback.

Chide.it's main focus is not on what is good and what is bad. Chide.it takes things one step further by asking users the correct questions to determine how to improve things. Further to this, depending on how people answer questions, chide.it will sort the incoming feedback so that the person who is seeking the feedback can properly parse through all the incoming information.

**TABLE 2** Basic Sample

The screenshot shows a post on chide.it. The post is titled "Product Placement at Zellers" and was posted 1 week, 2 days ago by user cuzican54. The post text discusses the placement of Zellers products in their stores. Below the post, there are two comments. The first comment, by user sciyoshi, praises the clothing section. The second comment, by user cuzican54, provides a "solution" suggesting coffee filters should be placed in the "foods" section and coffee makers in the "home" section. The interface includes buttons for "hide", "praise", and "neither".

**How Does it Work?**

There are basically three simple steps involved in using chide.it as a tool:

1. **Post a Topic:** Users can post a fairly comprehensive topic on the Web site, which can include formatting, videos and images. In this post they can describe all the issues that they'd like to address.
2. **Invite Relevant Parties:** Once a topic has been created, users can invite a list of people that they believe may be interested in critiquing the topic that was posted.
3. **Start Chiding:** When the originator of the post, the parties that were invited to the post, or even the general community comes to the Web site, they will have the chance to use chide.it to provide constructive feedback.

**What is the Development Approach?**

Chide.it believes in iteration through customer feedback. The team will continue to build new features and tweak what is currently on the Web site based on feedback that it gets from its userbase. Chide.it has a very short micro release cycle (three weeks) and also has a major goal four times a year.

**III. MARKETING TACTICS AND PRODUCT FEATURES**

**How to Gain Critical Mass**

This section focuses on some of the features that will be developed and some of the tactics that will be used in order to build critical mass for chide.it. Before going through the details, it is important to note that the chide.it strategy is to begin to offer itself as a useful tool for soliciting, gathering, and sorting constructive feedback. If this is accomplished well, more people will use the site as a tool and as a result build up the content available on the site. Once the site has enough content, more community features shall be built into the Web site allowing for a more enjoyable and fulfilling experience for users.

Further to this, the more content there is on the Web site, the more search engine leads the Web site can attain. For example, if there are multiple pages on the Web site providing constructive feedback for a product like the iPhone, these pages will appear in search engine results. This in turn will bring in more search engine traffic. As more visitors come to the Web site, a percentage of those visitors will also contribute to the Web site and the cycle continues to repeat.

In summary, the strategy is to build the site as a useful tool so that people use it to provide constructive feedback. As the site builds up in content, through search engines and other links throughout the Web, more people will visit chide.it and produce more content. As the Web site becomes larger, more community features will be provided to keep the user's experience enjoyable and entice visitors to return.

**Is This a Proven and Tested Concept?** Absolutely. Successful Web sites such as Meemix.com (a network based on music) and Shopify.com (a shopping network) both began as niche tools and then built a community around those tools. The approach has been very successful for both companies. Aydin Mirzaee (co-founder of chide.it) is good friends with the CEOs of both companies and with their advice and help will lead the same strategy at chide.it.

The following are some of the features that will be built into the Web site to encourage the initial users to visit and use chide.it as a tool.

**Blog Post-Back**

As mentioned previously, bloggers represent a good market to be introduced to chide.it. Bloggers not only are a part of the target market that the company is trying to reach, but they also have an audience that follows them. If chide.it is able to woo the bloggers, others will follow. Bloggers will help create the initial content on the Web site and this in itself will lead to a better experience for all visitors. Further to this, if bloggers like chide.it as a tool, they will write about it and their visitors will read what they wrote, which will lead a percentage of those visitors to come to the Web site.

If blogs are analyzed closely, one will realize that one of the common things that all bloggers do is review products, events, services, etc. and write about them. Since chide.it is a tool to review and criticize, it is something that bloggers can utilize in order to create their reviews, point out flaws, and supply constructive feedback assuming two things:

1. Chide.it really is a great tool that makes the process of writing a review and providing constructive feedback easier and more efficient than writing something without any aids.
2. The blogger can take credit for the work that he has done and drive traffic to his own blog by using chide.it.

**So, How is This Accomplished?** Chide.it uses agile development and frequent release cycles in order put out a product and tweak it until it fulfills the needs of the customer. Aydin Mirzaee (co-founder and CEO) of chide.it is a blogger and also keeps close ties with other bloggers in the tech community. This will ensure that feedback from the blogging community drives the features that are built into chide.it.

When a blogger uses chide.it to create a review, he will have the option to automatically post the review to his blog. Therefore, not only does he get the benefit of using chide.it as a tool to create his review, but also he is able to post this review back to his blog automatically. This process is actually mutually beneficial for chide.it and the bloggers.

Chide.it benefits by having the community create content on its Web site. Furthermore, because the chide.it reviews that are created also get posted to the bloggers' own Web sites, this leaves a trail back to chide.it. Increasing traffic to chide.it is highly dependent on the number of external links to the Web site.

When a chide.it review is automatically posted on someone's blog, there will be a "created by chide.it" logo on the bottom of the post that will link back to chide.it. Not only does this serve as a cookie crumb back to the chide.it Web site, but it also helps increase chide.it's search engine ranking.

**How will Chide.it Market to Bloggers?** Aydin Mirzaee (co-founder), Marc-Andre Plouffe (designer), and Samuel Cormier-Iijima (developer) are all members of the chide.it team that currently blog and have an active blogging network. All three members will use the chide.it widget on their blogs and ask that their close blogger friends also put the widget on a trial basis on their blogs. These initial trials will serve the purpose of testing the widget so that it can be improved, and most importantly, set precedence for its use. With precedence, other bloggers will be contacted through email and other social networking means to begin to use the tool. Every time a blogger uses chide.it in this way, more of the readers of that blog (and other bloggers) will become aware of chide.it.

### Chide.it Widgets

Many Web sites or companies may want to get feedback from their users and visitors. They can use chide.it to create a special page (a "chide.it lounge") where they can gather all of this feedback.

Once they have created this page, they can put a chide.it widget on their Web site where they can solicit feedback from those that visit the Web site. This again is extremely advantageous to chide.it since anyone that ends up providing feedback through the widget will sign up for chide.it and try out the service. Further to this, the number of linkbacks that are attained through the process is also very useful in terms of search engine ranking and optimization for chide.it.

In summary, chide.it will allow people/organizations to create a "lounge" to obtain constructive feedback from the community. Links to these "lounges" can be placed in the form of a widget on external Web sites in order to solicit feedback in one place, on specified topics, while sorting and ranking the feedback at the same time.

**How will Chide.it Market its Widgets?** Chide.it will initially use the network of friends and colleagues of its founding team to try out the widget on their Web site. The feedback from this group will be used to improve the widget and process. Chide.it will then use this precedence to convince other Web site owners and organizations to also use this widget. Chide.it will contact these publishers directly via email/telephone and most importantly, utilize current social networks such as LinkedIn, Facebook, Twitter, and Bebo to contact this group of people.

### Chide.it @ Events

It is very common that at the end of an event/gathering, the host will provide the attendants with a way to provide feedback. Sometimes the host will mention an email address that the attendants can use to send their feedback. Other times, the host may provide a physical paper form that the attendant can use to provide their commentary.

There are problems with both of these methods of feedback. One must keep in mind that email is not anonymous and so it will not really give users full freedom of expression. Furthermore, email is not a guided means of providing feedback. Email is essentially a

blank text box that does not guide users in providing their constructive feedback and does not provide those who receive the feedback with a standard way of organizing and dealing with the feedback coming in.

Physical paper forms also present some of the same issues. Users may want to give their feedback at a time of their own convenience and not right after the event (they may have to leave immediately or simply may not be in the mood to provide feedback at that time). Furthermore, anonymity may not be achieved for those who are providing their feedback through this means as they may end up filling out the forms in front of the host who is requesting the feedback.

The advantage of using chide.it at events in terms of marketing is that it is a very viral and "offline" approach, as opposed to an "online" or Internet based approach, for chide.it to amass users. Chide.it will market itself to event hosts so that they can create chide.it lounges for their events. These chide.it "lounges" are simply pages that contain a variety of topics that the event host believes he could use feedback on. Once this page is created, the host would communicate the URL of this chide.it lounge to attendants whom he would like to solicit feedback from. These users, in turn, will visit the Web site in order to provide feedback. In the process, they will sign up for chide.it and learn about the services that it offers.

**How will Chide.it Market itself as an Events Tool?** DemoCampOttawa8, which is an event that will be held at the end of March 2008, is the first event that will try out chide.it for this purpose. Feedback from this event will be used to improve the tool, and most importantly, set precedence for its use. Chide.it will continue to present at various DemoCamp, BarCamp, and Startup Camps across Canada to present itself as a tool for events and encourage its spread throughout these events held around the world. The chide.it team is also in contact with David Crow who is the person who brought DemoCamp/BarCamp/Startup Camp events to Canada in the first place. David has agreed to help chide.it in its endeavour to make chide.it a default tool for this category of events.

Further to this, Marc-Andre-Plouffe (designer), who is a member of the chide.it team also is close friends with some of the organizers of these events in Sweden who have also agreed to help chide.it in its endeavours. This will help promote chide.it's adoption in Europe.

Aydin Mirzaee is also meeting with Jeff Pulver (founder of VON—one of the world's most publicized Telecom Events) at the end of March 2008 to solicit his feedback and understand what features will need to be implemented in chide.it for it to be used as a tool at Jeff's Social Media Breakfasts around the world (which have been publicized broadly in the media—including *Fortune Magazine*) in addition to VON itself.

By targeting one event at a time in the beginning, the chide.it team believes that it can gain enough feedback to build its tool to be fitted and very useful for events. Every event that the tool is used for will lead to a domino effect in that more people will become aware of chide.it as a tool for events. This is chide.it's "offline" viral marketing tactic.

### Chide.it Toolbar

The chide.it toolbar is a plugin for Internet browsers. Prolific chide.it users can install this plugin and use it to make the process of posting something to chide.it a lot easier and faster. This way, when users visit a Web site and spot something that is of interest to them, they can use the toolbar to make the process of posting that topic onto chide.it, inviting friends to also check it out, and providing constructive feedback a lot easier. Because chide.it is being pitched as a tool, it is important for different options to be available for those that want to use it.

The chide.it team recognizes that a very small percentage of its userbase will use the toolbar. However, the most important thing to note is that small percentage will also be chide.it's most active users. It is of extreme importance that these users are valued and provided for, as they will lead the spread of chide.it.

**How will Chide.it Market its Toolbar?** Chide.it will make its toolbar available on its own Web site and other popular download Web sites such as download.com. The goal isn't to push the toolbar on everyone (that is unnecessary and can be considered spamming). Chide.it will instead directly inform only its most active users of the availability of the toolbar.

## Feeds Page/Email Updates

Another very useful marketing tactic for chide.it to boost its traffic involves sending users email summaries of their activity on chide.it and updates to threads that they have participated in. For example, if someone posts a topic on the Web site and another person provides some constructive criticism on the topic, the originator of the topic will get an email informing him of this constructive feedback. The originator can then visit the Web site again and make use of the feedback but also respond to it if he doesn't agree with it or has a different viewpoint.

The key point in emailing users is to respect the privacy and wishes of the userbase. Facebook ([www.facebook.com](http://www.facebook.com)) and Plaxo ([www.plaxo.com](http://www.plaxo.com)) are two of the more successful Web sites out there that learned this lesson the hard way. Chide.it will, only send updates to users in the form of a summary once a week (if there is an update worthy of sending) and also will give users the option to vary how often they should be sent a summary and to opt out if they wish to do so.

Another attractive option for chide.it users is that their accounts page will have a very nice feed of information that is relevant to them (very similar to Facebook Friend's Feed and Plaxo's Feed). Users will also be enticed to visit the Web site so that they can view the latest discussions relevant to them through their accounts page.

## Facebook, OpenSocial, Mobile Applications

Chide.it must make itself available in as many channels as possible to have the most penetration. It is for this reason that the team must build Facebook and OpenSocial applications in order to publicize its services and make itself available to users through social networks as well.

In addition to this, with the advent of the iPhone and unlimited data plans, more people are using their phones to surf the Internet. It is important that chide.it be very accessible to mobile users who may want to use chide.it as a tool on the go.

## IV. MARKET RESEARCH AND ANALYSIS

### Market Background & Information

The success of social networks has highlighted the acceptance of Web 2.0 online interactive communications and the opportunities this class of services provides to expand the use of the Internet. The success of the original social networks was based on the latent desire of people to form a community for free interaction. In North America in 2007, 37 percent of adults and 70 percent of teens were using social networks. The emphasis now is to provide a forum to connect people through common interest not just networks of people connecting with one another for the sake of connecting.

Bradley Horowitz of Yahoo has stated that 1 percent of the Web users are creators, 10 percent are active participants in what others have initiated, and the balance are users of what others contribute. A challenge is to fully expand the 11 percent who are fully engaged by increasing the interest level of content and discussion forums on the social network. The most important market challenge for social networks is developing a business model that creates positive cash flow. Various models are suggested for generating revenue; however, a number of common factors are critical to creating a valuable investment:

- A large audience
- Content that encourages the users to return regularly
- Active participation
- Recognized value to consumers and business
- The marketing plan has to focus on satisfying these criteria.

## Content

The most important factor in attracting an audience is content and in the case of chide.it also controversial topics to encourage involvement in the interactive forums. Chide.it will contribute both; however, as the site grows external contributors will be the primary source. Chide.it will have the resources to implement forums on current hot topics whether entertainment, politics, special or international events. Many of these topics will run for a short time, reflecting public interest. As the interest in chide.it grows, it will increasingly not just be a forum to critique issues or content but a forum where interaction leads to improvement through help from others.

## Audience Growth

Social networks have largely grown through referrals and invitations to join groups. Repeat visits come because the network content sparks interest and enthusiasm. Proactive action is required to grow the audience, particularly growing an audience with common interests or demographics to interest sponsors. While some organizations have the capability to establish their own blogs or online focus groups, many do not. Chide.it will provide them with a forum to do this with minimal investment. They will bring topics of interest to their community and provide moderators who will be coached on making the site controversial to stimulate interaction. Partnerships will be established with organizations such as educational institutions, not for profit and business organizations. Chide.it will create links with other sites to expand the audience reach.

## Active Participation

Everyone likes to voice opinions and criticize. There is often a reticence to speak openly. The anonymity enables everyone to participate without being identified, if that is preferred. Moderators will receive instruction on how to encourage the audience to participate in discussions and to originate topical forums. As an incentive, the top five contributions to selected forums will receive prizes.

## Recognized Value to Consumers and Business

For consumers, the content on chide.it must be compelling to retain interest. It is initially expected that criticism will dominate the discussions. This in itself has value by exposing readers to many different viewpoints. A more positive value will emerge over time as contributors start providing suggestions on how contributors can improve their content, creative work, or even improve their arguments to be presented in other forums.

Business is often reluctant to expose their actions or products to criticism. For many, chide.it will provide an opportunity to field test their new products or marketing programs. Refinements can be made before a full expensive launch, exposing the company to negative publicity for uncorrected errors or shortcomings in the marketing pitch. This can be done to the broad audience or through an online forum, restricted to an invited audience such as existing clients, staff, or other targeted group. Chide.it, through partnerships, will build a user base from targeted demographic groups.

## Revenue Opportunities

Initially chide.it will be offering free services until the client base grows and the site's brand name obtains broader recognition. The following opportunities will be targeted when these conditions are met:

- Sponsored topics by enterprises that wish to promote their activities, products, or brand.

- Pay per click is a standard advertising target. Online advertising is growing although social networks have not been as successful in attracting advertising revenue as many other Internet sites. Chide.it will attract advertising related to the content and user interests that attract the largest audience.
- Licensing of the technology to business for online focus groups. These forums can be moderated by chide.it (for an extra fee) or moderated by the client. Potential clients include the enterprises and companies that organize focus groups.

## Competition

The first competition that must be addressed is the popular social networks that dominate the audience base at this time. The attraction of chide.it to that existing audience will be the participation in an active issues-driven network and not a people linkage network. The attraction will be participant's ability to voice opinions and receive feedback on their own contributions.

Social networks that have a targeted audience will be either competition or potential partners with chide.it; where chide.it is a linked forum to stimulate discussions on issues of interest to that network's active audience. Chide.it's strategy will be to create topical forums reflecting issues of the day.

Chide.it's advantage for online focus group activities will lie in its large established user base that will provide candidates for focus groups. As is often the case, the sponsoring organization will provide incentives for participation by chide.it's audience to participate. Chide.it's technology will make it simple for clients to establish an online focus group.

## Competitors

Because chide.it begins its life as a tool to facilitate the process of gaining constructive feedback with the help of the community, it can be considered a crowdsourcing application. Crowdsourcing refers to the process of using the community to get a task done for free or by only paying for results. Crowdsourcing is a fairly new phenomenon that is gaining ground fast. Some of the most interesting and relevant crowdsourcing organizations in existence today are: **Amazon Mechanical Turk** ([www.mturk.com/](http://www.mturk.com/)) and **InnoCentive** ([www.innocentive.com/](http://www.innocentive.com/)).

Some crowdsourcing applications are even more specific such as **Cambrian House** ([www.cambrianhouse.com/](http://www.cambrianhouse.com/)) that focuses on using the community to build Web projects and **Threadless** ([www.threadless.com/](http://www.threadless.com/)) that uses the community to design t-shirts.

Chide.it can be considered a specialized crowdsourcing application with a twist. Chide.it focuses on finding flaws in a variety of areas and proposing solutions to these problems. By specializing in constructive criticisms and providing tools to further the process, chide.it will establish itself in this niche.

Chide.it in general also has competitive features in comparison to companies like **Opinion Labs**.com that specialize in helping Web sites get basic feedback from their visitors. Chide.it is different from OpinionLabs in that it allows more control to the Web sites in what they ask users and the detail of the information that they glean. Further to this, chide.it takes more of a community approach to gathering information while companies like OpinionLabs really take a one-on-one approach.

As mentioned previously, once there is enough content on the Web site, chide.it will be able to attract marketers to the Web site in order to research the opinions of experts in the community. There are companies such as **Sysomos** ([www.sysomos.com/](http://www.sysomos.com/)) that help marketers browse through user generated content on the Internet today in order to determine what is relevant to them. Chide.it takes a bit of a different approach in that it allows marketers to conduct crowdsourced focus groups in order to assemble relevant information.

## Market Development Plan

**Brand Recognition** The initial focus is on increasing the audience base. Selected topics identified of interest will provide the initial forums. To make them interesting the following actions will be taken:

- Use moderators with strong interest in the topic and experience in stimulating focused and controversial discussions.
- Ensure that the topics are current.
- Use key words that will obtain a high rating on search engines.
- Provide links to relevant sites to direct audience to chide.it.
- Provide incentives for users to submit content, contributions etc.

**Targeted Audience** Analysis of initial audience performance:

- Statistics will be gathered on the activity in each forum to identify most popular issues, geographic location, number of participants, etc. to optimize the introduction of the most interesting forums.
- Target demographic groups through promotions, advertising, search engines, links to social networks.
- Expand the content on the site through chide.it and audience contributions. This can include news, videos, and today's international or local issues as examples.

**Mobile Clients** Mobile phones and the use of them is increasingly oriented towards data services. We will ensure the site is compatible with mobile services:

- Increased data transfer rates will enable an ongoing broader range of mobile activities.
- Explore opportunities for forums specifically targeting mobile users.

**Sponsored Forums** Introduce topics relevant to the activities or business interest of the sponsoring organizations. Provide links, banners, etc. related to the organization. We will gather data requested by the organization; provide a qualified moderator for the forum; provide links to related sites, and use key words in contributions to obtain high search engine recognition.

**Licensing to Enterprises** Organize data to demonstrate activity on the Web site; categorize users according to demographics, interests, participation, etc., and implement a platform that facilitates the enterprises to establish an intuitive private or public forum.

## V. BUSINESS MODEL

### Premium Placement

**YouTube.com Model** As the Web becomes more and more cluttered daily, it becomes more difficult to get noticed. Over 10,000 videos are uploaded onto YouTube daily. No matter how good a video is, it will not get noticed unless a lot of hacks are put into place. For example, a number of large companies (such as Nortel) have put on YouTube very professionally made videos that have only succeeded in attaining roughly 2,000 views, whereas, truly successful videos have been viewed over 5 million times. However, if a video that Nortel produced was put on the first page of the Web site (a sponsored video), it would get a lot of attention and views. Videos placed on the front page easily get watched over a million times.

**Google Sponsored Search Model** Google Search has a similar model. Assume that a plumber in Toronto wants his Web site to appear as the first result when someone searches "Toronto Plumber." He would have a few options open to him. The easiest and fastest approach for him to get his Web site listed as the first search result would be to pay for a sponsored listing. Google bases its sponsored search model on a bidding system. In other words, the more one pays, the higher the chance of his Web site appearing in the search results for the keywords "Toronto Plumber."

Chide.it will use a similar model as that of YouTube and Google. Chide.it will have a bidding system. The highest bidders will be able to get their topic to have the best placement on the Web site. The idea is that the better placement a topic has, the more views it will get and the more constructive feedback it can get from the community.

**Premium Membership**

By default, when someone posts something on chide.it, the community can have access to the posting. Sometimes, a company or organization may want to invite a private group to critique the post. The originator of the topic may also want all the critique to remain private. In order to accomplish this, the members must sign up for a premium membership (\$10/month). As chide.it develops as a product, most of the features on the Web site will be free but some of them will only be available to premium members. This is a model that is also implemented in a number of other successful Web businesses such as Basecamp.com and Shopify.com.

**Enterprise Membership**

As is the case with some other successful companies such as Basecamp and Ning, larger enterprises generally may want to use chide.it's Web site and its services as a white label solution. They may want to use it internally as a tool to conduct surveys or focus groups with their employees or even customers. As part of their requirements, it may be necessary to have the companies branding and logo appear everywhere such that the tool itself appears as something that was developed within the company.

If a company purchases enterprise membership with chide.it, they will be able to use the services that the Web site offers as a white label, hosted, or off box service. The exact pricing for this is still to be determined; however, a current base price of \$250/month is what is being advertised presently.

**Targeted Advertising**

Advertising using Google, Yahoo!, Microsoft, and a whole slew of other companies has recently been a very good model for highly trafficked Web sites to use in order to earn revenue. Plentyoffish.com (a one-man company), which is Canada's largest free dating Web site, is earning upwards of \$10 million a year in revenue from Google AdSense (Google's offsite advertising program) alone.

Chide.it will display advertising on its Web site from the very beginning. As ad-serving technology improves in the coming years, chide.it will be able to earn more on a CPM basis (i.e., money one can earn for every 1,000 page-views). Further to this, because chide.it will have a lot of very specific and targeted pages, the advertisements displayed will also be quite targeted. The more targeted the advertising on the Web site, the higher the CPM that chide.it can earn. As an example, assume a lounge on chide.it that specifically talks about the iPhone. This page would obviously then have related cellphone advertisements.

**VI. EXECUTION AND RISKS**

The execution roadmap for chide.it begins by developing the chide.it tool and popularizing its use. Once this has taken place, then community features shall be built into the Web site and chide.it's products shall be directly advertised to enterprises.

The following is a high level focus Road Map for the first two years:

**1-3 months**

- Refine chide.it as a tool through iterative design and feedback from community so that it is a very useful tool for soliciting constructive feedback.
- Focus on chide.it as a tool for events. Refine the technology for this purpose and market it heavily for use at public gatherings.

**3-6 months**

- Build the chide.it widgets technology that will allow Web sites to solicit feedback from their users and focus on gaining adoption for this feature.

**6-9 months**

- Build the blog post-back feature and market to bloggers for adoption.
- Build a Facebook/OpenSocial application to publicize chide.it's features.

**9-12 months**

- Build the chide.it toolbar and publicize to most active users on the Web site.
- Build the activity feeds (community feature) on the Web site so that users can more accurately follow their activities on the Web site.

**12-18 months**

- Start premium membership plans on the Web site and create more features for premium members.

**18-24 months**

- Focus on enterprise memberships and white-labelling the service for larger companies.

In terms of risks involved in building chide.it, there are a few. The first point that comes to mind is the state of online advertising going forward. Many have predicted that the online advertising industry is currently inflated and that spending on the Internet will not grow as fast as the industry hopes. This in turn can affect the profit margins of companies that heavily rely on advertising. Fortunately, advertising is not the only revenue stream for chide.it and so it does have a backup plan for revenue in the event of an industry downturn.

Further to this, the risk for any online Web site with initial success is that copycats will come along and copy the model. The same has happened for the likes of Facebook and Digg. It is for this reason that chide.it has to focus on building its brand so that its users come to the Web site for more than just the feature set. Additionally, chide.it should fairly quickly provide language support for a variety of different countries so that international clones of the Web site have a lower chance of success by playing only the language card. Finally, chide.it must attempt to get as many users as fast as possible to stay ahead of the game.

A final potential risk as with any other UGC (user generated content) Web site is that there may be inappropriate, slanderous, inaccurate material placed on the Web site which may lead to legal risks. Chide.it intends to deal with this risk by having everyone sign terms of use on the Web site and by also implementing a flagging system that allows the community to flag such material for removal. With the use of the flagging system and human moderation, this risk will be mitigated.

## VII. FINANCES

The following is a summary of chide.it's revenue projections over the next five years. As the table shows, chide.it will earn its revenue from serving targeted ads, sponsored topics on the Web site, basic membership, and enterprise membership.

	Year 1	Year 2	Year 3	Year 4	Year 5
Effective CPM	\$0.50	\$0.75	\$1.00	\$1.25	\$1.50
Visitors/Month	1,081,080	3,392,892	6,093,147	9,755,324	13,908,760
Ad Revenue	\$111,962	\$953,623	\$3,655,888	\$7,316,493	\$12,517,884
Sponsored Topics	\$89,508	\$508,599	\$2,010,738	\$3,511,917	\$5,424,416
Basic Membership	\$	\$50,860	\$175,483	\$327,779	\$534,096
Enterprise Membership	\$	\$50,860	\$438,707	\$936,511	\$1,669,051
Total Income	\$201,470	\$1,563,941	\$6,280,816	\$12,092,700	\$20,145,448

**Advertising** The amount of money earned from advertising depends on the number of page views that users of the Web site view per month. The assumption is that every active user on chide.it will view about 50 pages per month. This is a reasonable number considering the fact that on some popular social networks such as Facebook/Bebo, users will view over 50 pages each time they log in whereas chide.it is assuming this number for the entire month. Chide.it also assumes an effective CPM of 50 cents for year one, 75 cents, \$1, \$1.25, \$1.50 respectively for the years after that. These are reasonable figures when compared to other successful Web sites on the Internet. Facebook estimates that it will be able to earn about \$8 CPM by the year 2015. In terms of the visitor count, chide.it expects to have about 14 million visitors a month in five years. This is also a reasonable number when compared to plentyoffish.com (largest dating site in Canada) that has over 30 million visitors a month.

**Sponsored Topics** Chide.it will earn about \$20/CPM for sponsored topics in the first year and this amount will increase every year as the effective CPM for advertising also increases.

**Basic Membership and Enterprise Membership** The assumptions being made here are that approximately 1 in 5,000 active users will subscribe to a premium membership and that for every 50,000 people that sign up, one more enterprise client can be signed up by the chide.it sales team. Basic memberships will start at \$10/month while enterprise memberships will start at \$250/month. The following table shows the profit/loss summary for chide.it for the first year:

The expenses in the first year are quite low because chide.it is currently in bootstrapping mode and is not paying any of the members of the team. The expenses jump dramatically in year 2 as shown in the table below.

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Revenue	\$201,470	\$1,563,941	\$6,280,816	\$12,092,700	\$20,145,448
Total Expenses	\$42,520	\$1,061,940	\$2,064,411	\$3,269,916	\$4,915,291
Net Profit	\$158,950	\$502,001	\$4,216,405	\$8,822,784	\$15,230,157

The detailed profit/loss statements for the first five years of operation can be found in the Financial Appendix at the end of this report. The following is a brief table that summarizes the cash flow position of the company for the first two years:

	Monthly Cash Flow	Cumulative Cash Flow
March 2008	\$(3,239)	\$(3,239)
April 2008	\$(3,229)	\$(6,468)
May 2008	\$(3,179)	\$(9,648)
June 2008	\$(2,679)	\$(12,327)
July 2008	\$(992)	\$(13,318)
Aug 2008	\$3,508	\$(9,810)
Sept 2008	\$10,198	\$388
Oct 2008	\$16,798	\$17,187
Nov 2008	\$24,638	\$41,825
Dec 2008	\$33,143	\$74,968
Jan 2009	\$40,304	\$115,273
Feb 2009	\$43,677	\$158,950
March 2009	\$(20,937)	\$138,013
April 2009	\$(13,833)	\$124,180
May 2009	\$(5,788)	\$118,392
June 2009	\$2,801	\$121,193
July 2009	\$12,535	\$133,728
Aug 2009	\$23,033	\$156,761
Sept 2009	\$33,552	\$190,313
Oct 2009	\$46,508	\$236,821
Nov 2009	\$60,500	\$297,320
Dec 2009	\$75,967	\$373,287
Jan 2010	\$91,952	\$465,239
Feb 2010	\$110,711	\$575,951

**Cost Per User/Value of Chide.it** For the purposes of future projections, based on the \$5.6 million that will be spent on sales and marketing over the next five years and the approximately 14 million projected unique visitors, the approximate visitor acquisition cost for chide.it is \$2.50. To put this into perspective, Bebo was recently purchased by AOL for approximately \$20/user.

**Investors** Chide.it is looking to raise \$1 million from investors in the next 6–12 months. The current financial model assumes organic growth for the company. The investment will allow for faster development early on in the cycle of the company, a faster go to market timeline, and more money for the purposes of marketing the product.

## VIII. CHIDE.IT TEAM

### Management Team

**Aydin Mirzaee (Co-founder, CEO)** Aydin leads the day-to-day operation of the company, product development, and team.

**Background:** Aydin was the founder and CEO of bOK Systems Corp. (www.bOKnow.com/). bOK is currently in the business of helping thousands of people save money on their

cellphone bills using VoIP technology. Before that, Aydin served as a design team leader at Nortel Networks in the Platform Network Management division of the company. Prior to that, Aydin served as the assistant to the executive director of the Student World Assembly, an organization that started with about 10 members and now has over 12,000 people from all over the world. Aydin graduated from the Electrical Engineering/Management program at the University of Ottawa with a near perfect GPA.

**Eli Fathi (Co-founder, Chief Strategist)** Eli works with Aydin on a daily basis to manage the company, refine its roadmap, and formulize its business model. Eli, with his vast network of colleagues around the world is also instrumental in the process of forming strategic partnerships with various organizations. Further to this, Eli has had a great deal of experience in fund-raising (having raised over \$75 million for his last company) and his experience in this area has shaped the roadmap that chide.it currently has.

**Background:** Eli Fathi is the CEO and founder of OrbitIQ, a business accelerator company with globally deployed channels to market. Eli has been a technology entrepreneur for the past 25 years. In 1986, Eli founded Applied Silicon Inc. Canada to provide engineering consulting services to the private and public sectors. Following an investment from Newbridge Networks in 1996, the company (Telexis) shifted its focus to video over IP solutions, growing to 180 employees. Telexis was acquired in May 2000, and became March Networks.

Eli has been involved in the high-tech community by serving on a number of boards including, Ottawa Centre for Research and Innovation (OCRI), Ottawa Chamber of Commerce, and Canadian Advanced Technology Association (CATA). He has been involved in a number of task forces including chairing the Ottawa-Gatineau Commercialization Task Force, participated on the CATA outsourcing and commercialization committees, a member of the Conference Board of Canada Leader's Roundtable on Commercialization from 2004 to 2006, and is a member of the Ottawa Innovation Hub committee. He chairs the Advisory Board for the Electronics Department at Algonquin College and at the University of Ottawa organized advisory forums for the Dean of the Telfer School of Management and serves on the Dean of Engineering's Advisory Board. He joined the board of the Ottawa Community Loan Fund. Eli also serves on the board of C-Com, a publicly traded company on the TSX-V.

Eli Fathi earned an Electrical Engineering degree in 1978 and a Master of Science degree in 1982 from the University of Ottawa. He received the University of Ottawa Faculty of Engineering Alumni Award of excellence for 2002. In 2004 he was the Recipient of the Order of Ottawa for Economic Development, and was the Recipient of OCRI 2004 Civic Entrepreneur of the Year award.

**Peter Okulich (VP Operations)** Peter manages the day-to-day legal, accounting, HR, and operational aspects of the company.

**Background:** Peter Okulich is a co-founder and vice president Global Operations (Administration, Finance, and Legal) of OrbitIQ. He is a seasoned management professional who has been involved in the telecommunications industry for over 30 years with both start-up and international companies. Before joining OrbitIQ, he worked for Peleton Photonic Systems, Telexis (March Networks), Mitel Corporation, Digital Equipment Canada, Leigh Instruments, and Consolidated Computer Inc.

His previous experience includes the successful introduction of several new products from the design stage into volume manufacturing, the start-up of two production facilities, and senior management positions in operations, engineering, manufacturing, and contract administration. Mr. Okulich has successfully guided high-tech organizations through fast growth periods and has started and developed human resources, IT, facilities, and manufacturing departments from concept. As COO at Telexis, he helped transition the company from providing consulting engineering services into a product-oriented corporation.

Mr. Okulich is a member of the Professional Engineers Association of Ontario. He holds a B.Sc. and an M.Eng. in Electrical Engineering from the University of Ottawa.

## Development Team

Chide.it currently has four developers working on the team. All the developers on the team work on various aspects of the product. Each, though, specializes in a different area:

**Amin Mirzaee** is experienced with Javascript and specifically Ajax. He leads the effort in contributing to the Ajax developments on chide.it.

**Samuel Cormier-Iijima** is the python guru on the team and usually does the initial architecting of new features in Django.

**Marc-Andre Plouffe** has a great deal of design and aesthetics experience. He leads the branding efforts and the design of the various pages on the Web site.

**Andrew Pitt** is experienced in building big projects and unit testing. He leads the overall robustness testing and quality assurance of the Web applications and the features that they have.

## Advisory Board

**Dr. Sorin Cohn** is co-founder and president of OrbitIQ Global Portfolio with responsibility for business development and client acquisition. He brings over 30 years of international business and technology management experience. Prior to joining OrbitIQ, he co-founded Wireless Multimedia Solutions and was its CTO. Previously, Dr. Cohn held several senior management positions with Nortel Networks, driving their Satellite Network Solutions Group to key global accounts, initiating and managing Nortel's first wireless data initiatives, and in the late 80s, initiating and managing the Companion portfolio—the world's first and most successful wireless office systems. Prior to Nortel, he was with Bell-Northern Research as director for Exploratory Programs in Integrated Office Systems. In the 80s, Dr. Cohn created the BNR laboratories for Man-Machine Technologies leading to the conception of the world's first touch-sensitive display phone, multimedia teleconferencing, Meridian VMail, echo cancellers, etc. He developed the digital signal processing subsystems in the world's first digital central office exchange—the DMS-100.

Dr. Cohn has several essential patents in Web services, wireless, telecommunications, and digital signal processing. He has published over 50 journal articles and participated as organizer, chairman, and presenter at countless industry conferences and forums.

Dr. Cohn has been a Killam Scholar and the recipient of many corporate and national awards. He is a senior member of IEEE. Dr. Cohn has been an adjunct professor at the University of Ottawa, where he introduced advanced telecommunications courses. He holds a Ph.D. in Electrical Engineering from McMaster University, an M.Sc. in Physics from the University of Calgary, and an M.Eng. from the Polytechnic Institute of Bucharest.

**Peter Craig** has over 20 years of experience in leading teams in sales, sales management, and marketing of high technology products and services to businesses. During his career he has demonstrated the value of strategic sales management and strategic account management, and has made this a personal area of study and practice. Mr. Craig has been a resident of the greater Toronto area for the past 17 years after moving from Ottawa, where he grew up and attended Carleton University's Engineering Program.

Most recently Mr. Craig has served as founder and managing director of Maxima Consulting Group and as president of Telax Systems Inc. Maxima Consulting is a management consulting firm working with emerging high technology companies in the area of business development. Telax Systems is a leader in providing virtual call centre services. Prior to this, Mr. Craig had developed a reputation as a strong leader and catalyst for change in the firms he worked with. Most recently, as member of a 3,000 person sales force at Nortel, he regularly placed in the top 1 percent of sales leaders and achievers and was responsible for building and leading sales teams responsible for introducing new products to new accounts and existing strategic accounts. During his tenure at Nortel he rose through the ranks rapidly, joining as senior account executive serving multiple positions at the director level.

Mr. Craig has held senior sales and marketing positions, up to the vice president level, with firms such as AT&T, Scientific Atlanta, Paradyne, and Computer Task Group. Responsi-

bilities typically included building and mentoring sales teams and closing new business. Mr. Craig has been regularly acknowledged as a mentor to subordinates and to peers.

**Dr. Alan Aitken** graduated from the University of Edinburgh in 1964 with a B.Sc. degree in Physics and from the University of Strathclyde, Scotland with a Ph.D. degree in Applied Physics in 1969. In 1969 he joined Northern Telecom Research Labs. (now Nortel Technologies) where he was a manager responsible for development of new technologies required for the manufacture of proprietary integrated circuits used in Nortel's communications equipment. In 1976, he joined Mitel Corporation with responsibility for the operations and technology R&D in a new semiconductor operation. In 1984, he left Mitel to act as a consultant to the electronics industry. He co-founded the Canadian Semiconductor Design Association and acted as president from 1985 until 1996. He has been instrumental in establishing a number of partnerships between companies and in launching new initiatives, which have enhanced the electronic infrastructure in Canada. He was the founding executive director of OCRInet Inc., the high speed ATM network connecting major research centres in the Ottawa-Carleton region that provided connection to the national CANARIE network. He was an original member of the CANARIE Technical Network Operating Committee.

In 1994, he received 1 of 10 IEEE Ottawa, 50th Anniversary "Pioneers in Technology" awards for his contribution to new technology development in the Ottawa region.

Alan Aitken was a member of the federal government Blue Ribbon panel (1998), advising the federal Minister of Industry on the terms of reference for the Smart Communities Initiative. Alan Aitken served on the board of directors of a U.K./Canadian networking company, the board of Actua, the Canadian engineering student run summer camp program, and on the board of the Ottawa Life Sciences Council from 2001 to 2003. He was a member of a CIDA/Philippine study, which identified and proposed strategic initiatives in information technology to accelerate the deployment of telecommunications in the Philippines. He prepared a business plan for the implementation of the BADLAB at the Communications Research Centre that has become the primary Canadian centre for development of expertise and international links over broadband networks. He has served on a number of Ontario government committees for microelectronics and high speed networking in the province.

Recently he served as vice president at March Networks, a broadband applications company headed by Terry Matthews in Kanata, Ontario. He was a consultant to Connect North/Connect Nord on network operations and to the Ontario government Connect Ontario program. Alan presently serves as vice president of Marketing and Competitiveness for OrbitIQ.

**Peter Griffiths** has worked in the communications industry for over 30 years for companies both large and small, holding many diverse roles, which include overseeing large communication projects and running competitive intelligence laboratories. Peter started his career as a chemist for Morganite Research and Development before moving into the high-tech field. In high-tech, he has worked as both a technical support engineer and an applications engineer for companies such as Tandata and Newbridge in the U.K., and Newbridge and March Networks in Canada.

Peter is familiar with many forms of microprocessor controlled electronic communication involving computers and terminals, including their use with radio, PABX equipment, Multiplexers, LANs, Frame Relay, ATM Switches, and modems.

Peter has first-hand experience of MS/DOS, Windows, CP/M, BASIC, Visual Basic, Front Page, and Assembler (Mainly 6502 and 8086 some Z80) and has produced sophisticated terminal programs for the BBC microcomputer and print redirection programs for the IBM PC in Assembler. He has also supervised the writing of programs for MS/DOS, CP/M, CP/M-86, and Q/DOS applications, using synchronous, asynchronous modems, and data controllers with minis, micros, and terminals.

Peter first started to work with OrbitIQ in 2003 and brings an unprecedented range of technical skills and experience. Part of his responsibilities involves the training of staff in the installation and use of equipment and applications and supporting customers and staff.

Peter also acts as the technical interface between the customer and the OrbitIQ clients, and often recommends improvements, new features and modification of existing product.

In addition Peter is quite familiar with the server side programming languages such as PHP, PERL, HTML, and databases as required for enhanced functionality of today's Web sites.

Peter Griffiths holds qualifications in chemistry, electronics, electrical engineering, computing and data processing; he is also a member of the Royal Society of Chemistry.

## IX. APPENDIX

### INCOME STATEMENT

	Year 1
<b>Sales</b>	
Net Sales	\$201,469.60
Cost of Goods Sold	\$-
Gross Margin on Sales	\$201,469.60
<b>R&amp;D Costs</b>	
Payroll	\$-
Salaries/Benefits/Commissions	\$-
Subtotal	\$-
Outsourced Dev/Support	\$-
Salaries/Benefits/Commissions	\$-
Subtotal	\$-
R&D	\$3,450.00
Server Rental	\$720.00
Amazon Web Services	\$250.00
Server/Security Software	\$1,000.00
Other Software/Services/Certificates	\$5,420.00
Subtotal	\$5,420.00
R&D Subtotal	\$5,420.00
% of sales	\$0.027
<b>Sales &amp; Marketing</b>	
Payroll	\$-
Salaries/Benefits/Commissions	\$-
Subtotal	\$-
Internet Advertising	\$6,000.00
Facebook Ads	\$3,000.00
Google Ads	\$3,000.00
Other Internet Spending	\$12,000.00
Subtotal	\$12,000.00
Travel	\$3,500.00
Air Travel	\$500.00
Meals and Entertainment	\$1,000.00
Accommodation	\$5,000.00
Other Travel (Car/Rental)	\$10,000.00
Subtotal	\$10,000.00
Company Promotions	\$2,000.00
Conferences & Tradeshows	\$-
PR Agency Fee	\$-
Corporate Memberships/Sponsorships	\$1,000.00
Promotional Publications	\$500.00
Other Marketing	\$500.00
Subtotal	\$3,500.00
Sales/Marketing Subtotal	\$25,500.00
% of sales	\$0.127

## INCOME STATEMENT (continued)

	Year 1
Operating Expenses	
Accounting/Legal	
Accounting	\$6,000.00
Legal	\$5,000.00
Administrative	\$-
Payroll	
Salaries/Benefits/Commissions	\$-
Subtotal	\$-
Facilities	
Office Rent	\$-
Facilities Rent (Special Events)	\$-
One-Time Office Supplies	\$-
Subtotal	\$-
Communications	
Office Phone (Skype Accounts)	\$100.00
Cell Phones	\$-
Internet Access	\$-
Subtotal	\$100.00
Consumable Expenses	
Non-Capitalized Equipment	\$-
Office Supplies	\$250.00
Courier/Shipping/Fax	\$250.00
Subtotal	\$500.00
Human Resources	
Recruiting & Training	\$-
Subtotal	\$-
Insurance	
Office Insurance	\$-
D&O Liability Insurance	\$-
E&O Liability Insurance	\$-
Subtotal	\$-
Operating Expenses	\$11,600.00
% of sales	\$0.058
Total Revenue	\$201,470.00
Total Expenses	\$42,520.00
Net Profit	\$158,950.00

## INCOME STATEMENT

	Year 2
Sales	
Net Sales	\$1,563,940.92
Cost of Goods Sold	\$-
Gross Margin on Sales	\$1,563,940.92
R&D Costs	
Payroll	
Salaries/Benefits/Commissions	\$224,000.00
Subtotal	\$224,000.00
Outsourced Dev/Support	
Salaries/Benefits/Commissions	\$-
Subtotal	\$-
R&D	
Server Rental	\$13,650.00
Amazon Web Services	\$4,740.00
Server/Security Software	\$2,250.00
Other Software/Services/Certificates	\$20,000.00
Subtotal	\$40,640.00
R&D Subtotal	\$264,640.00
% of sales	\$0.169
Sales & Marketing	
Payroll	
Subtotal	\$95,200.00
Internet Advertising	
Facebook Ads	\$20,000.00
Google Ads	\$20,000.00
Subtotal	\$90,000.00
Travel	
Air Travel	\$24,000.00
Accommodation	\$24,000.00
Other Travel (Car/Rental)	\$12,000.00
Subtotal	\$66,000.00
Company Promotions	
Conferences & Tradeshows	\$50,000.00
PR Agency Fee	\$25,000.00
Corporate Memberships/Sponsorships	\$10,000.00
Promotional Publications	\$5,000.00
Other Marketing	\$25,000.00
Subtotal	\$115,000.00
Sales/Marketing Subtotal	\$366,200.00
% of sales	\$0.234
Operating Expenses	
Accounting/Legal	
Accounting	\$25,000.00
Legal	\$25,000.00
Administrative	\$28,000.00
Subtotal	\$78,000.00
Payroll	
Salaries/Benefits/Commissions	\$190,400.00
Subtotal	\$190,400.00

**INCOME STATEMENT (continued)**

	Year 2
<b>Facilities</b>	
Office Rent	\$38,400.00
Facilities Rent (Special Events)	\$10,000.00
One-Time Office Supplies	\$48,000.00
Subtotal	\$96,400.00
<b>Communications</b>	
Office Phone (Skype Accounts)	\$600.00
Cell Phones	\$2,400.00
Internet Access	\$2,500.00
Subtotal	\$5,500.00
<b>Consumable Expenses</b>	
Non-Capitalized Equipment	\$1,200.00
Office Supplies	\$2,000.00
Courier/Shipping/Fax	\$2,000.00
Subtotal	\$5,200.00
<b>Human Resources</b>	
Recruiting & Training	\$24,000.00
Subtotal	\$24,000.00
<b>Insurance</b>	
Office Insurance	\$1,600.00
D&O Liability Insurance	\$10,000.00
E&O Liability Insurance	\$20,000.00
Subtotal	\$31,600.00
Operating Expenses	\$431,100.00
% of sales	\$0.276
Total Revenue	\$1,563,941.00
Total Expenses	\$1,061,940.00
Net Profit	\$502,001.00

**INCOME STATEMENT**

	Year 3
<b>Sales</b>	
Net Sales	\$6,280,815.75
Cost of Goods Sold	\$-
Gross Margin on Sales	\$6,280,815.75
<b>R&amp;D Costs</b>	
Payroll	\$380,800.00
Salaries/Benefits/Commissions	\$380,800.00
Subtotal	\$380,800.00
<b>Outsourced Dev/Support</b>	
Salaries/Benefits/Commissions	\$25,000.00
Subtotal	\$25,000.00
<b>R&amp;D</b>	
Server Rental	\$29,247.00
Amazon Web Services	\$18,279.00
Server/Security Software	\$3,656.00
Other Software/Services/Certificates	\$6,093.00
Subtotal	\$57,276.00
R&D Subtotal	\$463,076.00
% of sales	\$0.074
<b>Sales &amp; Marketing</b>	
Payroll	\$345,520.00
Salaries/Benefits/Commissions	\$345,520.00
Subtotal	\$345,520.00
<b>Internet Advertising</b>	
Facebook Ads	\$40,000.00
Google Ads	\$40,000.00
Other Internet Spending	\$100,000.00
Subtotal	\$180,000.00
<b>Travel</b>	
Air Travel	\$49,500.00
Meals and Entertainment	\$18,000.00
Accommodation	\$45,000.00
Other Travel (Car/Rental)	\$22,500.00
Subtotal	\$135,000.00
<b>Company Promotions</b>	
Conferences Tradeshows	\$150,000.00
PR Agency Fee	\$50,000.00
Corporate Memberships/Sponsorships	\$25,000.00
Promotional Publications	\$10,000.00
Other Marketing	\$50,000.00
Subtotal	\$285,000.00
Sales/Marketing Subtotal	\$945,520.00
% of sales	\$0.151
<b>Operating Expenses</b>	
Accounting/Legal	\$30,000.00
Accounting	\$30,000.00
Legal	\$30,800.00
Administrative	\$30,800.00
Subtotal	\$90,800.00

**INCOME STATEMENT (continued)**

	Year 3
Payroll	
Salaries/Benefits/Commissions	\$304,640.00
Subtotal	\$304,640.00
Facilities	
Office Rent	\$72,000.00
Facilities Rent (Special Events)	\$20,000.00
One Time Office Supplies	\$42,000.00
Subtotal	\$134,000.00
Communications	
Office Phone (Skype Accounts)	\$1,125.00
Cell Phones	\$4,500.00
Internet Access	\$3,000.00
Subtotal	\$8,625.00
Consumable Expenses	
Non Capitalized Equipment	\$2,250.00
Office Supplies	\$3,750.00
Courier/Shipping/Fax	\$3,750.00
Subtotal	\$9,750.00
Human Resources	
Recruiting Training	\$75,000.00
Subtotal	\$75,000.00
Insurance	
Office Insurance	\$3,000.00
D&O Liability Insurance	\$10,000.00
E&O Liability Insurance	\$20,000.00
Subtotal	\$33,000.00
Operating Expenses	\$655,815.00
% of sales	\$0.104
<b>Total Revenue</b>	<b>\$6,280,816</b>
<b>Total Expenses</b>	<b>\$2,064,411</b>
<b>Net Profit</b>	<b>\$4,216,405</b>

**INCOME STATEMENT (continued)**

	Year 4
Sales	
Net Sales	\$12,092,700.11
Cost of Goods Sold	\$-
Gross Margin on Sales	\$12,092,700.11
R&D Costs	
Payroll	\$630,560.00
Salaries/Benefits/Commissions	\$630,560.00
Subtotal	\$630,560.00
Outsourced Dev/Support	\$82,500.00
Salaries/Benefits/Commissions	\$82,500.00
Subtotal	\$82,500.00
R&D	\$46,826.00
Server Rental	\$29,266.00
Amazon Web Services	\$5,853.00
Server/Security Software	\$9,755.00
Other Software/Services/Certificates	\$91,700.00
Subtotal	\$91,700.00
R&D Subtotal	\$804,760.00
% of sales	\$0.067
Sales & Marketing	
Payroll	\$598,472.00
Salaries/Benefits/Commissions	\$598,472.00
Subtotal	\$598,472.00
Internet Advertising	\$80,000.00
Facebook Ads	\$80,000.00
Google Ads	\$200,000.00
Other Internet Spending	\$360,000.00
Subtotal	\$360,000.00
Travel	\$90,000.00
Air Travel	\$39,600.00
Meals and Entertainment	\$72,000.00
Accommodation	\$36,000.00
Other Travel (Car/Rental)	\$237,600.00
Subtotal	\$237,600.00
Company Promotions	\$175,000.00
Conferences & Tradeshows	\$75,000.00
PR Agency Fee	\$50,000.00
Corporate Memberships/Sponsorships	\$15,000.00
Promotional Publications	\$100,000.00
Other Marketing	\$415,000.00
Subtotal	\$415,000.00
Sales/Marketing Subtotal	\$1,611,072.00
% of sales	\$0.133
Operating Expenses	
Accounting/Legal	\$40,000.00
Accounting	\$35,000.00
Legal	\$61,880.00
Administrative	\$136,880.00
Subtotal	\$136,880.00

## INCOME STATEMENT (continued)

	Year 4
Payroll	
Salaries/Benefits/Commissions	\$335,104.00
	Subtotal \$335,104.00
Facilities	
Office Rent	\$115,200.00
Facilities Rent (Special Events)	\$30,000.00
One Time Office Supplies	\$54,000.00
	Subtotal \$199,200.00
Communications	
Office Phone (Skype Accounts)	\$1,800.00
Cell Phones	\$7,200.00
Internet Access	\$3,500.00
	Subtotal \$12,500.00
Consumable Expenses	
Non Capitalized Equipment	\$3,600.00
Office Supplies	\$6,000.00
Courier/Shipping/Fax	\$6,000.00
	Subtotal \$15,600.00
Human Resources	
Recruiting & Training	\$120,000.00
	Subtotal \$120,000.00
Insurance	
Office Insurance	\$4,800.00
D&O Liability Insurance	\$10,000.00
E&O Liability Insurance	\$20,000.00
	Subtotal \$34,800.00
Operating Expenses	\$854,084.00
% of sales	\$0.071
Total Revenue	\$12,092,700
Total Expenses	\$3,269,916
Net Profit	\$8,822,784

## INCOME STATEMENT

	Year 5
Sales	\$20,145,447.91
Net Sales	\$-
Cost of Goods Sold	\$20,145,447.91
Gross Margin on Sales	
R&D Costs	
Payroll	\$925,372.00
Salaries/Benefits/Commissions	Subtotal \$925,372.00
Outsourced Dev/Support	\$151,250.00
Salaries/Benefits/Commissions	Subtotal \$151,250.00
R&D	\$66,762.00
Server Rental	\$41,726.00
Amazon Web Services	\$8,345.00
Server/Security Software	\$13,909.00
Other Software/Services/Certificates	Subtotal \$130,742.00
	R&D Subtotal \$1,207,364.00
	% of sales \$0.060
Sales & Marketing	
Payroll	\$949,519.20
Salaries/Benefits/Commissions	Subtotal \$949,519.20
Internet Advertising	\$150,000.00
Facebook Ads	\$150,000.00
Google Ads	\$500,000.00
Other Internet Spending	Subtotal \$800,000.00
Travel	\$148,500.00
Air Travel	\$69,300.00
Meals and Entertainment	\$99,000.00
Accommodation	\$49,500.00
Other Travel (Car/Rental)	Subtotal \$366,300.00
Company Promotions	\$200,000.00
Conferences & Tradeshows	\$10,000.00
PR Agency Fee	\$100,000.00
Corporate Memberships/Sponsorships	\$20,000.00
Promotional Publications	\$250,000.00
Other Marketing	Subtotal \$580,000.00
	Sales/Marketing Subtotal \$2,695,819.20
	% of sales \$0.134
Operating Expenses	
Accounting/Legal	\$44,000.00
Accounting	\$40,000.00
Legal	\$66,668.00
Administrative	Subtotal \$150,668.00

## INCOME STATEMENT (continued)

	Year 5
Payroll	
Salaries/Benefits/Commissions	\$368,614.40
	Subtotal \$368,614.40
Facilities	
Office Rent	\$158,400.00
Facilities Rent (Special Events)	\$40,000.00
One-Time Office Supplies	\$54,000.00
	Subtotal \$252,400.00
Communications	
Office Phone (Skype Accounts)	\$2,475.00
Cell Phones	\$9,900.00
Internet Access	\$5,000.00
	Subtotal \$17,375.00
Consumable Expenses	
Non-Capitalized Equipment	\$4,950.00
Office Supplies	\$8,250.00
Courier/Shipping/Fax	\$8,250.00
	Subtotal \$21,450.00
Human Resources	
Recruiting & Training	\$165,000.00
	Subtotal \$165,000.00
Insurance	
Office Insurance	\$6,600.00
D&O Liability Insurance	\$10,000.00
E&O Liability Insurance	\$20,000.00
	Subtotal \$36,600.00
	Operating Expenses \$1,012,107.40
	% of sales \$0.050
Total Revenue	\$20,145,448.00
Total Expenses	\$4,915,291.00
Net Profit	\$15,230,157.00

## PART

## III

## THE FOUNDER AND TEAM

Entrepreneurial founders must take a personal role in attracting, motivating, inspiring, and retaining an effective team of both specialists and generalists. The quality of that team has never been more fundamental and important than it is now. The new millennium ushered in a wave of new opportunities requiring nimble and creative teams. Some pundits have characterized this time as the communication era, characterized by galloping innovation—fuelled by the ability of inventive engineers and creative entrepreneurs to instantly access and share information worldwide. Investors stung by the dot-com fallout and the recession that ensued regained confidence as another boom wave followed. This was interrupted more recently by a global slump that hit harder and deeper than expected; private and venture capital investors emerge with a renewed appreciation for the time-tested wisdom that successful new ventures are often all about the team. Chapter 5 “The Entrepreneurial Leader” looks at the leadership issues inherent in building a company from scratch—and the significant recruiting, sales, and management skills the founder(s) must bring to bear as the enterprise grows through various stages.

Entrepreneurship titles now dominate the business sections at major booksellers like Chapters, and a growing number of students and professionals are seeking career opportunities in the entrepreneurial sector. While this has created a significant pool of talent to support the development of new ventures, one of the most critical aspects of entrepreneuring is in being able to attract the *right* people: team players whose skills and know-how are critical to the success of the enterprise. Ambiguity, risk, and the need to collectively turn on a dime in the face of shifting competitive landscapes require that entrepreneurial teams be greater than the sum of their parts. Like marriage, forming and building that team can be a rather unscientific, occasionally unpredictable, and frequently surprising experience. In Chapter 6 “The New Venture Team” we put a zoom lens on the “people” portion of the Timmons Model.

The solo entrepreneur may make a living, but it is the team builder who develops an organization and a company with sustainable value and attractive harvest options. The vision of what these founders are trying to accomplish provides the unwritten ground rules that become the fabric, character, and purpose behind the venture. Effective lead entrepreneurs are able to build a culture around the business mission and the brand by rewarding success, supporting honest failure, sharing the wealth with those who helped to create it, and setting high ethical standards of conduct. Chapter 7 “Ethical Decision Making and the Entrepreneur” addresses the complex and thorny issues of ethics and integrity for the entrepreneur, and how those decisions and choices can have a significant impact on future success.