

# Western Mass Venture Forum NEWS

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## 1st Forum Draws Over 175

By: Thomas Crogan, C.P.A. - *Corbin, Tapases & Crogan, P.C.*

Proving that entrepreneurship is alive and well in Western Massachusetts, a crowd of over 175 attended the first Western Massachusetts Venture Forum at American International College's Karen Sprague Cultural Center. Greeted by AIC President Harry J. Cournotes, the group quickly got down to the business at hand – a presentation by John Youngblood, President of Telaxis Communications Corporation on the importance of a business vision to guiding growth and attracting capital and the presentation of the Crosskates, Inc. business plan by their management team. Comments on the Crosskates plan were presented by a team of three experts; John Hodgman, President of the Massachusetts Technology Development Corporation; John DeLeva, Vice-President, Marketing of the Naismith Memorial Basketball Hall of Fame and John Youngblood. Also featured were seven one-minute business idea presentations by entrepreneurs seeking seed funding for brand new ideas.

Youngblood, President of the newest publicly traded company in Western Massachusetts described what he referred to as the “18 year roller coaster ride” which led to the formation of the current business. The current business was arrived at after hard and deep reviews of the

company's business plan. Those reviews led to the decision that several of the business lines the company were pursuing should be sold off. This left Telaxis to concentrate on its current business - providing high speed wireless communications gear to major network systems integrators like Alcatel, Motorola and LGIC.

Telaxis serves a worldwide market with current concentration in North America, South America, Asia and Europe. It serves these markets with a manufacturing process which

*continued on Page 2*

## Deals Happen From Forum

**When ideas meet money, deals happen. Parties involved have advised that two of the one-minute business idea presenters who introduced their ideas at the first venture forum have attracted capital. One entrepreneur has closed on the funding needed to start the production of a new CD for a local band. A second entrepreneur is now negotiating with three sources to fund his project.**

## Writing For The Business Plan Audience -Part I

By: Paul Peter Nicolai, B.A., J.D. - *Nicolai Law Group, P.C.*

Writing a business plan is a tedious and involved process which, if done right, should force you to focus on the strengths and weaknesses of your business. A well-written business plan will give you a blueprint for operating and growing your business. Unfortunately, when the goal of writing a business plan is to get money to carry out the business plan, too often the audience for the business plan -- a prospective investor -- is forgotten.

There are two main reasons for this. First, the involved process of writing a business plan naturally focuses the author on the business and its needs. Second, most business plan authors do not have access to the prospective investor when they are writing the plan. Generally, the opinion from the prospective investor comes well after the plan has been written and while capital is being sought.

### Investors Have Problems Too

Meanwhile, the capital market is becoming increasingly competitive. Venture funds are doubling annually. The venture funds are getting bigger and, because of the relatively high cost of doing due diligence and reviewing potential investments, they are concentrating on larger instead of smaller deals. The fields being invested in are also growing narrower. In 1999, for instance, Internet specific investments were most of the investments made by venture funds. As the economy changes and perceived

*continued on Page 2*

## Nov 28 Forum Features Operations Planning & Local B2B Internet Start-Up

Mark L. Parent, CEO of Profile Systems Inc. will speak on operations planning for new and growing businesses at the November 28 Venture Forum. Profile Systems develops and offers business-to-business catalog data content management tools for selling organizations to effectively present their goods to the Internet procurement applications of their customers. Their product, MasterDepotT is a web based software and service offering for assisting suppliers to prepare and share their product data in multiple formats with the various Internet procurement initiatives and applications rapidly taking hold in the business-to-business trading space. With MasterDepotT, suppliers "cleanse" the product data currently resident in their existing business systems to serve as a base for their electronic commerce initiatives.

The business plan presentation will feature Jef Sharpe, President & CEO of XSCAPACITY, a new Internet based e-commerce marketplace designed to allow businesses to trade the excess capacity of their machines, plants, trucks, people, warehouses and other assets.

XSCAPACITY supplies the trading platform as well as consulting services to educate companies and distribution partners to recognize their excess capacity and use the platform to reduce waste, increase sales channels and become more profitable.

The XSCAPACITY plan recently won runner-up status in the LYCOS business plan competition.

## 1st Forum - continued

segregates the high technology production which is done in South Deerfield from other production elements which are done offshore.

Telaxis' long-term success came from realizing that its key assets were its employees and its high speed communications technology which is the best available in the world. The third ingredient was the quality of its relationships with its funding sources. Understanding that they should concentrate these assets into pursuing high speed broadband wireless communications network development was the focus which ultimately allowed them to successfully obtain funding from the Massachusetts Technology Development Corporation and other venture capital sources. Ultimately, Telaxis was able to launch a \$71 Million initial public offering in February 2000.

John provided the crowd with these tips which have taken him a career to master.

- Understand your assets and have confidence in what you are doing.
- Know what you want to be when you grow up - focus on what you do best.
- Build a go to financing network built on trust.
- Don't forget the people who brought you to the dance - the employees and early investors.
- Stick to the basics - revenues and gross margin DO matter.
- Have more than one customer - diversify the base.
- Be ready to roll with the punches - bad things will happen.

Crosskates Corporation in Florence, Massachusetts presented its business plan. Led by founder and president James Page, Crosskates has developed a new all-terrain ski-skate which can be used in the yard, street, forest trails or ski areas.

Having raised \$200,000, Crosskates has developed a prototype product, filed for patent protection and is now in the process of arranging for product manufacture. Management team members reviewed the product description, discussed the market and how they anticipate marketing, selling and distributing the product. They anticipate that they will be able to take a significant share of the \$4 Billion outdoor recreation industry by working with ski areas and famous sports figures to introduce the product to the sporting public.

The panel members offered valuable comments to the team on the strengths and weaknesses they saw in the plan.

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## Writing For Business Plan Audience - continued

opportunities change, this concentration on Internet specific investments will also change.

### Management - Investor's Focus

From the prospective investor's perspective, the investment is made in management; not just specifically the business. The prospective investor is looking for the experience the managers have in the market they are or intend to sell to. The prospective investor is also looking to see if the management team has the skill necessary to carry out the plan. If the management team does not have all of the skills needed to carry out the plan, the plan should state what specific skills the management team has, what specific additional skills are needed and identify how the additional specific skills needed will be added to the management team. If management has identified candidates, those candidates should be revealed. If

will, generally, undercut the confidence a potential investor has in the plan. It tells the potential investor technology is more important to the business than the market; an approach investors know very rarely works. In fact, a business plan which dwells on technology development as opposed to the market will likely only interest an investor who knows the market extremely well -- i.e., a potential or actual competitor. Unless the business plan is handed out under a nondisclosure agreement and the purpose of the business plan is to get a potential or actual competitor to buy your company, this is not likely to be a fruitful way to proceed.

### Investors Want High Returns Because They Need Them

Most important, management must understand and accept that the goal of a prospective investor is to make a high return on the investment. Usually, the prospective investor is looking for a higher return than management would generally regard as acceptable. There are

two reasons investors look for a high return.

First from the perspective of any prospective investor; all deals are risky. The question is how risky is this deal compared to other deals on the table. Management has to understand that generally, about 25 percent of the deals funded by venture capital firms end with an initial public offering. About one-third of the deals funded by venture capital firms end with the company being bought by another company. About 5 percent of the deals funded by venture capital firms end with management buying back the investment made by the venture capital firm. Finally, about one-third of the deals funded by venture capital firms end with the venture capital firm losing its investment. When management understands that one-third of the time, on average, the investor will lose the investment, management can

understand why high returns are important.

Second, management needs to understand that the venture capital fund has customers too. There are several sources of venture capital money. A large source is retirement and other investment funds. They often put 5% - 10% of their total portfolio into venture funds as the "high risk" portion of their investment strategy. They do that because they are looking for returns which are higher than the returns they get in the stock market; generally something in the 15% - 25% range. The venture capital funds attract this money by presenting investment plans to those funds which, as you might guess, talk about planned returns over what the market is providing.

## Got A Plan?

**Every business starts or grows with an idea that becomes a plan that becomes an investment that becomes a business.**

**If your idea has become a plan and you would like to have it become a business or grow your current business, there are over 75 funding sources registered with the Western Massachusetts Venture Forum waiting for you to take the first step. That step is sending your plan to our Business Plan Review Committee.**

**How? Simple. Send an email to "paul.nicolai@niclawgrp.com" or call 413.272.2000, ext. 1. As Chair of the Committee, Paul Nicolai will help you take that first step.**

candidates have not been identified, then the business plan should discuss what skills management intends to look for in prospective candidates.

The business plan and the management team presenting it should be prepared to have real answers to questions about competition, finances, the market, the structure of the management team including the Board of Directors and the structure of the deal. Management should be prepared to have outsiders join the Board of Directors. Those outsiders may or may not be people directly associated with the potential investors. They may be people who have a proven track record and credibility with potential investors, making it more likely that potential investors will take the deal seriously.

The business plan which dwells on discussions of technology and detailed comparisons of current technology to your proposed technology instead of dwelling on the market and showing that management understands it and how to sell to it