A–Z

OF

eSTART-UP JARGON

A

accelerator

Accelerators, also called incubators, are commonplace in the technological ferment of Silicon Valley and are now spreading rapidly in Europe. They fill a gap in the corporate lifecycle. The time between coming up with a business idea and convincing a venture capitalist that it is worth investing in can be long and tortured. However brilliant their business idea, first-time entrepreneurs faces a complex struggle to keep afloat, create a convincing pitch, as well as a business plan, and to test the idea out. Companies such as Ideas Hub, Brainspark, and NewMedia SPARK provide finance, advice and other support to assist the rapid development of start-ups.

Consulting firms are also keen to lend a helping hand through so-called venture consulting. Firms offer assistance in return for equity. McKinsey & Company has created accelerators in six locations around the world – Silicon Valley, New York, Toronto, London, Madrid and Munich – with more scheduled. It has also set up @McKinsey, a specialist group, within the consultancy that is concerned with e-commerce and the development of its new economy initiatives.

B

Bainlabs

By embracing venture consulting, the traditional consulting powerhouses, hope to benefit from Internet start-ups. Bain & Company's solution is Bainlabs – incubator units the firm has set up to nurture fledgling Internet businesses. The first two Bainlabs were established in 1999 in San Francisco and London. These have been followed by others in Paris, Milan, Munich, Singapore, Hong Kong and Boston. The idea is that at the end of each year, the rank and file consultants receive a share of the action as part of their annual bonus.

blow-out round

A blow-out round means that a start-up has received its first round of financing but things are not going too well. More money is needed. Unfortunately for the initial investors another round of financing at a lower price will wash them out, diluting their stake substantially. That's why it's known as *a wash-out* or *blow-out round.*

boat anchor

In venture capital speak, boat anchors are useful things – but only if you want to remain stationary or stop. A start up company needs to move – fast – full speed ahead. Any thing – or person – that slows it down is *a boat anchor*.

Brainspark

The Clerkenwell, London, based company Brainspark is an incubator for Internet related start up companies. Founded by Stewart Dodd and two of his investment banking colleagues Brainspark follows the Idealab! model of taking people with great ideas and getting them up and running as quickly as possible.

The Internet investment market in the UK and Europe is very immature compared to that of North America. As late as 1999 there were few option open for Internet entrepreneurs to raise seed capital for their ventures. Brainspark were one of the first entrants into the fledgling venture capital market based in the London.

The company was floated on the Alternative Investment Market (AIM) early in 2000 and already employs over 120 people. Brainspark will typically invest between £400,000 and £1 million in each partner company. In addition it offers expertise and office space for its partners. In fact the environment created by bringing together a group talented entrepreneurs under one roof is a key element of Brainspark's business strategy. Up to 12 partner companies can be accommodated at the company's Clerkenwell premises.

In return for their investment Brainspark take an equity stake of 25-35% in the enlarged partner company. Brainspark do not charge for any of their services until the first external round of financing is completed, at which point Brainspark will charge at cost.

Partner companies include: Fortune Cookie, a web-design company;

Smile-on, a Europewide dental community providing business-to-business and business-to-consumer services; and Petspark, an online community for pet enthusiasts.

Links: www.brainspark.co.uk

business angels

Business angels are wealthy private individuals, who invest in companies during the early stages of financing. Amounts vary according to the individual. In the UK, for example, the typical amount would be somewhere between £10,000 and £100,000, although groups of angels do sometimes come together to form consortia in order to make larger investments.

In return for their investment the angel will receive an equity stake in the company. This is usually a minority stake (less than 50%).

Angels invest for a variety of reasons, the primary one being financial. This means that for an angel to be interested there must be sufficient prospects for growth. There also needs to be an exit strategy. Although attracted by above average rates of return on capital, angels are often actively interested in the type of businesses they invest in. This may mean that they are willing to participate in a non-executive director capacity. Often angels have significant business experience to offer start-ups.

One advantage of dealing with angels is, apart from the individual help they can give you, speed. Angels will often make investment decisions a lot more quickly than their venture capital counterparts. A common strategy used by entrepreneurs is to use angels to raise seed capital, leaving venture capitalists for the later financing.

business plan

Any entrepreneur who wants to raise finance for an Internet start-up will need a business plan. Unless you are very lucky, well connected, or a have a wealthy family, you will need one of these. A business plan need not necessarily be in writing, some venture capitalists prefer presentations in other media, PowerPoint for example.

Similarly there are different views about the precise content that should be included. It is possible to write an extensive 50-page business plan outlining every last detail. The question is will the venture capitalists have the time to give it the attention the entrepreneur thinks it deserves? After all, they receive hundreds of business plans every month. An alternative approach is to sketch out the bare bones of the idea including only the absolutely essential information.

But any business plan, in-depth or brief, should contain the following ingredients (individual elements of a business plan are dealt with in more detail as separate items in this A–Z).

- *Executive summary:* This is the summary of the business plan in a couple of pages and includes a summary of the summary – known as the *elevator pitch*.
- *The space:* What market is your business in?
- *Marketing:* How do you intend to get customers to the website? How much is it going to cost?
- *Management team:* An outline of who is on the team, their areas of expertise and relevant experience. This is important as it determines the credibility of the plan.
- *Financials:* Predictions, but make sure they are well thought out, realistic ones.
- *Exit strategy:* How will the investors get their money back out of the company? The IPO (Initial Public Offering) is the Holy Grail of the exit strategy.

C

center of the flame

Is your company strongly placed to succeed in the new economy? Is it burning brightly in the Internet firmament? If so, then it's *in the center of the flame*.

company description

The company description is often divided into four sections.

1. The formation of the company: how, where and when was it formed and what is its legal structure.

2. The company's history: a brief timeline, important events, trading records, etc.

3. The present position: A snapshot of where the company is at this moment in time.

4. The company's future: Where the company is heading; the basic strategy for achieving this making it clear why additional investment is needed.

competition

Do not make the mistake of dismissing the competition out of hand when preparing the business plan. Investors like to see that other companies can succeed in the market space you are intending to compete in.

The key here is differentiation. What makes your business strategy, product or service different? Frankly assess competitors' strengths and weaknesses. Analyzing the competition in an unbiased way offers an opportunity to emphasize potential gaps in the market.

Show how you intend to break into the market, and what kind of market share you expect to capture.

critical risks

There are threats to any business. These go beyond just competitive threats. Inadequate cash flow is the number one killer of start-ups, so make sure you've thought this through in detail. It is important to show in the business plan that every contingency is planned for.

Outline areas such as: competitors, how might they react to your entry in to the market; economics, what larger economic factors are at work that might have an adverse impact on your business; legal requirements, have you taken all necessary steps to avoid any legal problems particularly intellectual property and regulatory issues?

Other issues include the management teams adequacy as the business expands, cyclical trends in the markets you operate in and technological developments that might affect profitability.

Investors will be encouraged if you show that you aware of potential threats and have strategies to deal with them.

D

discounted cash flow

Discounted cash flow is a sophisticated technique used by financial analysts. It refers to a method of valuing a company used by private company investors and venture capitalists. The concept is used to answer some specific concerns of investors. In particular how they should determine the size of their investments in projects.

Unlike the market valuation method, the discounted cash flow method estimates company value without reference to the price–earnings ratios of similar publicly held companies. To that extent, it represents a more individualized calculation of future value. It is used to determine the value of bonds, loans, and other fixed income investments. For example, venture capitalists use it to predict returns from investments in new companies. It also has a wide range of applications in real estate analysis.

Discounted cash flow analysis takes all benefits (cash flow, tax credits, net sale proceeds, paper losses) into account, not just cash flow. The aim is to assess a projected stream of economic benefits and calculate the maximum equity contribution that an investor should be willing to make. It also enables an analyst to compare an equity amount with a stream of benefits and calculate an overall rate of return. The investor's minimum rate of return is called the discount rate, the rate at which the investor will discount benefits promised in the future. The discount rate converts benefits promised in the future into an equivalent value today, called present value.

Despite its complexity, discounted cash flow analysis is based on a simple idea – that cash today is worth more than cash promised in the future. It assumes that any investment should yield a return over and above current cash value. It makes no sense, for example, to invest $100 today for the promise of only the same amount in the future. If you invest $100 today, you should receive more than that amount back at a later date.

In general, the greater the risk, the higher the rate of return demanded by investors. Treasury bonds are very low risk investments, so investors may be satisfied with 6 or 7% returns. Venture capitalists take huge risks on unproved companies and may demand a 40% return on their money.

dog food

Will the dogs eat the dog food? That is the question venture capitalists ask. How many thousands did you pay for that lovingly crafted business plan? It is all in there, marketing, financial projections, critical risks, operations plans, every piece of information the venture capitalist could possibly want. But are they interested? All they keep asking is *will the dogs eat the dog food?* Will anyone buy the product?

drive-by venture capitalist

The start-up gives up a%age of its equity. In return it gets funding arranged by the venture capitalist plus expert advice and support to help the business become a success. Right? Well that's what the majority of venture capital firms say on their websites. So if you are a Internet start-up what you don't want is *a drive-by* venture capitalist who pops in briefly for the board meeting and coffee, then disappears without giving you the benefit of his considerable expertise.

due diligence

Due diligence is the examination of the investment proposition, lasting for a period of several months. It is a legal requirement on directors.

There are two distinct phases to the due diligence process. The first is a rough analysis of the business plan. It is at this point that plan stands the most chance of being rejected. Rejection may be because the proposed business is not a good fit with the venture capitalists' investment strategy. Or the venture capital firm may not think much of the prospects for rapid growth.

If the business survives the rough analysis there will be a closer inspection of all the elements of the business plan. This includes examining the financial and technological aspects of the new venture as well as interviewing the management team.

If after this the venture capitalists are satisfied then they will move onto agreeing the terms for funding.

E

elevator pitch

If you are to succeed in raising finance for an internet project it's a good idea to learn to pitch it quickly. Very quickly. For those with a cunning plan, the 'pitch' is the thing. The practice is borrowed from the original California dream factory Hollywood. Where aspiring script writers once buttonholed studio executives, now venture capitalists (VCs) are on the receiving end of Internet entrepreneurs pitching dot.com business plans.

More art than science, the pitch is all about making an instant impact. According to David Ishag of the Internet investment firm, Idealab. "Plans have to be light as a feather. You have to be able to make your case in an elevator – and I'm talking about an elevator in a very low building." Some say 90 seconds is all the time you get for an elevator pitch.

executive summary

The executive summary is one of the most important parts of any business plan. It's the business plan in miniature, a summary of all the key elements. No longer than two to three pages long, the executive summary is the first part of your business plan that a potential investor reads – and possibly the only part.

The summary should describe the product, and its potential market. It should cover the management team, the financials, and when and how the investors will get their return. Remember to communicate your vision; the sense of excitement you feel about your idea.

Within the executive summary comes the summary within a summary – the elevator pitch. Crisp and concise, in a few lines it sums up the essence of the business idea.

exit strategy

Investors want to see how they are going to get the return on their investment. How this will be done and what the investor's expectations are depend partly on what kind of investor they are.

Venture capital partners like to get out quickly, and with a significant return on their investment. Quickly, can mean as little as fifteen months time, or sooner with the explosive growth possible in the Internet industry. Companies are forming and moving to an Initial Public Offering faster and faster. A significant return for a venture capitalist will usually mean an IPO. This would once have been a difficult proposition with very few companies being listed without a substantial trading record. However with the public's current appetite for Internet stocks this has all changed and now an IPO is attainable with little or no business history. But there are still many Internet companies that do not make it this far, and market sentiment can change very quickly.

Business angels, private individuals who invest, have in the past been more flexible than venture capitalists, both in their demands for growth and on the exit strategy. The glut of Internet business plans has changed this. Angels can afford to be more selective about what they invest in and there is evidence to suggest that they are moving towards investment strategies that are more similar to venture capitalists.

The IPO is not the only exit strategy available. Others include merging with or being bought by another company; franchising the business; and, should things get desperate, winding the business up.

F

financial plan

This is the part of the b-plan that sets out the expected financial performance of the business. They may only be projections but the potential investor will pay a lot of attention to them. Because this is the section that shows when the money is coming from. And when the business will be profitable.

It goes without saying that financial projections should be prepared and set out according to current accounting practices. The minimum required would be balance sheets, income statements and cash flow statements. You should also outline how you arrived at the figures you did – the assumptions that underpin them, as well as break even analysis, financial ratios and the part investors like the most; investment structure and projections. Investors like to see exactly when they will be rewarded and by how much.

financing stages

Financing a start up is a structured process and usually involves different parties at different stages. The terms used vary from country to country, but there are several distinct stages:

- Seed funding: at the very beginning of the project, when the entrepreneur has the idea but little else, finance is needed to research and develop that idea. This stage is often financed by the entrepreneurs themselves or friends and family. Or it may be financed by business angels.
- Start-up/early stage: the company has started up but as yet is unproven. Finance is required to trade on a commercial basis, while the company establishes itself in the market.
- Expansion/development stage: the company is set up, trading and established. It may not be making a profit yet but further financing is required to expand, during what is usually a period of rapid growth. Several rounds of financing may be required during this stage, often tied into the business plan.

A particular problem for internet start-ups is that many of those which received initial funding could run out of money before they become profitable. Their troubles do not necessarily end with a successful IPO either. The question that faces many of the firms that have gone to IPOs in the last few years is whether they will be able to attract additional funding if profits do not materialize. Some believe this is a potential time bomb for the dot-coms.

First Tuesday

First Tuesday is an organization that facilitates the networking of young Internet entrepreneurs. First Tuesday organizes events where Internet professionals pass on their experiences to an audience of would be dot-com millionaires.

People attending the meetings apply for places by email, and are notified at the last minute whether they have been successful. Meetings are regularly oversubscribed. Those who do make it to the meeting are asked to wear color coded tags denoting whether they are entrepreneurs or investors.

The four people behind First Tuesday are Julie Meyer, Adam Gold, Nick Denton and Mark Davies. It started out as a few friends meeting every now and then in a bar in central London. The meetings became more frequent and attendances spiralled. There are typically 2,000 people applying for 800 places. Since the first meeting in 1998, more than 500 entrepreneurs, venture capitalists and business angels have given talks to First Tuesday audiences.

Today First Tuesday is international. It covers 60 cities in four continents. It has over 40,000 registered users and access to over 6,000 venture capitalists business angels and private investors. And – for the moment at least – it's free.

Links: www.firsttuesday.com

for and against

Before approaching a venture capitalist for funds, entrepreneur would do well to consider whether it is really what they want. Some entrepreneurs find the potential side effects of obtaining venture capital unpalatable.

Obtaining money from a venture capitalist may mean:

- Losing control of your company – if the venture capitalist insists on extra voting rights.
- Not being able to run you business the way you want – as part of the deal the venture capitalists will want a representative on your board. You may know your business inside out; they may not. You may want a nice steady growth taking a long term view. They may want to rush to market and cash in.
- Losing your company – some venture capitalists want clauses that give them control and consequently the ability to sell your company if things are going particularly badly – or even very well.
- Not being able to take a long-term view – venture capitalists want a return on their investment. They may want it more quickly than you would like.
- Diminishing equity – if the venture capitalists insist on an anti-dilution clause it means that if you go to someone else for finance your stake is diluted but the venture capitalists share remains the same.

On the other hand a good venture capitalist can:

- Put you in touch with useful contacts
- Help you during periods of difficulty
- Provide back up services in specialist areas

- Give good strategic advice
- Provide invaluable help in growing your business and making it a success.

G

Garage.com

One of the biggest problems facing would be Internet entrepreneurs is finding early financing. Having a killer idea is one thing, getting it from the back of the envelope to the Internet another. The success of venture capital firms has left them with less time to focus on seed financing. Corporations and angels seeking to invest early stage money are faced with an unstructured, fragmented and disorganized market. That's where Garage.com step in.

Founded by Craig Johnson, Rich Karlgaard and Guy Kawasaki (of Apple Computers fame), garage.com fills a gap in the market between friends and family money and venture capital financing. So far, the US company has helped over 40 technology start-ups raise over $100 million in venture capital through its wholly owned broker/dealer subsidiary Garage.com Securities.

Garage concentrates on start-up finance – the average funding sought by member companies ranges from $1 million to $4 million below the threshold for most venture capitalists. The company does all it can to increase the chances of member companies funding investors.

First it carefully scrutinizes applications. The garage team look for business plans that:

- Hit the right target markets – especially networking, software, computer hardware and peripherals, semiconductors and the Internet.
- Are at the right stage – that is who have the idea, the strategy, a team of players and maybe have already raised some friends and family finance
- Have an aggressive business plan – the company is looking to grow quickly, dominate their market and start producing good return to investors within a reasonable time.
- A talented team – that understands the business model, and the technologies required to implement it.

Once past the screening process, garage provides a wealth of resources to support the start-up. These include advice from experts, research and reference materials and topical forums.

Member companies also get their start-up details posted on the garage.com website in a password-protected area named Heaven. Potential investors can then peruse the details and decide whether to make an investment.

Garage.com makes its money from charging the investors for membership. In addition its broker/dealer affiliate receives a placement fee from the entrepreneurs when funding is agreed. On top of this garage.com operates two investment funds that co-invest in start-up companies. It also runs a series of bootcamp conferences to provide advice and networking opportunities. Not in a garage though.

Links: www.garage.com

gray hairs

Entrepreneurs involved in Internet start-ups will inevitably, at some point, have to bring in more experienced executives or *gray hairs* to lend weight to the management team, especially if they are intending to go for an IPO.

green shoe

If an investment banker gets some extra stock to keep the deal sweet, he will be getting *a green shoe.*

H

halo effect

When you first tell your friends, family and anyone else about your idea to trade rare insects on the Internet they will probably laugh. Once the venture capitalists have raised $3 million to launch your iNsectZ.com into the stratosphere, people will hang on your every word. It's the *halo effect*. If you've had a success there is an assumption that you know what you're talking about. Proven internet entrepreneurs find it much easier to attract funding the next time round.

hitting the windshield

The company is up and running, the bad news is it's no corporate hare – more of a tortoise. Failing to reach escape velocity is not a good thing in the hurtling world of Internet commerce. And before you know it, splat, the company's *hitting the windshield*.

hockey stick

Venture capitalists want a return on their money – and not in fifteen years time. More like fifteen months. When they see a projected growth curve they like to see *a hockey stick*. Slow at first but then up and up and . . .

hot space

Your big Internet idea is a website for weddings. A weddings portal or vortal even. The trouble is the weddings website is done to death. The venture capitalists are definitely going to pass on your business plan because weddings is just not a *hot space*. A hot space is a market space that venture capitalists believe is just about to take off, but is still relatively open.

I

Idealab!

Founded by Bill Gross in 1996, Idealab! is a private company. One of the first incubators, its mission is to develop great ideas into Internet success stories. The company identifies, creates and operates Internet businesses. For start-ups it offers a full range of resources to help them succeed. These include offices and network infrastructure, as well as consulting services relating to legal and financial matters, finance and marketing. Its services help start-ups acquire the momentum needed to survive and thrive in a dynamically changing marketplace.

Idealab! has over 50 companies in varying stages of development. The company has offices in Pasadena and Silicon Valley in the US and early in 2000 expanded into Europe, opening an office in London. Companies that

Idealab! is involved in include: eToys, CarsDirect.com, PETsMART.com and Tickets.com.

Links: www.idealab.com

Idealab Capital Partners

Idealab Capital Partners (ICP) is a venture capital affiliate of Idealab! Although both companies have investments in each other they are separate companies and ICP invests in companies that are not associated with Idealab!

ICP looks to provide early stage finance for Internet companies. It has invested in dozens of Internet start ups from its first and second funds ($100 million and $350 million respectively). Some of these firms – eToys and GoTo.com for example – were created by Idealab! others – MP3.com, RealNames, were not.

IPC invests in five key sectors: strategy, infrastructure, business-to-business (B2B), ecommerce, services and content. Ideas can be submitted to ICP via its website. Applicants must include a brief description of their business description (500 characters maximum) as well as a similarly brief description of the management team. Tellingly, there is a field in the form to indicate who if anyone referred the applicant to ICP. It is generally accepted in the industry that proposals to venture capitalists referred from someone they already work with, fund, or know stand a better chance of success.

Links: www.icp.com

incubator

Incubators (see also accelerators) are a fairly recent phenomenon. They are partly a response to the lack of finance and know-how available to young Internet entrepreneurs.

One of the key differences between incubators and other kinds of financing for start-ups is the extent of back up provided. Office space, technological know-how, legal and financial advice, web design; all these services are offered by the average incubator.

In return incubators take a slice of the equity. And this may be a large slice of the pie. As incubators are effectively another mouth at the trough. Most incubators will have access to venture capital funding through an associated or partner company. But the venture capitalists will usually want their share as well.

If you can get by without needing an incubator's help and go straight to the venture capitalist, then it will probably mean giving away less equity. If however you have a really compelling idea but lack the infrastructure to convert that idea into a successful company, then an incubator may be invaluable.

Well known incubators include Idealab in the US and Brainspark in the UK. Management consultancies have also got in on the act – McKinsey & Company has its own accelerators and Bain & Co. has its Bainlabs, for example. In another interesting development, some business schools, such as the Haas School of Business at Berkeley in the US and Cranfield School of Management, in the UK have begun to develop an incubator-like environment for their MBA students.

industry analysis

This section of the business plan takes a closer look at the industry sector within which your company will operate. The summary of the industry need to include information such as:

- The size of the industry in revenue and company terms
- industry trends
- Regulation by government
- Barriers to entry
- Predicted growth
- Technological change

Addressing issues like these, should help to give a clear picture of the target market and competition.

J

Jellyworks

Jellyworks is a UK based company that specializes in investing in start-ups and early stage companies. The company adds value by providing full support to the companies it invests in either itself or through its subsidiaries.

Support services offered by Jellyworks include:

- Finance – seed and ongoing funding, mezzanine financing, pre IPO and public offering.
- Marketing – web design, research, branding.
- Technology – implementation, infrastructure.
- Strategy – professional management expertise.

Jellyworks is managed by Jonathan Rowland, chief executive and Michael Parker chief investment officer. Companies that Jellyworks has invested in include the web currency company, Beenz and the online gambling firm SportingBet.

Links: www.jellyworks.com

K

killer app

A killer app is a product, service or business model that has the potential to displace a dominant provider and reinvent a market. The term is often applied to Internet businesses that offer dramatic benefits over bricks n' mortar offerings.

Examples of killer apps throughout history include the longbow, the pulley, the compass, moveable type, and the Apple Macintosh. In their 1998 book *Unleashing the Killer App*, authors Larry Downes and Chunka Mui argue that the dominant trend behind the proliferation of killer apps is a combination of Moore's Law, which states that the processing power of the CPU doubles every 18 months, and Metcalfe's Law, which observes that the value of a network increases dramatically with each node that's added to it. These two laws are fundamentally changing how businesses interact with each other and with their customers. Killer apps are nirvana for venture capitalists.

Kleiner Perkins

In the pantheon of venture capitalists, the name of Kleiner Perkins has a special place. By the time Tom Perkins co-founded Kleiner Perkins, he already had a track record of working in successful high tech companies. He worked at Hewlett-Packard, at one point as Bill Hewlett's assistant. Then while still at H-P, and with its permission, he used $10,000 of his own money to start up a company based on a low-cost laser he had invented. He later merged the company into Spectra-Physics, making a couple of million dollars in the process.

Perkins must have got a buzz from the deal because he then decided to change direction and become a venture capitalist. In the US at that time, venture capitalists were thin on the ground. Together with Eugene Kleiner, who Perkins met through a mutual contact, Perkins co-founded Kleiner Perkins.

Kleiner Perkins' first fund was just $8 million – peanuts by today's standards. The firm scored two hits from that first fund; Genentech and Tandem. It never looked back. Kleiner Perkins has since expanded to become Kleiner Perkins Caufield & Byers. Today it has superstar status among the many venture capital firms investing in the New Economy. KP's list of investments reads like a who's who of the Internet. Amazon.com, @Home, AOL, Excite have all received funding from Kleiner Perkins. As did the company that started off KP's association with the Internet revolution – Netscape. Naturally this has made the partners very rich (or at least they have stock options worth a lot of money).

L

living dead

Not all internet start-ups become Amazons or Yahoos. Some simply tread water, neither swimming nor sinking. If its up and running, but that's about it, the company fall into the category known as *the living dead*. Like the zombies of horror stories, these companies are destined to continue to operate with no hope of entering IPO heaven.

M

management plan

The strength of the management team is a key factor in most investor's decision making. Start-ups need to show that they have people who have strong skills in the key areas of management.

Elements covered in the management section include:

- Key team members; their duties, experience and expertise.
- The board of directors; who is on it and what role do they play.
- Advisors; details of the people, normally with extensive industry experience, who advise you.
- External consultants who give advice.

Non-executive directors can be useful to add ballast to the management team. Give special mention and background details for the founder(s).

marketing plan

How will you get the customers to your site? The more sites there are in cyberspace the harder it becomes. The marketing spend for start-ups is huge. Your plan needs to be well thought out and costed.

First, define your target market. What are the demographics? Age, income, spending habits, location? The investor will want to know all this.

Second, how are you going to reach the customer? What advertising medium will you use? What will it cost? What expertise will be required? What about PR (public relations)? Show the investor that you have thought carefully about marketing your product or service effectively.

N

NASDAQ

The National Association of Securities Dealers Automated Quotation system (NASDAQ) is a totem of the new business revolution. Unlike America's New York Stock Exchange (NYSE) or the London Stock Exchange, the NASDAQ is the johnny-cum-lately of stock markets, founded by the National Association of Securities Dealers, Inc in 1971.

It started life as the solution to a problem identified in a US Securities and Exchange Commission report, and soon took on a life of it's own. Its success is bound up with the meteoric ascent of technology stocks with which the NASDAQ index is heavily weighted. As the trading of stocks by the public has gained acceptance in the US, aided by the growth of online share dealing services by E*Trade and Charles Schwab, interest in the daily ups and downs of the NASDAQ has intensified. Investors follow the roller-coaster ride of the NASDAQ index waiting for a sign that the end is nigh, for one of the longest bull markets in history.

A measure of the success of the NASDAQ market came in 1994, when the annual volume of shares traded surpassed that of the NYSE. In March, at the beginning of the new century the NASDAQ passed the 5000 mark for the first time, it also passed another landmark moment, trading a staggering 2.23 billion shares in a single day, March 1, 2000. No less impressive was the dollar volume traded in the first quarter of 2000 – $5.97 trillion. Normal service was resumed shortly afterwards, however, as the NASDAQ index carried on its helter-skelter ride plunging back below 4000.

New Media Spark

New Media Spark was listed on the London AIM market in October 1999. Another of the up and coming business incubators, it has made investments in wide range of Internet businesses including infrastructure, B2B and content providers, including news monitoring and gay and lesbian information . It has also invested in the B2C (business-to-consumer) market – an air travel-ticketing firm for example. New Media Spark was one of the first Internet incubators in Europe.

New Media Spark offers assistance in four main areas:

- Incubation and acceleration: this includes providing seed finance, office space, legal and accounting advice, marketing services and other ancillary support usually provided by incubators.
- Principal Investment: early stage financing from £500,000 to £2.5 million, through New Media's contacts with venture capital firms. Plus board level participation.
- Corporate finance advice: including mergers and acquisitions advice. Together with advice about raising further capital and help in preparing for an IPO.
- Exit opportunities: New Media Spark will aid any sale of the business, as well as provide introductions to investment banks if necessary.

The new business team meets several times a week. Entrepreneurs are invited to submit their propositions to New Media Spark via a form on its website.

Links: www.newmediaspark.com

non-disclosure agreement (NDA)

Something that prevents entrepreneurs from attempting to raise funding is the fear that the potential investor will steal their idea. To stop this happening the entrepreneur can ask investors to sign a non-disclosure agreement (NDA)

A non-disclosure agreement is a one sided or mutually binding agreement where the parties agree to protect the confidentiality of any discussions that take place. This would seem the perfect solution for reticent entrepreneurs. The problem however is that few venture capitalists will agree to sign one, citing the volume of business plans as their reason.

The hard truth is that for every idea an entrepreneur is working on, chances are that someone somewhere else is developing the same idea. If the idea is a good one, the probability is that several venture capitalists will be financing similar ideas at any one time. Hence their reluctance to sign an NDA and the difficulties in enforcing them.

As speed to market is one of the critical factors in the success of an Internet start-up, the entrepreneur might do as well to forget about the NDA and move as swiftly as possible.

O

operations plan

The operations plan is all about the internal running of the business. For a start-up to get off the ground it well need more than just an idea and money. Possible areas covered in this section of the b-plan are:

- Equipment: What hardware and software will be needed? Do you plan to purchase or lease the equipment?
- Location: The company will require office space – but how much? Depending on the nature of the business warehousing and manufacturing premises might also be required.
- Employees: The company may need employees. How many? What will they do? How will they be paid?

orphan

It's one thing getting the seed finance; it's another seeing a business through to IPO. You need a venture capitalist, on your side. If a portfolio company has no venture capitalist, to stick up for it then it is an *orphan*.

P

plankton

If someone refers to your small but thriving Internet business as *plankton* it might not be as bad as you think. All it means is a small company swallowed by a larger one, and that can be very lucrative.

product/service

The product/service section is a vital part of a business plan. It is here that the entrepreneur must demonstrate why the product or service warrants investment.

Outline the features and benefits of the product or service. What market is it targeted at? What need does it address? If it is a product, describe it as fully as possible including details of any intellectual property rights associated with it.

If it is a service explain how it is to be delivered and what service needs it fulfils. What makes the service different?

plane money

With a talent shortage exacerbated by demographics and the glut of dot-com companies rushing to market, start-ups may well have to pay *plane money* – a signing on bonus – to attract the best. Even if the new execs don't use the money to buy one.

R

Arthur Rock

Together with Tom Perkins and Eugene Kleiner, Arthur Rock was one of the first major venture capitalists on the west coast of America. It was actually Eugene Kleiner who persuaded him to make his first significant investment. At the time, Kleiner was working with William Shockley the Nobel Prize winning scientist. Kleiner wanted to develop silicon transistors, and Rock invested in Kleiner's idea, which became the pioneering semiconductor company Fairchild Semiconductor.

The astute Rock went on to provide early stage finance for two of the companies that made the digital revolution possible: Apple Computer and Intel Corporation.

S

scale up

It probably started out as a four-man band in the garage with a business plan. The venture capitalists loved it. The early financing is in place. Now it's time to *scale up*; grow the company fast while keeping the management structures in place. A company can have a profitable business model, but if it's not scaleable, then it is of limited interest to venture capitalists. Scaleability is what venture capitalists look for. It is the key to a killer application. Amazon.com has it in trumps, hence its outrageous valauation. Lastminute.com was supposed to have it. Time will tell.

short arms

For the first round of financing the venture capital partners were chomping at the bit to get in. The second time around they were not nearly as keen to put their hands in their pockets; they had *short arms*.

T

table of contents

As the name suggests, the table of contents (ToC) is a guide to what lies within the b-plan. Putting it in front of the executive summary lessens the summary's impact, so it is a good idea to put it after. Obvious though it is, it is essential that the ToC is correctly numbered and easy to follow. Readers of the business plan are exceptionally unlikely to read it from cover to cover, preferring to head straight for the sections that interest them.

term sheet

A term sheet is a mutually agreed outline of a deal and its terms. The term sheet contains the details that form the basis of agreements later on. It is there to protect the investment fund and the parties to the agreement, both entrepreneur and investors, as well as to remove potential for misunderstandings.

It is therefore essential for entrepreneurs to understand the key elements of the term sheet and ensure that it represents their position fairly. The mechanics of term sheet can be very complex however, simply put they cover the following: valuation details, minority protection rights, exclusivity clauses, exit details and drop dead clauses.

So, signing the term sheet prevents the entrepreneur using the same term sheet to squeeze a deal from another venture capitalist (an exclusivity clause is usually included). If the entrepreneur walks away, the venture capitalist is compensated for his time and effort in valuing the company.

venture capitalists ideally like to prevent their equity in the company from being diluted in further financing. They may therefore seek to include an anti-dilution clause – this can be a point of contention.

As far as the exit strategy goes venture capitalists will invariably want the IPO route and may well look to offload their stake as soon as possible.

The reliance placed on term sheets depends on the investor concerned. Some investors see it as an over aggressive instrument; they would prefer to rely on building a relationship with their entrepreneur partner on a basis of trust. However term sheets are common practice in the industry and the entrepreneur must satisfy himself that any term sheet he signs accurately reflects his position

V

venture capital

Venture capital (VC) is money provided by professional investors to aid the development of young fast growing companies. Many of the best known companies in the world have received venture capital in the early stages; among them Microsoft, Intel, Genentech, Apple and Sun Microsystems.

Venture capital firms are generally arranged as private partnerships, with a small number of general partners as well as a number of external limited partners who also provide money towards the establishment of venture capital funds. In return for their investment they get equity. If the company goes to IPO the equity will convert to traded stock that the venture capitalists can then offload.

Kleiner Perkins, Caulfield, Byers and Arthur Rock (now retired) were two of the first venture capitalist firms to become well known. The venture capital industry has exploded in recent years, however, with the advent of the Internet and the demand for dot-com stocks.

The Internet has brought boom times to the venture capital industry. Buried under an avalanche of Internet based business plans they can pick the very best to invest in. To attract the attention of the top venture capital firms, an idea must be extremely compelling.

vision/mission

In many interviews venture capitalists stress the importance of an entrepreneur's vision when deciding whether to invest or not. There has much academic discussion about what constitutes a 'mission' and a 'vision' in the general business sense. For the purpose of the business plan however it is sufficient to treat vision as the unobtainable goal towards which your company is striving. The mission, while demanding, will be an achievable target – what your company intends to accomplish.

Needless to say these statements should be powerful, compelling and brief.