

Part 5: How to write an Information Memorandum or Business Plan to Raise Capital – Market Strategy

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In this continuing series of articles on how to write a Business Plan or Information Memorandum to raise capital, Part 5 discusses business plan content specifically 'Market & Market Strategy'.

Market and Market Strategy

This is another important section of the business plan as it sets the scene for the rest of the plan by estimating total available market size and the share the venture's product or service has a substantial market in. Preferably the target or established market is in a growing industry that can achieve sales despite existing or likely future competition. This section of the business plan provides the basis of projected turnover which will determine the dimensions of the venture and will influence the amount of finance sought.

Owing to its importance, this section should be prepared first, with time and care being spent collecting market data regarding overall size and growth rates, and presenting facts, figures and their source wherever possible. Concentrate on the market segments which specifically relate to the products or services offered rather than more general analysis, as prospects and trends directly applicable to your business may not be representative of the market as a whole. Extracts from relevant surveys where available or statistics which you have gathered should be appended to the report as supporting information. In situations where either a market is being entered for the first time or a new market is being created, actual experience cannot be used for comparison. Here it is even more critical to undertake relevant research to comfort the venture capitalist regarding the reasonableness of sales projections.

The 'Market' section needs to address the following:-

1. Customers

- Who are the existing or anticipated customers for the product or service?
- What is the basis of their purchase decision: price, quality, services, personal contacts or some combination of factors?
- Indicate potential customers who have expressed an interest in purchasing the product or service and why.
- Similarly, indicate potential customers who have shown little or no interest in purchasing and explain why.
- Explain how negative customer responses will be overcome.
- Consider what customers expect in the way of price, quality and service.

2. Market Size and Trends

- What is the total size of the current market for the product or service offered? Indicate the source of the estimates.
- Is the market, expanding, contracting or static? (Discussions with customers, distributors, dealers, agents and sales representatives may prove useful in determining both market size and trends).
- If the intention is to sell regionally, a regional breakdown should be given.
- Indicate the major factors affecting market growth (economic, industrial, political, climatic, population shifts).
- Seasonality and how the effects on the business can be minimized.

3. Competition

- Make a realistic assessment of the strengths and weaknesses of competitive products or services and name the companies which supply them.
- Compare competing products or services on the basis of price, quality, performance, service, warranties and other relevant features.
- Indicate the current advantages and disadvantages of competing products or services and say why they are not fully meeting customer needs.
- Highlight your three or four principal competitors and explain why customers buy from them. Indicate why the venture will be able to compete favorably and take market share from them, and what responses this will provoke from them.

4. Estimated Market Share

- Summarize the features of the product or service which will enable it to be sold in the face of existing and potential competition.
- Highlight customers who have made or are prepared to make purchase commitments and indicate future major customers and why they will become so.
- Based on this customer intent and the assessments made so far in points 1, 2 and 3 above, estimate what share of the market the company is aiming to achieve in the next three years. The anticipated growth of the company's sales and its estimated market share should be related to the growth of the industry, customers and strengths and weaknesses of competition.

5. Market Strategy

Explain how you intend to achieve sales targets. This should cover overall marketing strategy, pricing distribution, after-sales service and advertising, detailing what is to be done, how it will be done and by whom.

6. Overall Marketing Strategy

This should be developed from market research and analysis and outline the general marketing philosophy and strategy to be adopted.

- Which customers will be targeted for sales efforts, initially and thereafter.
- How customers will be identified and contacted.
- Where the company intends to be positioned versus the competition (i.e. by way of price, quality, response, etc).
- Whether sales will be generated regionally, nationally or internationally, and the timetable involved in graduating from one to another.

7. Pricing

This is a critical aspect as the 'price must be right' to allow market penetration, sustain market position and generate profits. If products or services are superior to competitors, investors will be surprised if the price is below theirs. Two things should be remembered here:

- i. Costs always tend to exceed expectations ("Murphy's Law") and
- ii. Price cuts are more acceptable than price hikes.

Since both of these imply pressure on gross margins it is important to demonstrate that the pricing policy adopted will generate net profits after all direct and indirect costs, allowing for possible future price competition.

8. Sales Strategy

How will sales be achieved and by whom?

- Will the company use its own sales force, sales agents, distributors, OEMs (original equipment manufacturers)?
- What incentives will be given to stimulate maximum sales efforts by internal sales people and by third parties?
- What is the longer term intention with regard to an own sales force?
- How are distributors/dealers attracted and chosen and what are the terms of trade?

9. After Sales Service

If the intention is to offer a product which will require services and warranties, indicate the importance of these in the customer's purchasing decision and how the commitments will be met. Detail any service charges to be rendered and compare your after-sales service with that provided by competitors.

10. Advertising and Promotion

Describe the approach that will be adopted to generate sales leads by creating customer awareness, i.e. exhibitions, trade magazine advertising, direct mail, promotional literature, advertising agencies, etc. A schedule of the costs should be presented in an appendix.

The content of Business Plans will be further covered in subsequent articles by Len McDowall.

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About Len McDowall - Managing Director, Integral Capital Group Pty Ltd

Len McDowall was previously inaugural Chairman and Managing Partner of Bird Cameron Chartered Accountants (now known as RMS Bird Cameron), which employed 1000 people in 50 offices in Australia and Hong Kong. Len, who established Bird Cameron's mergers and acquisitions division, has extensive experience in all facets of financial management with a particular emphasis on structuring and negotiating joint ventures and capital raisings. Following his retirement from the accounting profession Len and his partners established the [Integral Capital Group](http://www.integralcapital.com.au) which specialises in mergers and acquisitions, public floatation's and capital raisings.