

The Business Plan

Agenda

- > Questions regarding assignments
 - > Feasibility Analysis questions
- > Is business planning a worthwhile effort? (10 minutes)
- > The structure of the business plan (20 minutes)
- > Analysis of a sample business plan (15 minutes)
- > Analysis of “Element Bars” (15 minutes)

If you fail to plan, do you plan to fail?

Arguments against business planning

- > Time spent planning could be spent on other activities
 - > Narrow window of opportunity
- > Downside risk is limited in early stages
- > Plans always change
- > Environment can change too rapidly
 - > Microfinance in Colombia (Hiatt and Sine)

Business plans are helpful

1. Business planning lowers odds of venture failure
2. Business planning improves product/venture development.
3. Leads to
 1. quicker decisions – requires specific self-set goals
 2. better resource management – helps to question assumptions
 3. better action step identification
 1. Breadth: Discover your blindspots
 2. Depth: think through details

Delmar and Shane (2004)

Business plan purpose cont.

Partner-focused reasons

- > A standardized script simplifies communication – similar to a resumé
 - Can present to greater numbers of people, quickly, to see if your opportunity is interesting or worth pursuing
 - B-plan competitions and angel investing conferences (give legitimacy)
 - Investors, team, advisors, partners, etc.
 - » Can be target a particular audience
- > Method for gaining legitimacy
 - > Act as a symbol of a legitimate business
 - > Snowball effect – opens doors to greater legitimacy

The Structure of the B-Plan

- > Executive Summary
- > Product Description
 - > Intellectual Property analysis
 - > Industry/Market analysis
- > Marketing Plan
- > Operations and Management Plan
- > Financial Plan

Appendices

- Financial statements, assumptions
- Detailed product/service descriptions and performance data
- Industry and market analysis data
- Key evidence supporting claims (testimonials, articles of interest) in the body of the document

MOOT Corp module 2

- > What is the most important part of your B-plan? Why?
- > What is the first thing that an investor looks for?
 - > Value proposition for the customer
- > What is the difference between features and benefits?
 - > Benefit of Coca Cola = cool, refreshing, sweet taste
 - > Feature of Coca Cola = secret formula
 - > Which should be emphasized more?
- > What is a business model?
 - > What is sold, and who is it sold to?

MOOT Corp module 2 cont.

- > What is the Chinese bicycle mistake?
 - > What is the trade-off?
- > Should you discuss top-down or bottom-up?
 - > Don't assume
- > A team with B idea or B team with A idea?
- > What type of people are audiences looking for?
 - > Prior experience, good mix of skills
- > What are investors looking for in the exec summary?
 - > Graph, milestones, structure of financial model

Executive Summary -

Brief (max 4 pages) synopsis of B-plan. This stand-alone summary should sell the reader so that they want to read more.

Sections

- > Product/Service Description– sells the value proposition by explaining user benefits, proprietary position, project status
- > Market and Marketing Strategy – market analysis, competition, unique capabilities, and a market strategy
- > Operations and Management– includes overall strategy, business model, key activities performed by the venture, backgrounds of key individuals, and how this experience is relevant to making the business work
- > Financial plan – project revenues (3 yrs), describe exit and risks, list funds required and planned use of funds.

Product Description

- > Main Question: **What is the problem that you are solving, and how do you solve it?**
 - > Describe the problem (who, what, when, where, why)
 - > Why would a customer pay money to solve this problem
- > Describe how you solve this problem
 - > Explain key features and benefits to users
 - > Situate the product against next-best alternatives.
 - > Do you have a prototype? Does it work?
 - > Is it superior to other products currently available?
 - SWOT analysis of product

Product Description Cont.

- > Identify if your product/technology needs a drastic or minor change in customer behavior (Eager sellers stony buyers framework)
 - > Where are you on the technology adoption curve?
- > Intellectual property summary
 - > What type of IP protection will you use, and why?
 - > Does the firm hold patents on the technology, or do you have plans to apply for patent-protection?
 - Will you protect the invention in another way (trade secrets)?
- > The reader needs to be excited about this product
 - > Photographs, diagrams, tables are helpful

Industry Analysis

- > Main Question: **Can you win with your business, and is it worth it?**
- > Define the industry in which you will sell
 - > Industry – collection of companies that compete with one another
 - > Firms from several industries might compete in a specific product area
- > Describe the industry
 - > Helps to identify where your market fits into the big picture - recognizes that markets are interlinked
 - > Might alert you to potential risks or similar technologies that you don't see as your competitors
 - > Segments – firms in the industry may have different distribution or production requirements
 - Publishing industry - Newspaper publishers vs. magazine
 - > Projections for growth

Industry Analysis cont.

- > Tools you can use
 - > Porter's 5 Forces
 - Answers “Is this an attractive industry?”
 - Also helps you to support your general strategy by linking to value creation framework
 - Legitimated format for discussing existing players, buyers, suppliers, new entrants, alternatives
 - > SWOT Analysis
 - Links external environment and internal resources
 - But you need to clearly identify your special resources – name them

Market Analysis

- > Main Question: **Who will buy, and how much?**
- > Key segments and target market
 - > Market segments – different types of customers (“technophobe” segment vs “technogeek” segment)
 - Each segment will respond differently to purchasing incentives
- > Market structure (description of competition) - perfect competition, monopoly, oligopoly
- > Forecasts for target market
- > Key competitors in segment (some competitors may compete in the entire industry, some in only some markets)

Additional notes on marketing

Common Mistakes

- > Focus on visible competitors
 - > Ignoring potential or smaller entrants
- > Focus on tangible resources of rivals
- > The market is “everybody”
- > “Our product is so unique, we have no competitors”
- > Viewing the market ONLY from the eye of the producers

Suggestions

- > Test your assumptions about industry boundaries
- > Explicitly look for
 - > New entrants
 - > Companies that failed to enter
 - > Companies that survived
 - > Existing companies that have complementary resources

The Marketing Plan

1. Main Question: **How will you sell it?**
2. Builds on product description (how it is unique/compares to competition, creates value)
3. Identifies target market, market size, trends, and segments within the market
 1. Identify the tension between market size and competition. Is it large enough? Can you compete in a huge market?
 2. Focus on one or two segments you can **win**. For example, differentiating from customers based on:
 - Traits
 - Personalities
 - Buying patterns

Marketing plan cont.

5. Marketing strategy detailing 4 P's:
 - > Product characteristics - how did you determine this (competition, material costs, perceived value)? What about the product will affect your marketing?
 - > Pricing strategy including warranties, guarantees, and servicing
 - > Promotion strategy - Customers need to be informed, persuaded, reminded and influenced. Will your customer respond to advertising, public relations, word of mouth, or point of sale promotions? Why? When?
 - > Distribution strategy (Place) - is this where your target market would buy it?

4 P's cont.

<u>Product</u>	<u>Price</u>
Product Variety	List Price
Quality	Discounts
Design	Credit Terms
Features	Payment Period
Brand Name	
Packaging	
Warranties	
Returns Policy	
<u>Promotion</u>	<u>Place</u>
Public Relations	Channels
Advertising	Locations
Sales Force	Inventory
Direct Messages	Fulfillment

Operations and Management Plan

- > Main Question: **How will you produce your product /service and why will your team be able to do it?**
 - > Discuss: equipment needed, capacity, quality control, inventory, purchasing, manufacturing
- > Who are the key individuals in the venture, and what do they bring to the venture (be realistic)?
- > How are you going to set up your organization?
 - > Organization Form
 - > Ownership structure
 - > Risk & insurance (if applicable)
 - > Legal issues

The Financial Plan

- > Main Question: **How much is the business worth, and how much money do you need?**
- > Includes:
 - > Pro-forma income statements - budgeting
 - > Break-even analysis –
 - > Financial needs – funds required (if any) & their planned use
- > Optional:
 - > Pro-forma cash flow – how liquidity needs will be met
 - > Pro-forma balance sheet
 - > Exit strategy – how investors get money back
- > 3 years of detailed projections, then assume constant growth in yearly cash flows for business valuation.

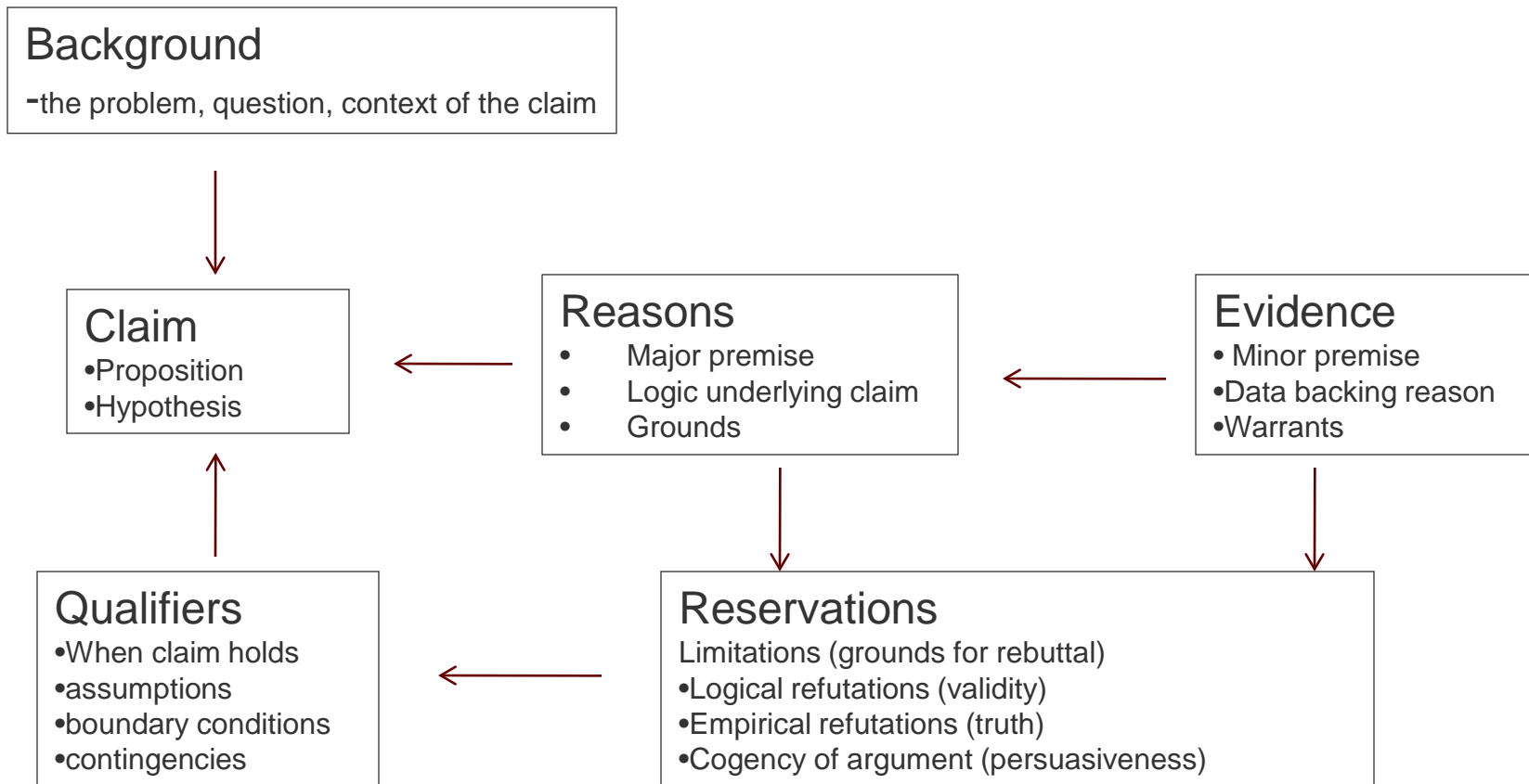
Telling a story

- > Here's what we're doing (**concept statement**)
- > There's this compelling problem, and we have a unique solution (**Product description**)
- > We'll serve this customer and this is how (**marketing, operations**)
- > This is why/how we'll be successful (**market, operations, management**)
- > This is worth pursuing (**financials**)
- > This is what we're looking for (**financing**)

Analysis of a sample B-plan

- > You are at an angel investing conference. You are meeting with a group of angel investors that you know to discuss whether it would be worthwhile to invest in JaCK Ads.
 - > Preliminary Questions
 - What is the product/service? What are the benefits?
 - What is the market?
 - How do they make money?
 - How much money are they asking for?
- > Do you think that your angel group should discuss funding with the JaCK Ads group.

Making your argument



Stephen Toulmin, *The Uses of Argument*, Update Edition, Cambridge: Cambridge Univ. Press, 2003 – (Thanks to Andy Van de Ven for this citation)

Argue your position

- > You might want to consider
 - > Is the value proposition sound?
 - > What is the opportunity? How was it created?
 - > Is the evidence that they provide sufficient?
 - > Are assumptions plausible/stated?
 - > Are the elements of the business plan coherent?
 - > Does the business plan give clues about the legitimacy of the venture team?
 - > Is the venture team well-suited to this venture?
- > In arguing your point, you can use the Toulmin framework we have discussed in class.

Key Take-aways

- > Business planning is helpful
 - > Leads to better decisions, faster reaction times
 - > Fewer mistakes
 - > Improved communication with other stakeholders
 - > Increased legitimacy
- > The business plan is a standardized form to develop an argument that your business has a particular level of worth, and that you have the team to lead it.