



**MaRS** | ENTREPRENEUR  
WORKBOOKS

**Business Planning and  
Financing Management Series**

Building Block 1  
**Developing a Financing Strategy  
for Your Company**

# BUSINESS PLANNING AND FINANCING

## Introduction: What to expect

In his book *Outliers*, Canadian author Malcolm Gladwell looks at the relationship between statistical probabilities and the chance of success in your chosen field of work or sports. His essential claim is that you need around 10,000 hours of practice to become really good in a particular field.

This workbook guide will not take 10,000 hours to complete, so you should not expect that you will become an expert in business planning and financing by going through the activities outlined within. Rather, the purpose of the workbook guide is to help you understand and focus on the key issues in the field of business planning and financing, and to introduce you to frameworks within which to think and discuss essential areas of your business. The process offered will provide sufficient grounding in the topic so that you will know what questions to ask advisors and consultants, and, in the case of consultants, how to evaluate their work.

Additionally, this workbook guide provides a launch point for a number of vital business decisions you will have to make to develop your start-up. As a best practice, it is critical to return to these workbook guides and revisit facts and assumptions on a continuous basis. This will ensure not only that you build on your learning experience but that you adjust your assumptions to maintain the right course for your business.

## Building Block 1: Developing a Financing Strategy for Your Company

This workbook guide is part one of a four-part workbook guide series covering business planning and financing. It is designed specifically for technology and life sciences companies.

The business planning and financing management process consists of four major parts, or building blocks, each adding to the foundation of the previous one:

**Building Block 1: Developing a Financing Strategy for Your Company**

Building Block 2: The Business Plan and Executive Summary

Building Block 3: Identifying, Targeting and Engaging Potential Investors

Building Block 4: Developing and Delivering a Winning Investor Presentation

Each of the building blocks addresses an essential aspect of business planning and financing. Once you have completed the four workbook guides, you will have developed a foundation that will allow you to develop a financing strategy and you'll have the tools that you'll need to raise money for your business. These workbook guides have been designed so that you can adapt the curriculum to your company's specific needs.



## How to use these workbook guides

### 1. Make it a team exercise—but make it quick!

Pulling the background information and strategy together to create a coherent financing strategy roadmap can be very time-consuming, especially if you have a fair bit of data and information to distill. But it doesn't have to be. We believe that much of the information you need is already known to your management team and advisors, so we recommend that you make the creation of your business planning and financing strategy a team effort. However, time is of the essence for high-tech start-ups. Work through the building blocks thoroughly, but as efficiently as possible.

### 2. Complete the process.

Work through all the building blocks in the business planning and financing management series. The other workbook guides contain useful information for completing this workbook guide. Take the time to think through your entries. You will ideally have completed many of the workbook guides in the Entrepreneur Series. You will need to have completed all of the workbook guides in the business planning and financing management curriculum before you begin engaging with potential investors.

### 3. Use the icons for help.

The workbook guides are structured under the assumption that this is the first time you, the reader, has undertaken a business planning and financing exercise. To help provide context for some of the ideas in these workbook guides, we have clarified the ideas by defining key terms and offering real-world examples. In addition, we have provided links to online articles. For this reason, you may find it easiest to use these workbook guides on a computer with an Internet connection.

Look for these icons:



denotes a key business planning term that will recur in these workbook guides



indicates an example drawn from a real-world business in order to illustrate an important idea



denotes a link to a more in-depth online article, video or template



appears wherever you are asked to record something in the response form while completing the exercises



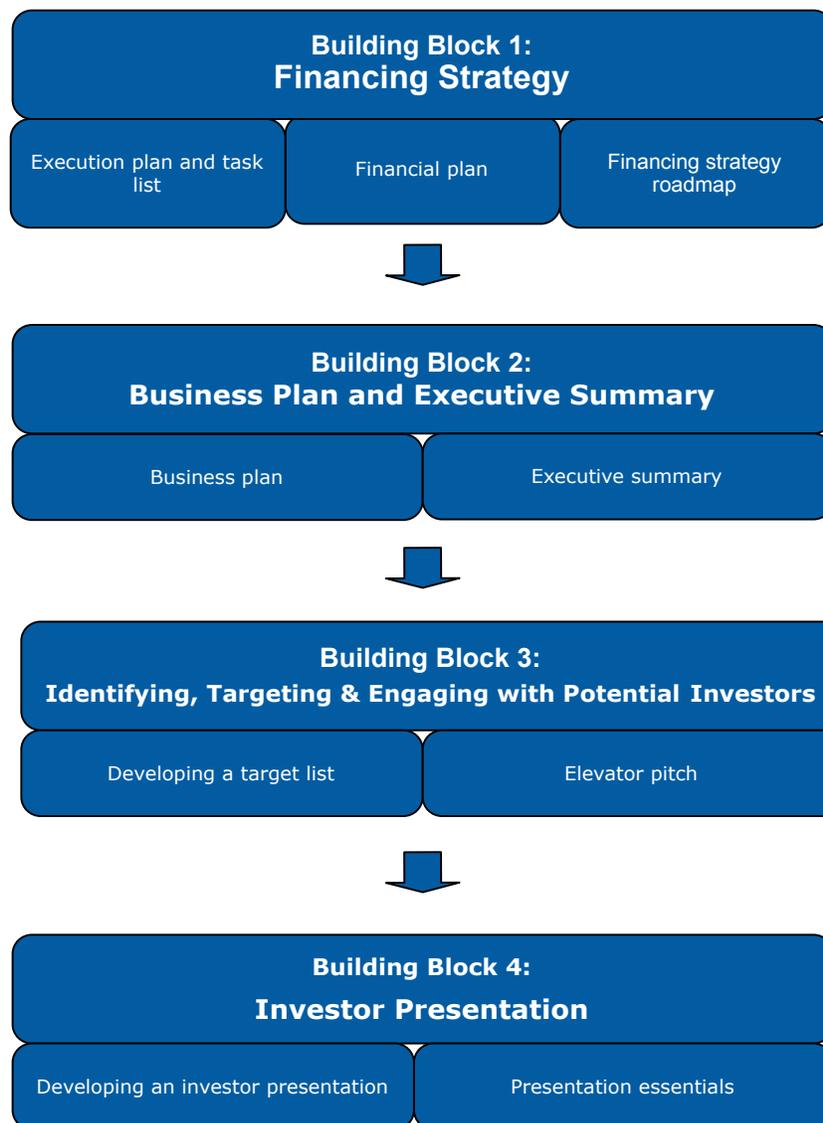
indicates key information for your business plan, pitch deck or other document you might be preparing for potential external investors



## Before You Start

These workbook guides are designed to assist entrepreneurs and their leadership teams in early-stage technology and life-sciences companies, and are based on tried-and-tested business planning and financing concepts relevant for start-ups in a wide range of industries. The following chart outlines for you the curriculum and the progression of each building block.

### Building Blocks of Business Planning and Financing Management



## BUILDING BLOCK 1: Developing a Financing Strategy for Your Company

New unproven ventures are risky and spend more cash than they generate. For that reason alone a new venture will likely not initially be able to raise the total investment amount required to become cash-flow positive.

Since the risks at the start of a business are daunting and the end point may be far out in the future, potential investors in your business will want to see its progression broken down into steps. These logical and achievable steps should include the cash requirement for each stage and take your company to the end goal. These steps have a better chance of attracting the appropriate financing at the appropriate valuation. The company becomes less risky as you progress and the economic value increases as you meet each step.

These steps, the cash required at each step, along with your financial plan, are the backbone of your financing strategy. If you're thinking of raising capital from outside investors, the following articles provides some great insights.



Learn more about [what investors want in place before they invest.](#)



Learn more [about the types of industries that fit the private capital investment model.](#)



Learn more about [what investors look for in technology investment.](#)



[Find out if you are ready for a private investor.](#)

## Developing a Financing Roadmap

In the process of developing a new business, this is an exciting time. We assume that at this point you have a good sense of your product or service; you may have a prototype, and you could be on the verge of launching your product or service into the marketplace. You've thought through your business model, you have a product development roadmap, you have a good understanding of the market for your product or service, and you've outlined your go-to-market strategy.





Learn more about [business models](#).



Learn more about [business model design](#).



Learn more [market development strategy](#).

Before you get started, you may wish to review some of the key terms used in this workbook guide:



**Milestones** are the goals that must be successfully accomplished to build the business. They typically relate to product, management, market and customers.



**Stepping stones** provide a structure to your plan, allowing it to be financed. A stepping stone comprises an integrated group of milestones that address the product, the market, the customers and the management team. They also may be referred to as key milestones.



The **execution plan** is the “how to” for your business. It covers the stepping stones or key milestones, tasks and resources required for your business.



The **financial plan** includes a cash-flow forecast, a high-level income statement and a balance sheet. It establishes the amount of cash you’ll require over a set period of time.



The **financing strategy roadmap** details your plan to finance your business over the next five to seven years. The financing roadmap is broken down into a set of stepping stones. You’ll give the timing for each stepping stone, and quantify them in dollars, outlining the amount of resources (headcount and other expenses) required.



# 1. The Execution Plan

In simple terms, an execution plan consists of a set of stepping stones (or key milestones). Stepping stones comprise groups of integrated milestones. These stepping stones outline the goals that are critical to the success of any venture. As you reach each of these stepping stones, you will build additional value into the company.

In *Art of the Start*, Guy Kawasaki provides this succinct list of stepping stones (or key milestones) that applies broadly to most technology-oriented ventures.



## Key stepping stones

- prove your concept
- complete design specifications
- finish a prototype
- ship testable version to customers
- ship the final version to customers
- achieve break-even

For each of these stepping stones, you'll have to raise the appropriate amount of capital to get to the next stepping stone. An investor will also want to realize a return on their investment, so it's important to include a trade sale or a public offering as a milestone.



Learn more about [execution plans](#).

A good execution plan communicates the complexity associated with all the milestones while still providing potential investors with a sense of the opportunity for venture capital reward. As your company achieves each milestone, you'll be able to articulate in a concrete fashion the successes you've had and demonstrate the building momentum.

The exact time required to complete these goals varies on a case-by-case basis. For example, it might take more time for a life-sciences company to achieve product validation than it would a software-as-a-service (SaaS) company. However, generally a large proportion of your organization's efforts (70% to 90%) should be focused on accomplishing these key milestones.

Your product development plan will provide specific product milestones. Your sales plan and go-to-market plan will give you detailed customer and marketing milestones. Your human resources plan will generate your human resources milestones.



**Examples: Sales and marketing milestones**

- .. business plan/customer requirements
- .. go-to-market plan/customer business case (return on investment [ROI])
- .. customer/partner meetings
- .. customer demonstrations
- .. establishment of a contract to pursue a field test
- .. agreement to field test, pilot or use prior to shipment
- .. field testing and pilot sites
- .. sales force in place
- .. customer feedback
- .. finalize pricing/initial contract
- .. public relations/launch plan

**Examples: Product development milestones**

- .. proof-of-concept
- .. early feature set
- .. beta testing
- .. advanced features
- .. features complete
- .. first commercial shipment



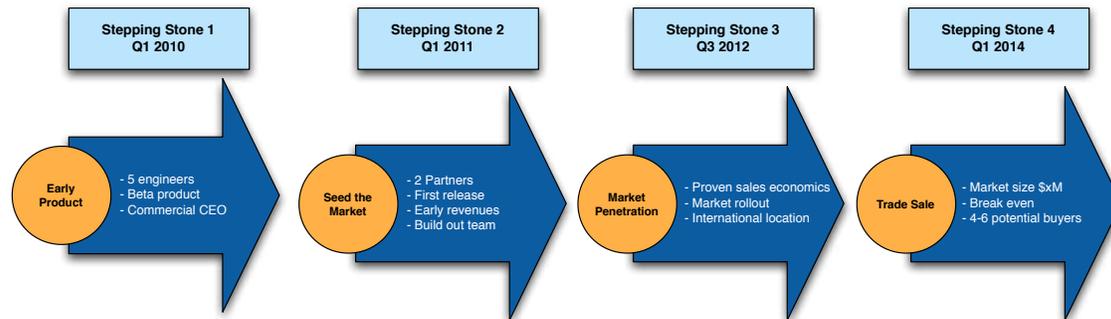
Refer to the information you documented in [Market Strategy Development Workbook 2: Critical Value Factors](#) and [Market Strategy Development Workbook 3: Strategic Marketing Approach](#).



Refer to the information you documented in [HR Management Workbook 1: Building an A-Team](#).



Consider the following example of an execution plan for a software company:



Source: Berkery, D. (2008). *Raising Venture Capital for the Serious Entrepreneur*. New York: McGraw-Hill.



*In the corresponding section of the Developing a Financing Strategy for Your Company workbook template, record the key product, sales and human resources milestones for your own company.*



*Group these milestones into four to six stepping stones and record them in the workbook template.*



*The workbook template contains a template for a graphical representation of an execution plan. Using this template, identify your business' stepping stones and the required milestones. Include the time needed to achieve each milestone.*

## 2. The Task List

You'll need to develop a comprehensive list of tasks associated with each milestone. It's especially important to fully detail the tasks behind your first stepping stone—that is, the tasks entailed in the milestones that make up the first stepping stone—since it will be the most immediate one, and also the basis for your current financing.

These task lists are necessary to build your organization. They outline the work that needs doing so that nothing slips through the cracks at this early stage. You'll also need to include the resources required to accomplish these tasks in your financial plan.

This detailed task list is an internal document that investors may want to review once they undertake advanced stages of due diligence.



Learn more about [execution plans](#).





Learn more about [the due diligence process in venture capital](#).

**Sample task list table**

Task	Responsibility (Name)		Estimated cost (\$)	Due date
	Internal	External		
Incorporating your business				
Renting office space				
Finding and engaging key vendors				
Setting up accounting and payroll systems				
Securing employment agreements and key personnel				
Filing legal and taxation documents				
Purchasing insurance policies				
Setting up your website				
Other				
Other				



*In the corresponding section of the Developing a Financing Strategy for Your Company workbook template, record your task list.*



### 3. The Financial Plan

To establish the amount of capital that you'll need to raise, it's important to understand the activities that will absorb or burn capital in your new business. The four primary activities that absorb capital in a new business include:

- 1. Capital assets:** These are the capital costs required to set up and equip the business. Examples include tangible fixed assets (for example, equipment and premises) and intangible assets (for example, the cost of acquiring patents).
- 2. Product development costs:** These include all of the costs associated with developing your product or service prior to sale.
- 3. Management:** These are the costs associated with the leadership and management of your business.
- 4. Sales ramp-up financing:** In order to sell the product, your company will require sales people, literature and marketing in advance of the product launch.



Learn more about [expenses](#).



Learn more [assets](#).

Before you start developing your financial projections, you need to put together a list of assumptions that address the following:

#### Product and technology

- costs relating to research and development as well as initial product development
- product or service performance metrics
- specification of products (bill of material, and labour costs to build)

#### Sales and marketing

- your customer's business case (i.e., their ROI)
- market size, addressable market and target number of sales units
- gross margin—for direct and indirect sales
- sales calls per salesperson
- conversion rate of prospects to customers
- length of sales cycle
- technical support calls per unit shipped
- payment cycle for receivables and payables
- compensation requirements for sales and marketing team, and distribution



## Operations

- headcount levels
- compensation

Track and test these assumptions on an ongoing basis and if they prove false, react quickly. Most of the major assumptions can be linked to the stepping stones you have set for the business; when you reach a stepping stone, test the related assumptions.

Most of these assumptions are included in your product development roadmap, your market strategy development workbook guides, your human resources management workbook guides and your sales plan.



*You will have documented some of this information in [Market Strategy Development Workbook 2: Critical Value Factors](#) and [Market Strategy Development Workbook 3: Strategic Marketing Approach](#).*



*You will have documented some of this information in [HR Management Workbook 1: Building an A-Team](#).*



*Record the key assumptions for your business in the corresponding section of the [Developing a Financing Strategy for Your Company](#) workbook template.*

The financial statements that make up your projections are called the “*pro forma* financial statements.”



**Pro forma financial statements** are based on assumed events and transactions that have not yet occurred. These financial statements focus on the future and are used to raise investment capital.

The *pro forma* statements you’ll need to raise capital from outside investors include:

- **a cash-flow statement**—how much money do you need for the business now and over the forecast period? Where will the cash come from? What milestones will you achieve with the funding?
- **an income statement**—this will include your sales forecast, margins, and fixed and variable expenses (e.g., research and development, sales and marketing, administrative costs, interest).
- **a balance sheet**—this is a record of your company’s assets and liabilities.

With your data in hand from sections 1, 2 and 3 of this workbook guide, liaise with your accountant to prepare your *pro forma* financial statements.



## 4. The Financing Strategy Roadmap

Now that you've developed the stepping stones for your business, match your financing requirements to each of these stepping stones. This financing strategy roadmap ties your business plan to your execution plan.

Each of your stepping stones represents a round of financing. Venture capitalists refer to these rounds as seed financing, series A, series B, series C and so on.



Learn more about [the stages of company development and investor types](#).

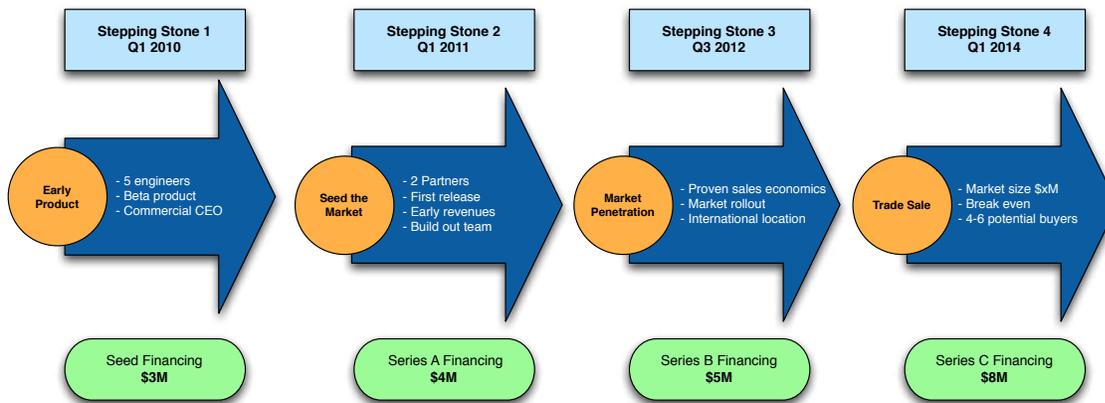


Read about [how much capital is required to fund a business to break even for various industries](#).

In your financial plan, you've determined the total amount of capital you'll require to get to cash-flow break-even. Since everything will likely not go to plan, consider showing a range of capital requirements by adding a safety buffer of 10% to 25% to your estimates. Then determine how much cash is required to achieve each of the key milestones or stepping stones. This becomes your financing strategy roadmap.

The objective is to raise enough financing to get slightly beyond the next milestone. You could try to raise more money than you need to reach the first milestone, however, since a venture is at its lowest economic value at the very early stage, your shareholders (likely yourself and a few other founders) would suffer more dilution in ownership than necessary at that point if you were to raise more money than you require. Remember the goal is to increase the valuation of the company at each stepping stone.

Using the example of the software company discussed in section 1 of this workbook guide, we can see that the company requires a total financing of \$20 million, as follows:



Source: Berkery, D. (2008). *Raising Venture Capital for the Serious Entrepreneur*. New York. McGraw-Hill.

Considering and applying this example in relation to your own stepping stones will help you determine your own financing strategy roadmap.



Learn more about [which financing approach is right for your business](#).



Learn more about your [financing options](#).



Determine the financing requirements for each of your stepping stones and record them in the template in the corresponding section of the *Developing a Financing Strategy for Your Company* workbook template. This is your financing strategy roadmap.



When you start work on workbook guides 2 and 4 of this *Business Planning and Financing Management* series, record your financing strategy roadmap in section 3.j) of the *Business Plan and Executive Summary* workbook template, and in Section j. of the *Developing and Delivering a Winning Investor Presentation* workbook template.