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# Southeast Health Plans

## 1.0 Executive Summary

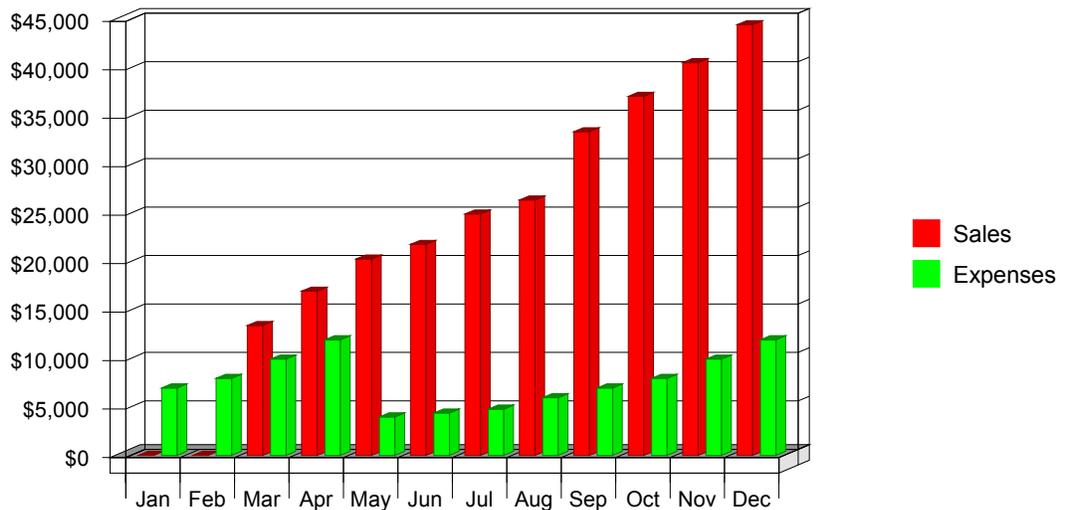
Southeast Health Plans, Inc. is a service company that will provide health plan administrative services to self-insured employers. The company will concentrate on employers with 50 to 500 employees. Many of these employers have current HMO, PPO, or major national insurance carrier health plans. While the majority of employers with 500 or more employees have at least some element of self-insurance incorporated into their health care programs, our target market is often ignored by the major national insurance companies. While more than 80% of companies with 500 or more employees are self-insured, the management of Southeast Health Plans has identified that less than 25% of Atlanta area companies with 50 to 500 employees have self-insured plans.

The market for self-insured and administrative services consist of those companies that are currently self-insured and companies that have other types of health plans that will be encouraged to shift to self-insurance. One factor in the transition to self-insurance is the availability of quality administrative and consultative services. Southeast Health Plans, Inc. is led by experienced management and has formed a strategic alliance with Blair Mill Administrator, a wholly-owned subsidiary of Blue Cross/Blue Shield of Pennsylvania, for the purpose of providing first class benefits management services to its target market.

The key to success for Southeast Health Plans, Inc. will be the ability to attract the initial capital in order to successfully market its services in the metro Atlanta area and in northern Georgia. Adequate professional sales staffing is essential. The company must then expand a successful formula throughout Southeast Healthern markets. Cost control, particularly with regard to sales and marketing programs, will enable controlled expansion that is fully funded by internal cash flow.

The purpose of this marketing plan is to raise the level of awareness of Southeast Health Plans, Inc. to increase usage as well as attract potential investors to this unique investment opportunity.

### Sales vs. Expenses Monthly



# Southeast Health Plans

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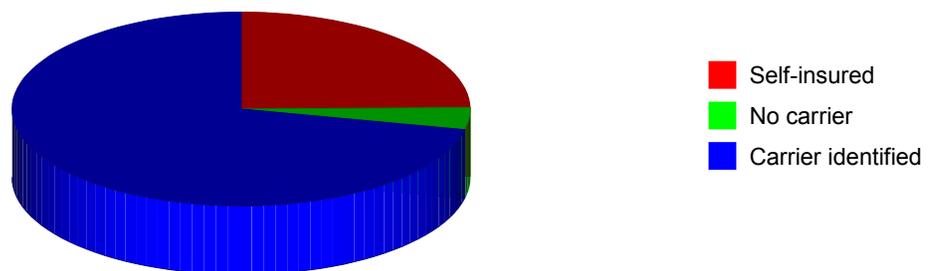
## 2.0 Situation Analysis

Southeast Health Plans is entering its first year of business. The interest for its services has been higher than expected with many different companies excited about doing business with Southeast Health. Marketing will be critical for generating customers and visibility for Southeast Health. The basic market need is a health plan administrative service company for self insured employees. Southeast Health meets this market need with a quality and cost advantage for health plan administration while offering valuable consulting services for employers.

## 2.1 Market Summary

Southeast Health possess good information about the market they wish to enter and have collected significant amounts of information regarding the common attributes of the ideal customers. This information will be used to continually research the specific needs of the customers and determine how they can be better served and communicated with.

### Market Analysis (Pie)



**Table: Market Analysis**

| Market Analysis     | Growth | 2003  | 2004  | 2005  | 2006  | 2007  | CAGR   |
|---------------------|--------|-------|-------|-------|-------|-------|--------|
| Potential Customers |        |       |       |       |       |       |        |
| Self-insured        | 10%    | 446   | 491   | 540   | 594   | 653   | 10.00% |
| No carrier          | 5%     | 66    | 69    | 72    | 76    | 80    | 4.93%  |
| Carrier identified  | 6%     | 1,289 | 1,366 | 1,448 | 1,535 | 1,627 | 5.99%  |
| Total               | 6.99%  | 1,801 | 1,926 | 2,060 | 2,205 | 2,360 | 6.99%  |

# Southeast Health Plans

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## 2.1.1 Market Demographics

The profile for Southeast Health's customer consists of the following geographic, demographic, and behavior factors. Please note that the following customers are not individuals, but the employers who are the purchasers of the health plans for their employees.

### **Geographics**

- Atlanta metro area and north Georgia market.
- ZIP codes beginning with 300-303, 305-307, and 311 (by agreement with Blair Mill).
- A 95-mile radius will be served.

### **Demographics**

- Have between 50-500 employees.
- Are partially, totally, or are interested in becoming self insured.

### **Behavior factors**

- Buying patterns tend to revolve around annual renewal dates.
- Some companies purchase insurance through their owner or a key executive, some have a dedicated personnel administrator.
- The size of the employer and the organizational structure of the company has the largest effect on buying factors.

## 2.1.2 Market Needs

Southeast Health is providing its customers with health plan administration services, offered in a flexible manner to meet the customer's specific needs. Southeast Health will fulfill the following benefits that are important to its customers.

- **Flexibility:** every customer has unique needs and Southeast Health will be able to satisfy all of them.
- **Quality Products:** health insurance is very important to people and through Southeast Health's partnership with Blair Mill Administrators, it is able to offer a state-of-the-art insurance program.
- **Good Advice:** Southeast Health offers a wide range of consulting services that allows it to determine the individual client's needs and then tailor its service to meet these needs.

# Southeast Health Plans

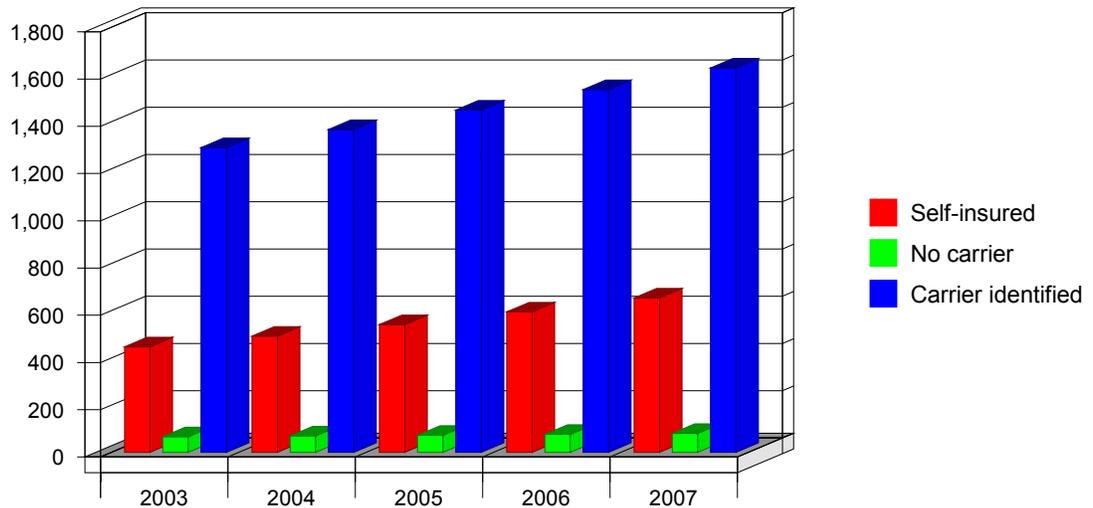
## 2.1.3 Market Trends

The health care market has undergone significant changes over the last ten years. The industry as a whole has seen significant consolidation. The consolidation has occurred primarily as a way for companies to remain profitable despite significant increases in health care costs.

Another way that the industry has dealt with rising costs has been increased adoption of the managed care. Managed care was specifically designed as a way to offer a foundation of base of health care while keeping costs within reason.

Regardless how the industry has changed and tried to adopt to the significant increases in costs, more and more American's are without health insurance. Many of the American's that do have coverage have seen their plan coverage shrink. Southeast Health's flexible services will allow companies to offer the different health benefits that their individual employees desire.

**Market Analysis (Bar)**



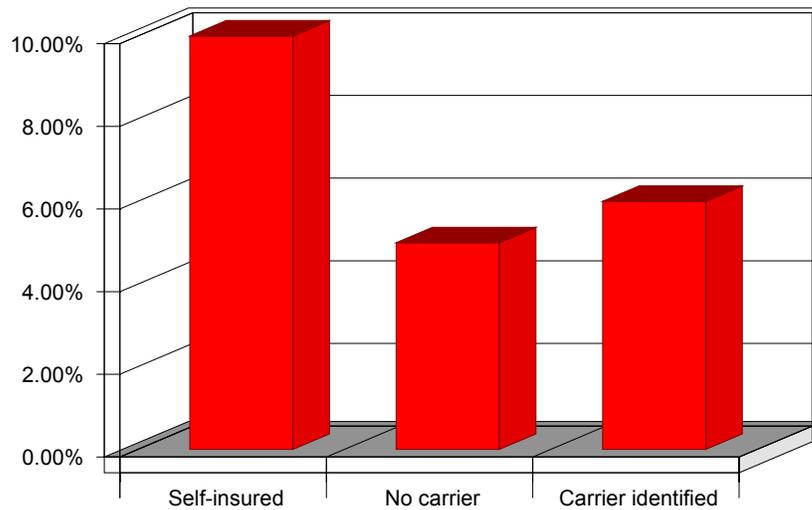
# Southeast Health Plans

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## 2.1.4 Market Growth

The market for Third Party Administrators (TPA) who offer flexible health insurance plans has seen above average growth. This can be explained by the fact that the large national insurance companies and the HMO's have largely ignored the market for self insured employers who are looking for flexible plans. The larger firms tend to offer standard options. For many companies this is fine, but there are a growing number of companies that value flexible options.

**Market Analysis (C.A.G.R)**



# Southeast Health Plans

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## 2.2 SWOT Analysis

The following SWOT analysis captures the key strengths and weaknesses within the company and describes the opportunities and threats facing Southeast Health.

### 2.2.1 Strengths

- Strong relationships with strategic partners like Blair Mills Administrators.
- Customer-centric organization.
- Exceptional industry insight and experience.

### 2.2.2 Weaknesses

- Lack of brand equity, a function of being a start-up.
- High marketing costs needed to develop brand visibility.
- Significant costs required to build a sufficient customer base.

### 2.2.3 Opportunities

- Participation within a growing niche.
- The ability to spread costs over a larger customer base.
- Future strategic relationships developed as the company becomes more established.

### 2.2.4 Threats

- Future/potential competition from a large, already established national provider.
- Government regulation.
- Significant changes in the cost structure of health insurance.

## 2.3 Competition

Health plans for businesses and their employees comprise a multi-billion dollar industry that is highly competitive. Well-known national insurance companies like Prudential, Cigna, Aetna/US Healthcare, and the regional Blue Cross and Blue Shield companies seek the employer's dollar. A plenitude of HMOs, both regional and national, also compete. Many companies are already self-insured. Some of these companies use TPAs for outside claims processing while others use insurers or attempt to self-administer. Certain claims processors are also gravitating toward benefits management services.

Southeast Health Plans believes that a niche exists that is both too small for concentrated coverage by large national companies and that is not well served with broad enough quality services by other TPAs. Most TPAs are still evolving toward the service mix that small and mid-size companies are demanding. By providing those quality services now, at a fair price, Southeast Health believes a competitive sales advantage exists that will permit attainment of the market shares sought.

## Southeast Health Plans

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Insurance carriers provide economic protection only. Such protection is at a high cost. Deductibles are increasing and the employer's ability to handle the cost burden of medical insurance coverage is diminishing. Compromises must be made in the extent of coverage, the size of the deductible, the medical services included, or often the employee is required to cover an ever-increasing percentage of the cost of his/her own plan as a payroll deduction. These are all unattractive options both for the employer and the individual client. The spiraling cost of health care is the culprit.

HMOs have gained substantial and significant market share over the past two decades. Their cumulative share of covered insured employees now exceeds the national commercial insurance carriers by a wide margin. However, these plans have been ruled primarily by cost containment strictures. Freedom of choice is severely limited—there is a perception that the quality of care is at an all-time low. Liability issues are beginning to surface based on compromised or neglected care due to cost parameters. Many service costs are not adequately covered under these plans and the provider base of physicians are extremely dissatisfied with compensation allowances. Many physicians complain that the freedom of decision is diminishing constantly from time and cost constraints that are imposed upon them. The ultimate client, the individual patient, is equally dissatisfied. Thus, the employer becomes dissatisfied as well.

The market niche for the quality TPA is ripe for picking. However, services must be of high quality. Many small TPAs are promising high levels of service but often don't deliver as promised because of the expense of building the internal resources required to compete effectively. Southeast Health Plans, by virtue of its alliance with Blair Mill Administrators, already has the necessary resources in place.

### 2.4 Services

As health care in the United States has been changing rapidly over the past two decades, so has the way health care has been provided and how it is billed and paid. Large insurance companies and private physicians have given way to HMOs and managed care plans and the TPA has been prospering. A TPA (like Blair Mill) exists to administer all the health care functions for a company that would have been handled by an insurance company. HMOs primarily contract for services based upon price, then re-sell those services to groups. Often, service and choice are less than satisfactory. But, most importantly, cost-effective concerns predominate. Employers are seeking to provide health care for employees at an affordable cost. A backlash has been the increase in self-insured programs administered by TPAs.

In short, a business now demands much more in the way of service and analysis than traditional support institutions have been providing to their clients. The claims processor is a case in point. Merely processing claims does nothing to help a business analyze and control its health benefits plan and to control the costs associated with the plan. And there has not traditionally been a measure for the "quality" of health care service.

Southeast Health has compiled, through its own proprietary systems and an alliance of external providers, a service mix that includes Network Administration Services, Network Contracting Services, Policy Formation and Quality Assurance, and Marketing Services.

Health benefits are a fact of life for any business. The small and mid-size business is concerned with cost control and administration, just as in any other department of their business operations, except they are ill-equipped in personnel, know-how, and in systems, to administer health care internally.

Thus a full array of TPA self-insured services would include:

## Southeast Health Plans

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- Claims experience analysis and cost projections.
- Plan design consulting.
- Comprehensive plan analysis.
- Provider network analysis.
- Plan documentation.
- Stop-loss brokerage and administration.
- Prescription drug programs.
- Vision benefits administration.
- Dental benefits administration.
- COBRA administration.
- Short-term disability administration.
- Worker's compensation services.
- Custom tailored services.

### 2.5 Keys to Success

The keys to success in this business are:

1. **Marketing.** Southeast Health Plans will have the ability to sell both directly to employers and through independent insurance brokers and agents. It will be necessary to establish name recognition among more established programs. It is essential that media budgets be controlled and that closing ratios of at least 5% of leads per year be maintained.
2. **Product quality.** The services provided by Blair Mill Administrators are already state-of-the-art among small-employer providers. The value added experience of the Southeast Health Plans, Inc. management team and its provider networks will ensure customer satisfaction. It is a necessity that clients maintain satisfaction both with service and plan cost to minimize client erosion and to combat competition. Renewals should exceed 85% of established clients.
3. **Controlled growth.** Growth needs to be aggressive with rapid expansion to new geographic markets but also must focus on profitability. Each established market must mature as new markets develop so that growth can be internally funded. Cash flow management is essential. Both market expansion and media effectiveness must be constantly tested, and then reviewed or refined as required.

### 2.6 Critical Issues

Southeast Health is still in the speculative stages as a start-up organization. The critical issues that it faces are:

- Being careful to pursue only controlled growth where the payroll expenses will not exceed sales revenue. This will help ensure against negative dips in the economic climate.
- Establish itself as the premier health plan administrator in its market.

# Southeast Health Plans

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## 3.0 Marketing Strategy

Print media utilized will be the weekly *Atlanta Business Chronicle*. An extensive direct mail lead generation campaign will also be employed, targeted at employers, brokers, and consultants. Both will be followed by direct sales contact by Southeast Health's professional sales executives.

## 3.1 Mission

Southeast Health Plans, Inc. is dedicated to providing small and mid-size employers with a comprehensive benefits administration program that will enable employers to control health benefits costs while allowing employees within the plan to have access to quality health care. By combining self-insurance with stop-loss programs and efficient plan administration Southeast Health will provide to its clientele, both employers and employees, the best of health care with the minimum of restrictions and the broadest individual choice of providers. Southeast Health will deliver a balance of quality care and freedom of choice at a fair price.

## 3.2 Marketing Objectives

- To quickly achieve measurable market penetration.
- Decrease customer acquisition costs by 1.5% a quarter beginning year two.
- Create the brand image within the operating area of the premier health plan administration service provider.

## 3.3 Financial Objectives

- Hold spending at a specific level as a percentage of sales.
- A double-digit growth rate for the first three years.
- Increase the contribution margin by 1.5% a quarter.

## 3.4 Target Markets

The initial target market is the Atlanta metro and north Georgia market. The agreement with Blair Mill encompasses the following ZIP codes:

All three digits beginning with 300-303, 305-307, and 311.

This includes all of metro Atlanta and surrounding counties in north Georgia. At present Southeast Health Plans holds the only strategic marketing alliance with Blair Mill in the entire southeastern United States. Both sides recognize and desire an expanded agreement after phase one goals and objectives are attained.

The critical data to establish potential customer base and market share is to sort employers within the region by number of employees, regardless of whether they are currently with an HMO, an outside insurance carrier, are self-insured, or have no insurance. All are potential clients of Southeast Health Plans. The curve to attainment of critical mass is one of education, media, contact, and sales closure.

## Southeast Health Plans

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Within the targeted ZIP codes defined by the agreement with Blair Mill, the management of Southeast Health Plans has identified 1,801 employers with 50 to 500 employees. Of these, 1,289 are known to have an identifiable insurance carrier, 446 are known to be self-insured, and 66 are known to have no insurance.

Southeast Health has a clearly defined and identifiable market niche that enables highly targeted and efficient marketing of its services.

### 3.5 Positioning

Southeast Health will position itself as the premier health plan administrative service with both a quality and cost advantage relative to its less flexible competitors. Companies with 50-500 employees will appreciate Southeast Health's health plan administration services and related consulting. Southeast Health will leverage its competitive edge:

- **Unmatched Customer Attention:** beyond the fact that the entire organization adopts a customer-centric approach to business, all of Southeast Health's service offerings concentrate on providing the customer with the exact type of plan to meet their particular needs.
- **Costs Advantages:** by forming meaningful strategic alliances (Blair Mill Administrators in particular), Southeast Health is able to offer top-quality services at a reasonable price by leveraging the proficiencies of particular partners and not getting distracted from its core competency of offering comprehensive benefits administration programs.

### 3.6 Strategy Pyramids

The single objective that Southeast Health faces is to position itself as the premier health insurance benefit administrator for self insured employers, gaining significant market share within five years. The marketing strategy will seek to first create customer awareness regarding Southeast Health's offered services and develop the customer base.

The message that Southeast Health will generate is that it offers the highest quality/cost ratio for health plan administrative services. This message will be communicated through a variety of methods. The first will be an advertising campaign. This campaign will primarily use the Atlanta Business Chronicle, but other media sources will be employed.

The method of communication will be a direct mailing campaign. The mailings will target employers, brokers, as well as consultants. The last method that Southeast Health will use is direct sales contacts. These contacts will be made by Southeast Health's professional sales executives.

## 3.7 Marketing Mix

Southeast Health's marketing mix is comprised of the following approaches to pricing, distribution, advertising and promotion, and customer service.

- **Pricing:** a cost per employee basis.
- **Distribution:** this will occur through the use of Southeast Health's direct marketing program as well as the use of independent agents.
- **Advertising and Promotion:** Southeast Health will be using a multi-pronged marketing strategy to develop brand awareness and achieve market penetration.
- **Customer Service:** the entire business operates on a customer-centric business model, ensuring exceptional customer attention.

## 3.8 Marketing Research

Two types of market research were used when Southeast Health was collecting market research. The first type of research was focus groups. The focus groups were collections of seven to nine people who were asked a series of predetermined questions with the responses recorded and discussed among the group members. In addition to the pre-established questions, there was a free-flow discussion format toward the end of the focus group that provided flexibility in allowing the participants to share information and insight with Southeast Health.

Additionally, questionnaires were used to collect market information from perspective customers. The questionnaires were submitted to a total of 200 potential customers. The response rate was 87, higher than expected. The validity and usefulness of the questionnaire was ensured by utilizing a graduate statistics student to develop the questionnaire. This research confirmed many already held assumptions as well as introduced several valuable perspectives that Southeast Health was not yet privy to.

# Southeast Health Plans

## 4.0 Financials

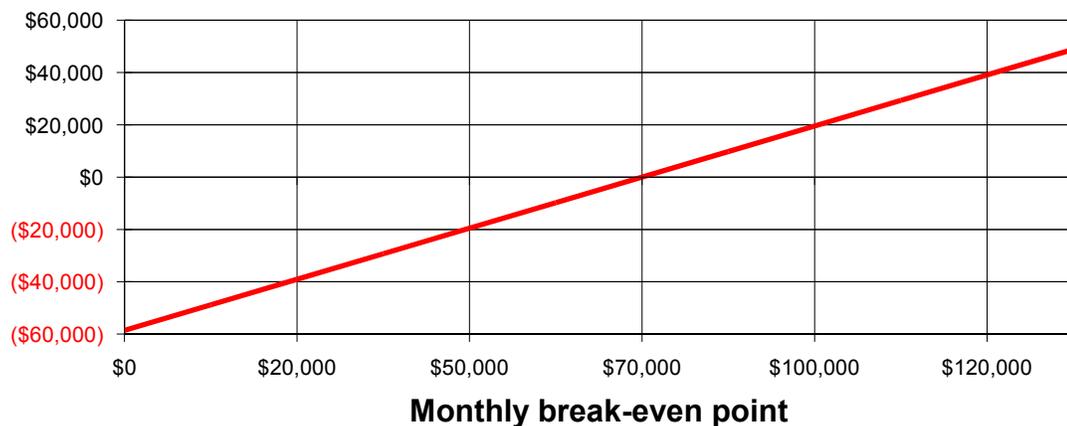
This section will offer a financial overview of Southeast Health as it relates to the marketing activities. Southeast Health will address Break-even Analysis, Sales Forecasts, Expense Forecasts, and how they link to the marketing strategy.

### 4.1 Break-even Analysis

Break even, based upon fixed initial market overheads, will be attained prior to the end of year two.

Cost control and market maturation will then accelerate profitability that increases disproportionately as market development costs are offset with a critical mass of baseline business in each new market.

#### Break-even Analysis



Break-even point = where line intersects with 0

**Table: Break-even Analysis**

| Break-even Analysis:       |          |
|----------------------------|----------|
| Monthly Units Break-even   | 7,326    |
| Monthly Revenue Break-even | \$73,260 |

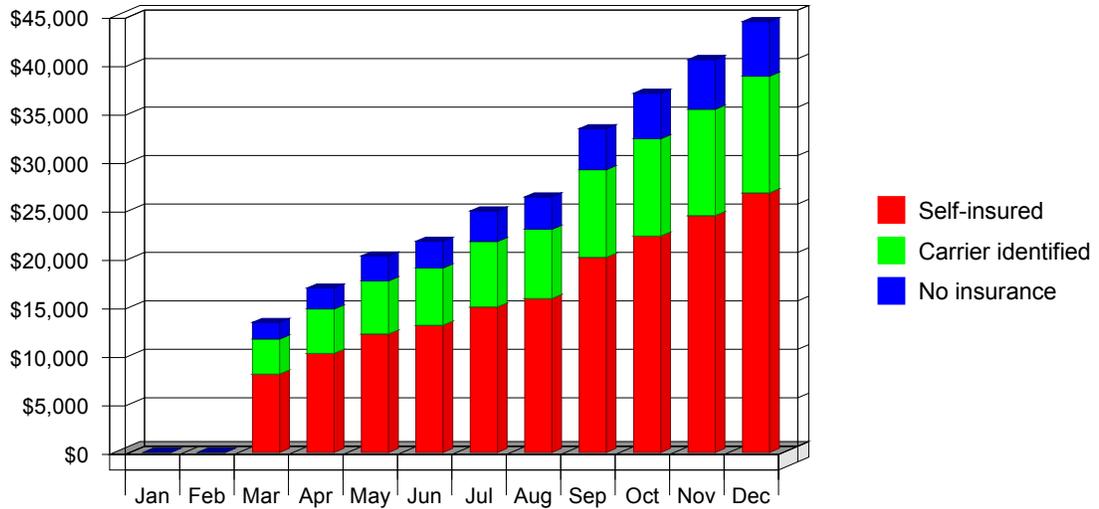
| Assumptions:                   |          |
|--------------------------------|----------|
| Average Per-Unit Revenue       | \$10.00  |
| Average Per-Unit Variable Cost | \$2.00   |
| Estimated Monthly Fixed Cost   | \$58,608 |

# Southeast Health Plans

## 4.2 Sales Forecast

The following Sales Forecasts are based upon the premises previously presented. Management feels these forecasts are highly attainable.

### Monthly Sales Forecast



**Table: Sales Forecast**

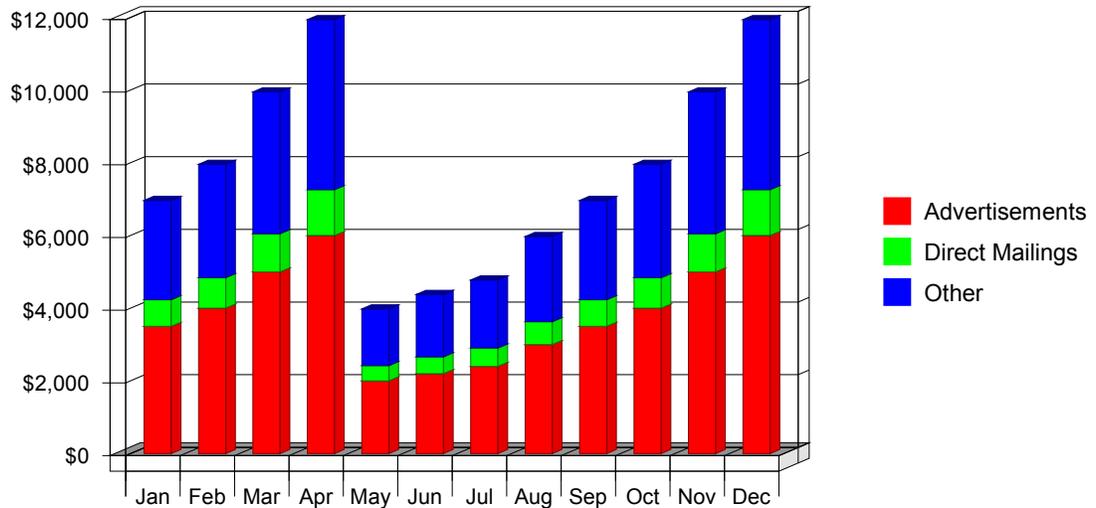
| Sales Forecast                       |                  |                  |                  |
|--------------------------------------|------------------|------------------|------------------|
| Sales                                | 2003             | 2004             | 2005             |
| Self-insured                         | \$168,150        | \$301,221        | \$367,665        |
| Carrier identified                   | \$75,668         | \$135,549        | \$165,449        |
| No insurance                         | \$35,312         | \$63,256         | \$77,210         |
| <b>Total Sales</b>                   | <b>\$279,129</b> | <b>\$500,027</b> | <b>\$610,324</b> |
|                                      |                  |                  |                  |
| Direct Cost of Sales                 | 2003             | 2004             | 2005             |
| Self-insured                         | \$33,630         | \$60,244         | \$73,533         |
| Carrier identified                   | \$15,134         | \$27,110         | \$33,090         |
| No insurance                         | \$7,062          | \$12,651         | \$15,442         |
| <b>Subtotal Direct Cost of Sales</b> | <b>\$55,826</b>  | <b>\$100,005</b> | <b>\$122,065</b> |

# Southeast Health Plans

## 4.3 Expense Forecast

The Marketing Expenses are to be budgeted so that they ramp up significantly during the first quarter as Southeast Health struggles to gain visibility within the industry. The expenses will settle a bit during the second and third quarter and rise again in the fourth quarter.

**Monthly Expense Budget**



**Table: Marketing Expense Budget**

| Marketing Expense Budget                  | 2003            | 2004             | 2005             |
|---|-----------------|------------------|------------------|
| Advertisements                            | \$46,600        | \$52,000         | \$58,000         |
| Direct Mailings                           | \$9,786         | \$10,920         | \$12,180         |
| Other                                     | \$36,348        | \$40,560         | \$45,240         |
| <b>Total Sales and Marketing Expenses</b> | <b>\$92,734</b> | <b>\$103,480</b> | <b>\$115,420</b> |
| Percent of Sales                          | 33.22%          | 20.69%           | 18.91%           |
| Contribution Margin                       | \$130,569       | \$296,541        | \$372,839        |
| Contribution Margin / Sales               | 46.78%          | 59.31%           | 61.09%           |

# Southeast Health Plans

## 5.0 Controls

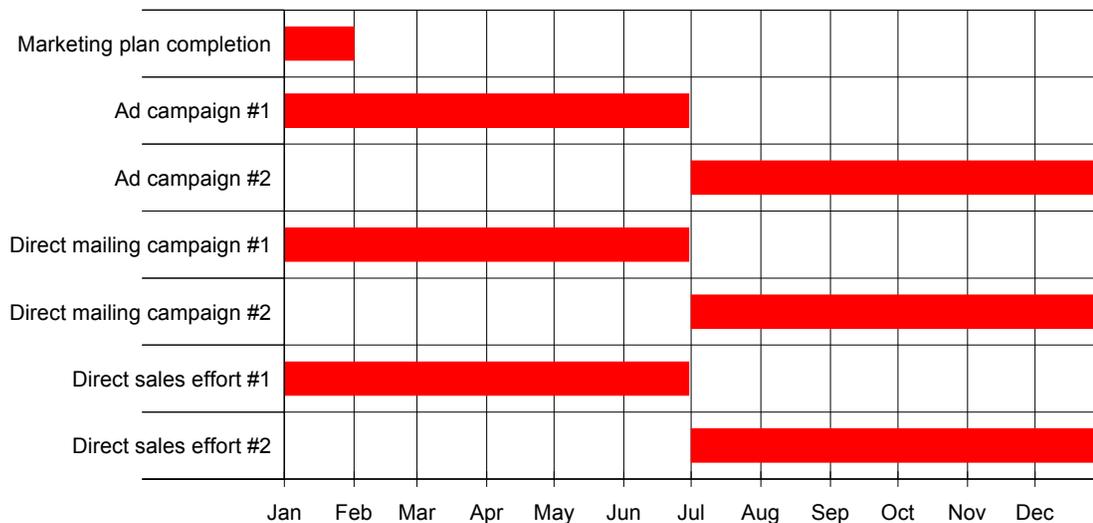
The purpose of Southeast Health Plan's marketing plan is to serve as a guide for the organization. The following areas will be reviewed to gauge performance:

- **Revenue:** monthly and annual performance reviews compared to planned sales projections.
- **Expenses:** a comparison between actual and forecasted expenditures.
- **Customer satisfaction to result in repeat service customers generating active customer referrals.**

## 5.1 Implementation

The following milestones identify the key marketing programs. It is important to accomplish each one on time and on budget.

### Milestones



**Table: Milestones**

| Milestones                 | Start Date | End Date   | Budget    | Manager | Department |
|----------------------------|------------|------------|-----------|---------|------------|
| Milestone                  |            |            |           |         |            |
| Marketing plan completion  | 1/1/2003   | 2/1/2003   | \$0       | Richard | Marketing  |
| Ad campaign #1             | 1/1/2003   | 6/30/2003  | \$22,700  | Richard | Marketing  |
| Ad campaign #2             | 7/1/2003   | 12/30/2003 | \$27,900  | Richard | Marketing  |
| Direct mailing campaign #1 | 1/1/2003   | 6/30/2003  | \$4,767   | Richard | Marketing  |
| Direct mailing campaign #2 | 7/1/2003   | 12/30/2003 | \$5,019   | Richard | Marketing  |
| Direct sales effort #1     | 1/1/2003   | 6/30/2003  | \$17,706  | Richard | Marketing  |
| Direct sales effort #2     | 7/1/2003   | 12/30/2003 | \$22,854  | Richard | Marketing  |
| Totals                     |            |            | \$100,946 |         |            |

### 5.2 Marketing Organization

Richard Schumacher will be responsible for the marketing activities. This will include assessing the performance of each marketing effort based on the return that it provides. This ROI analysis, if possible, will be used to determine if the campaign merits repeat usage.

### 5.3 Contingency Planning

#### **Difficulties and Risks Include**

- Problems generating sufficient visibility in the respective market.
- Overly aggressive and debilitating actions by competitors.
- The fallout of a key strategic alliance.

#### **Worst Case Risks May Include**

- The inability to raise sufficient capital.
- Determining that the business cannot support itself on an ongoing basis.
- Having to liquidate equipment to cover liabilities.