The Bangladeshi ICT Executive's *Business Development Guidebook*

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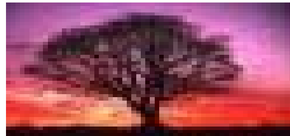
ICT MARKET TRENDS IN THE UNITED STATES



ICT Market Trends in the United States

By Ravi Reddy and Peter Tewksbury[1]

The current market for information and communication technologies (ICT) in the United States generally is depressed. The much-awaited recovery in the ICT sector following the crash of the Nasdaq market in March 2000 has yet to materialize and the bottom of the market is nowhere in sight. Telecommunications companies are being valued approximately 75% less than at their peak in 1999 and many Internet/software companies have fallen as low or lower. The "dot-com" boom clearly is over and the industry is suffering from the hangovers of expensive "business to consumer" (B2C) and "business to business" (B2B) binges.

The performance of the S&P Technology index is indicative: it currently stands at a 65% discount from March 2000. There have been less than ten ICT public stock offerings in the last 20 months, most of which were met with lukewarm responses from the capital markets. The likelihood of significant activity in the ICT public markets in the next twelve months appears slim. Mergers and Acquisition (M&A) activity similarly has been very slow in this sector.

Although overall consumer spending has been relatively steady since March 2000, the appetite for ICT products has diminished. The primary consumers of ICT products are corporations and many have slashed their ICT budgets by 30% or more. Companies have slowed their adoption of complex corporate software applications, EDI (electronic data interchange) solutions, and many other non-core technologies. The purchasing cycle for ICT products and services, to the extent that orders are being made, has lengthened considerably as well. It is not unusual for corporate ICT purchasing cycles to drag for six to nine months.

Current market conditions essentially have reverted to pre-1998 conditions. Historically, under these conditions:

1. Only 1 in 6,000,000 high-technology business ideas wind-up in an IPO;
2. Less than one percent of business plans received by venture capitalists get funded;
3. Founder CEOs typically own less than 4 percent of their high tech companies after an IPO;
4. 60 percent of high tech companies that are funded by VCs go bankrupt; and
5. Most high tech companies that succeed in having an IPO take between three and five years to get there.[2]

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[1] Ravi Reddy is a partner of Washington Technology Partners ("WTP") and also serves as the Chairman of Megasoft Limited (one of the twenty largest publicly traded IT services companies on the Bombay Stock Exchange). Peter Tewksbury is also a partner of WTP. He is the founder of Venserv, which was acquired by Warburg Pincus for $125 Million and also formerly served as the senior vice president of financial services for Insight Enterpises (NASDAQ:NSIT), a Fortune 1000 company that he took public.

[2] John L. Nesham, High Tech Start-Up, pages 1-3, The Free Press (NY,NY 2000).

Corporate valuations of ICT companies also have reverted to pre-1998 levels. The average valuation for venture capital backed companies in the last quarter of 2002, for example, was approximately $37 Million, significantly lower than the average valuation of $87 Million in the last quarter of 1999. This is particularly interesting, given the fact that the average venture capital backed company now is substantial more profitable and better managed than in 1999. Additionally, most venture backed companies now had valuations between $ 3 Million and $8 Million prior to their receipt of professional venture capital, a major decline from 1999 levels.

Irrespective of venture-backing, most ICT sector companies have suffered a substantial hit in valuations. For example, software services companies that cater primarily to commercial clients now are generally being valued at between 0.2 and 0.7 times revenues, a substantial decline from values of up to 60.0 times revenues for some such companies in 1999. Other subsectors that have been hit particularly hard include: computer hardware; optical switching; and application services. Supply chain management software, web-services, banking software, interactive gaming software and Wi-Fi wireless technologies seem to have faired better than some other sectors. Naturally, since September 11th, the e-security and e-government software subsectors have experienced strong growth. However, most of the opportunities available in e-security and e-government are limited to U.S. companies with appropriate security clearances.

In general, the trend among U.S. companies is to focus ICT strategies and investments on those technologies that assist them in interconnecting the wide array of disparate legacy IT systems and that provide more robust interfaces with customers. For example, EAI (enterprise application integration) systems have become increasingly in favor, as they enable companies to connect disparate IT systems to a single integration server using a repeatable process. U.S. companies also are emphasizing "componentization" – a process whereby specific applications are being broken down into smaller and faster pieces that are much easier to integrate. In general, the idea is to allow companies to pick and choose only those software components that they want, from the vendors they prefer, and easily integrate such components into their overall architecture. Simple, fast, and interchangeable are becoming the new mantras of corporate CIOs.

In addition to EAI systems, and consistent with the trend toward componentization, companies are more aggressively exploring web-services. This seems to be the natural extension of the componentization process, as web-services allows components to be operated as commercial services that can be accessed via the web through fully standardized interfaces. This would take system architecture to a new level. However, it is unlikely that companies will fully embrace this concept for several years given their current emphasis on EAI systems.

As componentization moves forward, some of the component areas that are likely to be popular among corporate purchasers include: analytical software (e.g., add-ons to supply chain management (SCM) and customer relationship management (CRM) software);

collaboration tools; and wireless enabling tools (Wi-Fi). Naturally, the demand for software expertise in XML, SOAP, WSDL, UDDI, JavaBeans, J2EE, DNA and other languages suitable for web-services and component integration remains relatively high. The financial services sector and insurance sectors in particular appear to be robust areas for ICT products and services.

Although not technically part of the ICT sector, the business process outsourcing (BPO) area is worth mentioning. This area appears to be growing (current estimates are that BPO is growing by about 8-12% per year), despite the general economic downturn. Included within BPO are services such as: call centers; "order to cash" services; collections; customer support; payroll; human resource management; accounting; and many other corporate services. Within this general area, those BPO services that are not "customer-facing" appear to be most attractive, based on corporate reluctance to give up key parts of the critical customer relationship. Moreover, the competition for customer-facing BPO services such as call centers and customer support services is becoming fierce.

Opportunities for Bangladeshi Companies:

As mentioned above, the software services sector (software solutions development and on-site services) has been hit hard in terms of valuation and demand due to the economic downturn in the United States. However, this may have the unusual effect of benefiting offshore software companies in low-cost jurisdictions such as Bangladesh, at least in terms of demand. Although many corporations have slashed their IT budgets and have withdrawn from new, non-core software projects, there still is a substantial amount of core software service work that needs to be performed. Naturally, there is a high level of competition for this work.

However, given the fact that cost now is a key driver for selecting software service companies, those companies that are able to deliver quality services at very low costs will be well-positioned to get this work. Bangladeshi software companies have an inherent advantage because of their ability to leverage cost-efficient local human resources[3], potentially enabling them to deliver software solutions at substantial discounts from prevailing market rates without sustaining losses. In general, Bangladeshi software services companies could enable U.S. companies to slash their IT budgets by 30% or more without sacrificing any services, or enable them to slash even deeper while preserving core projects. Offshore software services from jurisdictions such as Bangladesh, therefore, will remain attractive to U.S. companies.

However, a factor that may weigh against Bangladeshi software companies, particularly in comparison to the South Asian markets of India and Sri Lanka, is the current backlash in the United States against certain Islamic countries identified as being potential sources of terrorism. The United States government has identified Bangladesh as such a country

[3] Our research indicates that, for example, a software programmer in Bangladesh typically earns approximately $10,000 per year, while a software programmer in the U.S. typically earns approximately $40,000 per year.

and now requires Bangladeshi males over the age of sixteen residing in the United States to register with the U.S. Immigration and Naturalization Service, based on terrorism concerns. Naturally, this does not assist the image of Bangladesh or its corporate executives when they attempt to conduct business development in the United States. Now that the war on Iraq has concluded, perhaps some of this backlash will subside, though a great deal of uncertainty regarding the perceptions of U.S. businesspeople toward Bangladeshis remains.

As for the software products market and the BPO market, Bangladeshi companies will similarly be able to leverage their cost-efficiency. Their ability to develop products at a discount or perform BPO services at low costs will provide a pricing advantage in the U.S. market.

Clearly, the areas that provide the best opportunities for Bangladeshi companies are those that have an offshore component, especially given the difficulty of providing on-shore services under current U.S. immigration policies. For example, software component development for the EAI market might be suitable. Wi-Fi tool development might also be attractive given the fact that the U.S. market is considerably less sophisticated in connection with wireless technologies and applications in comparison to many European and Asian markets. The BPO market may be a particularly strong opportunity due to the abundant availability of skilled, non-technical workers in Bangladesh, the lack of any dominant jurisdictions yet in this area (e.g., India is still in the early stages of tackling this market), and the availability of approximately ten million highly literate English-speaking indigenous people. Additionally, interactive gaming software might also be worthy of pursuit, as this is a high-growth area (20-25% growth per year) that is lucrative and where off-shore development is especially useful.

On the other hand, supply chain management applications development may be less suitable, given the dominance of very large multi-national corporations in this market. Web-services similarly may not be suitable to pursue at the moment as this market is still in its nascent stages. The bioinformatics market, though not mentioned above, also may be worth avoiding due to the very specialized expertise required.

In general, despite the current economic landscape, there remain opportunities in the ICT sector. Corporations may have slashed their overall ICT budgets, but continue to spend in core areas. Cost-efficient services and products are in high demand and ICT companies that are able to leverage offshore savings have a competitive advantage. With proper marketing and focus, Bangladeshi ICT companies should be able to successfully develop business in today's U.S. market.

OVERVIEW OF CAPITAL MARKET TRENDS IN THE UNITED STATES

Overview of Capital Market Trends

By: Neeraj Vohra[4]

The U.S. capital markets can be broadly divided into two categories: public equities and private equities. The trends in the public markets are clearly identifiable through a review of stock market performance. As discussed in the first chapter, the public markets for ICT companies have been weak. Overall, the major technology indexes for the public markets have lost approximately 40% of their value since the beginning of 2002 alone. Since the market crash of March 2000, the technology indexes have lost approximately 70% of their value. The story of the failing technology stock markets in the United States is by now infamous.

The private equity markets generally have followed the same trends as the public markets. As the private equity markets are likely to be the only markets pursued by Bangladeshi companies for the near future, this chapter will focus primarily on the private markets for the ICT sector. In general, this market can be characterized as the technology venture capital sector.

Currently, venture capital investments in the United States are at their lowest levels since 1998. There has been a steady decline in investments since the market crash of March 2000, with total disbursements down to $4.2 Billion in the fourth quarter of 2002 from a high of $29.5 Billion in the second quarter of 2000. The total number of venture capital deals has declined from 2230 to 692 per quarter during the same period.

Venture capital investments in virtually all technology sub-sectors continue to fall, with the exception of biotechnology, networking equipment and media/entertainment. Capital investments in the software sub-sector declined by 27% in the fourth quarter of 2002 from the previous quarter. Semiconductor investments fell by 12%, retail and distribution software investments by 40% and telecommunications investments by 13%. However, further dissection of the sectors that posted gains indicates that they have remained relatively flat throughout 2002, and are far behind the last quarter of 2001. For example, biotechnology investments are down 58% since fourth quarter of 2001, networking equipment is down 56%, and media/entertainment is down 61%. The software sector is down approximately 56% since the last quarter of 2001. Broken down by micro-sub-sectors in software, it appears that the web-services, e-security and enterprise application areas are currently attracting the most software investment dollars. Wi-Fi applications also are receiving significant support from venture capitalists.

The bulk of recent venture capital investments consist of follow-on investments in existing portfolio companies. Only about 19% of venture capital is going into new deals in the ICT sector. Less than 0.6% of the total capital invested in the last quarter was in non-U.S. companies.

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[4] Neeraj Vohra is a partner of Washington Technology Partners. He also serves as a senior vice president and head of the IT services investment banking division of Friedman Billings Ramsey (NYSE:FBR). The views expressed herein are solely those of Mr. Vohra and do not necessarily represent the views of FBR.

Most venture capital is focused on regional investments. The large majority of venture financing is placed in companies that are within a few hundred miles of the capital source. The geographic regions that have the most active venture capital markets, based on total dollars invested are: Silicon Valley; Boston; San Diego (especially biotechnology); Texas; Washington D.C., and the Southeastern states. Not surprisingly, these are also the geographic regions that have the highest concentrations of technology companies.

Overall, valuations of ICT companies have decreased significantly and steadily since March 2000. Many ICT companies now are valued at below their annual revenues. For example, software services companies serving the commercial sector typically are valued at 0.2 to 0.7 times revenues. Software services companies serving the federal government typically are valued at 0.3 to 0.9 times revenues. Software products companies vary considerably in their valuations depending on the product and the market being served. These valuations are considerably lower than in many Asian markets; however, many analysts believe that the values attributed in Asian markets are inflated and soon will rationalize. The recent slide in valuations among the large Indian software companies appears to lend credence to this theory.

It is doubtful that the private equity markets will recover to 1999 levels in the foreseeable future. It is possible that there will begin to be some recovery in 2004, but the prospects for the remainder of 2003 appear glum. The full impact of the current U.S. occupation of Iraq, of course, could have significant repercussions in the private equity markets as well, at least until the diplomatic fallout with France and Germany is resolved, a new regime is established in Iraq, and relations in the United Nations normalizes. Notwithstanding this, good companies with strong products or services and solid management teams are always able to attract private equity, even in recessionary economies.

IDENTIFYING POTENTIAL BUSINESS PROSPECTS IN THE UNITED STATES

Identifying Potential Business Prospects in the United States

By: Lynn Metzger[5]

Any business development campaign must begin with an analysis of customer needs, internal capabilities, and competition. The unique characteristics of the current market, the inherent strengths of Bangladeshi companies, and the alternatives available to customers all must be considered.

As discussed in the preceding chapters, the current market for ICT products and services generally is weak. However, there are certain sub-sectors that remain in demand: e-security; e-government; business process outsourcing; Wi-Fi technology; web-services, and banking software. Given that the e-security and e-government sub-sectors are difficult to penetrate for non-U.S. "security cleared" companies, it may be prudent to focus on the remaining sub-sectors. It is also important to keep in mind the various prejudices of U.S. companies as they consider product and service offerings from Bangladeshi companies.

Prejudices:

Size: Many U.S. companies are wary of purchasing ICT products or services from small foreign companies because of their concern that such companies may not survive and may not be able to continue to support their offerings in the future. Size does matter to many U.S. companies.

Location: Many U.S. companies have strong preferences for purchasing ICT products and services from companies that have permanent offices nearby. This is primarily an issue of accessibility. Many Indian companies, for example, were unsuccessful in developing ICT business in the United States until they developed a presence in the United States. Thus, having a business presence in the United States is a significant advantage. A representative association office in California simply will not fulfill this need.

Quality: U.S. companies often have a tendency to question the quality of ICT products and services based on where such products and services were produced. For example, products and services produced in developing nations are routinely stigmatized, largely due to misperceptions regarding the caliber of human resources available in "third world" countries. As a result, an education campaign may be required as part of any marketing campaign by a Bangladeshi company. Essentially, Bangladeshi companies may have to first "sell" their country, before they can sell their products or services.

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[5] Lynn Metzger is an associate of the venture capital firm of Washington Technology Partners, Inc. and focuses on making investments in the software sector. She also is a co-founder of Billionpeople.com, an India-focused ecommerce company, and formerly was employed by the U.S. Central Intelligence Agency.

Image: Most U.S. companies will have a very limited understanding of Bangladesh, but to the extent they have had exposure, it often is in a bad light due to the U.S. government's identification of Bangladesh as a potential source of terrorism. The registration requirements that are applicable to Bangladeshi males over the age of 16 in the United States certainly do not bolster the image of Bangladeshis. To the extent that the only other exposure most U.S. business people have had to Bangladesh is in news coverage of extreme poverty and catastrophic floods, the association with high technology is remote. These image issues will need to be addressed in order for U.S. companies to seriously consider outsourcing business to Bangladeshi companies.

Assuming that the prejudices of U.S. companies can be overcome, focused efforts must be undertaken by Bangladeshi companies to identify promising opportunities. Initially, decisions must be made regarding the ICT areas that will be most worthwhile to pursue. As discussed in the first chapter, these areas are likely to have an outsourcing component. Specific opportunities that may be attractive include application components for EAI, Wi-Fi enabling tools, BPO services, and interactive gaming software.

There are several methods for identifying specific potential clients in the United States for the above-mentioned target areas. Of course, a review of a business directory such as Dunn & Bradstreet can provide useful information about potential clients, including data on their industry segments, revenues, employees, and geographic locations. The ICT needs of companies often can be extrapolated from this type of data. However, once potential clients are identified, getting access to the right person within a company can be challenging. Direct emails or phone calls can work, though use of a business development agent generally is more effective.

Engaging the services of a business development agent can be supplemental to business directory reviews or in place of such reviews altogether. The key to making such relationships fruitful is identifying exactly what types of clients are most likely to purchase targeted products or services from Bangladeshi ICT companies. Thorough profiling of potential clients is imperative for a good broker to make useful introductions. A good broker will be able to furnish a list of successful deals and provide client references. Better brokers generally are reluctant to work purely on a contingency basis and will require monthly payments (typically ranging from $2,500 to $10,000). They also will be able to quickly furnish a list of companies to whom they can make introductions, once they understand the target profile.

A particularly useful method for generating business opportunities in the United States is developing strategic alliances with U.S. ICT companies. Many mid-size ICT companies are happy to meet with others to discuss business development opportunities and are easily accessible without any brokers. Alliances whereby an ICT company in the United States out-sources work to an offshore ICT company in a cost-efficient market such as Bangladesh are common, as this type of relationship improves the profit margins of the U.S. ICT company, while delivering business to the offshore company. Many Indian companies have leveraged this model successfully, especially in cases where the U.S. ICT company involved was promoted by a person of Indian origin.

Another way to develop business in the United States is through "freelance work" portal sites, such as Elance.com. Typically the ICT work available through such sites is very small-scale and priced low. However, completing a few small projects through such portals may be helpful in developing an initial track record of servicing U.S. companies. Having a bit of experience and a small U.S. client list provides an advantage when pursuing larger opportunities with U.S. clients in the future. Many emerging ICT companies in developing countries across the world make use of these portals on a regular basis.

Regardless of the method used to identify business prospects in the United States, once the prospects have been identified, the sales technique employed must be tailored for each company. The specific needs of the potential client should be addressed; a "shotgun" approach to business development often is poorly received. Prompt and frequent follow-up also is important to demonstrate the level of customer service available and the ability to easily communicate and perform from an offshore location. Sales cycles for ICT products and services often take months, so patience and perseverance also are critical.

SUCCESSFUL MARKETING

Successful Marketing

By: Paresh Shah and Anil Punyapu[6]

Marketing in the present economy in the United States has taken a reversion back to fundamentals. The key aspect of any marketing plan should be Return on Investment (ROI). During the dot-com era, most companies failed to consider how their marketing campaigns specifically would create new business opportunities and ignored analyses of ROI on their marketing budget. Instead, they concentrated on the mantra - "build it and they will come". The hopes were that broad, indiscriminate exposure of dot-com offerings would ultimately build an image that would attract the appropriate niche of potential customers. Needless to say, this contributed to the transformation of dot-coms to dot-bombs.

A corollary fallacy of the dot-com era was that high profile events and advertisements should be the primary forms of marketing. Marketing schemes included $2 million advertisements at sporting events such as the Super Bowl as well as extravagant million dollar launch parties by start-ups. Hotjobs.com, Lifeminders.com, and pets.com were some of the million dollar advertisers at the Super Bowl. Two of the three have shut down since and lifeminder.com was acquired in a “fire sale.” Clearly, the dot-com era has demonstrated the consequences of ignoring the fundamentals of marketing and the need to concentrate on ROI.

An important aspect of marketing that has been obscured in the past is the difference between sales and marketing. This is key, because a well-crafted combined sales and marketing plan is imperative to successful business growth. However, sales and marketing are two separate concepts that interlock with each other. "Selling," or making sales, consists of interpersonal interaction—the one-on-one meetings, telephone calls and networking—with prospects and customers. The term "marketing" encompasses programs that businesses use to reach and persuade prospects, including advertising, public relations, direct mail and more. Marketing creates the funnel of prospects for sales.

One of the primary tenets of marketing is to create efficiencies between the first point of contact or promotion and the desired result. Although there are different paths to achieve the desired result, the key elements to consider are briefly outlined below. Addressing these key elements is especially important for foreign companies that do not have a long track record of successful marketing in the U.S.

Create a Marketing Plan:

Successful firms almost always start with a marketing plan. Large companies have marketing plans that are the hundreds of pages. Small companies can start with a few

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[6] Paresh Shah is a special partner of Washington Technology Partners. He has an MBA from the Harvard Business School and formerly has served in senior business development and marketing positions with a variety of technology companies. He also has advised numerous Fortune 500 companies on their marketing and business development strategies. His marketing modules are routinely used by Harvard Business School as part of their MBA curriculum. Anil Punyapu is a special advisor to WTP. He also is a co-founder and Vice President of Entertainment Ventures, a fund of hedge funds.

pages; however, the plan has to be a carefully considered and researched. The plan should, at the least, cover one year of marketing for the company and have an outline for the following 2 - 4 years. Writing the plan is critical to the success of the company because it forces the company to map out a strategy for developing business, including detailed steps for implementation. Unlike in many Asian markets, where marketing strategies are not thoroughly examined due to the fact that the lion's share of business opportunities come through personal or political relationships, a carefully considered process is important for success in the United States where most business is developed through targeted marketing.

A marketing plan should be reviewed and developed with the help of the all the members of the company. No matter how small or large the company, getting feedback from all points in the company is important. This is crucial because it will take all the employees and resources of a company to make the plan work. In addition, the process will empower employees with the initiative to talk about the plan as well as find creative ways to increase awareness of the company and its goals. Finally, employees can provide realistic input into the viability of the plan and its goals. The traditional top-down executive directives of Asian companies may not be desirable here, particularly since part of the goal is to ensure that there is a consistent marketing message with buy-in across the company.

Additional resources that can be helpful in developing a marketing plan include corporate advisors, corporate accountants and lawyers, as their experiences can provide valuable insight into the plan's viability. In the case of Bangladeshi companies, getting feedback from successful business executives in the United States also will be helpful.

Strategic Partnerships and Alliances

A successful and efficient marketing plan leverages the marketing plans and brand names of established companies. This is especially important for Bangladeshi companies, as they will have little or no name recognition or preferred avenues for business access in the U.S. market. In the present economy, when capital is scarce and marketing efforts run on limited funds and staff, the proven strategy of strategic partnering can help a company reap benefits. Many successful companies have partnered with other businesses that have more extensive marketing budgets as well as brand names to reach their prospective customers. For instance, Microsoft implemented one of the most successful technology strategic partnerships ever. Microsoft partnered with IBM to add its product on IBM's computers as part of a strategic partnership. As a result, every IBM computer sold opens up with the Microsoft operating system.

E-bay has partnered with various state and federal entities to provide auction systems for the government to sell its used and surplus inventories. Within the technology services sector, many young companies have partnered with large companies such as Cisco, EDS, DynCorp, AMS, etc. with the view of sub-contracting specific projects from them as well as gaining expertise and knowledge on the workings of the large companies. Such partnerships don't require marketing expenses; rather, they create revenue through the marketing channels of other entities.

Referrals and Networking

Personal referrals, Professional contacts, and Mentors are very important marketing prospects. They are cost-efficient, reliable and easily leveraged. However, using such personnel in an effective corporate marketing scheme requires precise identification of the type of help desired and how they can help provide it. Systematic referral marketing creates two important forms of marketing: 1) It creates leads and potential clients; and 2) If the marketing plan is explained properly, then it creates out of friends, family and mentors, evangelists for the company. The only thing used in systematic referral marketing is corporate time, energy and a few dinners. No marketing personnel or huge budgets are required.

More specifically, personal and professional contacts can be leveraged to:

(i) Provide referrals to potential clients.
(ii) Make introductions directly to the prospects.
(iii) Endorse company products and services. (Become company evangelists)
(iv) Display literature or marketing materials about the company in their offices or homes.
(v) Publish information for the company. (This is a long shot, unless the company has media persons within its immediate network)

Consistency and Branding

The company should have a consistent and uniform message within all aspects of the company. The message should include descriptions of the product or service and should be consistent in marketing, delivery and after-sale service. Also, it should be simple and apparent to the potential market. For instance, the CEO of the company should stick to a simple message in speeches and marketing pitches for the company. The same message should be echoed in marketing campaigns, as well as by the sales personnel while speaking with the prospects. Finally, after closing the sale, the service and product should also comply with the statements of the sales persons and the marketing campaigns.

Branding is the next step to consistency, where the customer realizes the value of the message and becomes a repeat customer. Consistency in message and product value creates a brand name, but also associating or connecting to an established, complementary brand creates value and familiarity for the customer. For example, a Bangladeshi company with offshore capabilities could co-partner and co-brand with a mid to large size technology services company in the U.S. to provide the U.S. company's clients and prospects with a presence in Asia or cost-effective services. This provides the Sri-Lankan company experience with U.S. customers to market to other prospects in the U.S.

Constant Contact with Customers

"Hit 'em hard; hit 'em often" is a phrase that describes the type of contacts that a company should have with prospects and customers. There are two aspects to the contact with prospects and customers. First, regular contact with prospects using mass mails, email

campaigns, free demos, and media advertising can help embed the company message and pitch into the prospect. In addition, this creates a branding message for the prospect. Emailing and online product demos are cheap methods of keeping in touch with prospects. Cvent is a Washington D.C. based event registration software and customer relationship management service provider. Head of Marketing and Sales, Charles Ghoorah, manages over 50,000 outputs a month to his prospects and customers to keep them in touch with Cvent's message and product value proposition. He accomplishes all of this with a limited staff and budget. Through constant contact, the business prospects learn the value of the product as well as what to expect from the company in the future.

The second aspect of the contact is to keep in touch with existing customers and keep them as repeat customers. Listen to customers. They are able to help deliver information about the product or service and assist in its improvement. Additionally, a satisfied customer with whom the company has built a relationship can become an effective marketer of the business and will assist in bringing other customers within his/her vertical market.

Hiring the Right People

Hiring the right people for a marketing team can make or break the success of the business growth. When a company is staffed with talented, highly motivated people who care about the business, then it makes it easier for the company to take risks and move forward in implementing the plan. Take the time to interview, research and train the marketing group. In addition, it is vital to find key marketing persons that are able to bring expertise and knowledge in areas where existing personnel are weak. This creates a marketing group that is able to think and build in all aspects of the business.

WRITING A GOOD BUSINESS PLAN

Writing a Good Business Plan

By Mark Jauquet[7]

Writing a good business plan is important for two main reasons: (1) it requires you to analyze whether your business proposition objectively makes sense; and (2) without it, obtaining funding is unlikely. A business plan not only tells the story of your business idea, but also tells the unwritten story about how thoughtful you are as a business person based upon how you write it. Serious effort and consideration should go into this document. What you put into the plan is what you will get out of it.

Having said that, know that most investors only briefly glance at business plans and carefully read only those sections that interest them. Keeping a business plan short and direct will help ensure that the most important parts of your story are communicated. If an investor has to search through lots of superfluous text to find the kernel of information sought, odds are the investor would rather spend time on someone else's more succinct business plan. Take careful measure of what you opt to include in your business plan. If a particular issue is critical to your story, keep it. If the issue only marginally adds value, omit it. This requires discipline, as it is much harder to write a short, incisive business plan than a long, indiscriminately inclusive one. If your plan exceeds twenty-five pages, it's probably too long.

A good business plan should consist of several separate parts, each of which is capable of being read alone, but which together tell a comprehensive story about what your business proposition is. The parts each should be written in simple language, with a premium on brevity. Preferably, the plan should be formatted as follows.

Executive Summary

An executive summary should clearly summarize all of the major points of your business plan. Ideally, it is one page long and should never be more than three. The best executive summaries have "text boxes" that identify: (i) the basic business concept; (ii) the capital needed; (iii) the use of the cash proceeds; (iv) the cash raised to date; (v) the size of the market in annual revenues; (vi) the domain experience of senior management; (vii) any barriers to entry; (viii) major strategic relationships; (ix) revenue/profit projections for three years; and (x) the exit strategy.

Keep in mind that investors typically only skim executive summaries looking for key facts related to their investment criteria. If they don't get most of the information they are looking for in under one minute, your business plan has high chances of being filed under "never."

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[7] Mark Jauquet is a member of the Board of WTP and is the co-founder of Opensite, an online auction software company, which was acquired by Siebel Systems for $542 Million in 2000. He also is an active angel investor and a member of several other corporate boards.

Company Description
If an investor reads this section, it is because they already have developed some interest based on the executive summary. Use this section to fill in the larger picture of what your company's vision is and how it will meet its goals. Be sure that your mission is well defined and realistic. Statements like "we wish to be the dominant player in our industry sector" without any intermediate steps identified will turn people off.

Be sure to explain what your company does or plans to do. If it develops a product or provides a service, define it concisely. Keep in mind that you will have an opportunity to explain the product or service in more detail later on. In this section, you need to provide only enough information to satisfy an investor that you have an exciting offering and have a solid business model built around it. This section ideally should answer the questions what, why, and how from a "10,000 foot fly-over" perspective.

Market Size
Business models that only can leverage small economic niches will not appeal to most investors, even if the technology is fantastic. Investors take risks for one reason--to make big returns. Your market space must be large enough so that even if you only get a small piece, you still have the potential to generate very large revenues and make big profits ("large" and "big" here means at least the hundreds of millions, preferably billions, of dollars). Your business model also should be easily scalable to take advantage of other markets.

When you describe your market, be realistic. Statements like "ABC Consultants predict that the market space will approach $4 trillion by 2005" will get you nowhere. Make sure you define your space more narrowly so investors know that you have studied your industry and pragmatically identified your real target market. While describing your market space, be sure to clarify what opportunity is available for exploiting and how your business model will do it.

Technology Description
If you have developed a new technology, explain what it is in readable terms. Keep in mind that investors cannot have detailed understandings of all technology sectors and may not be well-versed in your company's particular space. Many entrepreneurs make the mistake of getting too detailed about their technology in their excitement to describe all of its benefits. Others make broad-sweeping statements that their technology will change the world, without giving any credible description of how and why. Balance is the key. Graphics are often helpful.

As you describe your technology, make sure you connect your explanation with the market opportunity you have identified and your corporate vision. To an investor, technology is only interesting if it has a business purpose and fills a market need. Remember, you are writing a business plan, not a publication in a technology journal.

Competition
If you have chosen an attractive market space with a real business opportunity, then you generally should have limited competition. After all, if there are many companies pursuing exactly what you plan on doing, where is the market opportunity?

Once you have identified your competitors, communicate why you are different and better. Just as importantly, describe what barriers are present that will keep your competitors from eating your lunch. As you analyze this, keep in mind that your competitors are not just the companies that presently are in your market space, but also the giant corporations that could jump into your space if you inadvertently show them where an opportunity lies. Behemoth companies often enter markets late, but quickly dominate because they have the resources and contacts to accelerate past the early entrants.

Being first to market can be a significant competitive advantage, but only to the extent that you have such a big lead that the behemoth corporations and others can not catch up before you already have swallowed a major market share. Tying up with an industry giant, of course, also can be a major competitive advantage for the same reason that not tying up is a major competitive threat. Patents and other intellectual property protection also can give you a substantial edge, but only if there is real substance supporting them. Many entrepreneurs rely upon software "methods of doing business" patents, which most investors frown upon as impotent. "Patent pending" status similarly is viewed as fragile shielding. If intellectual property protection is a major part of your competitive advantage, be sure that your intellectual property rights are compelling, defensible and very difficult to "engineer around." A consultation with an investment banker on the value of intellectual property often is more instructive than one with a lawyer.

Sales/Revenue generation
This section, along with the financials, often gets looked at before any other part of the business plan. Investors, many having been burned in the past by technology companies with no hopes of ever generating revenues, much less profits, are especially wary about how prospective investment opportunities will make money. This is where an old-fashioned, common sense approach comes in handy. Explain in believable terms how your company will swell its coffers. Include information about direct sales and channel sales strategies, pricing, business volume, advertising, public relations, and all other matters that will contribute to your top line revenues. Correlate these details with the market opportunity and your competition. Remember, your revenue generation plan is something your investors will expect you to execute, so keep it within your actual means.

Finances
This is the most important section of the business plan. Here is where you explain how your revenues are offset by your expenses and how you ultimately will generate a profitable, self-sustaining enterprise. If the last clause of the preceding sentence is not part of your short term objectives, stop reading now--come up with a new idea and then start at the first paragraph again.

When describing your financial projections, do not put in anything that an objective person will not believe. Sounds simple, but there are thousands of business plans floating out in Never-land that show a million dollars in revenue in year one and one hundred million in year two. Old school economics, please. Investors want to know that you have sound financial judgment and realistically know how to make a buck.

Detailed projected profit-and-loss statements, cash flow statements and balance sheets are very helpful. Healthy use of charts is encouraged. All should be formatted in accordance with traditional accounting standards. Also, be sure to explain the underlying assumptions behind your financial projections and to conduct a sensitivity analysis based upon lower revenue and "worst case" scenarios.

Management

There is an old adage that "nothing succeeds like success." Loosely interpreted, this means that track record counts. Investors prefer to put money in businesses that are run by world-class management teams with substantial domain experience. Seasoned executives can steer fledgling companies through choppy waters where novices might run aground. Moreover, seasoned executives have contacts and relationships that allow their companies to grow quicker and more stably.

In this section of your business plan, carefully explain the track record of your management team as it pertains to your current business venture. Investors need to have comfort that they will be entrusting their money to people who can execute the business plan, not just write it. Acknowledge weaknesses if you have them, but explain how they will be overcome with future hires.

Perhaps the strongest measure of the management's commitment, as viewed by investors, is the risk they have taken to join the company. If your management team members are all working "day jobs" until the capital is raised, the capital is unlikely to come. It is easy to say that management will quit their current jobs when the company is funded, but that means that the management is unwilling to take a risk before the investor does. Not very inspiring. Investors want to know that the management is willing to endure hard times for the company if necessary and believe in the business model fervently enough to throw away perfectly good careers.

The foregoing is generally all that needs to go into a good business plan. Of course, appendices that contain endorsements from clients, positive press coverage of the company, or other reference material always can be added. Some basic items that you should make sure are in your business plans are contact information (phone, address, e-mail, contact person) and a table of contents. These are simple features that will make it easier for an investor to review your plan and get in touch with you if they like it. Making an investment appealing starts with making it easy for the investor.

There are a variety of software products and templates available to help you develop your business plan. These can be helpful for pointers on structure and content, but don't rely to heavily on them. The business plan must convey your personal excitement about the

opportunity being presented, which can only be expressed in your own words. Believe in yourself as you write your plan. Only then, will others follow.

RAISING VENTURE CAPITAL

Raising Venture Capital

By Abhishek Jain[8]

Raising venture capital is not for the faint of heart. You must be able to handle rejection well, as you will get plenty of it, and be comfortable under cross-examination. You must have faith beyond reason and energy beyond constraint. Getting funding from venture capitalists is an arduous process that will require you to undergo a great deal of self-examination and outside criticism, which you must endure, accept and incorporate. The process also forces you to relinquish some control over your business and consent to the advice and suggestions of your investors.

On the other hand, raising venture capital can be extremely rewarding if you are successful and an excellent learning experience if you are not. The process will require you to become disciplined and focused on bottom-line business objectives. It's a bit like boot camp, preparing you for the real battle ahead of building your company.

In order to understand the process of, and succeed in, raising venture capital, there are a few issues that you should consider carefully. Be sure you understand what venture capitalists need, how to approach them and how to evaluate them if you are fortunate enough to have a choice between potential investors. Armed with this information, you will be well prepared for the challenges that await.

Understanding Venture Capitalists' Needs

The first step in raising venture capital is to understand what venture capitalists are looking for. Unless you know what your target looks like, odds are you won't hit it. Keeping this in mind, know that venture capitalists care about the following:

Financial considerations

Bottom line issues trump everything in the world of venture capital. This should be of no surprise, particularly given the harsh reminders that many venture capitalists recently received through the drubbing of their dot com investments. But nevertheless some of the financial details that venture capitalists concentrate on are worth highlighting. When venture capitalists look at the financial underpinnings of a potential investment, they typically consider: (i) the company's gross margins from the sale of products or services; (ii) the size of the company's market in annualized revenues; (iii) the company's revenue projections and associated sensitivity analysis; (iv) the time until the company achieves profitability; and (v) the company's need for follow-on capital.

***Gross Margins*:** Gross margins are important to venture capitalists because they directly impact the company's liquidity. For example, gross margins from a company's sale of software products or services of less than 30% are considered unfavorable by most venture capitalists. Thinner margins may be acceptable to a small business owner who is

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[8] Abhishek Jain is a partner of the venture capital firm of Washington Technology Partners, Inc. and supervises all investments by the firm. He is also a Governor-appointed member of the Board of the Virginia Biotechnology Research Park Authority and serves on the boards of numerous technology companies.

simply trying to eke out a living, but they leave precious little wiggle room when markets dip into troughs. Moreover, the smaller the margins, the higher the risk for a future acquiror of the company and the less likely the company will get sold or have a successful initial public offering. If your business model does not aim for gross margins of 30% or higher, venture capitalists are unlikely to be impressed.

***Market*:** The size of a company's market provides the contours for the future potential of the company. A company that has a small market opportunity, even if it captures the entire market, will still only be a small company. Venture capitalists prefer opportunities with relatively unlimited growth prospects. Typically, venture capitalists frown on business models that cannot be scaled into billion dollar markets. Only big plays can provide big returns.

***Revenues*:** A company's revenue projections are key to a venture capitalist's evaluation of how the company will make money. Not long ago, making money was considered subordinate to increasing valuation. Now that normalcy has returned in capital markets and valuations are tied to revenue and profit potential, a company's ability to bring home the bucks is high on the list. Importantly, venture capitalists are careful to look behind the numbers and not simply accept projections at face value. Blanket statements that you plan on taking over 10% of the total market space given enough time and money will be ignored. Venture capitalists want to see credible plans for how you will generate revenues and what the company's earnings will look be if actual revenues are only 75%, 50% or 25% of projections.

***Profitability*:** Directly related to revenue projections and gross margins is profitability. Venture capitalists want to see that you have thought about profitability and have a plan to get there--and soon. This means that increases in revenue generation cannot come through unchecked expenses in marketing or through other "revenue buying" schemes. Typically within three years, venture capitalists want to see your company's income consistently exceed its expenses.

***Capital Needs*:** Venture capitalists plan for the future and expect prospective portfolio companies to do the same. That means that venture capitalists want you to show them that you know what your capital needs will be now and in the future. Consideration must be given to getting profitable quickly, but without sacrificing your company's growth potential. Believe it or not, venture capitalists want to make sure you have enough capital to grow aggressively, so long as your growth plans are consistent with profitability. They also want to know whether they are about to plunge into a bottomless money pit.

Liquidity

Arguably, liquidity should be included as part of the financial considerations above, but because it is so singularly important, it has its own section. Ultimately, venture capitalists are in the business for one reason--to generate aggressive cash returns for their investors. Most investors in venture capital firms expect cash repayment of their principal investment within a few years, and cash profits to be paid out over

approximately ten years. Venture capitalists, therefore, must oblige by investing in only those opportunities that will enable them to achieve full liquidity within three to five years. Further, venture capitalists generally shoot for returns of ten times their investment or more in order to compensate for some inevitable losses along the way. If your business model will not provide this kind of liquidity in this time frame, venture capitalists will look elsewhere for opportunity.

Management strength
Many entrepreneurs believe that venture capitalists look for investment opportunities by identifying exciting new technologies. This is incorrect. Most venture capitalists look for investment opportunities by identifying excellent management within specific technology sectors that are appealing. If the company happens to have developed incredible technology, all the better.

Fundamentally, venture capitalists are more concerned with the execution of an idea than the grandiosity of an idea. That's why management is so important. Venture capitalists will take a great deal of interest in the domain experience of your management team and its track record. It's easy to say you can deliver; its another to prove it by past history. Make sure you can show venture capitalists that your team has the necessary experience and know-how to achieve the results you are promising.

Technology
The type of technology product or service that you plan on offering must be useful, above all else. If it is also novel, proprietary, and in a red-hot market space, that's good too. In evaluating your technology, venture capitalists generally want to know about several things: the benefit to consumers (usually saved time or money); the barriers to entry; the distribution channel for your offering; and the follow-on technical support required. Of course, they also want to understand the overall market opportunity presented by your technology, as discussed in the financial considerations above.

Benefits**:** Whether a technology is useful is not a subjective question. Venture capitalists want to see objective criteria describing how your technology will directly benefit consumers. You must explain exactly how your technology will translate into cost or time savings for specifically identified customer types. Novelty doesn't equate to utility. Venture capitalists want your technology to serve a clear business purpose.

Barriers to Entry**:** If there are no barriers to prevent others from copying your technology, it will be difficult for your company to survive, since better funded, faster moving companies are always searching for opportunities to steal others' thunder. As a result, venture capitalists rarely fund companies that don't have some major competitive edge. Be sure you have one and are capable of being a market leader.

Distribution**:** A clear distribution channel for your product or service is mandatory for most venture capitalists. There are many great technologies that never get off the shelf and into the market. A straightforward, inexpensive path to getting to the ultimate consumer is imperative to give any credibility to your revenue projections. As mentioned

previously, the distribution and marketing strategy must be cost-efficient and tied to the goal of becoming profitable. Very expensive mass-marketing campaigns may get your product or service sold, but will wreck your bottom line. Also, details are particularly important here, as channel distribution plans often have hidden costs associated with minimum inventory requirements and product returns.

***Customer Support*:** Venture capitalists want to know whether your technology offering will require customer support. In some cases, this may eat into future earnings of your company, without any coincidental offset through new revenues. Plus, it may impact the relative desirability of your product if it is not easy to use and needs constant support. On the other hand, ongoing customer support may mean a renewable income stream into the company, which clearly can be desirable.

Contacting Venture Capitalists

If, based on the factors outlined above, you believe that you will pass muster with a venture capitalist (not many do), then consider how to best approach a venture capitalist to get what you want. To begin with, invest in a good business plan. You should view the business plan as the inanimate ambassador for your company. As the point of contact in new territory, if it doesn't provoke smiles, you won't get funded. As a corollary to a good business plan, prepare an equally impressive visual presentation (e.g., through PowerPoint) for when you have an opportunity to formally pitch a venture capitalist.

The key to developing a good business plan and visual presentation is to answer the questions that the venture capitalists care about. If you include solid, concise coverage of the areas outlined above, you should be well on your way. There are many useful articles on how to prepare a business plan in accordance with accepted industry formats. These should be used to your advantage.

Most venture capital firms receive thousands of business plans each year. One way to make sure that your business plan receives special attention is to find the right person to deliver it. An accountant or attorney that works closely with a particular venture firm is often a good choice. Better still is an executive of a company that was funded by the target venture capital firm. A referral from another venture capital firm can be terrific, but be prepared for questions why that venture capital firm is recommending your company if it hasn't invested anything. The point is that a positive introduction of your business plan to a venture capitalist can make the difference between a cursory review and a detailed review, which in turn can make the difference between no cash and cash.

Once your business plan has been submitted to a venture capitalist, be sure to follow-up. Many perfectly good plans get forgotten or set aside simply because of the volume of submissions that venture capitalists get. Phone calls or emails to check on the status of your plan periodically can make a real difference. Don't leave your chances to fate--be proactive. But, be prepared to answer tough questions the minute you get a venture capitalist's attention.

Outside of submitting your business plan, another great way to get a venture capitalist to consider your company is simply to meet them at technology networking events. Venture fairs and similar events are held regularly in technology hot spots and should be attended when possible. Go to these events prepared with a sixty-second speech summarizing all the key points about your business. Rehearse it well before you go and have ready answers to all the questions that you know the venture capitalist would ask if they read your business plan. Venture capitalists are always willing to hear about new opportunities, so long as the presenter is prepared. A well presented pitch often will be followed by a request for more information from the venture capitalist. That will get the ball rolling. And even if you don't get a chance to speak to a venture capitalist personally, you likely will hear the questions they ask others and can prepare yourself better for the next time.

Evaluating Venture Capitalists

Identifying the venture capitalists that are best suited for investing in your business, both in terms of their receptiveness to your business model and the value they bring to the table, can be a challenge. This requires a good bit of research and investigation. In particular, check to see what types of companies venture capitalists already have invested in, as opposed to what they say they will consider. This should provide some clues about their technology preferences and their expertise. Also, look at the biographies of their management to see where the venture capitalists have come from and with what types of industries they are most familiar. This process should help you narrow the universe of potential venture capitalists and allow you to be more focused in your fundraising efforts.

Assuming that there are at least several venture capitalists that appear to be well suited for your type of business opportunity, you should direct your energy toward those that will be of most value to you. Some criteria that will help you evaluate venture capitalists are their: (1) understanding of your business model; (2) long-term staying power; (3) contacts in your industry and in financial markets; (4) track record of success; (5) accessibility; and (6) long-term vision. Of course, the terms of a proposed investment will be very important, as will your ability to work with the venture capitalists on a personal level.

Additionally, be sure that you approach several venture capitalists at once, as this will save you time. Undoubtedly, some of the venture capitalists that you believe are well-suited for your business opportunity will fail to bite. Be sure you still have a few lines in the water to maximize your chances of landing your financing in a reasonable time frame. Also, keep in mind that no deal is done until the money has been wired into your account.

As a final note, throughout the process of raising venture capital, it is important to be open-minded. If your business model hasn't evolved during the process, you weren't listening hard enough. At the same time, be confident about the business opportunity you are presenting--it tends to be infectious.

MAKING AN ELEVATOR PITCH

Making an "Elevator Pitch"

By Barry Glick[9]

As the saying goes, "you only have one chance to make a first impression." To be successful in business development or raising capital, it is imperative that you make that first impression also be your best impression, especially given the tremendous competition under present economic conditions and the volume of presentations made to key decision-makers. Crisp, to-the-point presentations that clearly convey corporate value propositions are the gateway to success.

Given the limited attention span of venture capitalists and senior executives, an appropriate opening pitch ideally should be no longer than sixty seconds. Within those sixty seconds, you should be able to fully describe and sell your company's core services, offerings or investment opportunity. Typically, such opening pitches are referred to as "elevator pitches" because, historically, many entrepreneurs found that the only way they could pitch decision-makers was during short elevator rides, during which they had to introduce themselves, capture the executive's attention, and make a sale. Now, elevator pitches are routine parts of any business introductions.

There is no "one size fits all" approach to developing an elevator pitch. Every elevator pitch should be designed in consideration of who the audience is. Many corporations create multiple elevator pitches to be used in alternative situations. The following factors are typical of the issues that should be considered when evaluating the audience:

1. What is the "pain" felt by the audience? (e.g., what is the biggest business need felt by the audience)?
2. What are the key goals of the audience? (e.g., is it to sell more products, deliver a better solution, reduce costs, make the CEO happy, etc.)?
3. What does the audience already know about your industry, your company, or you?
4. What are the cultural and personal values held by your audience? (Is the audience culturally biased, have conservative views, or have gender biases?)

By understanding your audience before you pitch, you can ensure that your message will get a better reception. A listener's perception of how a message is delivered and by whom, sometimes is as important as the content itself.

Besides understanding your audience, you must also know your company's value proposition inside and out. That means that you must be intimately familiar with your company's vision, mission, strengths and weaknesses, as well as your products and services and those of your competition. A good technique to ensure that you truly understand your company's value proposition is to conduct a "SWOT" analysis.

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[9] Barry is on the Advisory Board of Washington Technology Partners and is the founder of Mapquest, the largest geospatial software company in the world. Mapquest was purchased by AOL in 2000 for approximately $1.1 Billion. Barry has also successfully founded three other technology companies in the past.

A SWOT analysis is an examination of the following factors as they relate to your company: Strengths, Weaknesses, Opportunities and Threats. The issues that should be evaluated in a SWOT analysis include:

> Strengths – What do you do well? What do you have experience in? Do you have any blue-chip clients? What kind of resources do you have? Who are your partners?
>
> Weaknesses – What areas have caused you difficulty? What have clients been disappointed with? Where do you have limited experience?
>
> Opportunities – What are the current industry trends? How can you position yourself to leverage these trends? How do these opportunities leverage your core strengths?
>
> Threats – Who are your competitors? What are they currently offering and at what price? Do you have any financial or staffing problems? What is the risk that your products or services will become obsolete soon?

By carefully reviewing these issues, you will be able to quickly crystallize your company's value proposition into a few concise bullet points. Your pitch should be designed to highlight your strengths, focus on appropriate opportunities, and minimize your weaknesses and threats. Of course, it is also very valuable to conduct a SWOT analysis of your major competitors so that you can fine tune your pitch in consideration of the strengths and weaknesses of your competition. You may even find some new opportunities through such competitive analysis.

Once you have carefully considered the audience and crystallized your core value proposition, you will have the appropriate ammunition to develop the content of your pitch. However, the organization and delivery of your pitch must also be developed. Ideally, your pitch should begin with a very simple statement identifying who you are, what your company does, and what you are offering. This should be followed by more details about the pain that you wish to resolve for the audience, how and why you will resolve it, and why this should motivate the audience. A healthy peppering of some specific experiences that you have had in the type of offering you are describing, with client names and highlights of some core competitive advantages, is appropriate. The pitch should conclude with a clear identification of your benefits to the audience and an indication of what you specifically are seeking from the audience.

Although this is intuitively obvious, many companies fail to follow a coherent pattern in their pitches and stumble through their dialogue. Among the most common errors is not identifying what you wish the audience to do with the information you have provided. It is very important to deliver a roadmap to your audience so they know where you are heading and how you plan to get there.

Of course, delivery is also critical. A mechanical, rehearsed-sounding pitch rarely works well. To that end, it is generally not a good idea to write out an elevator pitch and memorize it verbatim. It is preferable to write out an elevator pitch in bullet points and memorize, filling in the dialogue with natural language. There is also nothing wrong with breaking your elevator pitch into a few short segments that can be worked into casual conversation, with natural breaks for banter with your audience. A conversational approach to elevator pitches, but with the content concisely organized, is often the most effective.

To conclude with another old saying, "practice makes perfect." To make an elevator pitch sound natural and to ensure that you have command of the content, a lot of practice is essential. Practicing with both industry colleagues and those who are totally unfamiliar with your business is equally valuable. Both groups provide different perspectives that can help you refine your content, as well as your organization and delivery. Simple language without technical jargon, delivered with passion is the winning formula.