Revenue Projections for the SBIR/STTR Commercial Plan

As you go about preparing the revenue projections for your SBIR/STTR proposal, be aware that reviewers will make two assumptions about your revenue projections: 1) they're based on guesses, and 2) the numbers are over-estimated.

Typically, they are correct 99+% of the time. So your goal is not to convince them that yours are "conservative" projections, only that they are consistent with your commercialization strategy and your business model. Let me illustrate with some examples:

1. If you plan is to license your technology, your Revenue Model will typically include license fees and royalties, *but not* product sales.
2. Developers of complex or specialized software often enter the market by using their product to provide services to their customers, who eventually purchase the product for in-house use. In these cases the Revenue Model might include service fees that eventually convert to subscription revenue or product sales. Also, software customers often pay annual maintenance-and-update fees equivalent to 10-20% of the initial purchase price.
3. If the commercialization plan involves joint product development with a strategic partner, pre-negotiated success fees (sometimes referred to as "milestone payments") are often paid to the junior partner as part of the partnering agreement. If the senior partner will also be responsible for marketing and sales, it typically pays annual license fees and royalties to the junior partner.

Reviewers want to understand how soon the innovation will begin generating revenue, what types of revenue, and how the revenue stream will grow. So, for each category of revenue you expect to generate: 1) estimate when it will begin, and 2) project its annual growth. Whether you have one revenue category or ten, the bottom line will be Total Annual Revenue for each year of your Revenue Model.

	Year 1	Year 2	Year 3	Year 4	Year 5
Grant revenue	677,000	427,000			
Licensing fees		25,000	25,000	25,000	20,000
Milestone payments		75,000	150,000	200,000	
Product sales			26,000	66,000	225,000
Royalties			13,000	47,000	128,000
Total Revenue	$677,000	$527,000	$214,000	$338,000	$373,000

Don’t forget grant or contract revenue from SBIR awards. If you include your Phase II award, by definition you will be indicating that the revenue projections begin with the project start date. Typically in real-life, revenue does not increase smoothly from year-to-year. This will be especially true if your projections are “front-loaded” with Phase II SBIR/STTR awards.

Finally several watch-outs:

1. Describe your assumptions in sufficient detail that the reader can understand how the revenue figures were calculated.
2. Five-year projections are sufficient but, if necessary, you can go to seven years.
3. If your projections show minimal revenue in the early years, the financing plan should explain how the Company will support its operations during that period.
4. Equity or debt funding does not belong in the revenue projections. Describe it in the financing plan.
5. Confirm the requirements for your agency. Most require only a Revenue Model. However, NSF for example, requires that the Commercial Plan include a projected P&L (i.e., revenues and expenses). In addition, they reserve the right to request Cash Flow and Balance Sheet projections.

- *Michael Kurek, PhD, Partner, BBCetc*