

Creating an e-Business plan

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1. E-Business Planning

An e-Business plan is much the same as any business plan where the business concept, its financials, aspirations, markets and goals are tightly summarized in thirty to fifty pages.

1. E-Business Planning

Eugene Yang, a managing director and head of Internet and IT Investment Banking for Societe Generale, sums it up rather neatly by saying that in order to attract money you have to stay focused in your key ideas, make sure these ideas are commercially feasible, write a well-thought out and logical business plan, and articulate your thoughts clearly and in a way that will realize your business potential.

- A good product/service
- The management team
- The market
- Sense of commitment

1. E-Business Planning

Throw out the plan that:

- ◆ says that there is no competition
- ◆ lacks detail about the product's competitive advantage
- ◆ is unclear about the actual business
- ◆ provides too much detail
- ◆ provides too little detail
- ◆ provides minimal details about how the company will sell the product or service
- ◆ had a weak management team
- ◆ makes unrealistic projections
- ◆ lists the IPO as the only exit strategy

1. E-Business Planning

Whether the e-Business is a separate entity or a division or subsidiary of a larger company the e-Business plan is developed in the same way. The reasons for this are simple:

- 1) there is a standard format for a business plan, and
- 2) the e-Business should always be thought of as a separate entity - regardless of its status within the organization

The only differences....

1. E-Business Planning

1.1 ...for the new enterprise

You suffer from lack of a tried-and-true product/service with no track record. Your team is unproven as well.

You're going to have to really “sell” your concept.

1. E-Business Planning

1.2 ...for the existing enterprise

You're going to have to prove that you're "with it!"

Questions that must be answered:

- Is the Internet unit going to be a true stand-alone operation, fully competing with its parent?
- Does it have its own revenues and expenses, its own asset base, its own management?

1. E-Business Planning

1.3 Plan components

- ◆ 1. The Executive Summary
- ◆ 2. The Management Team
- ◆ 3. Company History
- ◆ 4. Product Description
- ◆ 5. Business Opportunities
- ◆ 6. The Competition
- ◆ 7. Research and Development
- ◆ 8. Pricing
- ◆ 9. Marketing Plan
- ◆ 10. The Financials

2. The Executive Summary

Executive summaries can take many forms. The two most popular are:

1) the multi-paragraph free-form description which informally summarizes, in less than two pages, the entire business plan,

and;

2) the more structured, formal executive summary.

2. The Executive Summary

2.1 Writing the overview - Example

Describe who you are:

EXECUTIVE SUMMARY

COMPANY B

SOFTWARE – APPLICATION DEVELOPMENT
/ SOFTWARE ENGINEERING / RE-
ENGINEERING

2. The Executive Summary

2.2 Writing the overview - Example

Describe the company:

COMPANY: Company B, founded in 1997, with headquarters in New York City, NY, is a leader in the development of intelligent software systems for the applications development and re-engineering markets. The Company is highly innovative and has developed a series of programming tools which use proprietary, intelligent, document/text analytical and parsing techniques which results in exceptional programmer productivity gains. The Company is profitable, even after development costs association with the introduction of new toolsets. The Company intends to accelerate the introduction of new intelligent software engineering products, including Web-based products, which will be sold via the Company's web site (www.b.com), its direct sales force and through VARs and resellers.

2. The Executive Summary

2.3 Writing the overview - Example

Describe the market:

MARKET: The market for the Company's core business are the millions of software developers in national and international corporate business arena. Dataquest has estimated this market to exceed \$238 billion and growing. Management has identified re-engineering, as evidenced by the highly publicized Year 2000, Euro-Money and Dow 10000 problems, to be a segment of the market that is under-served and suffers from a lack of innovation. Ovum has estimated the size of this market to be over 12 billion annually and growing.

2. The Executive Summary

2.4 Writing the overview - Example

Describe senior management:

SENIOR MANAGEMENT: Person 1 (40), CEO, is past managing director of R&D for Z Company, and was a prior officer of several large financial institutions. She was awarded an PhD from New York University and is the author of several books and over 200 articles. Person 2 (42), VP Marketing & Sales, has broad experience in both marketing and sales, with solid experience in high-tech. Person 3 (46), VP Technology, has over 20 years of valuable experience in the development and management of high-tech systems.

2. The Executive Summary

2.5 Writing the overview - Example

Describe your financial request:

FINANCE: Company B seeks \$2 million of growth capital to accelerate the roll-out of new, or refinement of existing, NA-Series tools and for working capital. Revenue is expected to be \$25 million in Year 3 and over \$100 million in Year 5. The Company is free of debt. The exit strategy is initial public offering, sale, or buyout.

or

Financial Goals in 000

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales (000)	1500	8500	25000	83000	106000
Net Income	531	3490	10944	40072	50873

all figures are estimated

3. The Management Team

It's often been said that what makes an e-Business attractive is 50% product and 50% management team

3. The Management Team

3.1 The team is as important as the product

The management team is more than just window-dressing for public relations. Not only should it have a firm grasp on the technology but it should also be savvy in the management aspects of running a business. Since many corporations spin-off their e-Businesses to separate companies, there is a danger that the management team will not be structured properly. There are many a failure documented in the trade magazines. The reason? The managers were too heavily weighted on the technology side of the business. In other words, they were technical gurus but were incapable of managing.

3. The Management Team

3.2 The Mix (eBay example)

The management team eBay describes on their Web site encompasses the full range of management capabilities:

- Founder/Chairman
- President/CEO
- Chief Financial Officer
- Senior Vice President of Marketing
- Vice President of International Operations
- Chief Scientist
- General Counsel
- Vice President of Strategic Planning Vice

3. The Management Team

3.2.1 At a minimum

- President and/or Chairman
- the CIO or Chief Technical Officer
- the marketing and/or sales officer
- legal counsel

4. Company History

4.1 The historical perspective

It is necessary to provide enough information to the reader so that he or she may understand how it got to the point of being able to push into the e-Business arena. This includes information on, 1) the expertise the company possesses that permits it to navigate unknown waters, 2) any marketing expertise it might have which will enable the new venture to successfully enter the market, and 3) how the idea for the e-Business originated.

4. Company History

4.1.1 The historical perspective

Answer the following questions:

1. Is it a new company?
 - 1.1 When was it founded?
 - 1.2 How was it funded?
 - 1.3 Who were the founders?
 - 1.4 Why was it founded? Mission and goals.

4. Company History

4.1.2 The historical perspective

Answer the following questions:

2. Is it an existing company?

2.1 Is this a division, subsidiary or spin-off of the company?

2.2 If it is a spin-off then go to section 1.

2.3 What are the **missions and goals**.

2.4 What is the budget?

4. Company History

4.1.3 The historical perspective

Answer the following questions:

3. How was the e-Business idea arrived at?

3.1 It was derived out of an existing product or service.

3.1.1 What's the market share for the existing product or service?

3.1.2 If it is a service, how do you propose to turn it into an e-Business?

3.2 It is a new idea

3.2.1 Provide market data to demonstrate validity of the new idea.

4. Company History

4.1.4 The historical perspective

Answer the following questions:

4. Make the case for the e-Business

4.1 In one paragraph summarize your e-Business concept

4. Company History

4.2 Your mission and goals

The mission or vision:

The vision of this company, simply put, is to help other enterprises succeed. We will do this by unleashing the full potential of an exciting new product – *Precise*. This product will be a valuable, cost effective tool that can be delivered to customers in a variety of ways, thus enabling it to be of value to organizations of all sizes, from the largest companies in the world to mid-size and smaller organizations as well.

Now itemize your specific goals

5. Product description

5.1 How to describe what it is you are trying to sell

In this section you will provide more detail about the e-Business product or service you are offering. For the most part this section can be split into two sub-sections:

- 1) features
- 2) benefits

5. Product description

5.1.1 Product description - features

All e-Businesses can be considered computer systems. Since your customers will be using a computer to gain access to your product and/or service it is the interface to your e-Business web site that you are actually describing in the features section.

For example, an e-Business offers employee testing over the Internet. An example of the way you might describe its features follows:

- Can test any number of (prospective) employees at one time utilizing any number of tests at one time
- Tests can consist of from 1 to 1000 questions each with an image and unlimited hyperlinks

5. Product description

5.1.1 Product description - benefits

Where the features section describes the nitty-gritty of what the e-Business does the benefits section is used to make a case for actually paying or using the e-Business. An example of the way you might describe its benefits follows:

- Utilizes a neutral, impartial source to assess prospective and current employee skills
- Saves administrative costs associated with skills assessment

5. Product description

5.2 The importance of the prototype

e-Business systems are by their very nature very graphical. If the e-Business web site has already been built, even in prototype form, it would be worthwhile to add some color to the Business Plan by adding what those in the tech-world call screen-shots. These are color images of the most impressive of your web site's pages.

Some business plans include a mini-tour of the web-site. Here they take screen images of each of the pages that are traversed during a routine visit to the e-Business web site. They then append descriptive text to each image. In this way the reader of the business plan is provided a mini-tour or walk-through of the e-Business without actually having to login to the Internet.

6. Business opportunities

6.1 Pinpointing your markets

For an e-Business to survive it must be adaptable and continually look for new opportunities. For example, a company develops a software product but realizes that there are more opportunities to deploy it as a service across the web than as a standalone software product.

6. Business opportunities

6.2 Estimating expected sales

To estimate customer sales will require you to perform some competitive research:

1. Make a list of potential competitors that are already public companies
2. Go to www.hoovers.com to look up each competitor
3. Go to www.sec.gov to review 10Q and 10K (you can also get this from hoovers)
4. Extrapolate your potential sales figures from analysis of your competitors

7. The competition

7.1 Performing competitive analysis

1. Use services already mentioned (i.e. hoovers.com and www.sec.gov to review public company financials
2. Surf competitor sites.
 - Download all competitor sales brochures
 - Read all press releases
 - Sign up for any free trials or free offers
 - Collect information from the About Us page
 - Find out who is advertising on their site
 - Find out who is linking to their site

(Use altavista's link:www.yourcompetitor.com)
3. Use a search engine to see who is writing about each competitor and what they are saying

7. The competition

7.1.1 Performing competitive analysis

Read between the lines in their annual report!

"Also shrinking is the number of large U.S. publishers, which have been reduced because of buyouts and mergers, such as the German giant Bertelsmann AG's purchase of Random House last year. Bertelsmann also owns Doubleday and Bantam. In 1994, Barnes & Noble reported that books from the 10 largest publishers accounted for three-fourths of their purchases. Just three years later, those 10 companies accounted for less than half of the books sold. "

7. The competition

7.2 Describing your competitive advantage

In this section list all known competitors and then explain how they pose a threat to you.

It would be an excellent idea to also explain how you intend to minimize that threat (i.e via a massive marketing campaign, through public relations, etc.).

For phantom competitors you will need to include one or more paragraphs that explain the potential of the introduction of competition from unknown sources.

8. R&D

- 8.1 Next 6 months
- 8.2 Next 12 months
- 8.3 Next 3 years
- 8.4 Next 5 years

1. Discuss what you will spend your money on
2. Discuss either dollar amounts of percentage of revenue that you will spend

9. Pricing

9.1 What are you going to charge

1. Sell items
2. Sell services
3. Sell advertising
4. Be a web portal

In this section you will need to spell out exactly how you intend to make money. What will be the fees for your products and/or services and how much you expect to gross during the coming year and next five years.

9. Pricing

9.2 How are you going to get paid

1. Credit cards
2. Cybercash
3. Billing
4. Via sponsors/partners

10. Marketing Plan

The marketing plan brief consists of sections on:

- 1) public relations
- 2) marketing efforts such as direct mail, telemarketing and trade shows
- 3) advertising
- 4) reseller and affiliate agreements
- 5) partnerships

Advertising/Marcom/PR	300.00	1050.00	3000.00	5500.00	7500.00
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10. Marketing Plan

10.1 Your advertising strategies

1. Where are you going to advertise?
2. How much is it going to cost?

10. Marketing Plan

10.2 Listing your public relations strategy

1. The average PR firms costs \$6000/mo
(for a small business)
2. PR costs rise dramatically the larger the
company

11. Financials: The ProForma

Starting an e-Business will require you to estimate both your expenses and revenues. While a company who is porting their product or service to the web as an e-Business might have a very good handle on this, many start-up e-Businesses haven't a clue.

Interestingly it's common knowledge that most venture capitalists don't even look at the financials suspecting the fiction that most certainly produced them.

11. Financials: The ProForma

11.1 Estimating revenue

As discussed:

To estimate customer sales will require you to perform some competitive research:

1. Make a list of potential competitors that are already public companies
2. Go to www.hoovers.com to look up each competitor
3. Go to www.sec.gov to review 10Q and 10K (you can also get this from hoovers)
4. Extrapolate your potential sales figures from analysis of your competitors

11. Financials: The ProForma

11.1.1 Estimating revenue

Company "X"					
	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	1500	8500	25000	83000	106000
Profit	1,548.50	6,497.50	16,457.00	60,258.00	76,501.00

11. Financials: The ProForma

11.2 If you obtain investment capital

If you are going to use the business plan to raise money then be extra credit to ensure that you offer a substantially high return on investment. Venture firms usually want at least 40% back on their investment - anything lower is a definite "red flag". On the other hand, unrealistic projections can be just as damaging to your funding well-being.

11. Financials: The ProForma

11.2.1 What VCs want

1. Part of a large market
2. Profitability
3. A market leader
4. A properly valued company
5. Realistic projections
6. A good analysis of the competition
7. A high return on investment
8. A 3-5 year return

11. Financials: The ProForma

11.3 Estimating selling, marketing and other promotional expenses

Company "X"					
	Year 1	Year 2	Year 3	Year 4	Year 5
Selling Expenses					
Advertising/ <u>Marcom</u> /PR	300.00	1050.00	3000.00	5500.00	7500.00
Commissions	150.00	850.00	2500.00	8300.00	10600.00
T & E	12.00	47.50	89.00	160.00	320.00
Total	462.00	1947.50	5589.00	13960.00	18420.00

11. Financials: The ProForma

11.4 Estimating administrative costs

Company "X"					
	Year 1	Year 2	Year 3	Year 4	Year 5
Administrative					
Salaries	135.00	765.00	2250.00	7470.00	9540.00
Insurance	14.00	77.00	225.00	747.00	954.00
Total	149.00	842.00	2475.00	8217.00	10494.00

11. Financials: The ProForma

11.5 Estimating facilities costs

Company "X"					
	Year 1	Year 2	Year 3	Year 4	Year 5
General					
Rent	18.00	120.00	120.00	120.00	120.00
Utilities	5.00	18.00	20.00	20.00	20.00
Telephone	12.00	50.00	44.00	60.00	70.00
Office Expenses	10.00	45.00	45.00	45.00	45.00
Supplies	5.00	15.00	20.00	25.00	35.00
Postage	0.50	15.00	30.00	45.00	45.00
Research	10.00	100.00	100.00	100.00	100.00
Hardware/Software	30.00	100.00	100.00	150.00	150.00
Total	90.50	463.00	479.00	565.00	585.00

11. Financials: The ProForma

11.6 Describing effects of investment

EFFECTS OF LOAN OR INVESTMENT

Outlays are described in the Proforma Financial Statement above. These outlays will enable us to operate at a level that will allow us to meet our conservative sales goals for the first three years. Descriptive notes follow:

1. Salaries refer to professional employees. We expect to hire three - five (or use consultants) programmers in year one. We expect also expect to hire three telemarketers in year one. An office administrator will also be hired.
2. Advertising covers advertising on the Web, computer trades and trade shows.
3. Public relations covers the cost of an outside PR agency.
4. Although computer equipment is already available, it is necessary to maintain a state-of-the-art presence in terms of hardware and software.

11. Financials: The ProForma

11.7 Describing the investment exit strategy

EXIT STRATEGY

It is projected that investors will receive shares of The Company's stock which may be disposed of in the following manner:

1. If our plan is successful we would like to start the process of going public with 18 months of funding. Investors can recoup their investment and profit from these proceeds.
2. Investors may recoup their investment and profit from revenues if those revenues exceed projected profits as specified in this business plan.
3. % ownership for capital invested is negotiable.