

Western Mass Venture Forum NEWS

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Getting The \$\$ & Safety Tech

The January session of the Forum featured a panel of experienced capital providers who shared their insights on getting the money to fund the business plan. In addition, the approximately 175 participants received a presentation of Safety Tech's business plan. Safety Tech is a Connecticut company which is now preparing to manufacture a new set of communication tools for firefighters designed to reduce firefighter fatalities.

On the capital provider panel were David Townsend, Matt Harris and Bob Crowley. Townsend is a local angel investor and adviser to angel investors. Matt Harris is the CEO of Village Ventures, a network of venture capital funds including two in Western Massachusetts. Crowley is the Executive Vice President and CIO of the Massachusetts Technology Development Corp., a statewide venture capital fund which has invested in many technology-based companies including several in Western Massachusetts.

Townsend spoke about the primary goals and interests of angel investors. Angel investors are usually involved in startup funding in the range of \$500,000 to \$1 million which is used to complete product design and bring a company to the point of distributing its products. This investment is generally after seed investment which is used to create a business plan, do market research, begin product development and put together the initial management team. The seed funding usually comes from the entrepreneur's sources including, friends, family and other members of the management team.

Angel investors look for a passionate entrepreneur, a niche opportunity, a management team which is responsive to suggestions and is flexible in modifying the business plan. Angel investors are also interested to see whether the management team recognizes its limitations and is willing to change the team as the business needs change.

The starting line for a business plan to angel investors is whether it is believable, shows the business to be sustainable and that the business will create value for investors. Angel investors look for an executive summary which identifies the team, the opportunity and resources needed.

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Writing For The Business Plan Audience -Part III

By: Paul Peter Nicolai, B.A., J.D.

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Sales Projections From The Investor's View

If the product or service the company will provide is new or is an improvement on what is in the market now, what kind of evidence is there that the customers are ready to switch from what they are doing or using to adopt this product or service? How much teaching will be required to have the market understand that the new product or service offered is better than what is currently on the market? Do people have to do anything different from what they are currently doing to use the product? The more difference there is between what people are doing now and what people have to do to use the product, the longer the sales cycle will be.

All of the steps in the sales cycle have to be considered to make a rational sales projection. Business plans always describe a direct sales operation either internal to the Company or through some distributorship basis. Each step in the selling cycle must be accounted for. Consider what the average sales call will require in terms of money, time and effort; how many sales calls need to be made in what locations; what the success rate will be and what the average resulting sale will be. It is not enough to simply say how much product will be sold. The plan must show that management understands what effort is necessary to actually achieve those sales.

Dealing With Competition & Market Entry

When dealing with the subject of competition, most business plans discuss who the competitors are, what they offer and why what the company plans to offer is better. That is not enough. The barriers to entering the market need to be identified specifically instead of simply saying there are barriers to entering the market. You need to specifically identify which barriers apply to your plan and how the company will deal with them.

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March 27 Forum Features Ben & Jerry's & Bioshelters Plan

The featured speaker at the March 27 WMVF will be Terry Mollner, Ed.D. He will speak on lessons learned from his involvement in the recent sale of Ben & Jerry's and what it means for the Next Stage in Economic Maturity After Capitalism.

The business plan presentation at the March session of the Western Massachusetts Venture Forum is Bioshelters. Founded in 1986 in Amherst, Massachusetts this company has perfected an integrated aquaculture and hydroponics facility based on technology originally developed from research at Hampshire College. The prototype system has been in operation for 10 years in Amherst producing about 30,000 pounds of fish and 4600 cases of herbs annually. A larger system is now being built.

The Bioshelters system is unique because it recycles 99.7 percent of all of the water and waste produced. The perfection of a recirculating system creates a solution to the environmental impediments to aquaculture growth and puts this company at the vanguard of the industry. This proven and environmentally cleaned technology will allow the company to capitalize on the growing demand for fresh, unpolluted fish; and industry which is now over \$2.5 billion annually. Growing hydroponics herbs and vegetables such as basil, pesto, arugula and watercress provides a second source of income and a hedge against fluctuating fish prices.

With the completion of a full-scale commercial operation in Amherst, the company is targeting Boston, New York, Chicago, Cleveland, Seattle, San Francisco and the Los Angeles markets. It anticipates targeting other markets through a combination of wholly-owned facilities and joint ventures with local partners.

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Getting \$\$\$ & Safety Tech - continued

Angel investors are interested in ideas which represent an opportunity. The plan must clearly identify the need for the business' product or services, the customers, the value the product or service will provide compared to competitive sources, the market size and gross margins. The plan must also identify all the required resources needed to support the model including the amount and type of required investment.

Harris explained the rapidly changing climate for venture capital. The market downturn means that billion dollar funds are over. Venture funds are being scrutinized more closely and investment budgets are being tightened. Venture capital funds are now concentrating more on the track record of the investment including its sales and profit history. Recent market experience proves there is no substitute for sales and profits.

Crowley explained the specific business plan features venture funds look to see. First, what problem does the business solve? What percentage of the Company's equity is available for the investment and, most importantly, what is the proposed strategy for the investor to get its money out of the investment?

In today's market, businesses which are successful in getting investment show an industry expertise, a demonstrated revenue path, proven technology or the opportunity to catch up with technology and the ability to execute the plan.

The audience got to quiz the panel. It learned that the first mover advantage is no longer an argument for funding. You must have an idea that solves a problem for serious funding consideration. Plans to produce a product instead of service have a better chance of funding because manufacturing operations need cash to grow whereas service businesses should be able to use their cash flow to fund growth.

Stock options are not as popular as they used to be. While one can expect employees to demand more cash instead of stock, venture capitalists want to see at least upper management incentivized with stock options.

Bioshelters & Ben & Jerry's - continued

The plan will be presented by John Reid, President & CEO of the Company. John pioneered aquaculture research at Hampshire College. He has consulted on the subject for many large and small corporations across the United States and has over 16 years experience developing and operating integrated recirculating aquaculture systems.

This commercial-scale Bioshelter will be modular and can be expanded to whatever number of tank modules are needed to satisfy demand for fresh fish in the target local market.

Writing For Business Plan Audience III - continued

When discussing the competition, show that management understands that what is being done now (especially if it is different from what customers will need to do with the company's technology) is actually competition to the business. If the product is such that it will require people to change the way they do something now, the marketing program must teach the market about the comparative benefits of changing the way they do things using the product. This will lengthen the selling cycle and needs to be accounted for in the marketing plan.

Where the plan calls for the creation and use of new technology, it needs to describe how the company will defend its position against both the development efforts of old technology which is being substituted. It also needs to show how the company will maintain the uniqueness of its new technology against potential future competitors. What gives the company the

uniqueness to stay in the market against these old and new competitors?

You Really Want One Financing Round?

Consider the deal itself. First; how much money is needed to get where the plan says the company wants to go and what will that money be used for? The plan should show the actual uses of the money put in and how the company will arrive at a given point of development of either the technology or the business itself with that money.

Second, accommodate for a second round of financing if it is needed. Investors understand that it is extremely unlikely any business plan will actually come in for less than what is projected and it is probable that a second or even a third round of financing will be necessary to actually achieve the plan goal.

Think about this investment cycle from the investor's perspective. The investor is interested in reducing risk while using the investment to arrive at a point in the development of the company where something of value has been created and the business is at a point where it is logical to make a decision about whether the technology and the market have developed such that continued investment is worthwhile.

This is an important perspective to understand. The passage of time alone will change the risk factors associated with any business plan. Even if all the development inside the company proceeds according to plan and on budget, what is happening in the market outside the company may not be happening in the same way or on the same schedule as assumed in the plan.

The typical investor needs to be able to take second and third looks at how the risk factors are changing. It is important that these second and third looks happen when the technology or business development of the company is where something of value has been created. This allows both management and the investor to review the situation logically at those steps and decide whether aspects of the plan need to be revised.

A plan which assumes there will be one round of financing to complete technology development and bring the completed product to market on a national or international basis is a high-risk plan. Once the capital has been committed and a course of action commenced, the potential for waste in the development cycle is very high in this scenario.

Similarly, a plan that assumes several financing rounds without connecting them to logical points in technology or market development means a high potential for future dilution. The next financing round come when it is not apparent how the prior investment created value.

Attorney Nicolai and his team work with businesses and their owners. He can be reached at 413.272.2000, ext. 1 or at paul.nicolai@niclawgrp.com. The firm website is at www.niclawgrp.com.

Sponsor Highlight

Burkhart, Pizzanelli, P.C., (BPPC), is pleased to be a sponsor and founding member of the Western Massachusetts Venture Forum. Founded in 1987, BPPC Certified Public Accountants, concentrates in advising businesses owners and entrepreneurs.

The services provided by BPPC include development of forecasts and cash flow projections for business planning and capital formation, entity selection analysis, computer accounting systems analysis, tax planning, preparation and advisory services, business valuations, estate planning, third-party administration services for retirement plans and, of course, all phases of accounting.

For more information about BPPC, visit our website at www.bppc.com or contact Richard Burkhart at (413) 734-9040 or by e-mail at Rick_B@cpa1.bppc.com. BPPC is located at 201 Park Avenue, Suite 2, West Springfield, MA 01089.

Terry is the founder and president of Trusteeship Institute, Inc., a consulting firm working with corporations converting to employee-ownership. The Institute also does research and development of new socially responsible investment models. Terry is also a principal in Meadowbrook Lane, Inc., a socially responsible investment banking firm.

In 2000, Terry led a group in a bid to purchase Ben and Jerry's Homemade, Inc. The effort eventually failed but Unilever invited Terry to become part of their offer, to serve on the board of the Ben & Jerry's subsidiary corporation, and assist Unilever to manage their social audit globally. Unilever, the largest consumer products company in the world, succeeded in purchasing Ben & Jerry's. Mollner is now fulfilling these roles.

Dr. Mollner has also served on the board of Cyberlore Studios, Inc., a computer game developer in Northampton and chairs the board of Coop Plus of Western Massachusetts, Inc.