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August 8, 2012 4 min. Read the opinions expressed by entrepreneurs investors are their own. The question is: How necessary is a traditional business plan? What should a good business plan include? - Erin McIntyre Grand Junction, Colo. A: I started investing in startups in 1996 and saw a lot of business plans. I always get them from people who are looking for some of my money and from entrepreneurs who start a capital raising campaign. Whether you have an impressive track record as an entrepreneur or an exceptionally big new business idea, you can't raise capital without a business plan. I invested in six startups, and three of them were sold for a total of \$2 billion. Related: Lean Startups needed business plans, too, and even in that tiny sample, were the keys to these different results in business plans. Simply put, the business plans that led to successful results contained a deep understanding of the customers who end up buying the company's products. Those that failed didn't. While that simple - and as an investor - is critical insight, 99 percent of the business plans I see are lacking in this important ingredient. Before you get into all the key elements of a good business plan, you need to make sure that you are doing a great job of conveying your understanding to the customer. Here's how it's done. First, you have to figure out the group of customers that you want to sell. Then you need to develop an interview guide - a list of questions such as why current products don't meet their needs, how the ideal product will look, how they decide between competing suppliers and where they perceive unmet need. Related: Good, bad and ugly business plan contests you should then interview at least 20 potential customers and make sure your analysis of their answers to these questions in the business plan. Your analysis should include key quotes from potential clients that back up the findings. A good business plan should cover these six topics. 1. Summary: If you had two minutes going down the escalator with a potential investor, you should talk to her through your resume. This should answer questions such as: What is your company's mission? Why is this important to you? Why do you think your company can make money pursuing this mission? What is your record of winning? How much money do you need? What return can I expect if I give you the money? Why? 2. Business/product description: If you have more than two minutes, the investor will want to know more. A business/product description should describe your company's mission and provide details of the product you have in mind to achieve this mission. This description should also focus on the specific attributes of the product that you think will make it better than the competition. 3. Target Market: In this detail which group of potential customers your company will target. It describes why chose this market, its revenues and growth rates, the key factors contributing to growth, and typical net profit in this market. This section should, in my opinion, also present the results of your interviews with customers. 4. Plan to get market share: Here you explain the key factors ranked by importance, the potential customer uses to decide between competing suppliers. It will also describe how well these customers perceive what competitors perform on various factors. It will then describe how your product will outperform competitors in key factors. Finally, the plan to gain market share section will set market share goals and describe what your company will do to achieve those 5 goals. Management Team: This section will feature biographies of your team members. If you don't have prior entrepreneurial experience, investors will be looking for signs that you and your team are winners - this can show in outstanding academic, sporting or extracurricular achievements. 6. Cash Forecast: This section is in some ways the least plausible for the investor. Here, investors really want to see whether you put in enough effort to make a detailed estimate of how much cash will be needed to achieve your goals and what income and profits will eventually flow from these investments. The key here is to develop realistic assumptions and prepare investors to ask you questions about why you chose them and your sources of information. For me, the most important part is how well you understand the customers - if you do a good job with this, I think you will greatly increase your business's chances of success. October 7, 2002 5 min read Opinions expressed by Entrepreneur Contributors are their own. What is key person insurance and does my new business need it? A: When you're just starting out, you have a lot on your plate and it seems like you're spending all your time working on urgent things - trying to get your product or service ready, hiring people, figuring out how to increase sales, paying bills and so on. It's hard to find time to consider something that isn't really urgent, but it can be incredibly important, such as insurance - particularly key person insurance. Key human insurance is simply life insurance for a key person in business. In a small business, it is usually the owner, founders or perhaps a key employee or two. These are the people who are critical to the business - those whose absence will sink the company. You need the insurance of a key person on these people! Here's how key person insurance works: a company buys a life insurance policy for a key employee, pays premiums and is the beneficiary of the policy. If this person dies unexpectedly, the company receives insurance The reason for this coverage is important is that the death of a key person in a small company often leads to the immediate death of this company. Key person's insurance goal is to help company survive blow blow a person who does business work. The company can use insurance income for expenses until it can find a replacement for the person, or, if necessary, pay off debts, distribute money to investors, pay severance pay to employees and close the business in an orderly manner. In a tragic situation, key human insurance gives the company some options besides immediate bankruptcy. If the company is just you and doesn't have any employees or other people who depend on it, then key person insurance is not so necessary. You'll notice that I didn't mention your family - don't confuse the insurance of key people with personal life insurance. If you have a spouse and/or children who depend on your income, then you should have personal life insurance for that purpose. How do I determine who needs this insurance? Look at your business and think about who is irreplaceable in the short term. In many small businesses it is the founder who keeps the company together - he can store books, manage employees, handle key clients, and so on. If this person is gone, the business pretty much stops. How many key human insurance do you need? It depends on your business, but overall you should get as much as you can afford. Shop around and get prices from several different agents; Most life insurance agents will sell you a key person's policy. Be sure to ask for term insurance - many agents will push an entire or variable life that has much higher premiums and commissions but is not needed for a key person policy. Ask for quotes for \$100,000, \$250,000, \$500,000, \$750,000 and \$1 million and compare each cost. Then think about how much money your business will need to survive until it can replace a key person, come to speed and get the business back on its feet. Buy a policy that fits into your budget and will address your short-term cash needs in case of tragedy. Let me share an example from my personal experience. My kidding started a golf vacation business in the winter of 1997. Tommy worked many long hours for almost three years, and it seemed that all his hard work was paying off. One night he died in a car accident. He was 35 years old. As my wife and I struggled to cope with the scale of this loss, we also had Tucker Golf employees, salespeople and customers to think about. No one planned that this would happen. But it happened, and we had to pick up the pieces. Tommy had no key human insurance, and the company struggled for nearly two years before he recently returned to solid ground. While key man insurance wouldn't bring Tommy back, it would have taken a major worry from his grieving family and staff. Most people, especially when they are young, do not plan to die suddenly. If you are working to start or Small business, you have a lot on your mind and chances are you haven't thought much about key human insurance. But take this from my experience: By the time you need it, it's too late to do anything about it. Call Call Agent today, figure out how much of a key person insurance is your company and buy it! Keith Lowe is an experienced entrepreneur who is the founder and investor in the company in several industries. Lowe also mentors new entrepreneurs; in the past, he was chairman of the board of biztech, a non-profit high-tech business incubator; and is a co-founder and fellow of the Alabama Information Technology Association. The opinions expressed in this column are the opinions of the author, not Entrepreneur.com. 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