EQUITYNETWORK
BUSINESS PLANNING TOOL

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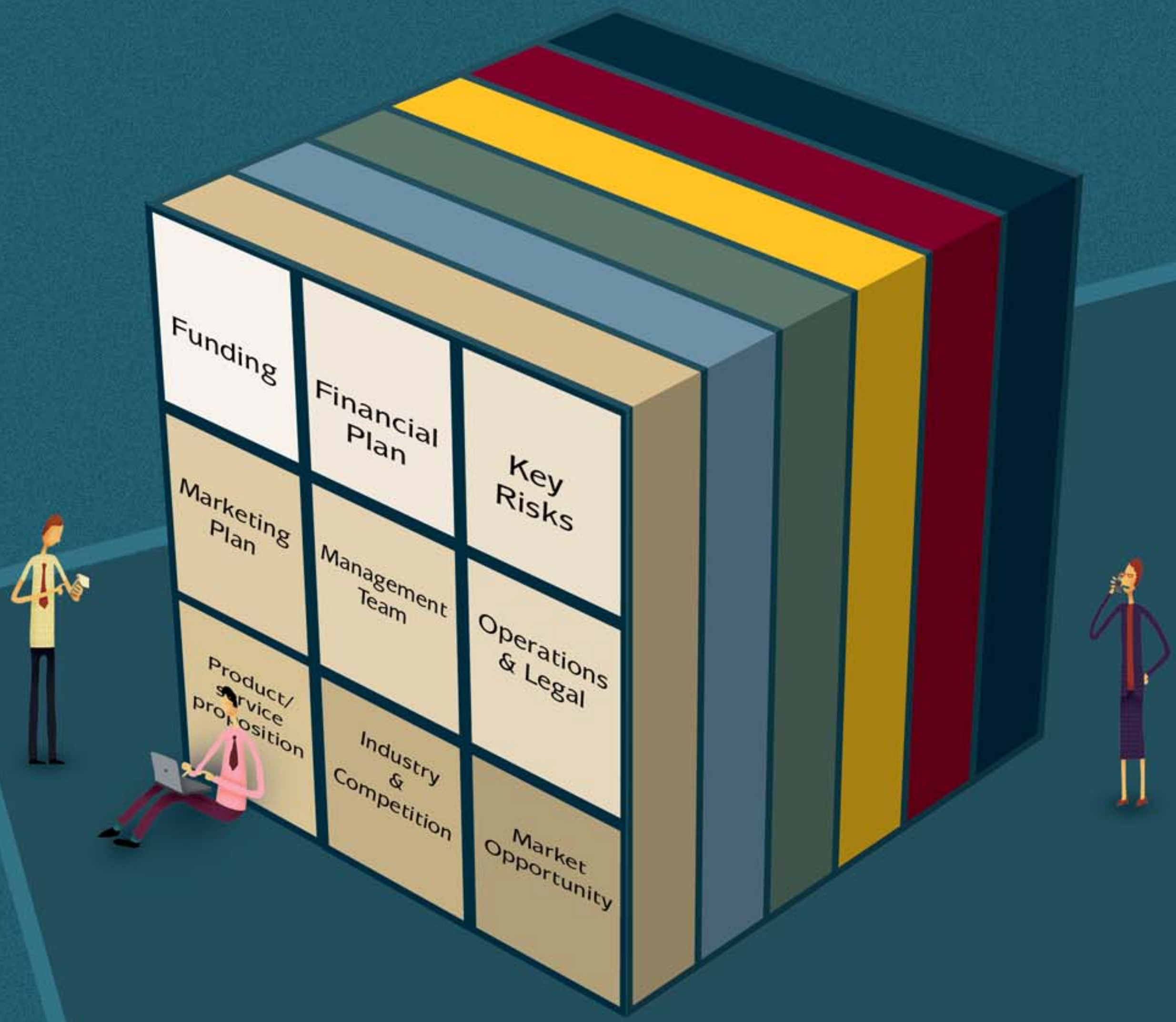
THE BUSINESS CUBE



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It outlines the key information components that investors look for when evaluating investment opportunities, and is therefore a useful guide for ensuring that your business plan addresses those key issues in which potential investors will have greatest interest.

Foreword

Objective

The objective of a business plan is to raise money.
It therefore has to convince a potential investor that the business is a worthwhile investment. To do this, your plan should:

- attract the investor's interest and attention
- emphasise the strengths of the business and its position in the market, especially compared with your competition
- recognise the risks
- project the development of the business

The financial forecasts are a critical part of the plan. Consideration should be given as to how each piece of information in the plan affects the plausibility of the forecasts.

The investor needs to be convinced that management has the expertise and commitment to execute on the plan and realise the potential of the business.

Preparing a business plan is a useful discipline for all businesses because it encourages management to clarify how it sees the business developing. A good management team will already have prepared a corporate strategy written for their own purposes, which may form the basis of a business plan to raise finance.

This document provides general guidelines covering the main principles. You must vary your content to reflect the specific issues related to your business and sector; e.g. medical devices require regulatory approval, Information and Communication Technology (ICT) may have different revenue models, and manufacturing would have supply chain issues. The general principles of a good team and the importance of cash flow apply to all businesses.

Length

The plan should be brief. Most are 15-20 pages; it should not exceed 25 pages.
A balance must be struck between ensuring the document is concise and well-presented and providing sufficient information.
The investor will often conduct his own investigation/due diligence, so will not always need detailed explanations in the body of the plan. Any detailed information should be provided in the appendices.

Verification

Where possible, reference should be made to relevant prior trading experience. Provide primary and external research, including data or publications, to support the information given. Unsupported opinions and assertions show a lack of preparation and professionalism, and credibility will be undermined.

The business plan should indicate where financial support (including Government assistance) has already been given or offered.

Essential points

A considerable amount of information is required in a business plan:

- pay particular attention to presentation - first impressions are important. Approximately 95% of business plans are rejected, often because their presentation lets them down
- be frank - if you misrepresent something, the astute reader will see through it and will not be impressed
- make every effort to sustain the reader's attention from start to finish
- ensure the logic, proposals and assumptions are consistent throughout your business plan

Do not underestimate the time taken between presenting the business plan and receiving the required finance. Depending on the type of finance required, the delay could be anything from a few weeks to several months.

Using the Business Cube to prepare your Business Plan

As a general rule the business plan should be structured in four parts:

- Executive Summary
- Main text
- Schedules containing financial information
- Detailed appendices to support information and opinions expressed in the main text.

A business plan must address a variety of strategic, operational and financial issues relating to the business. It's contents must be comprehensive enough to impress and encourage the reader to pursue the opportunity further, yet focused enough to ensure that the plan is punchy and does not exceed the recommended 25 pages. Understanding precisely what issues to address (and the order in which to address them) is a key challenge when preparing a business plan.

The Business Cube

The Business Cube is a simple and intuitive tool to aid in business planning. It outlines the key information components that investors look for when evaluating investment opportunities, and is therefore a useful guide for ensuring that the business plan addresses those key issues in which potential investors will have greatest interest.

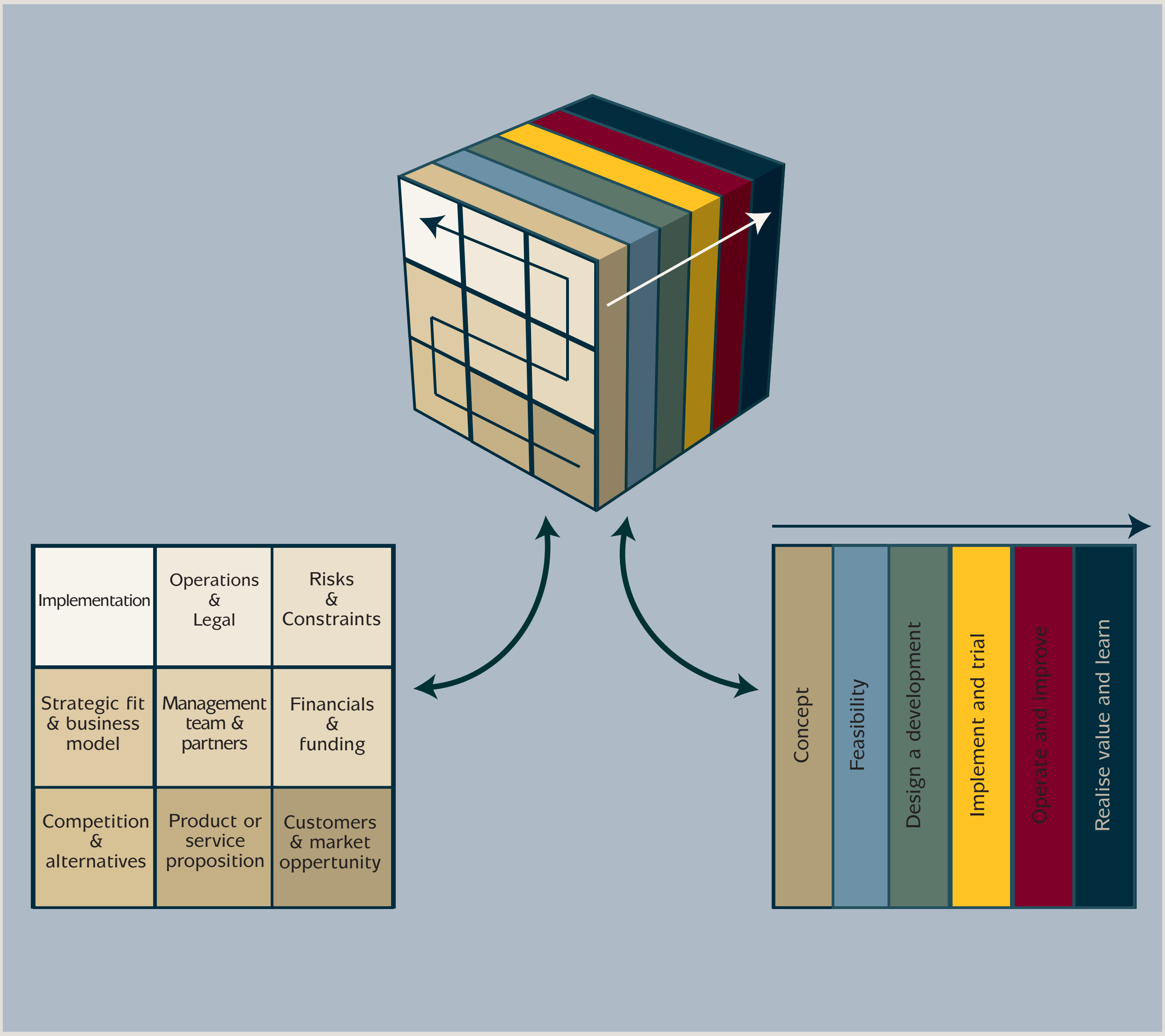
The principles of using The 'Business Cube' to think about your business are as follows:

- business plans should allow for continal refinement, consultation and improvement to iron out any wrinkles and reflect the evolving nature of a business idea
- you need to think holistically about the business even at the concept stage
- you should update your business plan at each of the key stages described in the Business Cube (e.g. from 'concept' to 'realising value and learning')
- as you move to the next stage of a business idea you may need to change elements of the plan or address any imbalances that are highlighted.

Investors want to see that the team will make sensible changes to their plans to achieve business results e.g. cash and profit targets, and not stick to unrealistic unachievable plans.

This guide focuses on the elements that need to be considered at the phase of raising funding, togeter with areas of particular interest to investors.

The Business Cube

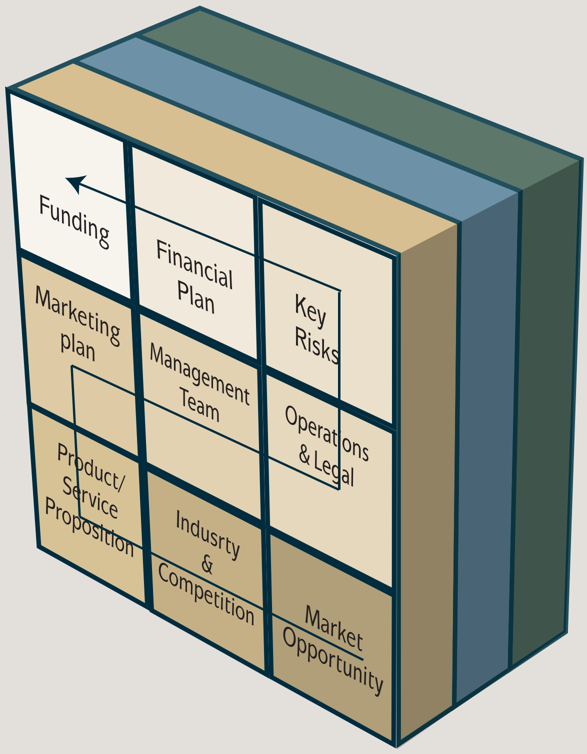


Reflecting the components of the Cube, the business plan should be structured as follows:

1. Executive Summary
2. Business Overview
3. Market Opportunity
4. Industry & Competition
5. Product or Service Proposition
6. Marketing Plan
7. Management Team
8. Operations
9. Key Risks
10. Financial Plan
11. Funding
12. Exit Strategy
13. Summary
14. Schedules
15. Appendices

Recommendations regarding the specific content of each of these sections are discussed in the pages that follow. The nature of your enterprise will, to some extent, determine how much weighting should be afforded to some of the specific issues/questions raised within each of these sections. Regardless, adherence to the recommended plan structure is strongly advised.

For example, an ICT company may focus on revenue models for online businesses, or a a medical device/pharmaceutical business on gaining regulatory approval, and university spin-outs on protecting intellectual property.



1. Executive Summary

The objective of the executive summary is to convey the main points of your investment proposal to potential investors, attract their attention and encourage them to read on. Therefore this section should aim to answer the potential investor's basic questions.

The executive summary should be at the beginning of the business plan and is typically 2-4 pages in length.
It should never exceed 5 pages.

The following questions should be answered:

- What does the company do?
- Describe your value creation pitch to investors in no more than 50 words.
- How long has it been established? What has been achieved already?
- Who owns the company and who manages the business?
- What are the sales and profit levels for the last three years (if appropriate) and those forecast for the next three years?
- How much money does the company want to raise and why?

The summary should outline the purpose and aims of the business. It must address the specific issues upon which the decision to invest will be made. These points will be considered in greater detail in the rest of the business plan.

The summary should also include;

- the critical points of the financial projections, such as maximum funding requirements or break-even points
- the particular strengths of the business, whether in its management, products or market sector
- any events, such as the completion of product development or licensing/regulatory approvals, upon which the success of the venture depends
- the major risk factors of the proposed venture

2. Business Overview

This section should describe in simple terminology exactly what your company does (or will do) and briefly explain the background, history and ownership of the company.

Features which distinguish your company from competitors should be highlighted, such as any patents, brand names or proprietary technology. The section should also consider why people (will) buy from your company rather than its competitors, whether they will continue to do so and whether the products are in danger of becoming obsolete or superseded.

3. Market Opportunity

This section should enable the potential investor to understand the key demand drivers and potential for growth of your business. It should describe:

- the size of the Target Assessable Market (TAM)
- the segment of the market to be served/targeted (territories, potential growth and particular characteristics such as seasonality, for example) and the justification for your assumptions
- (generic) customer buying behaviour and key purchasing criteria
- key/relevant external factors influencing market demand (e.g. social, economic, legislative and technological factors), including consideration of whether/how demand may be affected by recession
- specific market/demand opportunities the business is seeking to exploit

4. Industry & Competition

This section looks at how your company and competitors endeavor to satisfy the market demand discussed above. It should identify key competitors and enable the potential investor to understand the positioning and competitiveness of those companies, as well as identifying any key trends in the industry.

Good management will know a great deal about their competitors and this information should be summarised here, including:

- the identity and size of major competitors and their market share compared to that of your company (target and/or actual) Where precise market shares are not available, relative shares are sufficient
- a description of main competitors, including their perceived strengths and weaknesses
- any information available on the financial position of main competitors
- the factors affecting a customer's decision to buy from competitors rather than company; these could be superior product performance, degree of innovation, price, quality, service, speed of delivery, brand name or reputation, for example
- key distribution channels with consideration given to which players in the supply chain hold the greatest bargaining power, and how this affects margins
- commentary on any barriers which may exist to prevent new competitors entering the market in the near future
- commentary on any key trends and dynamics (e.g. consolidation, globalisation)

5. Product/Service Proposition

Set against the context of the market needs, competitive offerings and related opportunities discussed in the preceding sections, this section should:

- define the product and/or service in layman's terms, clarifying the principal product/service features, benefits, positioning (versus competitor products) and competitive advantages (or 'USPs' - Unique Selling Propositions)
- consider whether the products are in danger of becoming obsolete/superseded. If this is a real threat, outline possible future developments to maintain competitive advantage
- Describe any protection that currently exists to prevent your proposition from being copied, e.g. patent protection by countries, trademarks, confidential know how etc that can be used to maintain a 'virtual monopoly'
- refer to any endorsements received from trade journals, customers or potential customers, and market surveys or opinion polls. Details of these should be included as appendices

If the product is based on new/emerging technology, the plan should also indicate:

- stage of development e.g. beta version under trial
- whether and what type of additional research and development is required to produce marketable products
- why the proposed technology will be adopted
- the time to market and route to commercialisation
- the technical risk, and how easily the technology could be replicated or substituted
- the regulatory requirements that would need to be satisfied; cost, duration and associated risks involved

6. Marketing Plan and Route to Market

Route and time to market for early stage technology companies will be foremost in the mind of the investor. The marketing plan is a key component of your overall business plan, and should enable the potential investor to understand the key marketing strategies and tactics that will drive the revenue growth of the business. This section should specifically address:

- winning initial customers via pilots and direct sales
- the business model B2C, B2B etc.
- distribution (channel management) strategy e.g. direct/indirect sales, distributors, online sales, advertising revenue share
- the revenue model, for example three year licence linked to user numbers plus maintenance. Pricing strategy and outline pricing policy
- promotion strategy
- key customers with whom the company is trading or planning to trade

Specific issues which the plan might address relating to each of the above areas are outlined here. Select the points which are appropriate to your business and plan.

If your business has a separate marketing plan which, for example, may cover specific strategies/tactics for each of the elements above in more detail, it may be included as an appendix. The marketing plan should include details of the product proposition (as outlined in Section 5).

This section should also provide a detailed rationale for gaining traction in the marketplace and thereafter year on year growth.

As with all key elements of the plan, the marketing plan should be supported by appropriate research.

6.1 Key distribution-related areas to address;

- Through what channels/intermediaries (agents, distributors and/or retailers) will you market your product?
- If you sell through intermediaries, how do you know, and what evidence do you have to support the contention that intermediaries will stock/sell your products?
- What incentives will you likely need to provide to intermediaries? Do you expect to face downward pricing pressure from key distributors/retailers?
- Are distribution costs vulnerable to change?
- What are the key distribution/channel-management related risks?

6.2 Key pricing-related areas to address;

- Outline your planned pricing and discount strategy to end-users and any intermediaries
- If possible, provide evidence to support your contention that customers will buy at this price
- Discuss your company's ability to change pricing if competitors react (e.g. by lowering their own prices), and assess the likely impact of such changes on sales and profit

6.3 Key promotion-related areas to address;

- Clarify the objectives of your promotional strategy (e.g. to build product/brand awareness or to increase share by encouraging competitors' customers to switch brands, for example)
- Outline the specific promotional activities you will deploy to build demand for your proposition among target customers

6.4 Key revenue and customer-related areas to address;

- Outline the key revenue and finance sources e.g. government grants, contract research, joint development. Which markets could you address first to gain revenue and mitigate risk, e.g. lower regulatory environment on the way to medical sector

- Describe your major customers business and their percentage share of turnover. It is necessary to balance the available opportunities and the risks arising from over dependence on a limited number of customers

- If appropriate, assess the financial and corporate position of major customers, paying particular attention to any key customers which may be financially vulnerable

- Detail the current order book (or pipeline status if pre-revenue) and describe any seasonal variations which may occur

It is easy to fall into a number of traps when assessing the potential market and the likely effectiveness of your marketing plan. So consider some of the more common errors when preparing your plan:

- using misleading or inappropriate statistics

- not recognising the mix or distribution of customers in a particular market

- claiming your product is 'unique'

- not recognising special characteristics of the market such as seasonality or dependence on complementary products

- failing to consider the likelihood of market acceptance of a new product

- failing to consider the response of competitors

- assuming orders from existing customers will be repeated

7. Management Team

It is most important to demonstrate the qualities and suitability of the founder entrepreneurs and management. The experience and achievements of a company's managers carry a great deal of weight in influencing an investment decision.

Brief details about the directors and senior managers of your business should be included. For each team member provide a;

- profile

- qualifications

- track record

- relevant experience

- role in the business

- other business interests

- shareholding (present and proposed)

The motivation of the management team should be outlined, highlighting their personal aims and incentives.

Your management structure should also be set out in the appendices, identifying key individuals. This section may also include an outline of management and staffing requirements, succession arrangements, staff turnover levels, particularly for senior management, the availability of employees and any special skills or qualifications required. If particular skills are missing from the management team, for example a finance or business development director, this section must comment on the situation.

8. Operations

This section should:

- outline the production process and key operational activities (inputs, resources, operations, logistics)
- provide detail of key operational dependencies, advantages over your competition, issues, risks and assumptions underpinning the business plan

A separate/detailed Operations Plan may be included if necessary as an appendix.

The Operations section should also address specific supply-related issues:

- describe the principal suppliers, their location and financial position
- detail whether essential suppliers are multi-sourced and outline protections in place against delays or inadequate quality
- detail reliance on imports or commodities which may be subject to exchange rate fluctuations or changes in world markets, and the steps taken to minimise these exposures

9. Key Risks

Every commercial undertaking comes with some degree of risk, and investors expect this to be the case. They are, however, sceptical of any enterprise that does not acknowledge the existence of risks, as a risk identified is often a risk that can be managed.

Investors are invariably impressed by management teams who recognise key risks, identify ways in which these risks can be mitigated, and reflect both these issues in the business plan.

Key risks/vulnerabilities might include:

- market adoption of technology is in 'early adopter' phase
- fall in market/customer demand
- loss of value proposition competitiveness and any corresponding loss of market share, or inability to secure projected share gains and/or pricing levels
- competitor reaction
- operational difficulties (e.g. difficulty securing supply of resources and/or inputs, system downtime, clinical trial issues)
- delay/failure in getting regulatory approval or relevant operating licenses

Having identified specific risks, you need to ensure that:

- these risks have been adequately reflected in the financial projections/assumptions
- you have provided compelling evidence to suggest that (and how) these risks might be managed/mitigated

10. Financial Plan

10.1 Ownership and Structure

This section should provide details of current shareholders, their holdings and any expected changes, along with details of any existing or planned employee share option schemes.

If the business comprises more than one company a summary diagram of the group structure should be included together with a brief description of how the businesses interrelate.

10.2 Financial Analysis

The financial analysis should include summary profit and loss figures, balance sheet and cashflow statements, and a source and application of funds summary. The section should comment on the financial history and projections with salient features highlighted. Key assumptions underpinning the headline revenue and EBITDA (earnings before interest, taxes, depreciation and amortization) forecasts should be outlined. Management's plans to monitor and report on performance should also be included.

Detailed financial analyses should appear as schedules.

11. Funding

The ultimate objective of your business plan is to attract funding. Investors will want to know exactly how much financing is required, why that financing is required and how it will be spent.

This section should therefore outline;

- funding requirement
- funding raised (to date)
- proposed application of funds raised

It is important not to underestimate funding requirements; the business plan will not be more attractive to the investor merely because the amount of finance requested is modest. Investors are more impressed by realistic funding requests than by business plans with less than adequate capital requests, as this suggests that the management team may not appreciate the critical importance of cashflow management, which would significantly undermine commercial credibility. Funding requirements should take into account the development of the business over at least three years and allow for contingencies.

12. Exit Strategy

This section should explain the method and timescale envisaged for shareholders to make a profit on their shares. Potential investors would typically expect to realise their investment within, say, five years. The majority of exits for growing businesses are through the sale of all or an element of the business to another organisation in the industry (trade sales), e.g. sale of a proven medical device to a medical business or software solution to a systems integrator. Prospective acquirers and joint venture partners should be detailed. Another route is to IPO (Initial Public Offering) on a stock exchange such as AIM.

13. Schedules

The schedules should include:

- detailed financial history covering three to five years (if the business has a trading history)
- detailed financial projections for the next three years, phased monthly for at least the first two years and including integrated projected profit and loss accounts, cash flow statements and balance sheets
- the principal economic and commercial assumptions upon which the projections are based (e.g. market share, capital expenditure, utilisation of capacity, interest rates, exchange rates, collection of debtors and payment of suppliers)
- significant accounting policies used by the business (e.g. the recognition of profit write-off of both tangible and intangible fixed assets, valuation of stock and treatment of research & development costs)

The profit and loss accounts, cash flow statements and balance sheets must be integrated. Financial modelling packages are almost universally used in preparing the pro-formas and can be used to carry out sensitivity analyses to answer 'what if' questions. It may be useful to show high and low forecasts in the plan.

14. Appendices

The appendices should include any information which is not suitable for the text of the business plan, but which explains or supports the information and opinions your plan contains. They might include:

- management structure
- full details of the executive directors' and senior managers' backgrounds
- R&D roadmap and White Papers
- sales literature
- market studies and third party endorsements/testimonials
- cost estimates and quotations (provided by third parties)
- signed reseller agreements and strategic alliances
- audited financial statements