



Chapman, Spira & Carson, LLC

Business Plan Analysis

Over the years, the staff at Chapman, Spira and Carson has perused countless business plans. We have come to realize that there are certain critical elements that are strategically imperative if the entrepreneur wants his plan acted upon by a funding source. While for most of us, funding is the purpose of the exercise but we are also convinced that a well thought out plan has benefits far exceeding the receipt of financing alone. More often than not, in the plan's formative stages, the author enters into its design with missionary like zeal. He is so convinced of the fact that his concept will reshape the world we live in as well as most of the rest of the universe that professional guidance is not sought. The result becomes an illogical monolith, saying little and convincing no one. Author's that only have their visions to guide them, at times have a great deal of trouble putting their thoughts into a rational, intelligible, readable form in which everything has its neat little cubby-hole.

Furthermore, some visionaries believe that they can see the essence of the concept and its conclusion before they lay pen to paper. A business plan is almost a living and breathing thing, thus, it grows as we nurture it. We ourselves are always surprised at how the scenario plays out when the proper input is added to the equation. If the author "goes with the flow" or in other words, allows the facts to write the plan, not his preconceived ideas, the final document will reflect the "state of the art" when it is completed. With too many preconceived ideas, the material becomes restrained or even hackneyed and the avenues become dead-end streets offering nothing new.

As the progress unfolds and new data is imbedded into the text, new marketing possibilities should begin to unfold in the author's mind and many of our historic preconceptions begin to appear as so much tomfoolery. When written puritanically, the end result is more often than not, a far different cry than what we anticipated when the process was begun. Thus, we at Chapman look upon the business plan as a dynamic evolution in sophistication and knowledge about a field that when the plan is finished should belong to the author. We view its creation as mandatory, not for the purpose of showing others what you have written, for the purpose of raising money or for some other mundane purpose, but self inflicted knowledge and betterment. It is a truly wonderful exercise. Whatever direction the end result takes, we always learn about new things, a good business plan represents no less than the equivalent of an advanced college degree in what the subject may be.

From the preceding you can understand why we have determined not to spend valuable time reviewing plans that have not been carefully structured and laid-out in advance. When we can see that the plan has been written in order to prove an end, it begins to look like so much synthetic material brought together in order to make a particular case. This is not what the exercise is all about and this approach extremely transparent to a seasoned reader.

The plan should not be that complex as to confuse and structurally, only two elements should exist, the creation of the plan and being able to convey its essence to a reader in terms that do not make the subject matter more opaque to the reader than it was before he started reading. Remember, you are an expert relative to your concept and we are reviewing for the first time. Remember the axiom KISS, keep it simple, stupid. The plan must flow in a logical pattern with each and every statement coming with undeniable proof of its accuracy. When absolute proof is unavailable, the top experts in the field should be generously quoted and a similar successful projects pointed out succinctly. The success of project requires that the reader is convinced when you are finished that you have proved your point to his satisfaction without fudging anything. A great business plan will thoroughly explore both the proposals positives and negatives, but in the end, the reader should be left just as a jury in a capital case, believing that what he had read was beyond a shadow of a doubt.

All too often, the critical discipline involved in this process is not in evidence. If the principal has not taken the time to painstakingly convey his concept in an organized, readable fashion, why should an overworked venture capitalist waste his time going over a series of disorganized thoughts. When the playing field has been leveled for all concerned, one meeting is sufficient for the parties to take each other's measure and determine whether or not to proceed. A physical meeting is more about those intangibles that are of importance, such as the chemistry between the promoter and the venture capitalist.

It may be hard to believe the fact that the venture capitalist feels that his monetary contribution is every bit as important as your intellectual contribution. The venture capitalist also is cognizant of the fact that deal flow is critical to his well being. Mathematically, there is not much question that a workable concept will present itself given a finite number of presentations. At times, while we may have no interest in a particular transaction, its merits are of obviously of such consequence that we are not uncomfortable recommending it to some of associates on Wall Street.

For this reason, until the work becomes burdensome, we will agree to critique an indefinite number of business plans both from the point of view of structure as well determining if there is a potential for funding. In order to cull out those that are not really serious about their ideas, we would ask that you submit both an executive summary of your proposed project of not more than two pages along with a completed plan which among other things discusses the "state of art" within the targeted field along with potential competition. We would also like to see a marketing plan and a pro-forma balance sheet. Additionally, if scientific representations are made, there should be an explanation given of the source of said knowledge and an explanation. If we are talking about new technology, regarding a product to be manufactured, there should be an explanation of the facilities necessary and a discussion of logistics. What type of labor is necessary and is it available where the company wants to do its production.

Another problem we often see with first time business plan writers is a lack of keeping the document fresh. One of the first things we look at when perusing a plan is the date on its face. How long has this thing been floating around? Is the technology still as unique as it was when the plan was written? What about the competition, is there now something out there that is similar or even better? How many of our peers have looked at the plan over that period of time? It is obvious to us that the business plan was not written to grow infirmed with age before it would be acted upon.

The older the plan is, the more people there are that have seen it. Although we feel that the types of transactions that Chapman does are not for the average firm that does not have our research abilities and staff, there can be reasons that go beyond this arena. An example would be the possibility that although the plan has merit, management is not realistic about how a transaction should be constructed. They may not be offering the money enough safeguards or may not be interested in a transaction containing progress payments. They may not be willing to share board membership and it is possible that they are not willing to provide a discernable exit strategy.

When a bank makes a loan, they expect that if it is not for the purchase of a residence, it will normally be repaid within three years. Although the time frames involved in venture capital are much longer, the relationship between the financier and the recipient is generally much closer. The bank calls to find out why they haven't been paid if you should be a little late. The venture capitalist is will to become involved on an ongoing basis by rolling up his sleeves. People that do this for a living generally have excellent contacts within the government. They have contacts with advertising agencies, public relations companies, offshore manufactures, patent attorneys and marketing people in all areas of business. For the most part it is understood that when a venture capital group becomes involved, they will provide substantially more than money.

Additionally, the venture group has funded other transactions, it usually has people on its staff that have been involved in all facets of industry successfully. These people, although often senior, consider it rewarding to help a fledgling company, offering unique products an opportunity to strut their stuff. The reward for becoming successful in these people is the luxury of helping others achieve the success that they have achieved. At least, that is the way most member of our staff feels.

Yet, we do not want to be totally married to one another, this relationship is more typically similar to an engagement than it is a lifetime of being tied together at the waist. In situations such as this, as the company matures, other types of funding

become more competitive than the early stage risk funding that venture capital provides and the at that point in time, it is usually time for the venture capitalist to cash in some chips. The company has achieved another level in their development and it is time for the bird to leave its nest. We do not want management, at that point saying, we aren't interested in going public, lets just keep this deal between us.

Things always don't go perfectly between the engaged couple. The business plan should include an extensive use of proceeds section which not only tells us what the overall projected needs of the operation are but when in the process they will be needed. To prevent management from changing the agreed upon course, usually one of three methods is used to insure that those procedures are followed.

The first, is the simple installation of a progress payment schedule. The two parties sit down and work out a series of hurdles. As each stage is accomplished, the money is released for the next. if, a stage comes in over budget, that is also addressed. If stages are constantly brought in over budget, the projects are revisited as being to optimistic. If a hurdle can not be finished with several tranches of additional funding, it may mean that the project or more particularly, its economics are just not feasible.

The second possibility would be the setting of an escrow account with the progress schedule held by a lawyer or the bank. This is more formal and offers less interaction between the parties. On the other hand it does provide an additional comfort factor to the company that the agreed upon funding will be available as represented in the agreement if everyone finishes their job successfully. Another variation on this theme would be the venture people placing their own people with the company in the role of treasurer or comptroller. This creates a comfort level that works between the parties provided that the installed individual does not become overbearing and get involved in affairs that are not part of his domain. This usually can be easily resolved.

The last option is giving the company all of the money in front and praying that no one goes on vacation with the funds. The venture fund is usually, at least to some degree, acting as a fiduciary and at times it would not only be a mistake, but illegal as well. If things are going swimmingly, none of the above solutions are harsh, if they are not on target, any of them will not work. It is just part of the process.

It is our intention to eventually publish on this site a primer on "how to write a business plan", but considering that we have not done it as yet, the author should attempt to follow established methodology in the presentation. This offer is limited until we become inundated and is on a first come first served basis. A senior member of the team will do the analysis and promptly report back to you with our findings. We will be happy to sign a non-disclosure agreement after having read the executive summary. Please enclose the business plan in a sealed envelope along with a non-disclosure form.

We do suggest though, that you have the plan copyrighted and the idea patented before putting into the public domain. A senior member of our staff will be assigned to you project upon receipt and you will be notified as to that persons name and direct telephone line

Please enclose your name and address and your e-mail address and whatever else you believe may be helpful,

Our Address is

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30 Broad Street, 34th Floor
New York, New York 10004.

The phone number is **212-425-6100** and our fax number is **212-425-6229** or e-mail us at bobspira@chapmanspira.com

We wish you, Good Hunting!

P.S. If you really want the best business plan, talk to William Noe of our office. Take a look at his resume and if you wish, we will send you some samples of his work. I you want a plan that will really buzz, talk to Bill and see if you can work something out. The man is an artist.

Additional sources for assistance,

1. The Service Corps of Retired Executives (Score) has free counseling and workshops with over 14,000 volunteers in over 400 centers. These are called Small Business Development Centers and can be accessed by calling SCORE at 800-827-5722

2. The Small Business Administration (SBA) The Small Business Administration was created by Congress in 1953 to help America's entrepreneurs form successful small enterprises. It has evolved to the degree that it is located in every state in the Union. There is almost nothing the SBA can't provide but because it has so much to offer, it is difficult to find where you want to go. A call to their local office or on-line in internet [SBA](#)

3. Internet has countless folks that have placed sample plans on their sites in order to give assistance to entrepreneurs like yourself. Along with this, many of the large accounting firms have developed plan outlines that can be downloaded. Here are some pointers that are short and sweet,

a. Tell us what you have simply and quickly;

b. Tell us why what you have said it true, what do you have to back up your statements;

c. Tell us what the competition has and why what you have is superior;

d. How do you plan to begin your business and what do you base those particular thoughts on?

e. Where will the business be located and why are you putting it where your are?

f. Tell us about the labor supply in the area and what you cost will be;

g. Tell us about transportation;

h. What sort of meetings have you had with regional business committees, Better Business Bureau, Chamber of Commerce, Small Business Administration.

i. How are your going to market your product and how is it going to be distributed? How much is it going to cost and can it be done more effectively for less and why? Is your approach to marketing and distribution unique and if so why hasn't anybody else tried it?

j. Tell us about your management. Why are they capable of doing this job? What is their work history and when if ever have they been successful? Why did you chose this particular management group when other were available?

k. What will you earn or lose the first 12 months after you receive funding? Don't be so optimistic that it can't be justified. What about the next four (4) years?

Give as a pro-forma balance sheet and income statement with footnotes showing where you got everything and what you justification was.

l. Are you a Sole Proprietorship, a Partnership or a Corporation?

m. What is the Company's correct name, what is its state of incorporation and in what year, if a corporation? What is the entire address? What are phone numbers fax numbers? E-mail and URL?

n. Who are the owners, and what is their interests? Who is representing the company in its discussions and what is that person's telephone number and extension

o. When the plan is finished, go back again and create a table of contents;

p. What caused you to come up the concept? What was the need you perceived? Why do you feel that you have created an improvement over what is currently the market place?

q. What type of regulatory approvals do you need to be in business? How are you going to get these approvals? What type of warranties and guarantees will you be issuing?

Are there possibilities of licensing or royalty income?

What are you doing about it and why?

r. What is your current financial situation? A certified balance sheet is helpful but not at all necessary. What is the current burn rate? What about historic earnings or losses? Please itemize;

s. Have you included a glossary? If your company is in an industry in which a separate language is spoken it would be beneficial if you shared it with the readers. Please define your terms;

Expect that this will take you a lot longer than you think, no matter how long you think it will take. Our office offered to help out a client finish a business plan concerning a somewhat complex medical device that was going to need FDA approval. It was a unique product that had no market. We had to figure out how long it would take to get through the FDA, where and how it would be manufactured, who would sell it, what price it should sell for, where we could make money while awaiting FDA approval, what countries in which to file patents, what degree of disclosure we would make on our specifications when awarding contracts and when all was said and done, who and what was our market.

This business plan took 4 professionals who had experience in writing then, three months of 12 hour a day work. I must say that when it was complete, it was quite a work of art, but every author thinks the same. After finishing that plan I took an oath never to do another, and it wasn't more than six months later that I was hooked again. I find these things similar to mystery novels in which you don't know who did it until you put all of the numbers together and let them run. It is one of the most exhilarating experiences in our business. Objectively, if you even have a clue how these things will come out when they are done, you are a better person than I am.

What I learn putting this material together is something that can never be taught in school. And you know when you have done a good job because the numbers just seem to fall in line like soldiers. When I finish a business plan, I am convinced, at least for a time, that I know as much about that business as anyone that is in it. Maybe not each little nuance, but from a macro-economic viewpoint, for about a week, I will be the smartest person alive in what is happening in that field. It is exhilarating.

In pure economic terms, my writing a business plan makes about as much sense as a doctor collecting garbage. I believe that all venture capitalists are aliens of some sort or another. We sit in our offices and listen to 20 stories a day, each more fantastic than the one preceding it. We sit in our chairs nodding at the appropriate time and pretend that we are familiar with each and every nuance that we are hearing. Solomon like, we blurt out intelligent sayings when there is a pause in the conversation. When it is all over the promoter actually comes away thinking that we have had some experience in the field. In reality, we have terrific business instincts, honed on dealing with infinite different management's over the years and keeping track of who won and who lost and what were the common traits that the winners shared and what the losers shared.

So our track record is not all that bad. But best of all, we are in sync with technology and are on top of what is going on globally. To, be able to do that and get paid beside, you can't really beat that.