

The title text is centered and overlaid on a decorative arrangement of six light purple circles. Three circles are positioned above the text, and three are below it. The circles are arranged in a staggered pattern, with the top row having three circles and the bottom row having three circles. The text 'The Public School' is on the top line, and 'Writing a Business Plan' is on the bottom line.

# The Public School Writing a Business Plan

Sunday Jan 10th, 2010

# The Big Picture:

Or how I learned to plan and stop worrying.

- Who the fuck are you?
- Why are you here? (in business)
- What the hell are you doing? (why/how)
- Where you at? (location, location, location)
- Show me the money (profits!)
- Who's gonna buy from you?
- Why you instead of him or her?

# Entrepreneurial Mythology



- **Business is risky**

- Properly identified and set, risk can be handled
- You are the risk!

- **Entrepreneurs take Big Risks**

- Big Risk not always Big Reward
- Plenty of 'small risk/big reward' scenarios
- Many 'big risk/small reward' scenarios
- Entrepreneurs strive to avoid risk or mitigate it.



# Entrepreneurial Mythology

- I need a “Great Idea”

- All you need is a ‘do-able’ idea
- A market driven idea is better than a product idea

- I need Experience

- You need ‘some’ experience
- Much ‘experience’ is repetitive
- You need energy and enthusiasm more
- You’ll learn quickly once you jump in the water
- You can hire experience if needed
- Having experience might dissuade you...



# Entrepreneurial Mythology

- **Big Business will Crush You**
  - Stay out of their way (duh!)
  - Focus on things Goliath can't do
  - Big B doesn't do personal well!
- **Get Rich Quick**
  - Not likely.
- **Entrepreneurs are Born not Made**
  - You are the determining factor
  - Leaning and planning can help make the path easier.

# The Perfect Business



- No Investment
  - More investment = more risk.
- Recognized, Measurable Markets
- Perceived Need of Product
  - Truly new products are very risky
- Dependable Supply of Inputs
  - Do not rely on a single-source!
- No Govt. Regulation

# The Perfect Business



- No Labor
- 100% Gross Margin
  - The higher the gross the fatter the cushion when you stubble...
- Buyers Purchase Frequently
- Favorable Tax Treatment
- Receptive, Establish Distribution System
- Business with Great New Value (PR)

# The Perfect Business



- Customer Pays in Advance
  - Long invoice lags can kill you.
- No Product Liability
- No Product Obsolescence
  - Big problem with tech ventures
- No Competition
  - Highly competitive = low margins!
  - No competition?? Maybe no market for product!!

# The Perfect Business



- No Fashion Obsolescence
- Not perishable
- Impervious to Weather
  - Farmers? Ski Resorts?
- The thing you're selling **WORKS!**
  - Customers have limited tolerance for complicated or quirky.
- You enjoy it.

# Types of Business Plans



- Feasibility Plan

- Concept

- Technical Feasibility

- The Market

- Availability & Cost of Supply

- Price Analysis

- Vehicle of Entry in to business

- Start-up, acquisition, franchise, transition, etc.



# Types of Business Plan

## The Traditional Business Plan

- Executive Overview
- Concept
- Market
- Competition
- Product or Service
- Production Plan
- Pricing
- Marketing Plan
- Financial Plan
- Schedule
- Operating Systems
- Control Systems
- Growth Plan
- Contingency Plan
- The Deal

# Types of Business Plan



- Venture Capital Presentation
  - Concept
  - Market for it
  - Plan for getting to Market
  - Management Team
  - Financial Plan
  - The Deal



# Red Tape

- IRS - Get an EIN number online
- If you're selling 'things' you'll need a state sales tax number.
- Worker Compensation Insurance
- Fictitious Business Name Statement
- The state you set up shop in can materially affect your business
- (California is considered one of the most expensive. Lucky us.)



# More Red Tape

- Local Licenses
- Los Angeles has Gross Receipts Business tax. Glendale doesn't....
- Health Inspectors
- Fire Inspectors
- Occupancy Permits
- Carefully consider zoning issues



# Legal Business Structure

- Sole Proprietorship

- In a nutshell: a bad idea
- Liabilities of the business are your's personally
- Tax disadvantaged
- Die with you. (very difficult estate planning.)
- Nobody will buy your business
- Growing and attracting professional management will be difficult.



# Legal Business Structure

- Partnership

- As bad or worse than Sole Proprietorship
- You're liable for each other's actions
- If one partner pulls out the entire entity dissolves.
- DON'T DO IT!!



# Legal Business Structure

- C-Corporation

- Very Flexible

- Double Taxation issues

- Multiple classes of stocks

- Founders Stock

- Preferred Stock

- Non-Voting

- Convertible

- Limited Liability

- Lot of investors or access capital markets



# Legal Business Structure

- S-Corporation

- Tax Pass Through
- Limited Liability
- Can have only 35 investors
- Owners can't be other legal fictions
- Potential squeeze play problems.
  - All profits pass to owners, but not necessarily the cash to pay
- Good choice for lots of small businesses



# Legal Business Structure

- LLC (Limited Liability Corporation)
  - A partnership run by a general manager
  - Liability protections of a corporation
  - Tax Pass through features of an S-Corp
  - Investors and the GM can both be separate legal fictions
  - Investors have little say in running the business. The GM runs the business
  - Highly flexible for financing/tax planning
  - Used in 'one-offs' a lot or 'early-stage' ventures.



# Getting Creative with Structure

- C-Corporations and LLCs provide lots of room to maneuver.
  - Structures to protect minority shareholder while allowing Entrepreneur room to work.
  - This is a game of “Keepsy” - a lot of thought needs to go into deal structure on both sides
    - Entrepreneur doesn't want to loose control
    - Investor doesn't want to get cut out
    - Do not under estimate this problem if you plan on raising money. (even with nice, old Grandma.)



# Getting Creative with Structure

- Control Tactics

- Conditional Voting Classes
- Voting Trusts
- Buy Back Provisions
- Director Voting Privileges
- Withhold Assets (patents, property, etc)
- Right to Transfer Stock (by limiting )
- Options & Warrants can be used to express control or control triggers



# Packaging up the pieces

- Stock of various classes and rights
- Bonds - straight & convertible
- Other Rights
  - Distribution Rights
  - Licenses
  - Manufacturing Rights
- Keep it simple (as possible)



# The Inevitable Squeeze Out

- Greed - Flexible morality
  - Minority Shareholder rights are worth only what the Majority says they are.
  - Point of vulnerability to Majority: abusing corporate assets.
  - Extremely common problem in successful businesses started by 'friends'
- Power
  - One shareholder will inevitably want to be in charge



# Does it hurt when I squeeze?

- Inactive Shareholder / Silent Partner
  - Provide the needed money at the beginning
  - 'Active' Shareholders will resent in long run and attempt to cut them out.
- Death or Status change among Shareholders
- Aged Founder who just won't quit
- Unreasonable Minority Shareholder



# Does it hurt when I squeeze

- Divergence of Business Interests
  - All the normal pettiness of a relationship
  - Minority shareholder starting a different business
  - Conflicts of interest
- Duplicity

# How to squeeze with an iron grip.

- You're Fired !
  - CM: pre-arranged buy out upon termination
- Withhold Dividends - (C-Corp)
  - CM: cumulative preferred shares
  - CM: convertible bonds
  - CM: invest with assets/lease back
- Removed from Board of Directors
  - CM: minority rights enshrined in a by-law
  - CM: buy-out provision if not elected to board.
- Merge into my other company
  - CM: protections in by-laws (super majority, etc)



# How to squeeze with an iron grip.

- Redeem the Minority Share
  - Convert Common to Preferred, then redeem preferred.
  - CM: by-laws!! Minority approval/Super Majority/Minority veto of: Mergers, asset sales, recaps, reorgs, major expenses/salaries.
- Water it Down
  - CM: by-laws! Right for minority to buy as much of the new offering as they want prior to majority.



# How to squeeze with an iron grip.

- Selling the Corporate Assets
  - CM: Supermajority requirement
- Dissolution
- Change State of Incorporation
  - CM: require unanimous vote for this action.
- Appropriation of Opportunities
  - CM: Don't invest with people you don't trust.  
Nothing you can really do to prevent this.

# How to squeeze with an iron grip.

- Siphoning Money (excess salary, etc)
  - CM: Control the bank accounts
  - CM: Demand active role in the finances
- Corporate Meeting Maneuvers
  - CM: require fixed meetings and places
- Unfair Buy Out Agreements
- S-Corp Squeeze - Income but no Cash!
- S-Corp Election - All holders must agree every year.

# Avoiding The Squeeze



- Majority Ownership
- Buy-Out Agreements (w/formula)
- By-Law protection
  - Location of Meeting
  - Notice and Agenda
  - Veto power over major issues
- Participate in Management
  - Control the purse
  - Employment Contract