

Introduction to Writing an Executive Summary
Version 1.00c



CENTER FOR STUDENT
ENTREPRENEURSHIP

University of Washington - Bothell

Alan Leong
With
George Fletcher Richard Jacoux Diane Branson
&
Numerous Entrepreneurial Students and Alums

Version 1.00c first published in 2009

Published by the Center for Student Entrepreneurship
University of Washington, Bothell
18115 Campus Way NE
Bothell, WA 98011-8246

Copyright © Alan Leong, 2009

Note: This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is given with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional services. If you require legal advice or other specialized assistance, you should seek the services of a competent professional

Leong, Alan
Introduction to Writing a Business Plan
Includes references
1. Entrepreneurship 2. Startup 3. Workshop I. Title

With a single restriction, permission is granted for others to use this in whole or in part for personal or professional use. The single restriction is this: credit is given to the “Center for Student Entrepreneurship - University of Washington, Bothell”.

The Center for Student Entrepreneurship (CSE) has an important mission: to increase the odds of student success. It also recognizes the necessity of supporting entrepreneurial alums and affiliated professionals. It offers an array of classes and professional seminars, as well as advising and referral services for student entrepreneurs.

The CSE is loosely affiliated with Sprout Point Ventures: the network for entrepreneurs. More than 2/3 of the network membership is comprised of UWB students and alums. The students and alums have launched over 50 companies, and many are still operating.

Center for Student Entrepreneurship

Alan Leong, Director

Advisers

Diane Branson, Consultant

Julie Eastland, CFO, VLST Corporation

George Fletcher, co-Founder, Parity Software Corporation

Gabe Frost, Architect, Microsoft

Tom Goos, Executive VP, Image Source

Richard Jacroux, CFO, CW United

John Rasmussen, University of Washington, Bothell

Curtis Stevens, aQuantive

Industry Fellows

Maryel Duzan, Seraph Venture Capital

Dwayne Northrup, Founder & CEO, Garlic Jim's Pizza

Thomas Clement, Founder & CEO, Pathway Medical

Robert Peck, Attorney, Lee & Hayes

Elizabeth Rusnak, VP & Senior Loan Officer, Northwest Business Development Association

Mike Gold, Founder, CNI Corporation

Friends

David Miller, President, Biotech Stock Research

Ben Hodson, President, Soundcrank

Jennifer Jolley, Attorney, JolleyIP LP

Kyle Flindt, Attorney, Inventive Spark LP

Rodger Kohn, Attorney, Kohn Law Group

Dan Voetmann, Founder & President, Destination Marketing

Preface

This chapter is crafted for the students of my Entrepreneurial Management classes during the summer and fall of 2009. A different handout was created for another class (Entrepreneurial Seminar – Winter 2009); it was about writing a business plan and focused on startups. This class allows us to widen the audience and hit new topics.

We are targeting those interested in startups (new businesses) and scale-ups (new ventures and expansions within current businesses). You can aspire to be a creator or a key employee.

If you're looking to someday move mountains within companies, you too must have the entrepreneurial mindset. We also will help you and your team.

*Guys and gals...creating the next company;
Brave souls that are birthing new products and services within old companies;
Ambitious leaders that scale-up smaller companies;
And Adventurers who want to work for them!*

It's not meant to be a complete guide, but is a companion to many other wonderful books. This outlines are our expectations for this course.

Why even create a business plan? Or even an executive summary?

You can propose a new venture without a business plan, but you will increase your odds of success with a good plan. It's a living breathing thing, never static, always changing.

Your plan will morph, you can bet on it. As they say in the military, *a plan is good until the first boot hits the ground and then all bets are off*. You'll need to be quick or die.

We nevertheless maintain that it's important to do the "planful things". It's like getting ready for a huge wedding reception. It never turns out according to plan, but it is absolute suicide to "wing it".

As Dwight Eisenhower once said: *Plans are useless, but planning is indispensable.*

Idea or Team?

A crappy team can destroy a good idea. A great team can improve or find a great concept. There's plenty of technology and great science. There's money floating around, but the scarce resource is "great team". This is your biggest challenge.

Don't choose mates just because they're your friends. As John Doerr, a noted Venture Capitalist, says: *"Are these the people I want to be in trouble with for the next 5, 10, 15 years of my life?" Because as you build a new business, one thing's for sure: You will get into trouble.*

Entrepreneurial Minded People

We have entered into unsettling times. The economic crisis has hit and numerous finance positions have fallen into the pavement.

The risk between starting your own venture versus working for the man has narrowed. This was foretold by many. With the fall of the long-term contract, the successful survivors have the skills and spirit of an entrepreneur. This entrepreneurial spirit has to become part of the DNA of the new American professional – not just for business and computing professionals, but for all professionals.

More than ever, our local communities need entrepreneurial minded professional. Entrepreneurs create jobs and dreams.

Why do I love being around entrepreneurial minded people?

Startups and scale-ups need great entrepreneurial minded employees. Larger businesses should crave these employees. There's no turnaround for our country without startups and scale-ups. There's also no turnaround if larger businesses don't reward their entrepreneurial minded employees.

Our country, our world needs you.

Lastly, you've got the secret. Entrepreneurs are women and men of value. The typical entrepreneur is not a money grubbing Ebenezer Scrooge. At this campus, our entrepreneurial alums are an incredibly generous group.

If you're pursuing your dreams, then you're among people who have a strong sense of values. That's the secret to having a satisfying life and changing the world – at the same time.

Co-Authors

During the actual writing of this document, I have incorporated the ideas of many others. I hope to add information from the amazing George Fletcher and Richard Jacroux. Numerous students and alums have contributed but aren't explicitly mentioned in the text.

Nevertheless, I controlled the content. Any shortcomings are wholly mine.

Table of Contents

Introduction to Writing an Executive Summary.....	1
About the Class.....	1
Executive Summaries Defined.....	2
Why an Executive Summary?.....	2
The Pitch.....	3
Five Sacred Elements.....	3
Like Making a Cake.....	4
Style Considerations.....	4
Final Project.....	5
Branding.....	6
Be Wise?.....	6
Short Thoughts about Branding.....	6
Valuation.....	8
Standard Methods.....	8
Investor Valuation.....	8
Board Members.....	10
Networking.....	11
Scale-Ups.....	12

Introduction to Writing an Executive Summary

Is entrepreneurship just for startups? The Center and its alums shout a resounding “no”.

Why?

You must still:

- 1) Create a business proposal;
- 2) Pitch and present with concise clarity; and
- 3) Master the fine art of executive summaries.

The corporate mover must still be an entrepreneur but with one caveat: you must have great patience. You will carefully choose the right time and right person to receive your story.

On the other hand, a startup entrepreneur will take every opportunity to tell his story. Many successful entrepreneurs have a “hyperactive” style that does not work well in traditional corporate settings.

Even if you’re trying to raise funds for a traditional non-profit, you must show your donors that you have substance and sizzle. You still have to pitch and propose.

About the Class

Class	Entrepreneurial Management	Entrepreneurial Seminar
Deliverables	Executive Summary	Business Plan
	Pitch	Presentation
Topics	Valuation	Financials
	Branding	Marketing
	Networking	Professional Presence
Misc. Topics	Team Selection	When the shift hits the Plan
	Social Entrepreneurship	Special Entrepreneur
Optional Activities	Accelerator Weekend	Accelerator Weekend
	Branding Consultation	
Goal	Next steps	Launch
Undertone	Entice	Compel

The entrepreneurship classes at UW Bothell are meant to be complementary. Within the next 18 months, several different entrepreneurship classes will be taught (e.g. Entrepreneurial Management – Fall 2009; Interactive Media and Entrepreneurship – Fall 2009; Product Development Lab – Fall 2009; Entrepreneurial Seminar – Winter 2010; New Technologies &

Future Markets – Spring 2010; MBA Capstone in Entrepreneurship – Spring 2010; Social Entrepreneurship – 2010/2011).

In this course, many of the topics address the “enticement” side of creating a valid business proposal. There are two aspects:

- 1) To get quick feedback so you can learn fast;
- 2) To get attention for a new proposal.

You must be able to interest, not overwhelm, people for feedback at conferences or the coffee shop.

You must be able to give 15 to 30 second pitches to entice decision makers to read an executive summary. You must then deliver an enticing summary that leads to a request for the actual proposal.

Executive Summaries Defined

With apologies to Wikipedia: *An executive summary is a short document that summarizes a longer plan or proposal so that readers can rapidly become acquainted with a large body of material without having to read it all. It is intended for business decision-makers and potential investors.*

Why an Executive Summary?

In a business plan, an executive summary also has to entice the reader to read the rest of the business plan.

- Susan Ward, About.com

Ever try reading a business plan? Reading through a mundane proposal hurts more than eating a bowl of overcooked oatmeal. A good summary will enable a good executive to decide about *you* and *your idea*. Most decision-makers and investors need to be hooked by the executive summary. Without it, they will reject your plan without reading it.

Why?

It's a simple reason. *Good ideas are plentiful, resources are not.* If you can't make a compelling story in 3 pages or less, then your idea fails the cut. It either has too many moving parts or you aren't ready. It's a referendum on your idea and you.

Your executive summary must contain all 5 sacred elements of the business model. If you work it right, you can get all five elements into a single paragraph. If the summary doesn't make the readers salivate nor hyperventilate, then they'll never read about your great model, great product, and great team.

End of story.

The Pitch

You should lead with the most compelling statement of why you have a really big idea. This sentence (or two) sets the tone for the rest of the executive summary.

- Bill Reichert, Garage Ventures

Think drinking fountain, not fire hose

- Chris O'Leary

An elevator pitch is exactly that: if you got into an elevator, could you provide a compelling summary of the business before you hit the destination floor? You should have a 30 second version and a 2 minute version. A pitch is also the first paragraph of your executive summary.

It gives you the mighty power to learn fast. Almost no one will read an entire plan or even an executive summary. They must be enticed. Almost everyone will listen to your 30 second pitch or read your first paragraph.

This is an exquisite art that should be part of every business professional's toolkit, but this isn't easy. Which is harder? Explaining a business within 1 paragraph versus 10 pages? Within 30 seconds versus 15+ minutes?

Five Sacred Elements

Your proposal will answer the following five questions:

- 1) What is your unique product or service?
- 2) Who is your customer?
- 3) How will you reach your customer?
- 4) How will you make money?
- 5) Who are you? What team is needed?

A business model represents a quick way to describe the essence of a business. It's like describing a beautiful person. If you only describe the butt, you don't capture the entire person. When some say *business model*, you'll often hear it refer strictly to the *financials* – *how you make money*. We think that's wrong. That's like staring at someone's butt and saying you've seen the whole person. When we say "Business Model", *it's the whole undivided kit and caboodle, including the money*.

We have listed our own formula for capturing a model. It is the five sacred elements that must be answered in any 30 second pitch, executive summary or detailed plan. A longer pitch or plan simply gives more details.

Like Making a Cake



Entrepreneurs like making cakes
-Alan Hobbes

Cakes are typically made of sugar, frosting, flour, spices, eggs, and many other ingredients. *Change one ingredient and you change the cake.* If you change the type of sugar, you then have to reevaluate whether you're using the right spices, etc. You may change the cooking parameters.

A business model is like a cake. *Change any of the five sacred elements and you change the whole model.* This is what defines an entrepreneurial mindset: you know how to make cakes. A bookkeeper who stays in the cubicle can be a great technician. There's a need for good technicians. There's an even greater need for entrepreneurs.

An Example

Example of the 5 Sacred Elements Garlic Jim's Pizza	
Unique Product or Service	Gourmet (pizza) right away
Target Customer?	Higher than average income families with young kids
How does it reach customers?	Community Service, Advertising
How does it make Money?	Franchising individual stores and sub-franchising large territories. Selling raw materials (e.g. cheese) to franchisees.
Who is he?	Ex-Dominos employee, Co-founder Jet City Pizza, Pizza Enthusiast

Style Considerations

On your first drafts, even your pitch may sound bland. You're usually just outlining the five sacred elements.

Eventually, you must grab your audience in the first paragraph – just like those first few seconds of your spoken pitch. As you revise your pitch, summary, and presentation, it unfolds like an enticing story.

The summary also has great formatting and/or supporting graphics. Almost every team needs a great designer and good editor.

What should be your lead statement? Don't try to use market size as your primary driver. You may only need 1% of the market to be rich, but who cares? What problem do you solve? You have to convince folks that this 1% will buy your product. Show us that customers are in pain.

An advanced story may also outline milestones. At the end, you're making "an ask". It may be for money, or if you're early, you may ask for specific feedback or connections.

Final Project

For the purposes of this class: your executive summary should contain the three essential parts for describing the business and end with a specific request(s). Your final paper should be about 3 pages long and should start with the pitch, contain the five sacred elements and end with your "ask" or "next steps".

After that, you may superimpose the best format for telling your story. You can take the "Problem for Customers → We have a Solution story" or the "we help our customers serve *their* customers story".

The Style Checklist

___ Does it have a compelling pitch? Do you want to keep reading after the first paragraph?

___ Do you want to keep reading after the executive summary?

___ Does it tell a good story?

___ Can an idiot understand it?

___ Is it free of glaring stupidities that make you question the intelligence of the authors?

___ Does it pitch a clear value to the primary customers?

___ Does it present a (potentially) compelling case for success?

___ Does it end with an "ask"?

Branding

Products are made in the factory, Brands are purchased by customers.

- Walter Landor, Stephen King, and others

Many past student and alumni companies didn't think enough about branding. Most of your proposed ventures are really "branding propositions", even if you're touting a special technology (e.g. vehicle tracking in 2002, wireless broadband to the rural areas in 2001).

Your wisdom should be reflected in your branding. We won't do an extensive discussion on the "how-tos" of branding. There are smart people among your instructors, guest lecturers, and in the professional network and during class and they'll be adding material to this section.

Be Wise?

Customers buy for their reasons, not yours.

- Orvel Ray Wilson

There's no shortcut to simply talking to your customers? Everything else is a longcut.

-Alan

You can gather a lot of information about your customer: demographics, lifestyle, etc. That's nice, but without wisdom, it's mere information. You must answer the basic questions:

What will drive your customer to happily make a purchase?

What will actually close the sale?

This is wisdom.

Short Thoughts about Branding

A product can be copied by a competitor; a brand is unique. A product can be quickly outdated; a successful brand is timeless.

- Stephen King, WPP Group

- Your logo is very important. Many think they can take an amateurish logo and later redesign it. It's far better to start with a solid logo and redesign later into another solid logo.
- Does the branding zing? Does the name or taglines convey the right mood, or better yet, instantly tell customers about your business? (e.g. DragonFire Glass Studios)
- Do you have a website / media strategy? (e.g. <http://www.SpringConference.org>)
- Does your team have access to good designers? Are any on the team?

- Are the names, logos, customer segment, and strategy all aligned?
- Does it attract your chosen customers? Does it repel your “anti-customers”? (“Oh my gawd, Alan thinks Lucky Jeans is cool and wears it in class. He has destroyed Lucky Jeans at UW Bothell”)
- If you’re doing a commercial, here’s an informal rule:
If you can’t say it, sing it
-Peter Boyle, Visiting Marketing Professor, UW Bothell

Sleep Country USA, why buy a mattress anywhere else? “Ding!”
-Dan Voetmann, Founder, Destination Marketing

Note: Although Professor Boyle meant this literally, he also meant it spiritually. You want to make things catchy.

Valuation

Beauty is in the eye of the Beholder

- Margaret Wolfe Hungerford

Margaret Hungerford was right. In this course, Richard Jacroux will introduce this topic and we'll defer, while highlighting complementary topics.

Valuation is a straightforward concept. It answers this simple question:

“What is your company worth?”

It's a numerical answer. It's a crucial answer. Nevertheless, it's also in the eye of the investor, banker, or buyer.

Tom Clement, Founder of Pathway Medical, will lecture about his valuation journey. Pathway is now a successful medical device company. It wasn't always this way. You will be asked to propose ways to increase the valuation of his startup during a crucial.

Standard Methods

- 1) Standard Industry Multiple of your Cash Flow (Wall Street Method)
- 2) Standard Industry Multiple of your net profits (Main Street)
- 3) Valuation of similar companies (Market Cap or from private funding)
- 4) Negotiating your value (e.g. going to each investor and disclosing a competing term sheet)
- 5) Derived from Customer Base (i.e. acquirer saves on the cost of winning customers)

Investor Valuation

An investor exchanges cash in a company in return for newly issued shares. We typically talk about “pre-money valuations” versus “post-money valuations”. If you understand “market cap” for publicly traded companies, then this should be easy.

The pre-money valuation is before the investor puts money into the company. After the money is put into the company, then it's a “post-money valuation”. We have to recalculate because new shares have been created and money has been stuck into the company.

The pre-money valuation is simply multiplying the share price by the total number of shares outstanding:

$$\text{Pre-money Valuation} = \text{Share Price} \times \text{Total Shares}$$

If Biotech Stock Research had 100,000 total shares outstanding and it is priced at \$2 per share, then our valuation is: BSR Valuation = \$2.00 per share \times 100,000 Shares = \$200,000

If we sold \$10,000 newly issued shares at \$2 per share, the total amount invested is just the share price times the number of shares purchased:

$$\begin{aligned}\text{Investment into BSR} &= \text{Share Price} * \text{Shares Issued} \\ &= \$2.00 \text{ per share} \times 10,000 \text{ Shares} = \$20,000\end{aligned}$$

Unlike when you buy stocks online, these purchased BSR shares are new shares, leading to a change in the number of shares outstanding:

$$\begin{aligned}\text{Post-money BSR Shares outstanding} &= \text{Pre-money Shares} + \text{Newly issued Shares} \\ &= 100,000 \text{ Shares} + 10,000 \text{ Shares} \\ &= 110,000 \text{ Shares}\end{aligned}$$

Because the company has been infused with new cash, the valuation after this investment is increased by that investment:

$$\begin{aligned}\text{BSR's new Valuation} &= \text{Pre-money Valuation} + \text{Investment} \\ &= \$200,000 + \$20,000 \\ &= \$220,000\end{aligned}$$

Our investors will now own a portion of our company. It's the number of newly issued shares divided by the new total shares outstanding:

$$\begin{aligned}\text{Portion of BSR owned by Investor} &= \text{New Shares Issued} / \text{Total Post-money Shares} \\ &= 20,000 \text{ Newly Issued Shares} / 220,000 \text{ Total Shares} \\ &= 0.091\end{aligned}$$

Hence the investor paid \$20,00 to own about 9.1% of BSR.

Board Members

George Fletcher will address how to select and use advisers and board members. If you select the wrong board of directors, it will be the biggest pain in your ass. Period. You can interview numerous executives and many point to this being a huge millstone.

Advisers, however, don't have a fiduciary responsibility to the company. They're advisers and it's an informal role. Because there are millions of people smarter than you on almost each aspect of your company, then you need to consult some of them.

Compensation

Equity for startup board members are typically in the 0.25-1.0% vesting over 2 to 4 years zone. In addition to options, you should give the members an opportunity to invest at a low valuation. This should be accomplished well in advance of approaching Angel and Venture investors.

With thanks to Dan Feld (from his wonderful blog "Feld Thoughts" at <http://www.feld.com/wp/archives/2005/04/compensation-for-board-members.html>), here are some typical terms.

- 0.25% to 1.00% vesting annually over four years
- Single trigger acceleration on change of control
- Clear understanding as to how the vesting will work if the board member leaves the board
- No direct cash compensation
- Reimbursements for reasonable expenses
- Opportunity to invest in the most recent financing

If the board member requires cash, then this person doesn't get the "startup thing". Do NOT place these people on your board.

Networking

More business decisions occur over lunch and dinner than at any other time, yet no MBA courses are given on the subject.

-Peter Drucker

If you dream about working within a new venture, then networking is an important skill. You are already likely a “people person”. The following are some of my informal thoughts about networking.

You should go with the simple joy of meeting others, expecting opportunities to naturally arise. Bob Burq said: *The successful networkers I know, the ones receiving tons of referrals and feeling truly happy about themselves, continually put the other person's needs ahead of their own.*

Every person, student or professional, has something to give someone else. One of the best gifts to give at a party or conference is to introduce people to each other. The receivers appreciate the introduction.

Network in groups. Brag about your friends and colleagues. Someone else bragging about you is worth tons more than “you bragging about you”. When appropriate, hook people up according to needs.

Network in groups, Part II. Never put down your colleagues as a way to look good. It’s classy to be speak well of others.

Invest time in Quality People. These are folks that are smart and are personable. I’ve never regretted having coffee with such folks.

Attend Professional Events / Conferences. If you’ve worked full-time, then you realize that meeting new colleagues is precious. Getting valuable advice and inspiration is golden. Get into the habit while you’re in school.

There is networking and there is networking. When you attend meetings of the MIT Enterprise Forum, The Indus Entrepreneurs (TIE), or Northwest Entrepreneurs Network (NWEN), it’s often a meet and greet. That’s a “wham, bam, thank you Sam” affair. There’s also networking in which you’re trying to capture trusted relationships that will carry you through your professional career. It’s deeper. That’s part of the purpose of the UWB entrepreneurship association. You need to nurture both types of networking. You’ll have opportunities in this class to network with alums, advisers, guest speakers, and visitors.

Scale-Ups

A dangerous time for many startups is after the initial success. The startup has experienced some cash flow, but now wants to expand. If it's a service group, you may expand from one project team to two project teams.

This is a dangerous time. You now have to feed twice as many mouths, but since the new hires are not founders, they're less willing to temporarily forgo pay. If your processes aren't standardized, then the venture can spin out of control.

- 1) Begin Standardizing processes: start with the 5 S's.
 - a. Sorting – The easiest to start; discard useless tools
 - b. Straighten – Arrange tools to enable work flow
 - c. Sweep – Clean and sort at the end of each shift
 - d. Standardize – Critical and routine processes
 - e. Sustain – Make the practices sustainable for the long haul
- 2) Hire Good or Experienced Admins
This is a key center point for standardizing processes especially with someone who has been through this before
- 3) Have rainmakers in place
 - a. This refers to having a steady flow of business to support the expansion
 - b. Tech startups often ignore this crucial role
 - c. Good rainmakers require appropriate but competitive compensation plans
- 4) Good Managers: Essential for leading the new teams
- 5) Employee Handbook: You may have operated without it. You now need it to promote employee satisfaction and also to protect the company and avoid lawsuits.
- 6) Scale-up Business Plan: it's needed here and is required if you're obtaining a loan or investment.
- 7) New Executives: Many startup folks aren't ready for scale up. They either learn or should move aside.
- 8) Advisers and Consultants: You now want to include those who can assist with scale-up especially with regard to operational and organizational issues.