

Making the Business Case

Michael C. Volker, P.Eng.



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TRAILER

Do you have an idea for a business? This book will help you to determine how to go about turning your idea into reality and cash. More importantly, though, as a first step it will help you determine if the idea is even worth pursuing in the first place. To get partners and investors, you must make a business case. This means having the answers to some tough questions, the most important question being: How will your idea make money? You will also learn how to best communicate your idea using an effective Executive Summary and a well-honed elevator pitch.

ABOUT THE AUTHOR

Michael Volker is an Entrepreneur active in the development of new high technology ventures. A University of Waterloo Engineering graduate, Mike started his own company (Volker-Craig Ltd) in 1973. He sold this company in 1981 and since then he has worked with entrepreneurs in building new companies. He is presently the director of Simon Fraser University's Innovation Office where he works with researchers and students to help them turn their ideas and inventions into commercial businesses. Mike is an active angel investor and has invested in more than 100 companies. He runs one of North America's largest angel networks, VANTEC, and has coached hundreds of entrepreneurs with their business planning.

1 INTRODUCTION

1.1 FROM CONCEPT TO COMPANY

Do you have an idea for a business? This book will help you to determine how to go about turning your idea into reality and cash. More importantly, though, as a first step it will help you determine if the idea is even worth pursuing in the first place.

There is a very popular reality television series called *Dragons Den*. This originated in Japan but has caught on in numerous countries around the world, for example the BBC in the U.K. and the CBC in Canada. A similar one, called Shark Tank, is popular in the USA. In these programs, entrepreneurs try to make their business case to a panel of five “dragons” without getting “gonged” off-stage. These dragons are successful entrepreneurs in their own right who will invest their own money in businesses they believe in. The number of entrepreneurs who convince the dragons to invest is very small: It is these entrepreneurs who have successfully presented their *Business Case* to the dragons.

Many people have great ideas. There’s a lot of truth in the old maxim, “ideas are a dime a dozen.” While success in business may start with a good idea, it’s the hard work involved in building the dream that will produce a payoff.

To get partners and investors, you *must* build a *business case*. Or, do you really want to try to do it all by yourself?

This book is not about how to start and incorporate a business. It’s about making sure that it makes sense to start a new venture by asking yourself some tough questions.

1.2 THE BUSINESS CASE

The main purpose of starting a business venture is to create wealth. This is done by creating products or services and selling these to customers who need them. In working on your *Business Case*, you will be forced into thinking about how you will do that.

Preparing a written *Business Case* or *Business Opportunity Document* as it is sometimes called is a preamble to a far more detailed *Business Plan*. It helps you – first and foremost – convince yourself that your idea is worth pursuing and, if you have more than one great idea, it helps you determine which one is most deserving of your time and effort.

Another popular term is *Business Model*. This term is often interchanged with *Business Case*. The *Business Model* is helpful in business planning. It is a description of how the business will operate by defining its organizational structure, administration and policies. This is done after first making the *Business Case*. Coming up with a model doesn't make a lot of sense until the basic case is made first.

Another term that you'll hear is *Value Proposition*. There are really two value propositions. One relates to the customer. What is the value, or benefit relative to the price of the product or service, that would make a customer buy your product or service? The other value proposition relates to the investor. What is the return on an investment in this business relative to the risk that would make an investor put up some capital? Since you are, in essence, the first investor – even if it's mainly your time that's being invested, you ought to be able to justify it. These two *Value Propositions* comprise the most important aspects of making the *Business Case*.

In summary, making the *Business Case* comes down to three essential tasks: 1) identifying customers and why they will buy whatever it is you are offering, 2) identifying the capital or other resources required to achieve sales and be viable and 3) showing how much money the business will – or can – make over time!

1.3 HOW BIG?

Looking around at the corporate landscape, you will see a proliferation of small companies. Most will remain small. Some will grow and become global enterprises employing thousands of people. How big will *your* company become? That's really up to you and how ambitious you are. Are you content with running what's referred to as a "lifestyle" business? That's one with relatively few employees, likely no investors other than the founders and operators, sustainable revenues and enough profit for a very comfortable lifestyle.

What about an early exit? Build it fast to sell it and cash in. That's the goal of many start-ups especially those that are externally financed. On the other hand, do you want to build an empire like Richard Branson¹?

Big or small, this book will get you started and help you start living your dream.

1.4 WHO IS YOUR AUDIENCE?

Most often, a *Business Case* document is prepared to attract investors. It can also be used to attract employees or partners to work on building the business. First and foremost, though, it should be for you so that you are prepared to commit the many hours of hard work required to prepare a detailed plan and then begin the task of building the business into a successful venture.

You can also use it as a tool to get initial feedback from your peers, friends, business associates and others whom you trust and who are willing to listen to you. Their suggestions may fortify your case and make it stronger. On the other hand, weaknesses may be identified that you haven't thought of. No one has a monopoly on ideas, experience or intelligence and you can learn a lot from others – especially those that have lots of business experience.

1.5 ODDS OF FAILING

The reality in business is that the majority of companies will fail within their first five years¹. Of those that make it past the first five years, more than half will fail in their second five years. Of those that survive, how many are successful in terms of achieving their profit objectives? Because of the difficulty in defining “success” for purposes of statistical measurement, hard numbers about the odds of failing are not available. However, you don't need statistics to realize that building a profitable venture is not a walk in the park. It takes a lot of hard work and business acumen.

So why do so many businesses fail? The most commonly stated reason is a lack of financial capital. This is a cop-out. Think about it: with unlimited funding, you'll never fail, right? If a business has a good plan and good management, it *will* be able to raise the necessary capital. The real reason for most business failures is the inability of management to execute the business plan. There's no shortage of capital.

Good management, however, starts by asking, “is the business idea viable in the first instance”? This is why making the *Business Case* first is so important. Preparing a *Business Case* will at least help you sort out good ideas from those that are flawed from the beginning.

1.6 HAVE YOU GOT WHAT IT TAKES?

Making money in business is not a result of having a good idea or even a comprehensive business plan. It takes entrepreneurship and sound management to make money. Are you an entrepreneur? Is this an innate ability or can you learn it? What if you have no experience whatsoever, can you still start and grow into a huge business? Well, Steve Jobs, Richard Branson, Michael Dell, Bill Gates, Sergey Brin and Mike Lazaridis all did it without having any prior business experience!

1.7 YOU CAN BE A MILLIONAIRE!

Yes, *you* can be a millionaire. The really cool thing about starting a company is that you can become rich by creating your own playing field. Unlike other professions such as sports and entertainment, you have to be highly talented and skilled to become rich and famous. In business, while you may not achieve celebrity status, you can become very rich. Mind you, it's a mistake to go into business for the *sole* purpose of becoming rich, but if you go into business to achieve greatness, you might get lucky and achieve financial independence at the same time.

In the recent Vancouver 2010 Olympics in which yours truly was lucky enough to participate in the closing ceremonies (albeit a bit part), it was obvious that to win gold you had to play by established rules, train extensively and compete ferociously. If you didn't win gold, you wouldn't be famous and more than likely, not rich either.

In business, though, you set the stage. You make the rules. And, you can win big. We all hear about business superstars – CEOs of major corporations, entrepreneurs like Richard Branson and Steve Jobs but we never hear about Harry Huckinputch from Dinkeldorf who came up with software for bookkeepers that he sold for \$12 million. And why should we?

There are thousands of people like Harry all over the globe who have defined their own future and scored gold by working for themselves rather than working for someone else.

1.8 MAKING IT HAPPEN

Making the *Business Case* will get you started on the path to success. In making the *Business Case* you will have done two of the three tasks that will take you there. These are:

- The value proposition
- Will it make money (the *Business Model*)
- Execution (the *Business Plan*)

Alas, it's the third one – execution – that's the toughest. This book will get you to the starting line.

2 COMMUNICATING YOUR IDEA

2.1 TELLING YOUR STORY

After you have done your homework, you are in a position to start discussing your business idea with others such as investors, potential partners, employees, and advisors. When they ask you questions such as the ones that are going to be covered in this book, you will be in a good position to respond with confidence. Confidence is an especially important attribute when you are approaching investors.

Investors will often ask you for a complete business plan and ironically, they often don't read it when they get it. However, they will read an *Executive Summary* or some other short-form version of your business plan. If you are just getting started, your written *Business Case* may be sufficient to arouse their interest.

Many very capable company founders, especially more introverted technical types such as engineers, struggle in communicating their business ideas to others. The most common mistake that technical people make is to start off by explaining in excruciating detail how their product or invention works and why it is so wonderful. This is when the eyes of investors and non-technical people gloss over.

The next most common mistake that's made is to make broad generalizations about the market potential for their product. In every investor forum, there'll be one presenter who makes a comment like, "We are addressing a \$2 billion market." That kind of statement is a big turn-off for investors. It shows that insufficient thought has been given to the specific market niche that the product is targeting. Investors like to hear that you will dominate a specific market niche, not merely try to grab a small percentage of a crowded market.

As Regis McKenna³ wrote in his classic Harvard Business Review article, "Marketing is Everything." The essence of that piece is that you should define your market so narrowly that you own it and dominate it – whether it's big or small. That is the key to success.

The best way to get started with communicating your idea is through an *Executive Summary*. This is a document that you should prepare *after* you have done your work on making the *Business Case* by answering the questions in the following chapters. However, it doesn't hurt – in fact, it's a good idea – to start outlining an *Executive Summary* early on because it will help you focus and pay attention to the key aspects of the business. So, let's jump right in with that before getting to the nitty-gritty details.

2.2 THE EXECUTIVE SUMMARY

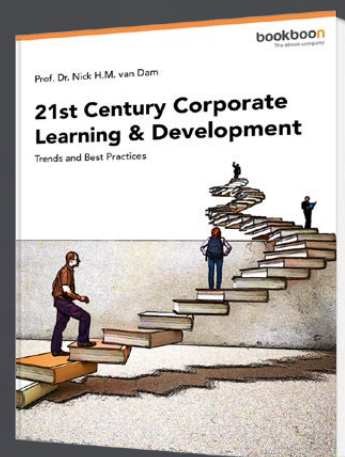
A good *Executive Summary*⁴ will be very focused and make very specific statements. Broad motherhood statements such as “We plan to be a world-class company with proprietary intellectual property specializing in enterprise management solutions” should be avoided. Why? Because this statement says nothing. Instead, it’s better to make statements like, “Our software allows organizations to track, manage and account for all of their physical assets and properties.”

In entrepreneurial circles, the term *Elevator Pitch* is frequently heard. The story behind this is that if you’re lucky enough to get on an elevator with a potential investor or customer, you only have a very short time in which to make an impact on him or her. While this sounds simple, it’s a task that many would-be entrepreneurs find challenging. There’s not a single pitch that will work for all audiences. At the very least, you should have two pitches – one for investors and one for customers. You may even want to combine the two because your investors, for example, will also want to know what you’re selling. On the other hand, your customers will likely not care about the business from an investment perspective, so you need not bore them with this information.

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Let's take a look at a template that can be used for crafting these elevator pitches beginning with a pitch for customers. It's easy! Just fill in the blanks:

We, (Company name) _____, are (what are you doing?) _____ for (who?) who need (address what pain or need?) _____ that unlike (existing solutions) will (do what?) _____ unlike _____ (competitors).

Example 1:

We, Ace Corp, are making a personal GPS tracker for parents who need to know where their children are at all times that unlike cell phones and other devices will, via a web browser, provide real-time location, speed, and path information unlike the expensive trackers made by Motorola.

Do your best to be as specific as possible. Using the above example, avoid using general statements such as "other companies." Instead, it's better to specifically refer to Motorola. Create a clear picture in the mind of your audience. Speaking of pictures, why not include a picture of the product in use? Make a mock-up or an illustration to drive home the point. A product demo is even better!

Think about how you would produce a short radio or television commercial. Have you seen any compelling advertisements recently that really grab you? Why not do something like that? By the way, have you seen any television ads that leave you wondering what's being promoted? Well, avoid being like one of those!

Now, let's take a look at a template that can be used for crafting an investor elevator pitch. Again, just fill in the blanks:

We, (Company) _____, require (\$\$) _____ for (what) _____ in return for ___% of the Company. Our plan is to be acquired by (name some): _____ in (year) _____ for \$ _____ million to give you a (state multiple) _____ return in (# years) years which equates to an IRR of ___%.

Example 2:

We, Ace Corp, require \$500K for production tooling & hiring sales staff in return for 30% of the Company. Our plan is to be acquired by Polycom in 2016 for \$15M to give you a 5X return in 5 years which equates to an IRR of 38%.

Avoid ducking the tough question regarding valuation. This is always the most agonizing part of any negotiation between entrepreneurs and investors. It's a well recognized fact that, in a negotiation, the person who puts out a number first usually has the advantage. If you let the buyer or the investor go first, they will likely low-ball you and getting them to double or triple that number will be tough. So, start high. It's easier for you to come down. At the same time, don't be ridiculous to the point where investors will be turned off. It's not that difficult to get a sense of what a good, yet aggressive, starting offer would be. Most often, valuations are based on market dynamics – not accounting practices. Many entrepreneurs use elaborate discounted cash-flow analyses to produce a number. Such a number may be useful in helping to justify or back up a market number, but on its own, its value is questionable. This is a good time to talk to advisors and mentors to get a sense of reality regarding valuation. Comparables will help, too.

Next to valuation, most entrepreneurs have great difficulty in determining just how much cash they need and when they need it. They often under-estimate the amount of cash required. This is covered in the section titled “Financial.”

Now that you know how to craft elevator pitches, you can use these as a starting point for your *Executive Summary*. It is suggested that you start off with your customer pitch first. This sets the stage for what you do. Follow this with some descriptive information as distilled from your planning. Then finally wrap up with the investor elevator pitch. For presentation purposes, putting a box around the *Elevator Pitch* or highlighting it in bold or colour, will help draw attention to it. Remember that people don't have a great attention span and you must always do your best to capture your audience's attention within the first few seconds.

Because investment information is more intimate and private, you could have two versions of an *Executive Summary* – one for general use and one for more privileged, confidential discussions.

How long should an *Executive Summary* be? For a company that is just getting started, a two-page document should suffice. That fits handily on a single sheet of paper. It makes it easy for you to fold them twice, envelope-wise, and carry them with you to meetings, networking and social events because you never know when you'll meet someone who can help you. It's a lot better than just handing out a business card!

After the opening pitch, a paragraph or two about what it is that you are doing should be included. What’s the opportunity that you are pursuing? This would be a description of the product(s) or service(s) that you are planning to sell and who you will sell this to. Most importantly, the case must be made as to why someone would be compelled to buy. There must be some salient feature from which the user derives a superior benefit. This point must come across very strongly. In fact, it is the essence of your entire *Business Case*. After all, if you haven’t got something that people want, why bother?

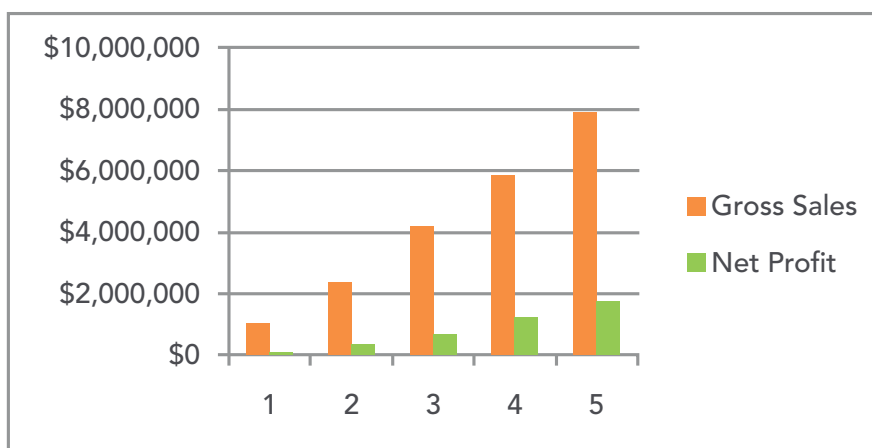
What is the context in which your product or service is offered? In other words, how would you define the market in which you plan to compete? Who are the current competitors? If your product is so novel that you do not think there are any competitors you should mention how people are presently dealing with the “pain” that you are proposing to alleviate. The status quo is competition.

The next step entails quantification – knowing the numbers. How will your product ultimately produce a profit for your proposed venture? The *Executive Summary* should include the specific numbers that come out of the planning process. Initially, you could make some “guesstimates” and then refine and update the numbers later. For example, you should say, “We plan to sell 1,000 units in our first year at a price of \$1,000 per unit for gross revenues of \$1 million with a net profit of \$100,000. This will increase to 9,000 units or \$7.9 million in our fifth year of operation at which time profitability will be \$1.75 million.” In addition to the commentary, charts graphs, and diagrams can be used to jazz up your *Executive Summary*. Visuals will be better remembered by your audience. With all the easy to use word processing software that’s available to you, there’s no excuse for not producing a professionally looking document – just make sure that solid content is included – not just window dressing.

Example: Financial Projections (chart)

	Year #1	Year #2	Year #3	Year #4	Year #5
# units sold	1,000	2,500	4,500	6,500	9,000
Price per unit	\$1,000	\$950	\$925	\$900	\$880
Gross Sales	\$1,000,000	\$2,375,000	\$4,162,500	\$5,850,000	\$7,920,000
Cost of Sales	\$400,000	\$950,000	\$1,665,000	\$2,340,000	\$3,168,000
Expenses	\$500,000	\$1,050,000	\$1,800,000	\$2,300,000	\$3,000,000
Net Profit	\$100,000	\$375,000	\$697,500	\$1,210,000	\$1,752,000

A chart like this may appear too busy. It may have a greater impact on the reader if this information is put into an easier-to-remember graphical format.

Example: Financial Projections (graph)

How far into the future should you prognosticate? In practice, it's really the first two or three years that are the most important, but it's also useful to make so-called pro forma statement five years out. It helps in showing what could be achieved. Make sure that all assumptions are realistic and achievable.

Are there any particularly outstanding aspects, for example something that will give you a sustainable competitive advantage? These should be included in the *Executive Summary*. These could be any of the following: Intellectual property rights such as patents pending or patents issued, license agreements (e.g. if you have particular commercialization rights), sales agreements, accomplished directors and advisors, relevant business experience, or anything else you'd like to emphasize.

Finally, and most importantly, you want to leave a good first impression as well as a lasting impression about your business. Show how you intend to be the leader in your field. You must be number one and dominate your market, especially the segment you focus on as a beachhead.

2.3 INVESTOR PRESENTATIONS

In addition to an *Executive Summary* for purposes of communicating your business idea, you will undoubtedly be making oral presentations to prospective investors.

Normally, entrepreneurs will first approach family members, friends, relatives or business associates when seeking investors. Many countries have strict securities rules and regulations that you must comply with. For example, in countries like the USA and Canada, it is illegal to sell shares in a private company to total strangers unless certain steps are taken. Check with a business lawyer before offering shares to anyone.

After getting a little help from your family and friends – often referred to as “love money,” your next best source of investment capital will be from so-called angel investors (also known as business angels). An angel investor is a successful business person who has made some money and is now willing to invest some of his or her time and money in a company like yours. This is a global phenomenon that has sprouted up in the past decade and most cities and larger communities throughout the world have angel groups or clubs that meet regularly with entrepreneurs looking for cash and help.

Beyond angel investors, there are institutional “venture capitalists” who invest larger sums of capital into companies that show great promise. Typically, they invest beyond the early start-up stages. More recently, there are venture capitalists that are setting up “seed funds” that invest very early in companies – often alongside angel investors.

On the flip side, we are seeing rich angels, known as “super angels” investing large amounts – in the multi-million range – the same as venture capitalists. They even hire professionals to help them manage their private investments. Unlike venture capitalists who invest other people’s money, angels and super angels invest their own capital.

In any event, whether you are presenting your *Business Case* to *any* of these investors, the next few tips and suggestions should equip you in making a positive impression.

Stories abound about great inventors who had trouble raising capital for their idea. Thomas Edison is credited for inventing the light bulb. However, two Canadians, Henry Woodward and Mathew Evans, patented a nitrogen-filled light bulb in 1874 but couldn’t raise capital to exploit their invention. Edison, however, got financial backers five years later and “bought” the patents from the two Canadians who just couldn’t make the *Business Case* to investors.

What do investors want to know? While they may be interested in what you plan to make and sell, they are more interested in how they will make money. Never forget that point. It’s easy to make an investment. It’s not so easy to get out of an investment – with a profit, that is. In addition to showing how you plan to make money in the business, you need to show how you will make money for the investors. Will you build the company to sell it? Who will buy it and for how much? It’s not enough to just say that you will merge with another company or possibly go public. Generalizations like that won’t get you very far.

Even though you may have a very attractive *Business Case* that, with respect to getting investor interest, is only the beginning. Astute investors invest in *people*. They want to be convinced that *you* can not only make the *Business Case* but can also run and build the business. Your commitment and passion is what they are looking for as well as your understanding of your own weaknesses and your willingness to listen and learn along the way. It was Steve Jobs who said, “we have to be insanely great at what we do.”

The number one rule for getting investors interested is: be engaging. Be creative in making your presentation. Use aids, props, charts, and samples to make your case. Don't be boring and don't get bogged down with details. Look your best. If you look like an axe murderer or like you've been up all night, it may be a turn-off.

Still one of the best ways to make a personal presentation is by using a powerpoint slide deck. This will help you stay focused and will also help you in keeping on time. Most investor forums are very strict about how much time they allow you to make your point (or powerpoint). There's an art⁴ to making an effective powerpoint presentation.

Here are a few basic pointers (or *powerpointers* if you prefer):

- Use LARGE fonts
- Use light fonts on dark backgrounds (projects better)
- Use few words (do not put a lot of text up. You don't want people to start reading text)
- Use pictures, diagrams, charts, even a little bit of animation

An ideal presentation consists of **10 slides** allowing about 1 minute per slide. A time limit may be imposed upon you and a common mistake is squeezing in too much information. Just be sure to cover the key points. For example:

- State the Elevator Pitch
- What's The Opportunity? (product and customers)
- How will YOU make money?
- Why YOU (and your team)?
- What's your competitive advantage?
- How much cash do you need and what do you need it for?
- What's your long term game plan for the company?
- State the Investor Pitch

Get the punch line out first. A good approach is to create a tagline for your business – what you claim to be best at. That’s the elevator pitch. In the first minute, you want to make sure that a listener has a crystal clear picture of what are you selling to whom and how you will make money!

Avoid hyperbole – it’s a turn-off and avoid being too verbose. Keep it short, simple and memorable. A famous writer⁵ once said “I would have written a shorter letter if I had more time!”

Don’t make the mistake of telling your listeners what you think they want to hear. Tell them what your vision is and then find someone that buys into that vision. For example, are you creating this company in order to sell it to a larger company five years from now? Or, perhaps you want to be an empire builder and be the next Virgin company or the next Apple. That’s a personal decision you need to make and having made it, then find those who buy into it.

After you make a presentation, have business cards and your *Executive Summary* handy but don’t give them out before you speak because you want people to listen to you without getting distracted.

2.4 NEXT STEPS

The following chapters each ask a question with some guidelines as to how to answer the question. These questions will help you in making the *Business Case* and will also go a long way towards preparing a complete *Business Plan*.

We’ll start by touching on the four P’s of marketing – Product, Price, Placement and Promotion. However, you would normally deal with these in much greater detail in your *Business Plan*.

After the marketing questions are answered, you can start working on the quantitative aspects – making sure that your business can be viable and profitable.

Chapter 11 will get you thinking about risk. Risk factors are all too often ignored. The final two chapters deal with the future. What additional business planning do you need to do to get your venture launched? And finally, what role will you play as the business evolves? Are you planning to be in this business for a quick profit or do you want to grow your company into a global enterprise?

After pondering all these questions, you’ll be able to complete the *Executive Summary* so that you can succinctly communicate your *Business Case* to others.

3 PRODUCT OR SERVICE

3.1 WHAT ARE YOU SELLING?

Sounds simple? It should be. But, it's not always that straight forward. Are you selling a product or a service of some sort? Are you offering a single product or a family of products or an entire suite of products based on a patented "platform" technology with broad applications. Or, are you perhaps just selling an idea?

Answering this question also defines the type of business you want to build: it could be a manufacturing company, a marketing company, a retail operation such as a restaurant or hardware store or a chain of restaurants or hardware stores, a hotel, an airline, an energy utility, a pharmaceutical company, a research organization, a mail-order or on-line retailer, a wholesaler of food products or a repair shop – just to name a few.

Hoyle Schweitzer, a sailor and surfer from California invented and patented the Windsurfer in the 1970's. He started a company, called Windsurfing International, to make and sell Windsurfers. Soon, they became very popular and his idea caught on with water sports enthusiasts. Later, though, as other sports companies like Bic and F2 saw this opportunity, Hoyle licensed his invention to them and got paid for his idea in the form of royalties. So, while his product was a sports device initially, his business changed from being a windsurfer manufacturer to become an intellectual property licensing company.

If your product is a physical device or gadget of some kind that you have designed, what is it about that product that would make someone want to buy it? A good starting point is to prepare a written description of the product with emphasis on the problem that it is solving before actually completing the design and development work. This will allow you to get feedback from potential users before finalizing the design. In the case of complex products that are costly to develop, written specifications are the best way to get started. The more detail the better. However, just get started by putting your ideas on paper without wasting a lot of time before someone else beats you to it.

You could even go so far as to get expressions of interest or even purchase orders from customers based entirely on a paper specification with a future delivery date. There's no risk to the customer in a situation like this and if you find resistance from customers, they are probably just being polite and not really telling you why they aren't ready to give you a hard or even soft, commitment. This is a particularly useful approach for big ticket items such as machinery or electronic systems targeted at commercial users. On the other hand, if your product is an inexpensive consumer item, getting advance orders may not make a lot of sense. In any event, the contribution of others' opinions is invaluable.

3.2 HOW MUCH IS IT?

Price goes hand in hand with the product. The challenge is to pick the right price. What is the right price? Pricing can make the difference between success and failure. Too high a price will keep customers at bay while too low a price will erode profitability.

Pricing is also relative to what solutions currently exist in the marketplace. Highly innovative products based on break-through technologies may be difficult to price because they are so unique. “We have no competition,” is a claim that you should avoid making. If you do make this claim, make sure that you’ve done extensive “googling” and internet searching to be sure that you’re alone. Even if there is no obvious competition, your customers are likely satisfying their needs in some way (the status quo is your competition) and that may have a cost associated with it. That *cost* is the *price* that you are competing against. In other words, your price should be attractive to buyers since your solution will reduce their cost (or inconvenience).

The Windsurfer is a good example of an entirely new product with no obvious direct competition. However, other water sports products like traditional surfboards or small sailboats such as the Laser or Hobie, have established market prices. It would limit the number of potential buyers if the Windsurfer was priced at a huge premium to these. As Windsurfers are not that easy to build, the manufacturing cost per unit had to be determined and a price set so as to be attractive to consumers while also giving the company a profit margin similar to that enjoyed by other sporting goods companies.

Some products with a very low cost of manufacture give you a lot of pricing flexibility. A good example of this is computer software. Software costs almost nothing to reproduce. It can be delivered on-line from a server or delivered on a low-cost storage medium such as a CD or DVD. On the other hand, software can be very expensive to develop – depending on the application. Let’s look at an actual case to show how one company addressed its pricing challenge.

Bedford⁶, a software company, developed a basic accounting software program for small companies in the 1980s – one of the first truly useful programs for the emerging market of desktop computing. Because it would save a bookkeeper hundreds of hours of work, Tom and Adrian, the entrepreneurs behind the company thought that a reasonable selling price was \$1,200 per copy based on the more elaborate competitors already on the market. They also believed this to be a fair price because it took them hundreds of hours to develop the program and prepare it for sales.

After offering this software for a number of months, they found that sales were surprisingly low. Customers told them that, although they derived great value from the product, they had a lot of questions to ask before parting with this amount of money. Some even wanted to take a copy to show to their accountants! Tom and Adrian did something very radical. They wondered that if they dropped the price low enough would more people just take a chance on it and buy it? They dropped the price by a staggering amount – not 10 or 20 percent – but nearly 90% to around \$149. Now it was a no-brainer. Companies no longer had to agonize over the price. Sales went through the roof. Every incremental sale was, other than the few dollars for the disk and book, pure margin. The company became a huge success.

Internet companies have taken this a step further: they give away their product or a stripped-down version of it in the hopes that users will like it and then pay a price to upgrade to a more featured version.



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Speaking of software programs, or “apps,” that are propelling the sales of smart phones like the iPhone, what are you actually paying for? If you read the fine print, you are not buying a product. You are buying a license to use software code and if you copy that software and let someone else use it, you are, in essence, stealing from the company. An emerging *Business Model* that is gaining in popularity is that of “Software-as-a-Service,” or SaaS, whereby the computer code resides and runs on a remote computer server and users pay a fee to use the service. This is great for generating recurring revenue while at the same time making unauthorized software copying more difficult.

A common pricing approach is to determine the cost of making an item and then adding a mark-up to it. This will ensure that a profit margin is achieved, but a better approach is to sell at a price that is based on utility to the buyer, not cost to the seller. You may be leaving money on the table. You also want to make sure that you have sufficient profit margin to permit possible price reductions later if necessary.

A very important product attribute relates to *scalability*. Is your product easy to replicate? Software certainly is. On the other hand, if your product is hand-crafted cedar boardroom tables, you will be limited by the availability of the various resources – skills, materials, facilities, etc. – required to make your product. The latter example is more likely a lifestyle business because it is difficult to scale up. Understand the constraints.

If your product is a commodity item like a new biofuel, for example, a market price will already be well established. The *Business Case* then boils down to determining profit margins and capital requirements.

If your business entails the providing of a service, many of the same arguments that relate to products apply. What service are you providing and what will you charge for it? It would have been interesting to hear Starbucks making the *Business Case* for its premium coffee prices!

Consulting companies that provide legal, accounting or managerial services are constrained by the availability of skilled man-hours. On the other hand, can you provide your service in some automated way? The SaaS model referred to earlier is an example of how a service could be automated, e.g. online buy & sell websites.

How will your service be different or better from what is presently available? If you want to start a new airline, what will make it better – more space, better routes, or more efficient aircraft? Heaven forbid that you’d want to differentiate by offering lower airfares!

A lower price doesn't always lead to more sales. The Indian car company, Tata, introduced its ultra low-cost "Nano" four passenger no-frills automobile for less than \$3,000. Yet, they only sold about 10% of what they forecasted.

How will you get paid? Will you charge for time or charge by project or task or will you charge a percentage fee for results achieved such as a commission for helping the client sell a house or a success fee for saving taxes?

Any company – whether it is product or service oriented – will do well by giving superior service to its customers – avoiding long telephone-in waits, web sites with good contact information, courteous and responsive sales staff and believing that the customer is always right (or at least should be heard).

Throughout this book, the term "product" will generally be used to mean either a product or service.

In summary,

- Describe the Product/Service (charts, diagrams, specifications, etc)
- How is it differentiated and better than anything else?
- How will it be priced to generate revenue? (get customers)
- How will it be priced to produce profits?

4 INTELLECTUAL PROPERTY

4.1 WHAT IS YOUR UNIQUE ADVANTAGE?

The term, “Intellectual Property,” or simply IP, is often used to refer to patents or patentability of the idea that is embodied in the product.

IP goes much further than just patents. It could be a unique style or form. It could be a different way of producing something or providing a service. Perhaps it’s in the form of a recipe or a formula. You must have IP of some form. What’s *your* secret sauce?

It’s becoming more common to see company presentations mentioning patents that have been granted or patents that are “pending” meaning they have been applied for, but not yet issued.

So, what’s a patent? A patent is the granting, by a government, of a *monopoly* to the inventor giving the inventor the sole right to commercialize her idea. Patents originated during the industrial revolution in England when the government decided that innovation should be encouraged in order to propel the economy towards knowledge-based business. By coming up with a good idea, the inventor would be given “ownership” of that idea in return for disclosing the idea to the general public.

There is no such thing as a world-wide patent. It would mean getting a patent in every country. Some countries don’t even have a patent office. There exists a patent treaty, known as PCT⁷ for Patent Cooperation Treaty, that allows inventors to efficiently file for patent protection in those countries that participate in this treaty.

Inventors should file in those countries where they expect to generate sales. Patenting often begins by filing in the USA. There is a way, referred to as a *Provisional Patent*, that gives inventors a one-year window before filing a full patent. This is useful if they need to make the *Business Case* first before incurring patent expenses.

There are three conditions that must be satisfied before a patent is issued. You have to show that your invention is new, useful and non-obvious. There are different categories of patents. Most common are “utility” patents – inventions embodied in some form of apparatus. With the advent of the internet, the U.S. patent office also allowed inventors to file “business method” patents. A good example of this Amazon Corp’s “one-click” patent⁸.

Patents have increased dramatically in importance since the mid-1990's when it became easy to search for ideas using the internet and the World Wide Web. Before that, companies like Microsoft didn't bother much with patents. However, as we've seen recently, patents have become competitive weapons. Now, companies are obsessed with patents.

Some individual inventors have successfully sued the likes of Google, Microsoft⁹ and RIM¹⁰ for hundreds of millions of dollars. Not to get sidetracked – but how's that for a *Business Case*? Invent something, patent it, and then license it (or sue) for millions. The emergence of “patent trolls” – publicly-traded companies like Acacia in the U.S. and Wi-Lan in Canada that accumulate patents and then licence them as a business didn't even exist much before the year 2000.

Jerome Lemelson held the distinction of holding the third most U.S. patents (for individual inventors), right after Thomas A. Edison and Mr. Land of Polaroid-Land fame. Mr. Lemelson, until his death in 1997, was a prolific inventor who lived in Lake Tahoe and made his living by licensing his 500+ inventions to others. His *Business Case* was to apply for numerous patents and then sue infringers. How well did he do? Get this: his annual revenue from licensing fees was in excess of \$500 million, i.e. an average of \$1 million per invention! With this kind of income, Lemelson could well afford the best patent attorneys to help him protect – *and defend* – his intellectual property – not a bad business!

4.2 WILL SOMEONE STEAL MY IDEA?

Are you worried that if someone learns about your great idea they will steal it? Many entrepreneur-inventors worry that if they talk about their innovation with an investor, the investor may steal it. That happens, but it's rare. Most investors are in the business of backing entrepreneurs – not being entrepreneurs. Many entrepreneurs can't get started for fear of losing their idea.

When your product is out in the market, then others might copy it, especially if you're onto something hot. Chances are that, even *before* your product hits the market, there are a dozen entrepreneurs just like you beavering away in their basements and garages working on the same thing. Don't worry about it. Just anticipate it.

When you are still at the idea stage you could try to use an NDA – that's short for “Non-Disclosure Agreement.” This is an agreement between you and the person(s) that you tell your idea to, that they will keep it all confidential.

Be warned, though, institutional investors like Venture Capital companies and active angel investors generally won't sign an NDA. This is because they see so many deals and they are concerned that if they see your deal and then someone else's that may be similar to yours, and then invest in it, you may take action against them for stealing *your* idea.

Patents are expensive. It costs an average of \$10,000 to get a patent in a particular country. Even if you have a patent in the USA, someone in China or India can copy it. They can't sell it in the USA, but they can do what they want with it in China. That means you have to patent your idea in those countries where you want protection. Because patents are subject to interpretation, a Chinese patent may be useless. Even if it isn't, can you afford to sue someone in a foreign country? Having a patent doesn't mean that you are automatically protected. It only means that you have a "right" should you choose to defend that right.

Investors generally like patents. It tells them that you have something unique because in order to get a patent, a patent officer must ensure that you have an original idea. This also serves as a barrier to entry to potential competitors.

Even if you decide that a patent is too expensive for you to obtain, you must understand that someone else can block you by getting a patent on *your* invention. The USA was a holdout among other countries by using a "first-to-invent" policy for determining patentability. Other countries, and soon (in 2013) the USA¹¹, use a "first-to-file" policy. That means if you have invented something and someone else files for a patent, they will get the monopoly even if you were the first one to think of the idea. This is a major change now taking place in American patent reform.

Getting a patent means that you must disclose your invention to the world. This means that countries in which you don't have a patent are open territory for copy cats. Even in those countries where you do have a patent, copy cats can make "sort-of" copies and legally work around patent claims that you have made.

You might decide not to bother with patents because they are expensive – but beware: someone else can take your idea and beat you to the patent office. They can then create a barrier for you. Therefore, you might decide to patent as a defensive measure against patent trolls.

On the flip side of this, investors are known to ask if you have "freedom to operate" meaning are you sure that you are not potentially infringing on someone else's patent? Don't bury your head in the sand – do extensive patent searches to see if anyone has patented your idea.

4.3 KEEPING IT SECRET

If Coca-Cola had a patent, you can be sure that there would be many copy cats making minor modifications to the recipe so as to avoid circumvention. What did Coca-Cola do? They kept it a secret!

A Canadian company called Daiya¹² Foods Inc invented a vegan cheese that'll knock your socks off. Not only will it do that, but it will also reduce your cholesterol, fat intake, and aversion to allergens. It's so unique that the company decided, rightly so, to keep it a trade secret.

Keeping your formula or recipe secret is one way of protecting your intellectual property especially if you have a "secret sauce" like Daiya or Coca-Cola.

4.4 TRADEMARKS, COPYRIGHT AND INDUSTRIAL DESIGNS

Patents protect ideas. Trademarks, creative works and industrial designs can also be legally protected. These forms of protection are not as powerful as patents but they do afford the originator a certain degree of propriety. Getting these is, generally speaking, not as expensive as patents and it behooves the entrepreneur to educate herself on the various forms of intellectual property protection that are available to her in her markets.

An important consideration with all forms of intellectual property protection is that they are done on a country-by-country basis and some forms of protection are entirely limited to a particular country.

If an American visiting England, for example, sees a particular product brand name that he likes, he might start using it in America and there is little that the Englishman can do about it. If he sees a restaurant chain with the name, Mongolian Delights, there's nothing to stop him from setting up a chain in the USA with that name – even if the British owner has a registered trademark. Furthermore, the British owner cannot register the same trademark in the USA unless he intends to actively use it in the U.S.

Large corporations can be very protective of their brands. Starbucks, for example, went after a very small coffee shop in a remote Canadian village because the operator was using the name "HaidaBucks¹³." Starbucks argued that consumers would be confused and that their brand was being infringed. In the end, due to negative public reaction, Starbucks relented.

Copyright and Industrial designs afford some degree of protection but they, too, are not all-encompassing.

Face the facts: if you've got something really great, others will go to great lengths to steal it from you. This is one area where you really need to get advice from others – both practical and legal advice.

Think about your IP strategy. How can you best protect your ideas?

4.5 DO YOU REALLY OWN IT?

Are you really, really sure that you own the IP? Did anyone help you in creating it? If you ignore them now, you can bet that they'll come after you if they see you making money with *their* idea.

Song-writer Sarah McLachlan¹⁴ was sued by a collaborator that she hired claiming that he co-wrote four of her songs.

If you have hired (or plan to hire) someone to help you with the creation or development of your idea, make sure that it is clear in writing as to who owns the IP.

In the event that you are planning to commercialize someone else's invention (for example a licence from a University), make sure that your rights to the invention are clearly defined. If your licence agreement has a performance clause you may lose your rights if you fail to perform.

In summary,

- Describe your intellectual property (or innovation)
- What's your IP strategy?
- What are the barriers to entry?
- Who owns the IP?

5 MARKET NEED

5.1 WHO NEEDS IT?

Successful ventures usually start by answering this question *before* creating a product. Instead of making something and then finding a buyer, why not make a product that someone wants?

On the other hand, especially in the case of new technologies and scientific breakthroughs, you may be in possession of “tools” or knowledge that can be broadly applied and then the challenge is to identify all those applications and markets.

There are many examples of technologies for which there was no obvious “need.” This is true of personal computers. Ken Olsen of Digital Equipment Corporation (DEC), one of the early pioneers in the computer industry was convinced that consumers would have no personal use for a computer. As we’ve seen, exactly the opposite has happened and ultimately DEC was taken over by Compaq, another computer maker whose business was to sell personal computers.

The early Apple computers that started of as a tinkerer’s gadget got a strong boost in sales when VisiCorp, the first company to sell spreadsheet software (called VisiCalc), filled a very painful accounting need – that of being able to run month-by-month projections involving many rows and columns of data. Visicorp’s success and much of Apple’s success can be attributed to this. Indeed, in making your *Business Case*, can you imagine doing it without a spreadsheet or a computer?

Taking the “if we build it, they will come” approach as in the Hollywood movie, “Field of Dreams,” while not without risk, can work. Is yours in this category? If so, who are the early adopters that are willing to take a chance in buying your product? Whenever novel products hit the market, there are always those who can’t wait to buy regardless of price. Take cell phones – early cell phones were the size of a brick and cost several thousand dollars. Teenagers were not early adopters but business people on the go were willing to pay the premium price for them being more productive. This shows how important it is to identify those early users.

Start by identifying the ultimate buyer of your product. Is it a consumer who will buy your wireless car-starter at Wal-Mart? Or, is it a hospital that needs your high definition X-ray imaging instrument? In that hospital, who is the person that could use your equipment and request its purchase?

Be close to the customer. Understand his needs -his pain – and his willingness to spend money to alleviate that pain. Tom Peters, a management guru, is noted for his acronym, “MBWA,” which means “Management by Wandering Around.” Talk to your customers.

Trade shows and conferences are an excellent way to get feedback from customers while also checking out potential competitors. For consumer products, shopping malls lend themselves nicely to survey consumers. People love to give their opinions.

How are your future customers presently satisfying their needs? This raises the question of *Value Proposition* mentioned in the Introduction, which repeated here is “what is the benefit relative to the price of the product or service that would make a customer buy your product or service”?

You may be missing the mark in identifying the customer. Anderson Consulting did that with the Xerox photocopier. Shortly after the Xerographic process was invented by Chester Carlson in 1938, he had a difficult time identifying a market. Several companies, including IBM and Kodak, were offered the rights to the product but declined. He just couldn’t make the *Business Case* to them! Anderson was hired to assess the market potential. They concluded that, at most, some 25,000 units would be sold worldwide. They incorrectly thought that the users of a photocopy machine would be those who originated copies of documents using carbon paper (in typewriters). They didn’t think that it would be the recipients of documents that wanted to make additional copies of documents that they received! Indeed, Carlson, who was a patent clerk, invented it to address a need he had: making copies of submissions that he received in order to share them with others.

The vegan cheese company may believe that its market is vegetarians and vegans. However, because of the product’s zero cholesterol, zero fat and great taste it could also be in demand by a much larger audience.

After you identify possible customers, why not get some commitment from them to be a “Beta,” (i.e. test) customer? Get them to buy a prototype or early production unit, perhaps at a discount or free-trial basis, so that you can have it tested in actual use. When the Xerox company (eventually one company¹⁵ did think the copier had potential and took it on – they later changed their name to Xerox) produced its first office model, they offered to install it for free and charge only for the copies that were made. Needless to say, at pennies a copy, users realized the utility of the machine and racked up huge monthly photocopy bills! This is a good lesson in pricing, too.

Customers may not actually “need” something you are offering. However, if you give it away for free as is often done with software applications or free web-based services, they might start using it and become hooked on it. You might never receive any payment from these users. Instead, your real customers may be advertisers or other companies that want to get access to your user-base. Often, web companies will buy a company because it’s a way to quickly reach an audience.

In summary,

- Who will purchase your Product/Service?
- Who are the early adopters?
- Why will they buy? (is it satisfying a need or desire)
- Have specific buyers been identified?

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6 MARKET SCOPE

6.1 HOW BIG IS THE MARKET?

The kiss of death for entrepreneurs making an investor pitch is when they say, “We are addressing a \$1 billion market and if we get just 1% we’ll score big.”

This is a turn-off because it shows that the entrepreneur has not defined his specific target market, or market “niche.”

As mentioned in the Introduction, a must-read is Regis McKenna’s paper titled, “Marketing is Everything.”

Instead of saying that you are targeting a multi-billion dollar market – automobiles – with your fuel savings device say, that you plan to dominate the \$85 million market for fuel savings devices that can be retro-fitted to Toyota Corollas. The number is fictitious, but you get the idea: OWN your market!

As of 2011, there are more than 7 billion people living on planet earth. Is every one of them a potential customer for you? Probably not. Can you figure out how many might be customers? Easily 2 billion people live in poverty, living on less than \$2 per day. They are probably not your customers either. Yet it is amazing how many people in third world countries seem to be able to afford a cell phone!

Based on what your product does and what it costs, you should be able to identify your market. Is your device something designed for dentists? In which countries?

Look at similar products. Where are they sold and how well are they selling? There are marketing research companies that analyze markets for specific industry sectors. See if you can find market information for your industry.

The goal is to produce a number called the “Total Addressable Market” (TAM). If everyone who could use your product buys it (or something similar), what is the aggregate sales number that can be achieved?

Depending on your product and how mobile or international it is, the estimation of the TAM might be easy. It could be that your TAM is limited to a city or country. You might arbitrarily put some boundaries around your market – geographic or demographic. For example, you might target just elderly people and go a step further and target elderly people in English-speaking countries.

The most important thing, though, is to avoid being too broad in your definition of the market. Constrain it as much as possible in order to improve your chances of dominating it.

What is it that is unique to those who could use your product or service? What special needs or tastes do they have that makes your product a must-have? Think about the demographics – age, sex, location, income, religion, culture, and education to name a few.

Along with demographics, think about trends that are appearing in your target market. For example, because of improved standards of living, people are living to an older age but as part of this longevity, many find themselves with less cash to spend as they grow older. If you are selling a luxury item to senior citizens, you have to be aware of this trend.

An example of a trend that is actually more of a phenomenon is social media. Websites such as Facebook, Twitter, and LinkedIn have changed the way in which we interact and socialize with each other.

Cellphones and smart phones, in particular, are becoming more ubiquitous. They let users do everything from paying their bills to finding dates. What used to be described as a nerdy thing to do, has become mainstream. Entrepreneurs that saw this trend emerging have done well by it.

Technology changes the way in which business happens. Embracing change rather than resisting it, may allow you to define and “own” your market.

6.2 SIZING THE MARKET – AN EXAMPLE

Let’s look at an example of how Bill, a software entrepreneur, might go about defining his market. In this case, the product is a smart phone application, or “app.” The app in this case is for senior school students learning algebra. Bill has looked at the market for smart phone sales and he has pulled the following information from a market study by the Gartner Group that he found on the internet:

Sales by:	2Q 2010 (in 1,000's)	2Q 2011 (in 1,000's)	One-year % change
RIM	11,629	12,652	+8.8%
iPhone	8,743	19,629	+225%
Symbian	25,387	23,853	-6.1%
Android	10,653	46,776	+439%
Others	5,647	4,830	-14.5%
Totals	62,059	107,740	+174%

Bill makes some very interesting observations when comparing quarterly shipments of smart phones in the second quarter of 2011 to shipments in the second quarter of 2010. He also learned that Samsung, which uses Google's Android operating system, surpassed the iPhone in sales in the third quarter of 2011 shipping an estimated 28 million units as compared to Apple's 17 million (note that Apple's shipments were over 19 million just 3 months earlier).

So, while at first he was thinking about developing his algebra app for the iPhone, these data convinced him to start with his app running on Android followed by an implementation on iPhone.

He also notes that the market is expanding as well with a 174% annual increase. He figures that Android, now selling almost 50 million units per quarter with companies like Samsung leading the charge, next year there will be at least 200 million units sold using Android. This is, of course, in addition to all the Android units already in the hands of users. Googling some more he found, on Wikipedia, that some 190 million Android devices were in use worldwide. Being conservative, he figures that in 2012 there are at least 300 million Android users. This number doesn't tell him where these users are which is important because of language considerations – but it's a start.

The next task is to estimate how many of these would be students needing some help with their Algebra assignments. Again, after more googling on the internet, he settles on a number of 5 million users who need his app. Looking at app pricing, he arbitrarily picks a selling price of \$9.99 (with a free trial available, too) because most apps are priced under \$10.

In making his *Business Case*, Bill figures that his total available market is \$50 million. Because he hasn't discovered any other apps like his, he's confident that he can dominate that market and if copy-cats enter the scene, he can drop his price and/or add more features. He will also develop the app for other operating systems.

So, instead of saying that he is selling into the multi-billion dollar app market, he is selling into the \$50 million market for Android-based Algebra apps and his intention is to “own,” (i.e. dominate) this market.

The internet and the world wide web have made it infinitely easier to get information for purposes of market sizing and analysis. Two decades ago it would have been a gargantuan task to do the sort of “guesstimating” that we can do today.

6.3 DOES SIZE MATTER?

It helps to know what your total addressable market is but what really matters is that you have identified enough potential buyers to give you the financial results you want to achieve. For example, you may have developed a product in the entertainment category such as a book or a game. You’re not really competing against other books and games unless they are very similar to yours. What matters is how well you promote yours and how many you might sell. You can make this easy for yourself by setting a target and then rationalizing how you can easily hit that target. There are cases where you don’t need to fuss about addressable market size and competition. Entertainment products are an example of this.

Size may also matter to investors. It matters to venture capitalists. If they think that you are going after a small market – even if you dominate it – they may not be interested in investing. Angel investors, on the other hand, may like the idea of investing in a niche business.

6.4 WHERE’S THE MARKET?

Markets can be defined globally by industry category. For example, we talk about the smart phone market. This refers to all suppliers of smart phones to all countries. On the other hand, we often think of markets in geographic terms. We may limit ourselves by physical, cultural, political, regulatory or financial constraints.

It’s not that difficult to sell software, books, music and movies over the world wide web but it’s not that easy to sell and deliver a biomass-to-energy converter just anywhere.

As a matter of convenience we may restrict our market to a specific geographic area – perhaps a country or just a large city. However, if our product has utility in other regions, we might want to explore licensing or joint venture opportunities by partnering with others in those regions.

6.5 FORECASTING SALES

Now the really hard part: How many units will you sell in your first year? For that matter, how many will you sell in each month of your first year? What about the second year? What will your sales be in the fifth year?

In your *Business Plan* you will need more than a forecast. You will need a detailed plan showing exactly how these sales will be achieved. This might be a breakdown by customer type and by sales territory for each product variation.

For now, a forecast will suffice. Some assumptions will have to be made. You could consider more than one scenario – worst case, best case, and something in between. Start somewhere. You'll be refining your numbers many times before you are comfortable with them.

In summary:

- How do you narrowly define your market niche?
- What is *your* total available market?
- What are the demographics?
- What are the market trends?
- What sales are you forecasting?

7 DISTRIBUTION

7.1 HOW WILL YOUR PRODUCT GET TO MARKET?

A good place to start is with the ultimate buyer of the product. Where will they find the product? Let's say your product is a new vegan cheese product. If you are targeting retail buyers then you will have to find out which retail grocers are carrying similar products and then figuring out how they get those products. If they use mainly distributors to obtain their products, you will have to work with them. This is called the "supply chain". Learn how it works and how to sell into it.

Of course, these distributors will want to know how customers will be prompted to make a purchase as a result of your promotional efforts. A hardware gadget that has an "as seen on TV" label on it will certainly be more attractive to a distributor *and* the retailer than an unknown one. Sometimes shelf space alone may do the trick. Buyers looking for a certain item will peruse the various products on a retailer's shelf. In this case, your job is not to sell to the buyer but to convince the retailer or reseller that you've got something that they can easily sell.

You could also sell such a product as a private label, whereby you approach a company (maybe even a competitor) to carry your product under its brand. They will also do the advertising and promotion for you. Many retailers and resellers have established their own brands. A case in point is the Kirkland brand carried by Costco. These are products made by others and packaged for Costco under the Kirkland brand name.

E-commerce is becoming an increasingly attractive way of reaching retailers. Selling on the internet is now very common. Customers can find your product by googling and buy it by a simple click-through.

Highly specialized products such as medical devices or construction equipment are often sold through manufacturer's representatives or agents. Again, ask the buyers of such products who they usually buy them from.

Distribution costs may constrain your sales. Items that are expensive, relatively small and light weight can easily be shipped with only a small percentage increase in cost. Conversely, inexpensive, large or heavy items will face relatively high freight charges. This may cause you to re-define your total addressable market as discussed earlier.

7.2 HOW WILL CUSTOMERS KNOW ABOUT IT?

Product promotion can be very expensive. Traditional media like television, radio and print advertising can quickly burn your cash. It may also be totally ineffective. One very popular TV advertisement is the 1984 introduction of the Macintosh computer by Apple during a Super Bowl game. It was a great ad with an Orwellian theme and well remembered. But, it didn't sell many Macs.

An excellent way to get free promotion is through the effective use of “news releases” and “product announcements.” This works particularly well in technical journals and publications that are keen to tell their readers about the latest new products. For those products that offer broad benefits – a cancer treatment for example – you can bet that the media will be all over it. Breakthroughs are newsworthy.

Endorsements are another way to get free exposure. If Oprah Winfrey mentions your product, you can bet that sales will result. She may even send out a Twitter message about it. For that matter, it need not be Oprah. Go viral: get your friends to tweet about your product. Make a clever YouTube video to promote it. Get bloggers to write about it (preferably on a positive note).

Different choices of *Business Model* may determine a distribution and promotion strategy. Multi-level marketing is an example of this. Amway Corp pioneered this decades ago. More recently, Usana Corp, a health products supplier, has done well using this model. Basically, they are selling not only products but a business opportunity to a hierarchy of sales people who promote the products one-on-one. Others refer to this as network marketing because products are promoted and sold through personal connections. Products are dispatched overnight from central warehouses directly to the consumer using a credit card for payment.

Business Models have even been categorized and labelled. For example, the *Freemium Model* refers to the practice of giving away a basic version of a software app for free and charging a premium for advanced features. Here are a few more: *Cutting out the Middleman*, *Auction Business Model*, *Razor & Blades Model*, *Subscription Model*, *Pay-as-you-go Model*, *Loyalty Business Model*, and so on. How about inventing your own model?

In Summary:

- How are you getting the product to your customers?
- How can you get into the supply chain?
- How will your customers know about your product?
- What *Business Model* are you using to sell your product?

8 COMPETITION

Who are you trying to beat?

There are many threats in business: economic downturns, financial crisis, adverse international exchange rates, government and regulatory barriers, politics, skills shortages, labour disputes, and lack of capital – to name a few.

However, there is really only one threat that should keep you awake at night. And that's COMPETITION. Competition from others is the only force that you cannot control.

Successful entrepreneurs are paranoid about their competitors. If you believe that you don't have any competitors, think again. If you don't see them, believe that they exist. You can bet that someone somewhere is chasing the same opportunity that you are.

Even if there aren't any obvious competitors, there are likely to be alternative solutions that your target customers are buying to meet their needs. Their suppliers may become your competitors. Search the web. Go to trade shows and conferences. Read industry magazines and journals.

Those that are first to market are not always the ones who end up dominating a market. Apple is a good example of this. Apple didn't invent computers, music players, tablets or smart phones. They just made them friendlier and more attractive *and* pricier to boot!

Entering an existing market (i.e. one with known competitors) is not a bad thing. It may be easier to beat known competitors than it is to beat those that haven't yet been identified.

When entering an established market, what would those already in that market think about you? Would you be a threat to them? If you don't think that they may find you threatening in some way, does that tell you that maybe their customers won't switch allegiance?

8.1 WHO WILL EAT YOUR LUNCH?

If you're onto something big, what'll keep others from beating you – either existing or new competitors? What are the barriers to competition? Describe any barriers to others competing with your product or service. Examples might be:

- Patent, copyright or other IP protection
- Time to engineer a new product
- Capital requirements
- Regulatory approvals
- Trade barriers
- Access to know-how and skilled labour
- Strategic relationships

8.2 WHAT ABOUT TIMING?

How long will it take you before you start generating sales? Is there still a lot of development work that is required? Even if development is complete, will there be production delays – tooling, regulatory approvals, supply constraints, and testing or training issues? Your main advantage may be getting to market first.

In summary:

- What offerings are potentially competitive to yours?
- Name your top 3 competitors, regardless of size or dominance
- Why will your product “beat” the competition?
- What are the barriers to competition?

9 THE TEAM

9.1 WHO'S ON BOARD?

Making the *Business Case* is an exercise that is usually initiated by one person – *you*. Later, after you have made your case, or even while you are working on it, you will realize that you could use some help or advice. Even later than that, as you go about completing and implementing your *Business Plan*, you will need more people to help you make it happen – accountants, sales people, production employees, engineers, technicians, secretaries and so on.

Right now, you don't have to worry about that too much but you do have to give it some thought up front even if you have not yet recruited people to work with, or for, you. You need to make sure you can recruit skilled talent when you need it and you must have a sense of what that will cost you.

As early as possible, it's advisable to find a "mentor." This is someone with business expertise who can guide you and coach you. A mentor will help you make decisions and be a sounding board for you. You should also start thinking about a "board of directors" or a "board of advisors" that you will assemble over time.

What if you could build your future and create the future?

The innovation accelerator

One generation's transformation is the next's status quo. In the near future, people may soon think it's strange that devices ever had to be "plugged in." To obtain that status, there needs to be "The Shift".

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For highly technical businesses, a scientific advisory board of experts can be invaluable in providing guidance. Identifying these people early on will serve to fortify and lend credibility to the *Business Case*.

Recruiting advisors is not expensive. Often, experienced people are keen to help just as others helped them early in their careers. Exciting projects also attract advisors because they are challenging, interesting and fun. A common way to compensate advisors is by giving them (or promising to do so) a stake in your business in the form of stock options or preferably, shares.

Connections are important in business. Who can help you with customer introductions? Networking events, seminars and workshops should be taken advantage of to make new connections. Never forget your business cards – or a printed handout!

If you are working with (or looking for) other partners or co-founders, describe both your technical and management teams with respect to their particular skills.

Recognize your own strengths and weaknesses. A successful businessman was quoted as saying, “I’m not very smart, but I have a lot of smart people working for me.” Hire the best and deal them in by giving them a piece of the action.

In summary:

- Highlight professional or academic qualifications of each member
- Describe the team’s experience and track record
- What critical skills sets are missing?
- How can you attract the best people?

10 FINANCIAL

10.1 WHAT ARE THE NUMBERS?

This is the fun part. Well, not really. But it's absolutely necessary. This can be done only after you've addressed all the preceding questions. After all, you need to know how many units you're going to sell and what your margins are in order to determine profitability.

You must understand some basic accounting. You need to be able to prepare a basic *Profit & Loss Statement*, also referred to as an *Income Statement*. This is used to measure or forecast financial performance. Next, you need to produce a *Balance Sheet*. This is a snapshot of your financial health: It tells you what you own and what you owe and how solvent (i.e. how much cash you have) you are.

Financial statements usually also include a *Statement of Cash Flows*. This tells you where cash has come from (investors or profits) and how that cash was used in the business. However, for a business plan, this is not as useful as a month-by-month forecast of cash balances.

The biggest mistake made by entrepreneurs starting a venture is to underestimate the cash and/or time requirements. Cash flow projections are generally not well done. In this context, we are not speaking about financial statement style cash flow statements. This is about doing a monthly (even weekly), cash-in and cash-out analysis. (See sample spreadsheet template¹⁶).

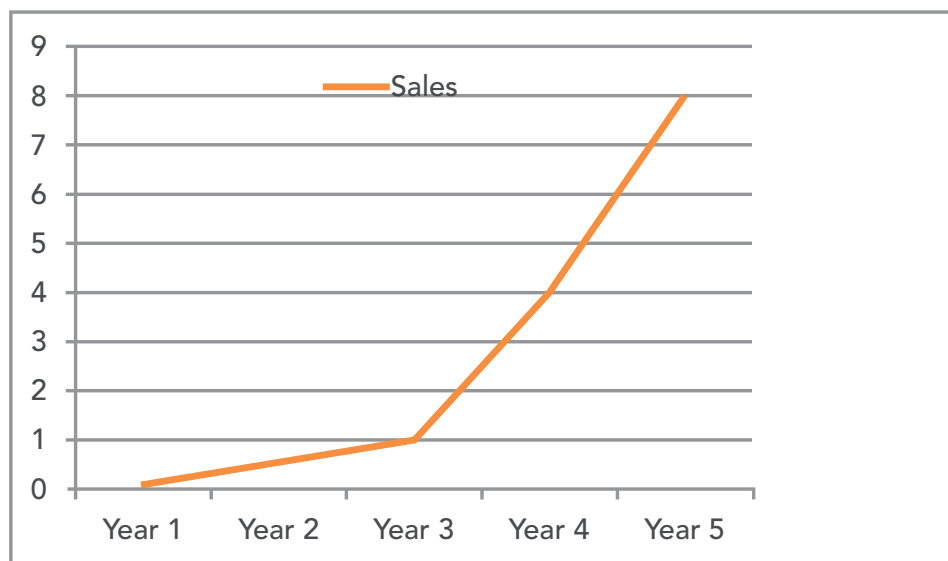
If you are making the *Business Case* for a new product for a pre-existing company, you should include historical financial statements – income statements and balance sheets.

10.2 HOW MANY YEARS OUT?

When preparing financial projections or pro-forma statements as they are often called, the first one to two years are the most important. You should, however, project at least five years into the future. If your product or service is of such a nature that it will take many years before revenues are realized, projections should be made until cash flow becomes positive.

10.3 THE HOCKEY STICK FORECAST

This term refers to a sales graph that looks like a hockey stick. Investors are wary of such projections. While not impossible, here's a reality check: 0.5% of start-ups in the USA achieved \$50 million in sales in six years. Rest assured that not only will you be challenged on this, it *will* be a challenge. That's why the assumptions underlying your financials are so important.



Pro forma statements of Profit and Loss (also known as Income Statements) and pro forma Balance Sheets are essential in making the case as to future profitability and value of the business (see references).

10.4 INVESTMENT RETURNS

What is the return on invested capital? There are two common metrics used for defining returns. Both are generally referred to as “Return on Investment,” or ROI. However, ROI can be expressed as both a “multiple” or as an annual compounded interest rate of return. The latter is referred to as an “Internal Rate of Return,” or IRR.

A multiple is being used by entrepreneurs when they say something like “Investors will make ten times their money on this deal.” That sounds great but *when* will that happen? Suppose it happens in five years, how does that compare to a compounded annual rate (IRR)? IRR is a well-defined term. Most financial calculators and spreadsheets have an IRR formula. If \$1,000 is invested today at a 10% annual interest rate, it will grow to \$1,100 in one year. In the second year, the \$1,100 will earn interest of \$110 and the investment will now be worth \$1,210. In the third year, the interest will be \$121 and that gets added to the \$1,210 to become \$1,331 and if that continues for ten years, the initial \$1,000 will, after the tenth year grow to \$2,593 or 2.593 times the original investment when expressed as a multiple.

So, what does 10 times in ten years mean as an IRR? Well, it works out to 26%. What if it happens in five years? Well, that’s 38%. Suppose you double your money in five years? That works out to 15%.

The point of mentioning this is that multiples sound really exciting but the only way you can compare making 5X in three years with making 8X in four years is to convert them to IRR. Which of these two would you choose? (5X in 3 is the correct answer!)

In summary:

- How much money is required? (and when?)
- How much money is available?
- How much capital must be raised?
- What are the assumptions underlying the financials?
- What's the ROI (return on investment)?

11 RISKS

What can go wrong?

People have said, “if I knew what could go wrong, I would never have started this business.” Sometimes naiveté is a good thing. Let’s face it, getting into business is all about risk taking.

If anything can go wrong, it probably will. So, what *can* go wrong? You probably can’t even guess at all the things that can go awry – ranging from natural disasters to aggressive competition. Many risks, such as currency exchange fluctuations, can be controlled or at least mitigated by hedging. Insurance coverage can soften the blow of losses due to accidents. Employment agreements can be put in place to help you protect your intellectual property.

To get a sense of the various risks that you should know about, just read a prospectus document of a publicly listed company. These are readily available on websites like SEDAR¹⁷ and EDGAR¹⁸. In a prospectus, companies *must* make their investors aware of the risks that could impair the business. In planning your business, you don’t have to do this, but you *should* do it. It will keep you from getting blind sided by something that you could have anticipated and protected against.

By the way, corporate documents filed on SEDAR or EDGAR are excellent information sources for business planning purposes.

11.1 WHAT’S THE BIGGEST RISK?

As mentioned earlier, the only risk that you can do very little to avoid is competition. All competitors in a particular industry face similar risks with respect to economic, political, and environmental factors. If there’s a global economic downturn, they will all be equally affected. The worst form of competition is when a new technology unknown to you is introduced. Just look at the demise of movie rental shops like Blockbuster as high speed internet film downloads became technically viable. Netflix is a good example of a company that quickly shifted from DVD distribution to electronic streaming. Of course, it’s faced with many others offering similar services but at least it’s not dead. Many companies have failed because they hung onto traditional ways of doing things – not just limited to technology, but also business methods – instead of constantly innovating.

Many technology ventures get started because of some new invention or technological breakthrough. These companies are always at risk of losing out to a newer technology. Therefore, they must always maintain ties to research organizations to avoid technological obsolescence.

There is one risk, though, that is even worse than formidable competition or new technology breakthroughs. To answer this question, consider an investor's perspective. An investor is really investing in *you* – not in your great idea. An investor's biggest fear is that you will mess up or give up. Not everyone has what it takes to be an entrepreneur. To paraphrase Pogo, the comic book character, "I have seen the enemy and it is me." Look in the mirror.

In summary,

- What can go wrong?
- What can you do about it?
- Do you have what it takes?

12 BUSINESS PLAN

12.1 WHAT NEEDS TO BE DONE?

To recap what's been said earlier, making the *Business Case* is just the beginning. It's the easy part. The tough part is making it happen. That's where the *Business Plan* comes in.

As an analogy, let's say you want a stylish new house. You have some creative ideas as to aesthetics and you make some drawings, likely using Google's Sketchup¹⁹. Then you talk to some architects and builders to get some estimates of cost. You eventually come up with a design and cost estimate that you are happy with.

To proceed with construction, you need a lot more than a design. You need detailed drawings, site layouts, permits, and so forth. Every construction task needs to be scoped and priced before any work can actually begin. Obviously, plumbing needs to be installed before walls and floors can be finished, and so on.

As you work on the step-by-step plan for building your new house, you may find that some of your original assumptions or ideas are very difficult to implement. You might be violating a construction code, for example. You might even have to make some changes to your original concept. As you can imagine, you'll need some expert help with this unless you are an architect, a tiler, a plumber, a roofer, an electrician, a carpenter or painter all rolled into one! They will all give you time, materials, and cost estimates. (Try holding them to it! – allow for some contingencies.)

You will eventually produce a working plan at which time you have to start. You can go back and revise your plan as required but you can't plan forever.

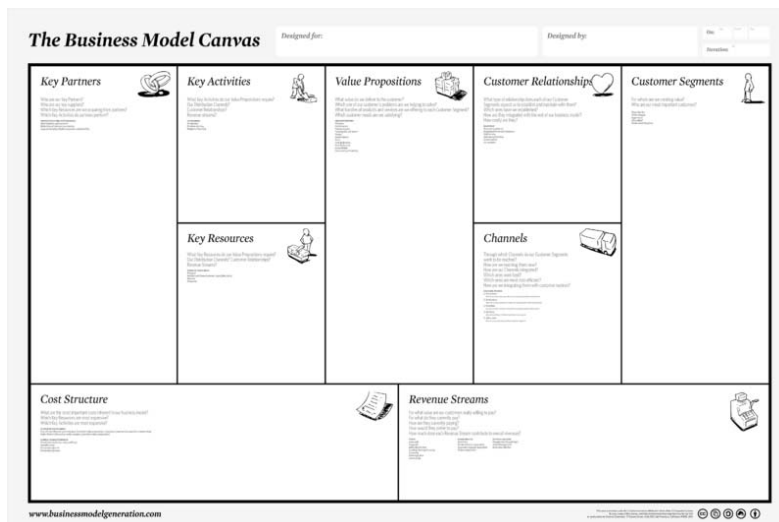
Producing your *Business Plan* is no different than producing your house plans. It comes down to details, details and more details.

12.2 BUSINESS MODEL

The *Business Model Canvas*²⁰ was developed by Alexander Osterwalder²¹ and his colleagues as a tool to define the business model. This could be used as a way to get started on putting together your *business plan*. It's called a canvas because you can make a flip-chart size version to help you and others visualize what you have produced thus far and make annotations on it and refine it.

This canvas is analogous to the Sketchup tool that helped you visualize your new house after you've thought about what you want but before you actually break any ground.

12.3 BUSINESS MODEL CANVAS



Using a visual aid like this will identify the “how’s,” “who’s,” and “when’s” of what has to be done. How are we going to process sales and shipments, who will do the accounting, when can we ship production units, and so on.

Start by identifying all the things that need to be done. Next, identify those that can actually get these things done. Technical people (is this you?) often suffer from Michael Gerber’s E-Myth²². They believe that because they possess a certain skill set such engineering, programming or drug development, they can also run an engineering, software, or pharmaceutical company. Gerber describes these people as technicians suffering from an entrepreneurial seizure! Indeed, winning in any game often comes down to choosing great team mates. Who will you attract to your business?

12.4 INFORMATION SOURCES

Thanks to the internet, research on competition, pricing, trends, salaries, taxes, regulations, licenses, suppliers, customers, tools, finance, and just about anything, is much easier to do than it used to be. Instead of guessing, data can be used to support assumptions. A good business plan will be substantiated with thorough research in all areas.

12.5 BUSINESS EVOLUTION

Most successful companies today are not doing what they spelled out in their first business plan. An analysis of successful corporations often reveals that they became successful not by pounding away at their original plan but by being nimble and responsive to market needs and market opportunities. Even though a *Business Case* may look like a no-brainer worthwhile pursuit, it's not until you're in business that you see new opportunities or applications for your product. Seizing these is the key to success!

In summary,

- What are the areas that you need to address and get help with?
- Who needs to be recruited? (employees, advisors, consultants)?
- What key information sources are included to support your plan?

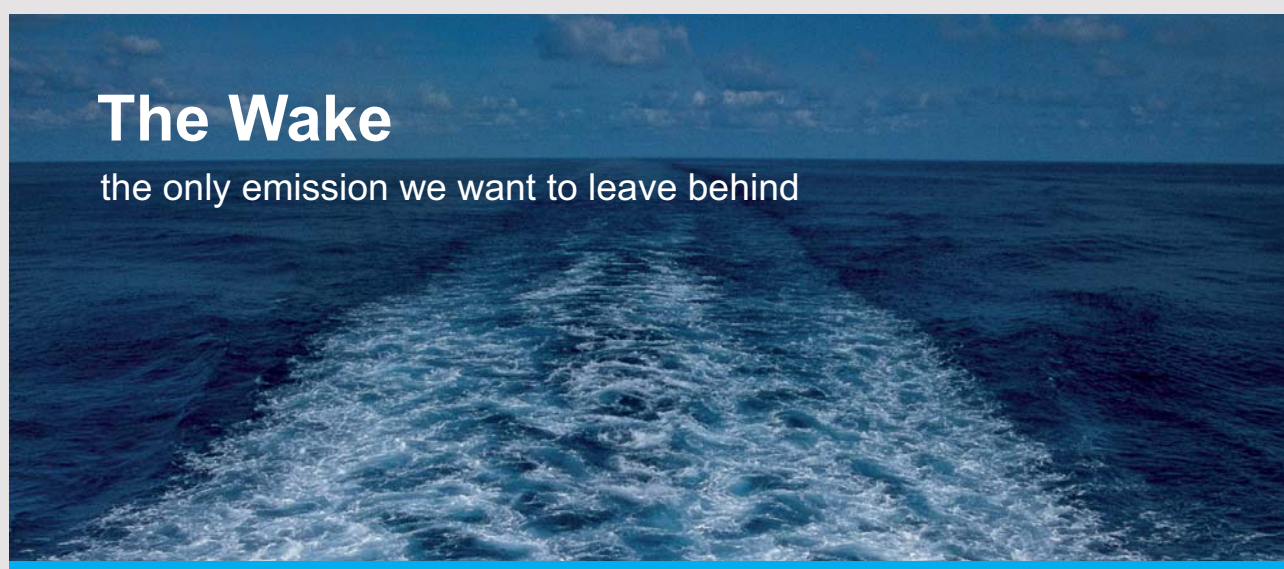
13 SELLING OUT OR BUILDING OUT

13.1 WHAT'S YOUR EXIT STRATEGY?

It's pretty easy getting investors into your company provided, of course, that you've successfully made your *Business Case*. But, how do you get them out? For that matter how do you get out?

Are you building your company with a view to growing it and working in it for a long time or do you want to sell it and cash in?

There's only one reason to create a company: To sell it. Think about it: even if you want to spend your entire life running your company, the day will come when you are no longer able to do so. Perhaps your children or partners will take over. Maybe your estate needs to divest itself. Maybe you'd like to get a big return on your investment of time and effort.




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Those entrepreneurs who prefer not to sell out but instead choose to build empires often take their companies public on a stock exchange via an IPO (Initial Public Offering). That action gives them, their employees and investors liquidity – the opportunity to exit in whole or in part. Early investors – angels²³ and VCs – like to see early exits²⁴ so they can cash in and go on to other deals. Founders can sell small amounts of their holdings in order to diversify, endow some charities, or indulge in the fruits of their labour.

13.2 WHY WORRY ABOUT IT?

If you're not worried about it, your investors certainly are. They need to know how patient they must be. They need to know when and how they will be able to sell their interest in your company. It's not good enough for you to say something like – and this is heard in almost every pitch – “we will be acquired or merge with another company or we will do an IPO.” A statement like this needs to be backed up by explaining who will buy it, why they will buy it, and how much will they pay for it? In the case of an IPO, why would an underwriter or broker be interested in your deal and why would the general public be keen on buying your shares?

Even if you don't have investors who are putting pressure on you for an exit, you should be planning for a big payoff for yourself. Companies such as lifestyle businesses or localized service business may simply be a form of self-employment for you in which case you may be generating above-average income for yourself. There's nothing wrong with that. But, again, if you can no longer work or if you just get tired of it, it doesn't hurt to have some exit prospects in sight.

Some companies are created solely for the purpose of creating a fast exit. University spin-off companies are a good example of this. A couple of decades ago, universities were keen to license patented technology to corporations in return for a royalty or licence fee. They would then rely on those corporations to commercialize the intellectual property to provide financial returns to them and to the university. The university would be at the mercy of the corporation to perform. In the past decade or so, universities have shifted in favour of creating new ventures that would, in turn, work on commercializing the IP. This would add value to the IP by putting a team around it, raising capital to exploit it, and moving it from the lab to the marketplace. Then, as the *Business Case* becomes validated by market acceptance, the spin-off can be sold to a larger company at a better return than what might have been achieved by just receiving licence fees.

When executing your *Business Plan*, thinking about your exit will enable you to run and manage the company so that it will be attractive to prospective buyers. The reason for thinking about an exit before you even start a business is that it will help you address the “why do it” behind your business concept.

Creating a business is synonymous with creating wealth. The business itself is an asset, or property, that appreciates (with your good work) over time. You control the rate of that appreciation over time. That growth in value is determined by what the company is worth to a buyer. Traditional views of value determination are based on earnings potential. Ultimately a buyer must be convinced that your company will increase its earnings. However, at the time that you sell, you may have no earnings. There may not even be any revenues. Media companies like Time Warner will be attracted to a web-based business because of its “eyeballs,” (i.e. viewers). It’s hard to believe that YouTube²⁵ was started in February 2005 and sold in November 2006 for US\$1.65 billion.

YouTube, Facebook, LinkedIn and Twitter all enjoy astronomical valuations and are household names. For every one of these, there are hundreds of smaller lesser-known internet companies whose exit strategy is to be acquired by a brand name. Google²⁶ has purchased more than 100 companies (e.g. Picasa) for as little as \$5 million.

A *Business Case* around selling to a company like Google, would emphasize not only what you have to do to penetrate a market niche but the aspects of your business that would make it a good fit for Google.

Exit values vary greatly from industry to industry. A successful medical device company will be valued much differently than a medical patient records software company. Even though both may be valued on projected sales and earnings the metrics vary from sector to sector. They vary even within a sector.

An established, profitable medical device company may be valued on the basis of its 12-month trailing revenues. If sales were \$10 million, then it might be valued at \$10 million. If the trend in that industry is to base the value on a multiple of earnings, say five times earnings, it would be valued at only \$5 million if its earnings on \$10 million of sales were \$1 million. A later-stage company is more likely to be valued on earnings whereas a younger company with new products may be based on revenues or even projected revenues.

Within an industry sector such as software, for example, there are different metrics than one can use. Mergers and acquisition (M&A) advisory firms²⁶ can be helpful in identifying buyers for your company and in providing you with information on what your company may be worth to an acquirer depending on the stage of development and the type of software. A consumer software company would not be valued the same as an enterprise software firm. A Software-as-a-Service (SaaS) company may be valued higher than a packaged software company because of its growing base of recurring revenues.

In summary,

- When will you (or investors) get liquidity?
- Who will buy your business?
- What will your business be worth?

FINAL THOUGHTS

Remember – it’s all about being number one. You’ve got to be the best in your particular market as you define it.

In business there are no failures – only “learning experiences.” Just because a business doesn’t produce the results you expect, you will have learned a lot from this experience. In many entrepreneurial cultures, for example Silicon Valley in California or Israel, failure is not a bad thing. You can learn more when things go wrong than you can when everything goes according to plan.

Changing direction – a close look at many successful companies will reveal a most interesting fact: many are not doing what they first set out to do. Their original *Business Case* is not what led them to success. However, it got them started. And, that’s what’s important: getting started! Once you’re out and about, opportunities will come to you!

When sizing up a business, I use the three G’s – goodness, greatness and greed: What’s good about this company, will it be great, and will it make money?

When sizing up an entrepreneur, I use the three I’s: intensity, integrity and immediacy: Is the entrepreneur intense (passionate, committed), does she have integrity (honest, dependable, reliable) and does she act immediately (before someone beats her to it)?

It all comes down to P&L – not just the Profit & Loss statements that you need to produce to make the *Business Case* but more importantly, the “other” P&L: *PASSION & LEADERSHIP*.

Many people have given up when success is just around the corner. On the other hand, some people keep beating their head against a brick wall because they don’t realize that their idea will not lead to a successful outcome.

Now, it’s up to you!

ACKNOWLEDGEMENTS

I'd like to thank my father, Arthur Volker, for reviewing the text and providing feedback. In all my ventures and initiatives, he has never been critical. Instead, he has always had great confidence in me. If a father can bestow anything on his son, this is it: "unfailing confidence that he will do what's right and be successful in whatever terms he defines."

My four grown children, Tyler, Lara, Andrea and Vanessa, all entrepreneurs in their own right, have unknowingly provided me with many insights for which I am grateful.

Thanks to my business buddies who've provided valuable suggestions and improvements to this content namely, Bob de Wit, Basil Peters, Thealzel Lee, Tom O'Flaherty, Doug Beynon, Roger Killen and Ralph Turfus.

I'm grateful to Sophie at bookboon.com. She provided the impetus that got me off my butt to put this together – something I was fiddling with for many years.

My wife, Jan, gets credit for suggesting the subtitle, "Don't get gonged". I'm glad she's put up with me over the years and hasn't gonged me (yet).

ENDNOTES

1. There are many statistics on business failures. It's difficult to generalize because it depends on the criteria used. Some references to note: <http://www.dnbgov.com/pdf/USBusinessTrendsOct10.pdf>, <http://smallbusinessplanned.com/information/small-business-failure-rate-9-out-of-10/>, <http://blog.globalbx.com/2008/10/06/small-business-statistics-and-failure-rates/>
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9. A judge ordered Microsoft to pay a Toronto company, i4i, more than \$290 million in damages for infringing and i4i patent in its WORD software product.
10. RIM was sued by NTP Inc., a Virginia patent holding company with more than 50 patents. RIM settled with NTP for US\$612.5 million.
11. The USA will switch to a first-to-file system for patents in March, 20. All other countries are using a first-to-file system. See: http://en.wikipedia.org/wiki/First_to_file_and_first_to_invent
12. Daiya Foods Inc: <http://www.daiyafoods.com>
13. HaidaBucks: <http://www.lanebaldwin.com/hbc/index2.htm>
14. Sarah McLachlin was unsuccessfully sued by Darryl Neudorf who was hired by her: <http://www.cbc.ca/news/canada/story/1999/06/28/mclachlan990628.html>. She was also sued earlier by a stalker claiming that he inspired her. He died before the case was heard.
15. Xerox was founded in 1906 in Rochester as The Haloid Photographic Company, which originally manufactured photographic paper and equipment.
16. A Cash Flow template can be downloaded from: <http://www.sfu.ca/~mvolker/biz/balsheet.htm>. for more tutorials, see <http://mikevolker.com>
17. SEDAR is the Canadian System for Electronic Document Analysis and Retrieval. All public companies trading in Canada must regularly disclose their results using SEDAR: <http://www.sedar.com>
18. EDGAR is the U.S. SEC's public dissemination service that publicly traded corporations must use for disclosing their financial results and information. <http://www.sec.gov/edgar.shtml>

19. SketchUp is a 3D drawing tool available from Google at: <http://sketchup.google.com/>
20. Business Model Canvas: http://en.wikipedia.org/wiki/Business_Model_Canvas
21. Osterwalder, Alex and Yves Pigneur, *Business Model Generation*, <http://alexosterwalder.com/>
22. Gerber, Michael, *The E-Myth*, 1999. See also <http://www.e-myth.com>
23. Wiltbank (PhD), Robert, and Warren Boeker (PhD), *Returns to Angel Investors in Groups. Angel Investor exits*, Strategic Management, Willamette University, Portland: Willamette University, 2007, 16.
24. Peters, Basil, *Early Exits*, 2000. <http://www.peters.ca> and www.angelblog.net
25. YouTube's sale: <http://en.wikipedia.org/wiki/YouTube>
26. A list of the acquisitions by Google can be found at: http://en.wikipedia.org/wiki/List_of_acquisitions_by_Google
27. An example of an M&A advisory firm is the Corum Group: <http://www.corumgroup.com>

ADDITIONAL REFERENCES

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Small Business Administration (USA), *The Importance of Angel Investing in Financing the Growth of Entrepreneurial Ventures*, <http://archive.sba.gov/advo/research/rs331tot.pdf>

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