





Business Plans



Fax International

- ✦ Hank Kirschner is more important than Doug Rinaldi
- ✦ What is the biggest unknown in your business plan?
- ✦ This is why I give vague assignments

Great Example of Hidden Thought Process

- Canadian goalie glove hand vs American goalie glove hand
- American hockey goalies wear their catching glove on their weak hand. Canadians wear their catching glove on their strong hand.
- American boys generally play baseball before they play hockey. Canadian boys generally play hockey before they play baseball.

Another great example

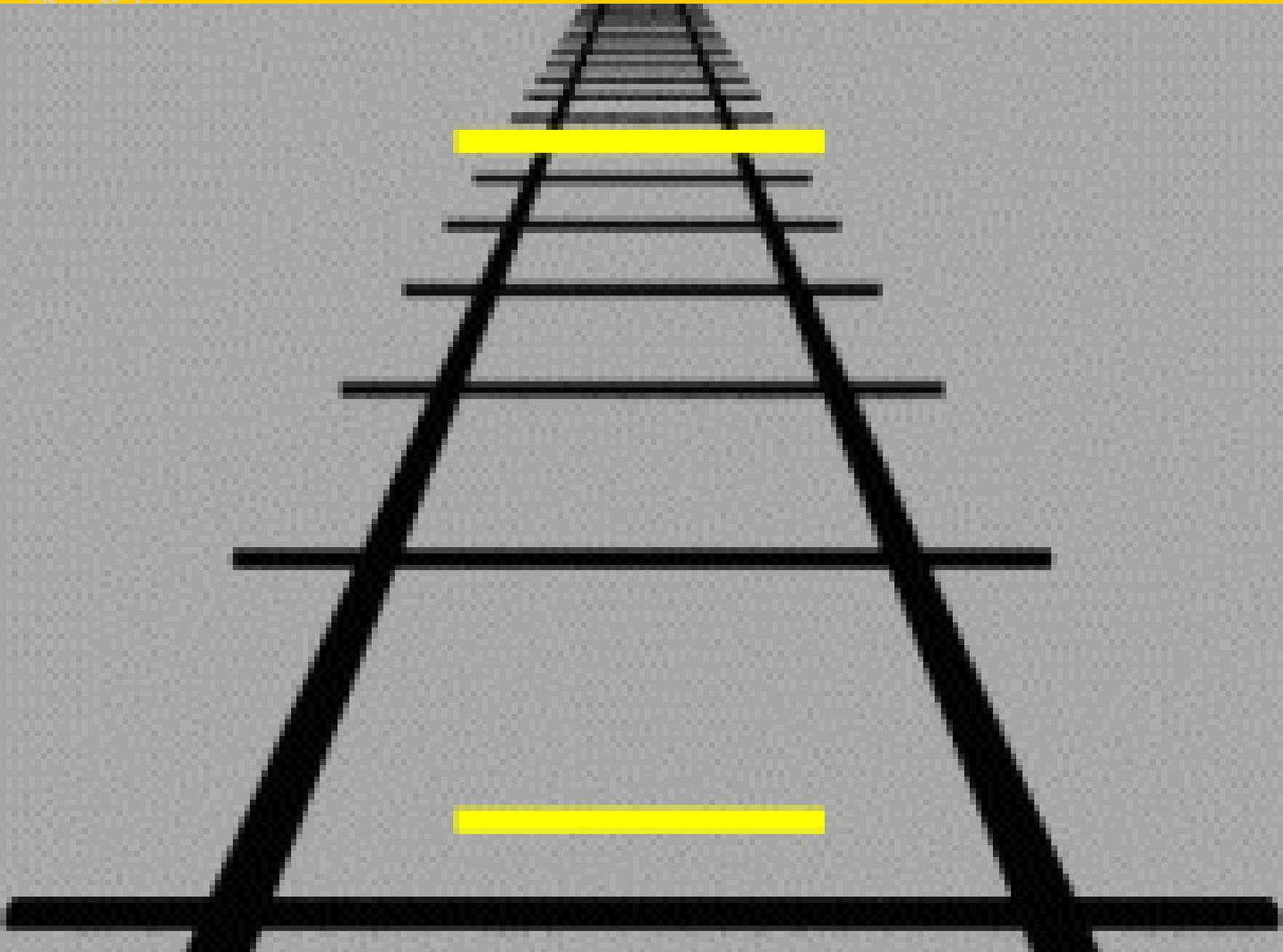
- At a high school in Montana, a group of students played a prank. They let three goats loose inside the school.
- But before turning them loose, they painted numbers on the sides of the goats: 1, 2, and 4.
- School administrators spent most of the day looking for No. 3.



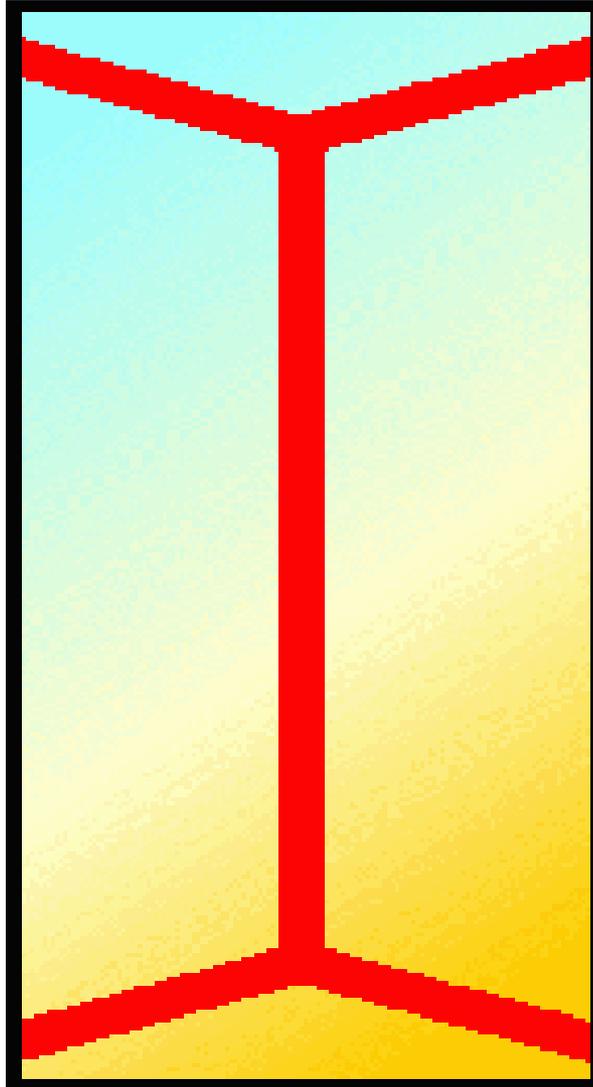
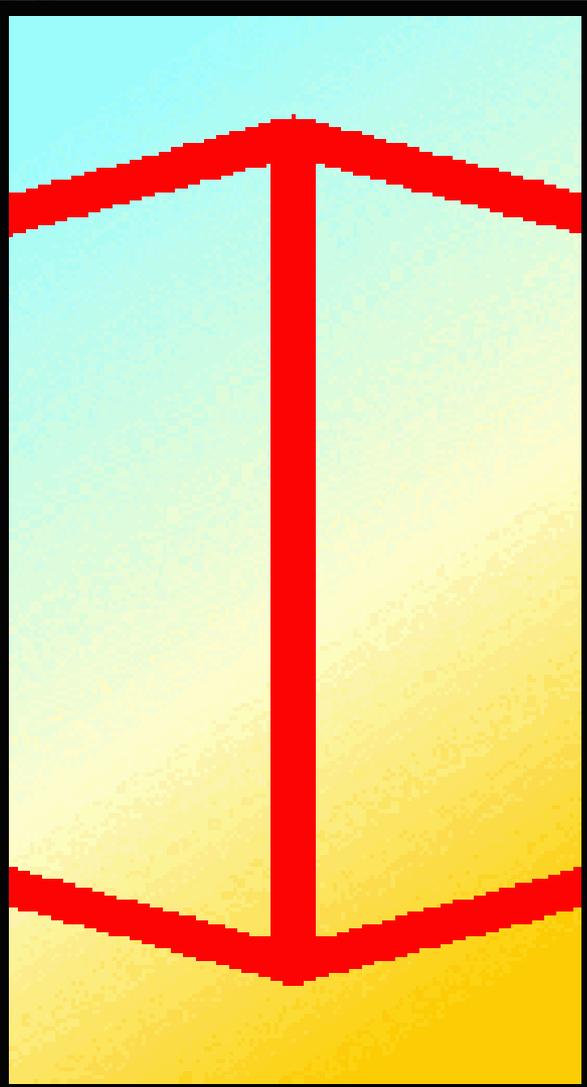
Types of Analysis

- ✦ SWOT
- ✦ Financial Analysis
- ✦ Probability and Statistics
- ✦ Meditation

Which line is longer?



Which line is longer?



Stare at it enough, it will drive you nuts

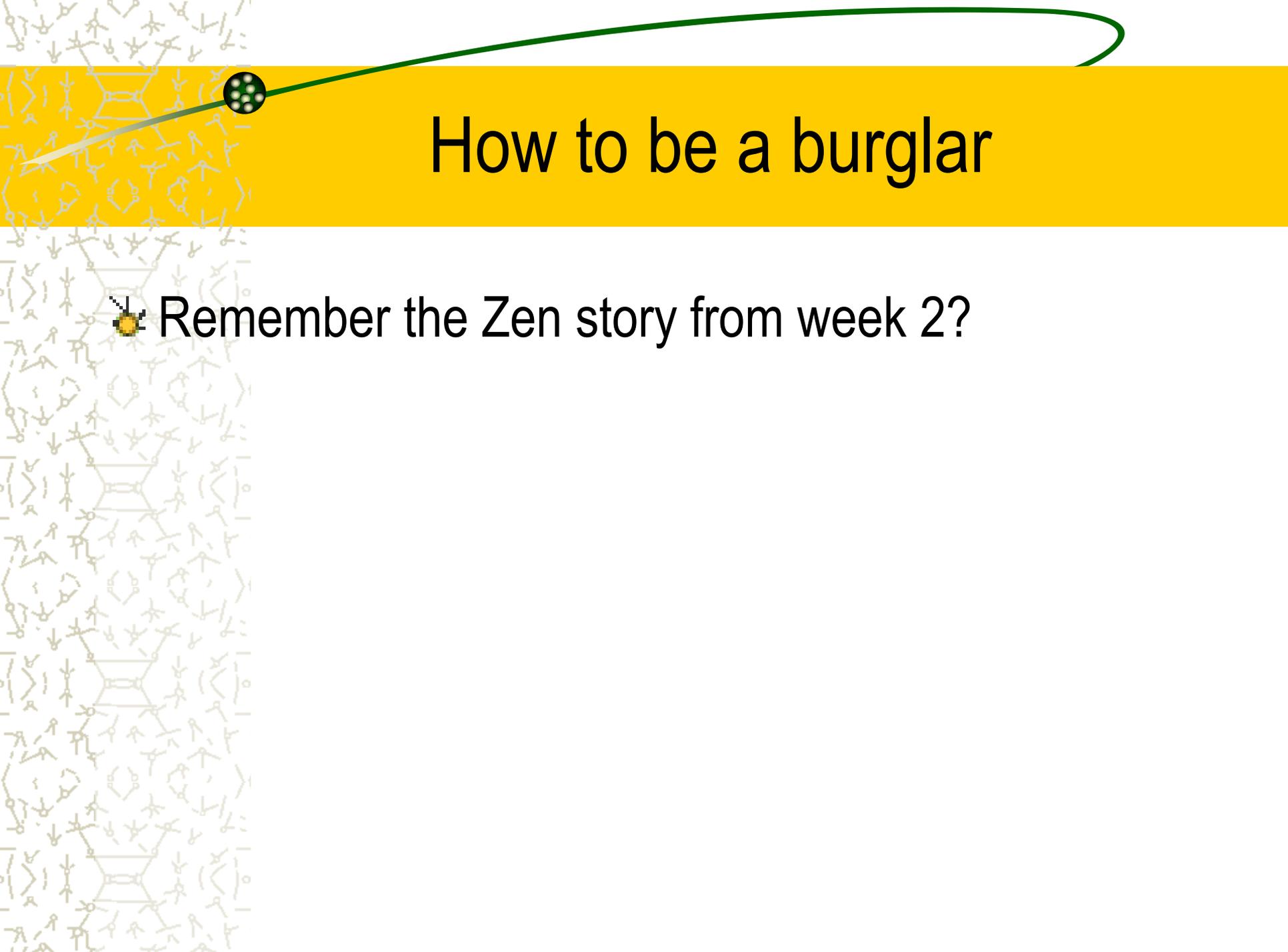


● Your reality is based on your perception

● Three friends:

1. Grew up fighting with family, moved from house in anger
2. Grew up intimidated of family, never talked back
3. Grew up in environment that allowed expression of feelings

The three are walking down the street and overhear a couple arguing. They each experience the argument very differently – one gets angry, one hides her head, the third wonders what the big deal is



How to be a burglar

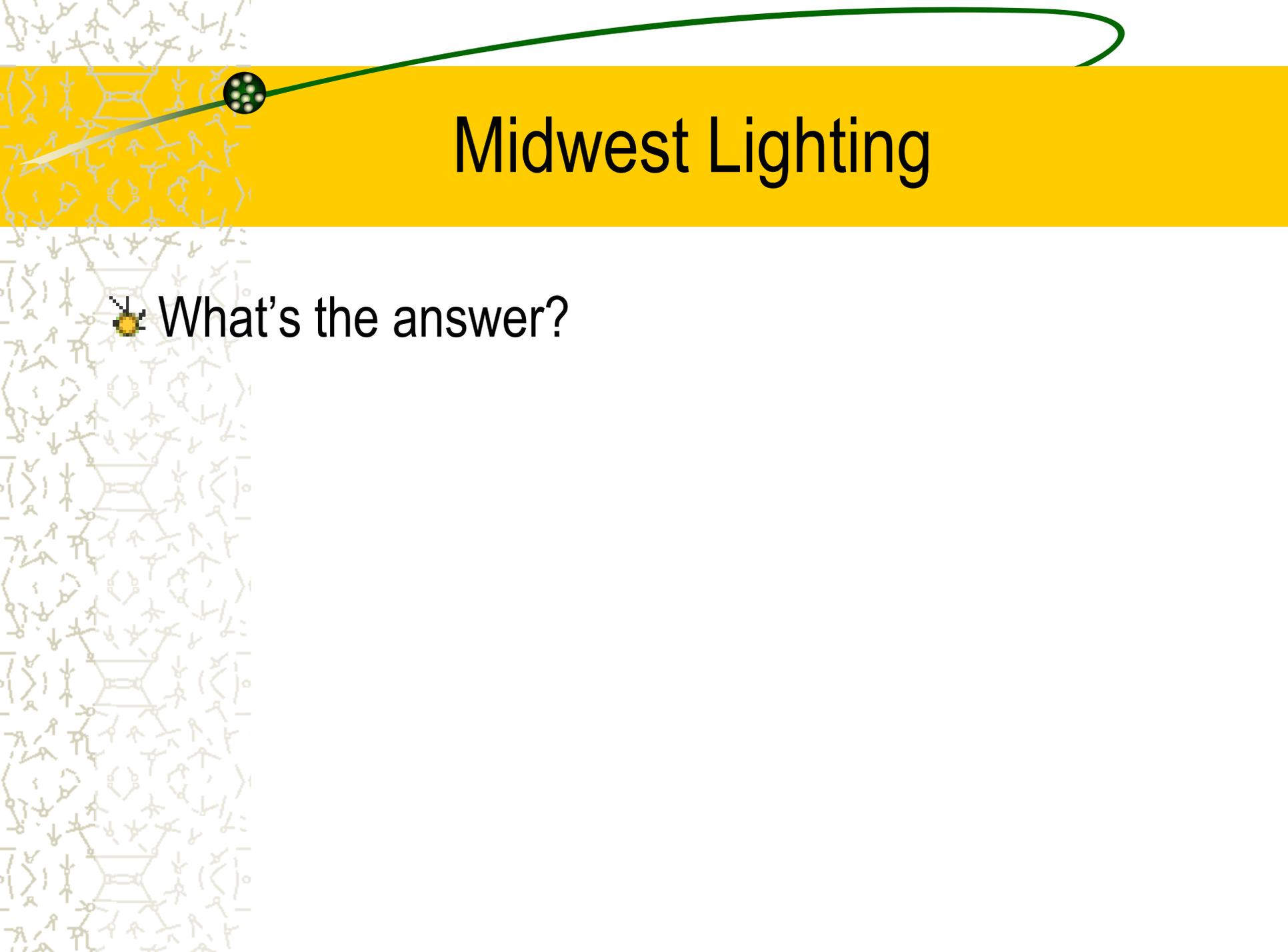
• Remember the Zen story from week 2?



Self-analysis Slides



Student Dissonance Slides

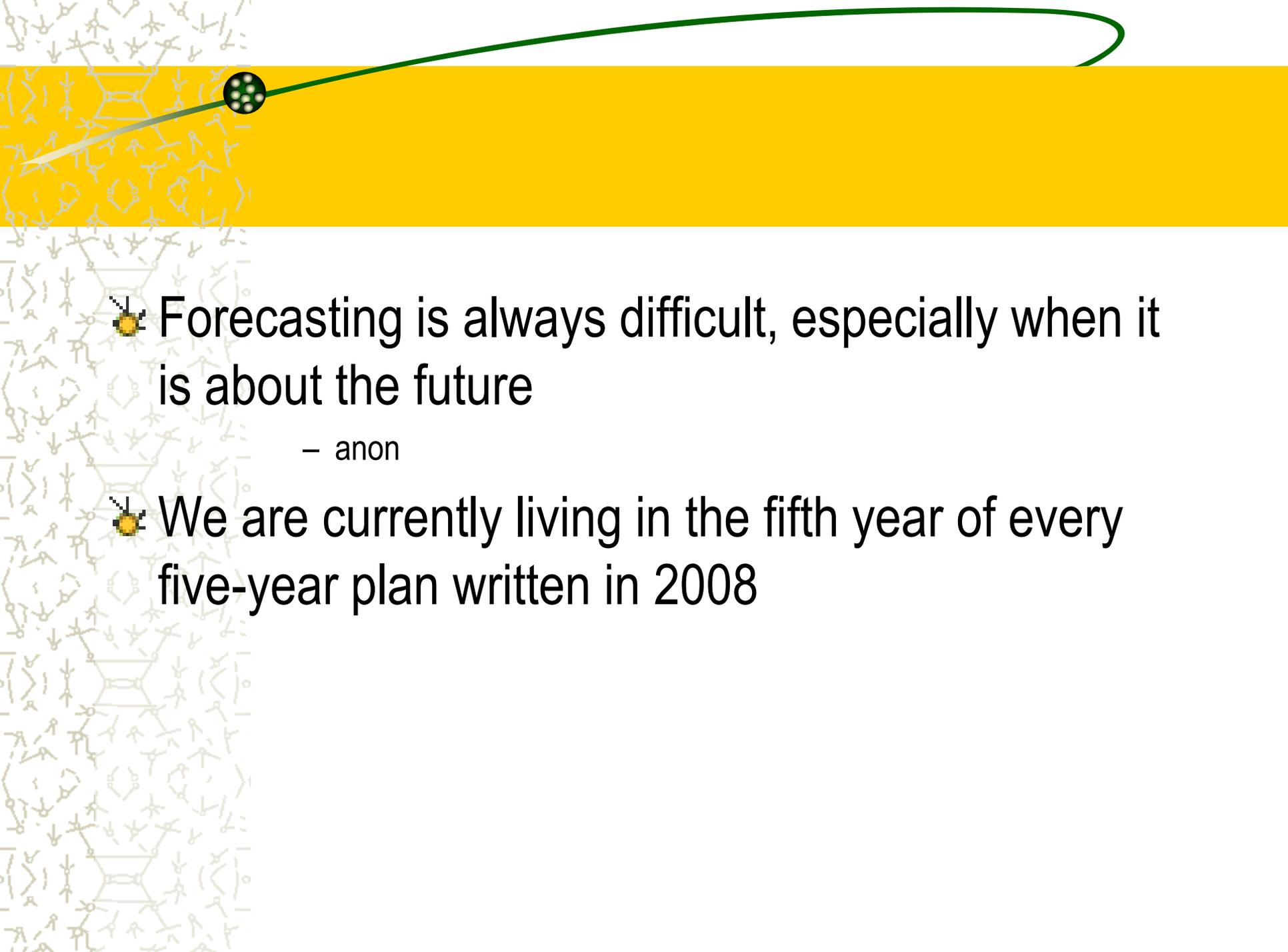


Midwest Lighting

• What's the answer?



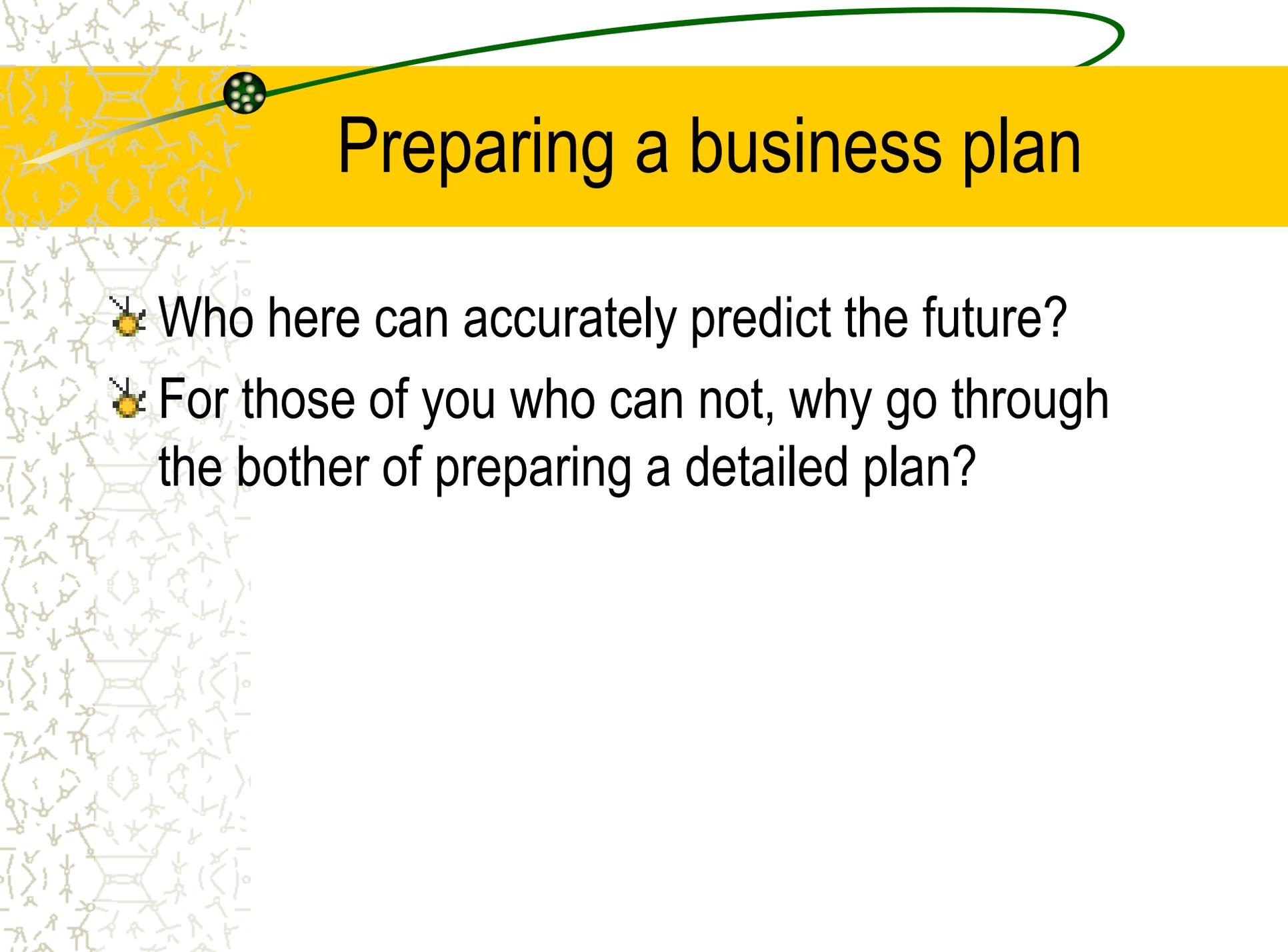
"Well, we've seen all the data and crunched the numbers . . . heads or tails?"



Forecasting is always difficult, especially when it is about the future

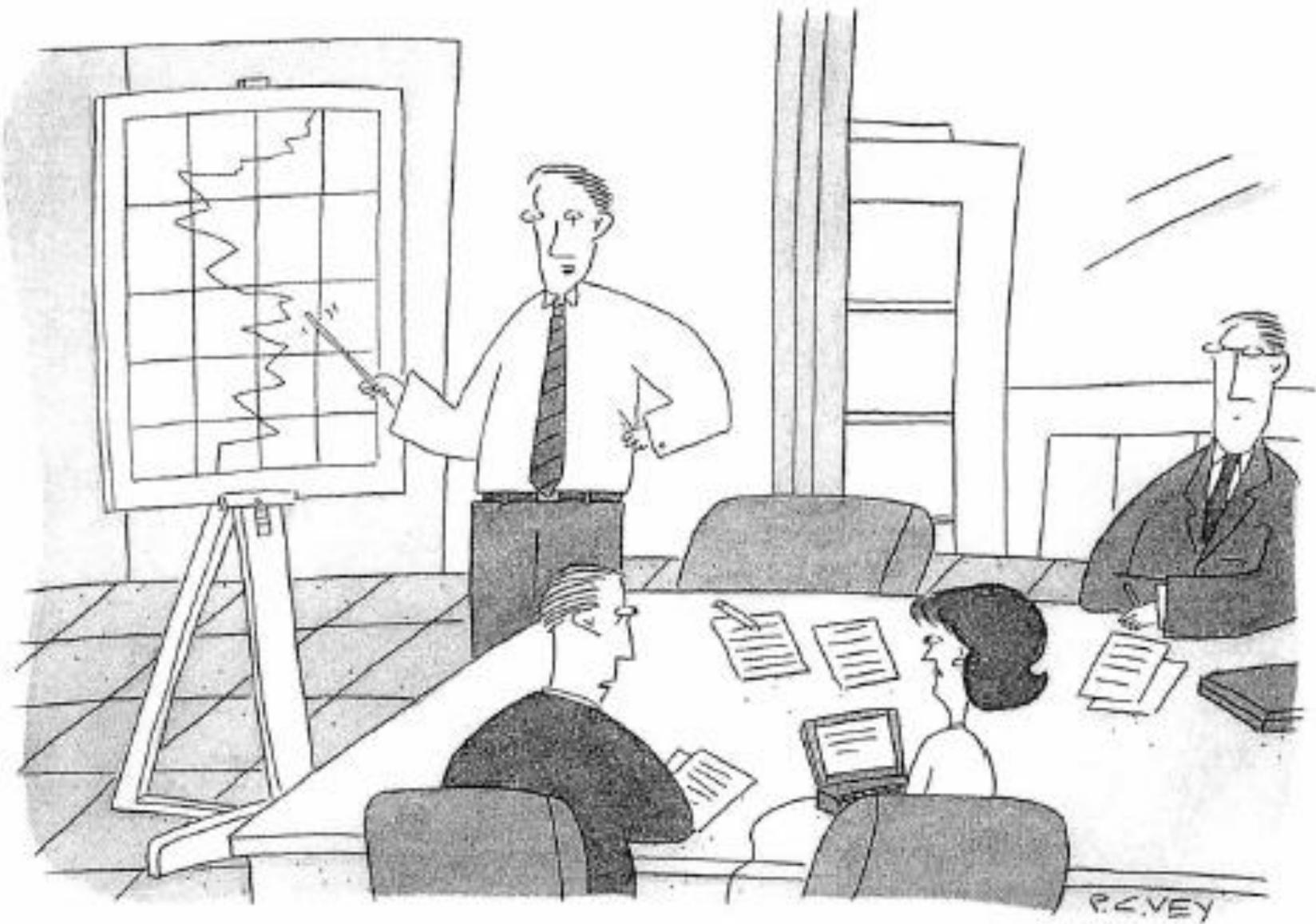
– anon

We are currently living in the fifth year of every five-year plan written in 2008



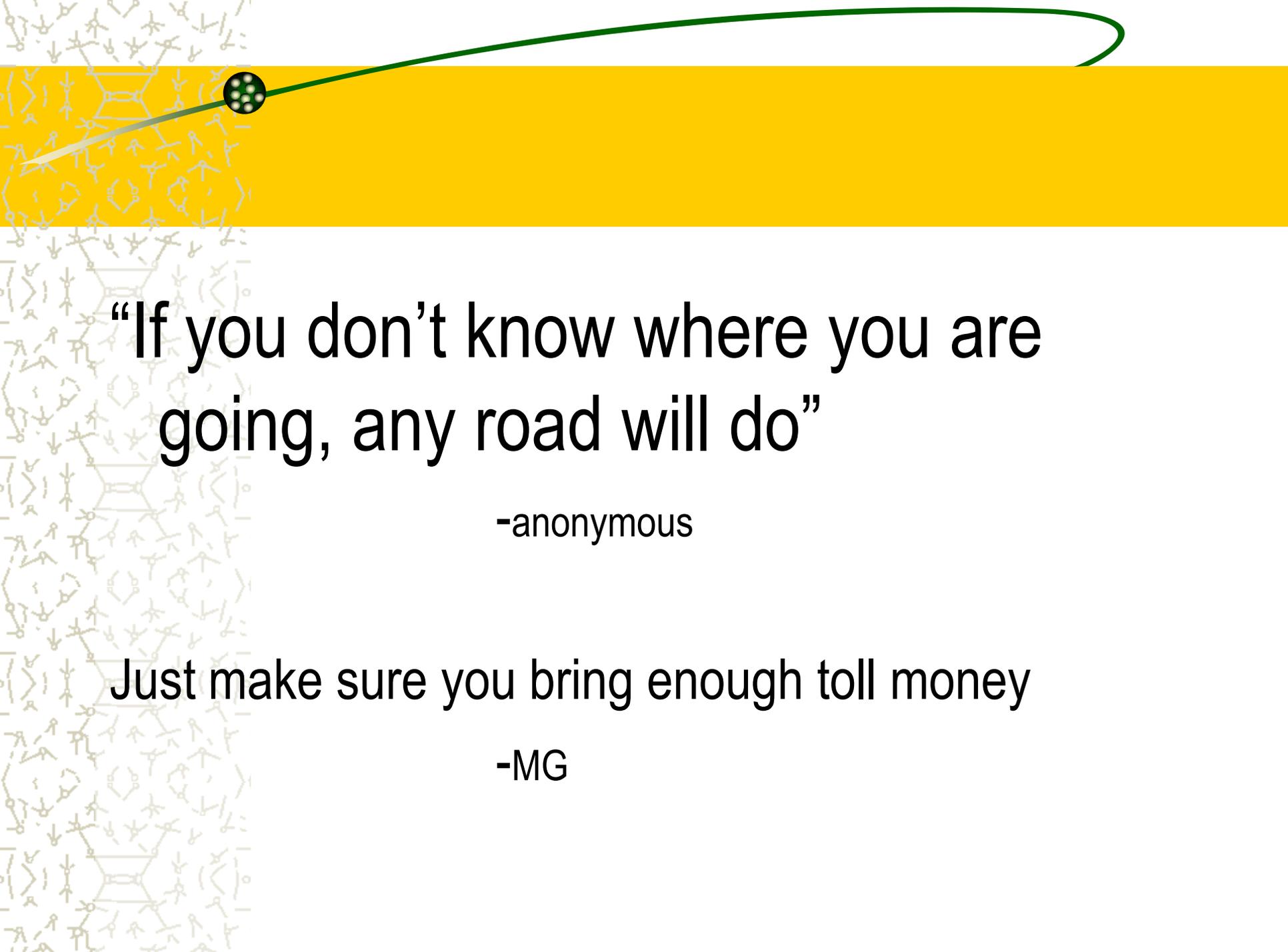
Preparing a business plan

- ✦ Who here can accurately predict the future?
- ✦ For those of you who can not, why go through the bother of preparing a detailed plan?



"His graphics make sense if you have the kind of prescription drug coverage he does."

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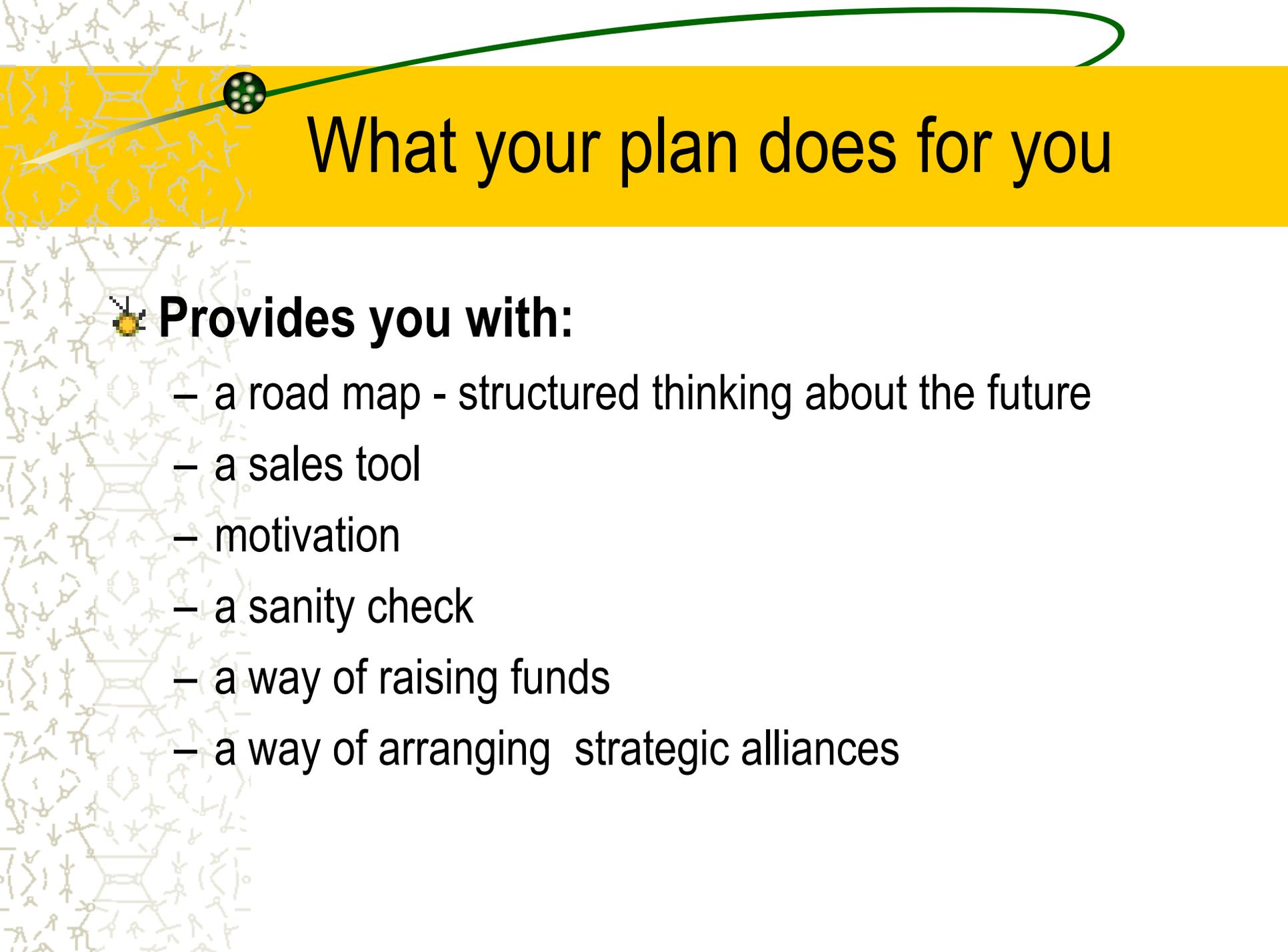


“If you don’t know where you are
going, any road will do”

-anonymous

Just make sure you bring enough toll money

-MG



What your plan does for you

✦ Provides you with:

- a road map - structured thinking about the future
- a sales tool
- motivation
- a sanity check
- a way of raising funds
- a way of arranging strategic alliances

This will not lessen your risk



But a Well Thought-out Business Plan will



● A living, growing business has certain requirements

- ✚ Usually must be self-sustaining at some stage
- ✚ Must have a competitive edge needed by target buyers
- ✚ Usually structured to reward founders at some stage
- ✚ Usually requires \$ and other resources to start and grow

KEYS TO SUCCESS

Risk and uncertainty

**The Founders
Team**

*Opportunity surplus and
resource scarcity*

Opportunity
*Forgiving
Enduring
Rewarding*

*Chaos, confusion,
turbulence in markets,
technology and resources*

FIT

*Asymmetries in knowledge,
awareness and information*

Resources
*Marshall Minimize
Control*

**Market imperfections--vacuums and
asymmetries plus moving targets**

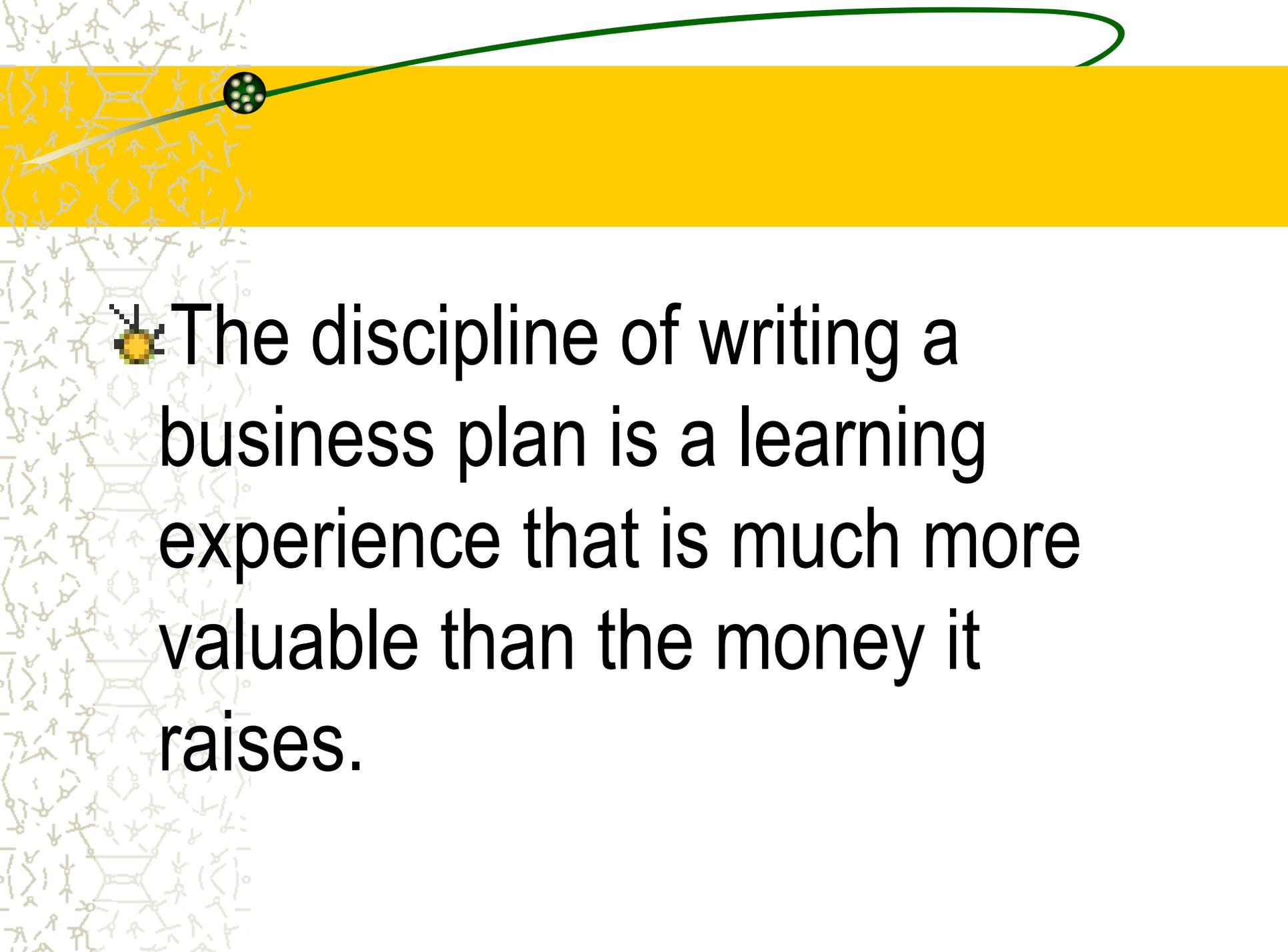
Success Keys for New Endeavors

Vision	Skills	Incentives	Resources	Action Plan	Success
-----	Skills	Incentives	Resources	Action Plan	Confusion
Vision	-----	Incentives	Resources	Action Plan	Anxiety
Vision	Skills	-----	Resources	Action Plan	Gradual Change
Vision	Skills	Incentives	-----	Action Plan	Frustration
Vision	Skills	Incentives	Resources	-----	False Starts

Source: American Productivity and Quality Center

Reasons for a B-Plan

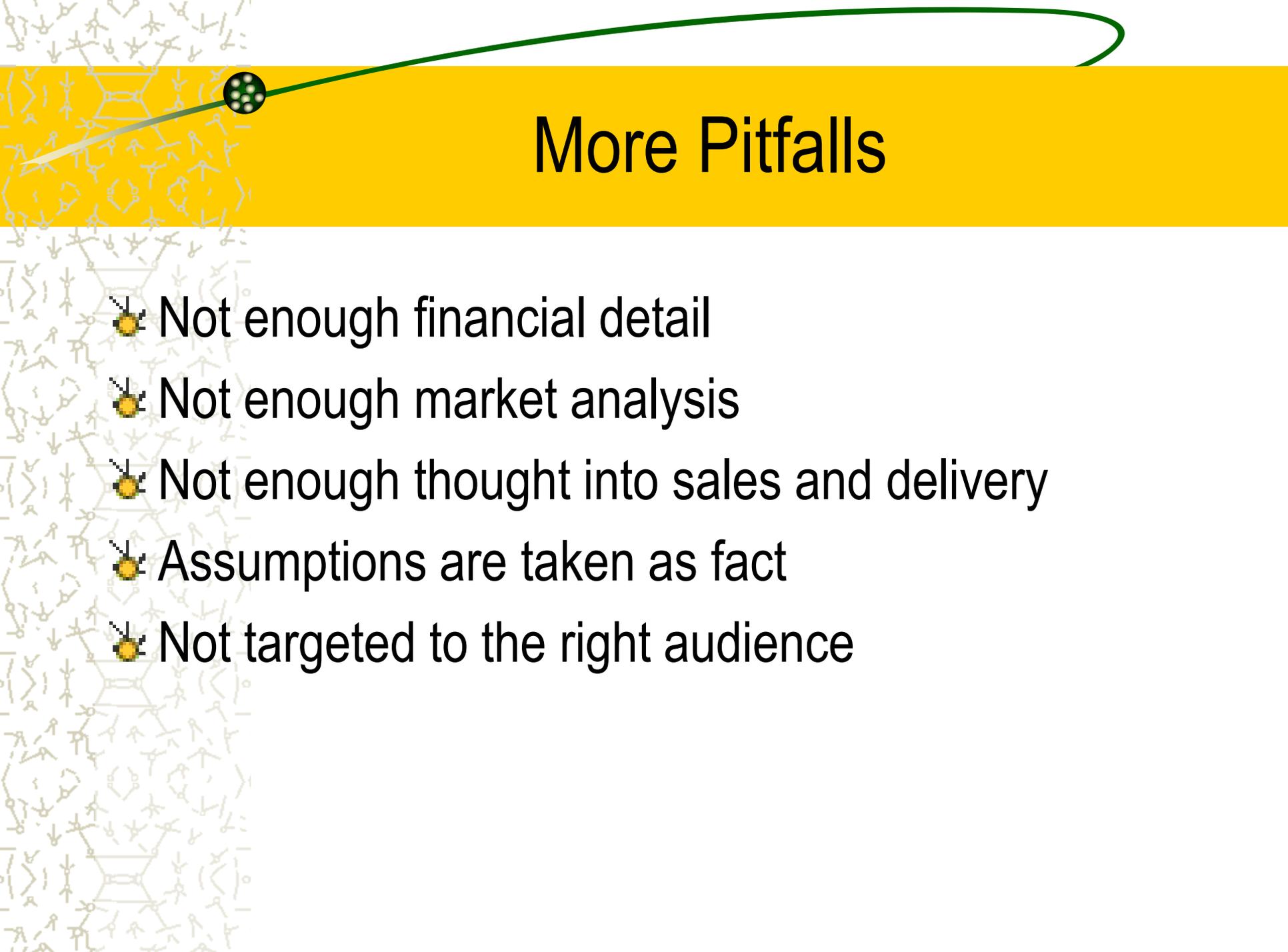
- ✚ Highlight the strengths of the business
- ✚ Identify current and potential problems
- ✚ Eliminate blind spots, identify major flaws
- ✚ Communicate your ideas to others
- ✚ Allow you to spot hidden opportunities
- ✚ Provides an operating plan and financial budget
- ✚ Provides basis to measure and monitor performance



✦ The discipline of writing a business plan is a learning experience that is much more valuable than the money it raises.

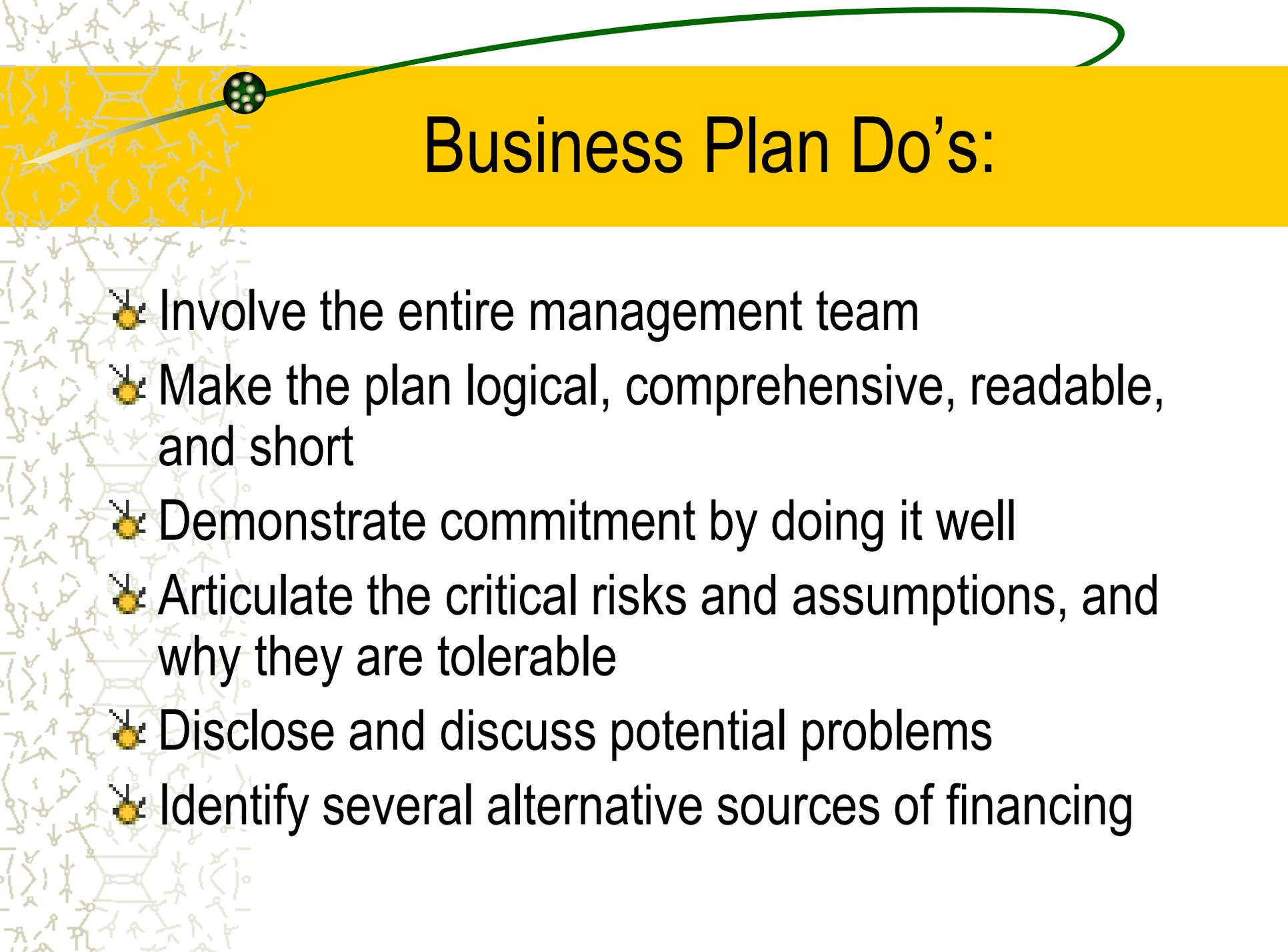
Common B-Plan Pitfalls

- ✘ Plan is too long, not concise
- ✘ Competition is inadequately assessed
- ✘ Expectations and projections are unreasonable
- ✘ Financial assumptions not consistent with projections
- ✘ No exit plan
- ✘ Failure to demonstrate requisite skills
- ✘ Written in jargon, not English



More Pitfalls

- ✘ Not enough financial detail
- ✘ Not enough market analysis
- ✘ Not enough thought into sales and delivery
- ✘ Assumptions are taken as fact
- ✘ Not targeted to the right audience



Business Plan Do's:

- ✦ Involve the entire management team
- ✦ Make the plan logical, comprehensive, readable, and short
- ✦ Demonstrate commitment by doing it well
- ✦ Articulate the critical risks and assumptions, and why they are tolerable
- ✦ Disclose and discuss potential problems
- ✦ Identify several alternative sources of financing

Business Plan Do's:

- ✦ Spell out the proposed deal and the upsides
- ✦ Be creative in getting the investor's attention and interest
- ✦ Remember that the plan is not the business
- ✦ Prioritize generating cash above preparing the plan
- ✦ Know your targeted investor group and tailor the plan to them

Business Plan Do's:

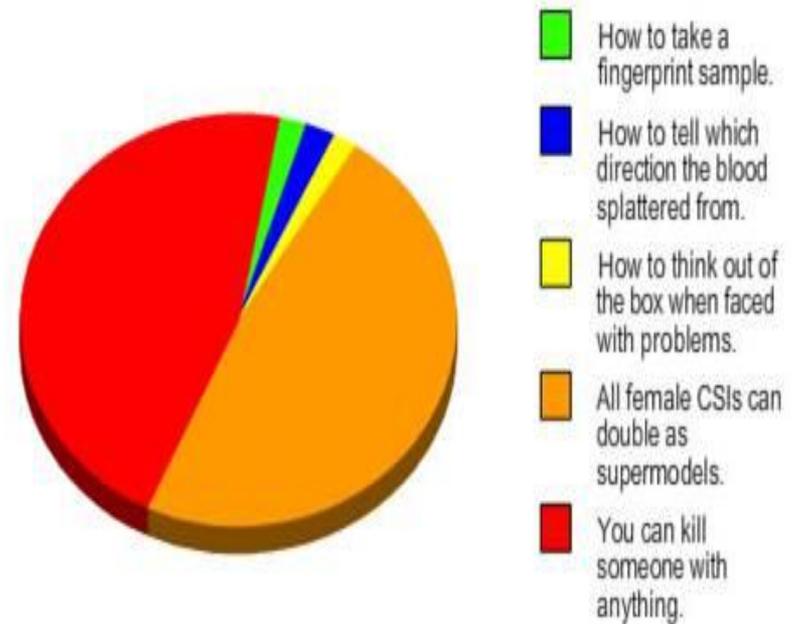
- ✦ Let realistic market sales projections drive the assumptions underlying the financial spreadsheets, rather than the reverse
- ✦ Target your plan to the intended reader's needs
 - Bankers focus on collateral and downsides
 - Venture capitalists focus on upsides and return
- ✦ Emphasize the market
- ✦ Anticipate what can go right or wrong

Visual Graphics are a tremendous aid

Usage of a Home Gym



Things I Learned From Watching CSI



As long as they are realistic



"Okay then it's agreed, we'll go with chart B."

Business Plan Don'ts:

- ✘ Make ambiguous, vague, or unsubstantiated statements
- ✘ Use specialized jargon
- ✘ Focus too much on the presentation
- ✘ Defer making sales or collecting cash so that you can plan
- ✘ Assume the deal is done before the cash is in the bank
- ✘ Copy another plan or use a canned template

Plan Dynamics

- These elements should be addressed throughout the plan in the context of the various plan components:
 - The people
 - The opportunity
 - The external context
 - The deal – risk and reward



The People

- ✦ Experience
- ✦ Skill
- ✦ Contacts
- ✦ Attitude
- ✦ Knowledge
- ✦ Motivations
- ✦ Commitment

How the Team Interacts



The Opportunity

- ✦ Entry Barriers

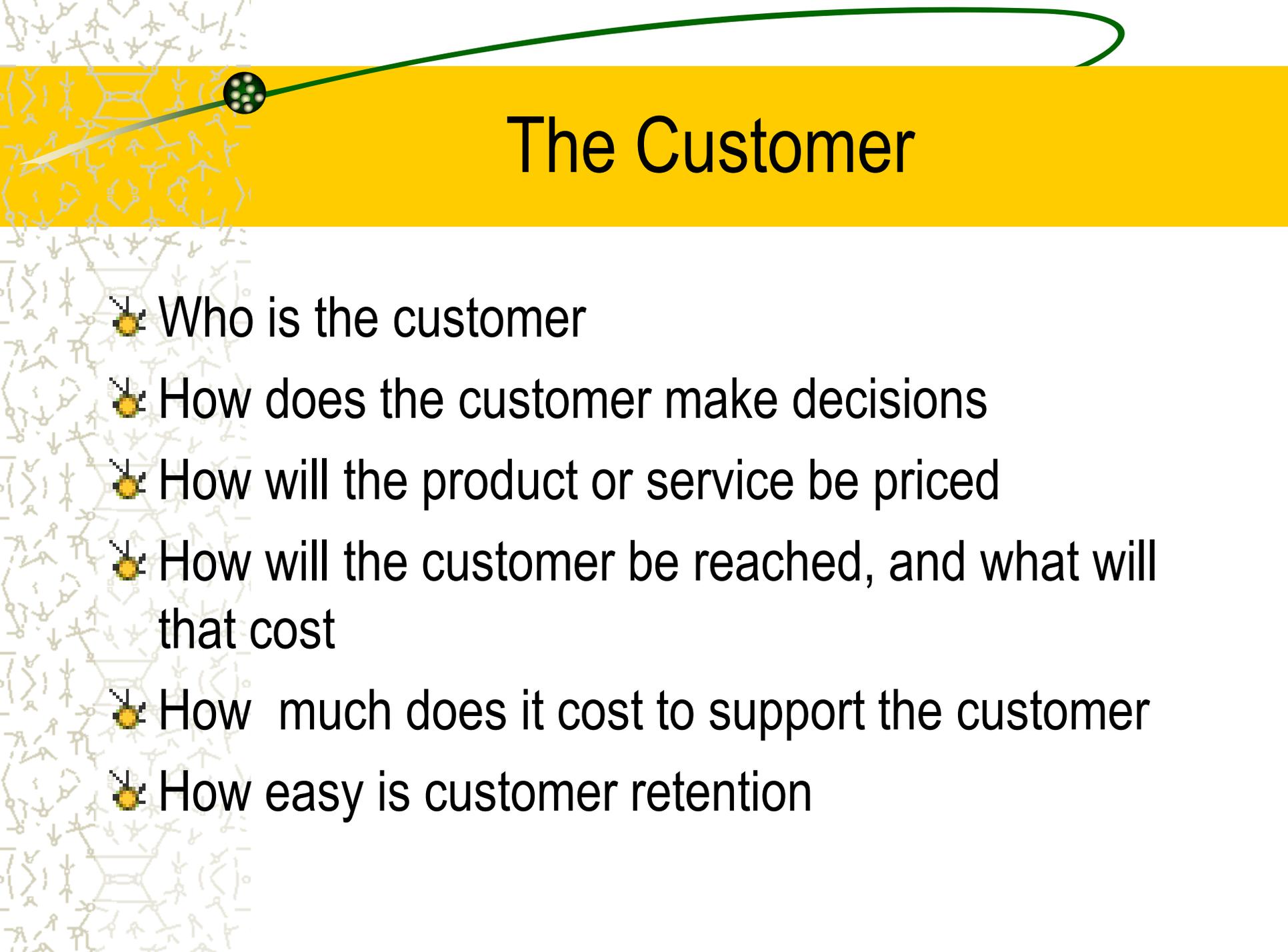
- ✦ Customers

- ✦ Suppliers

- ✦ Substitutes

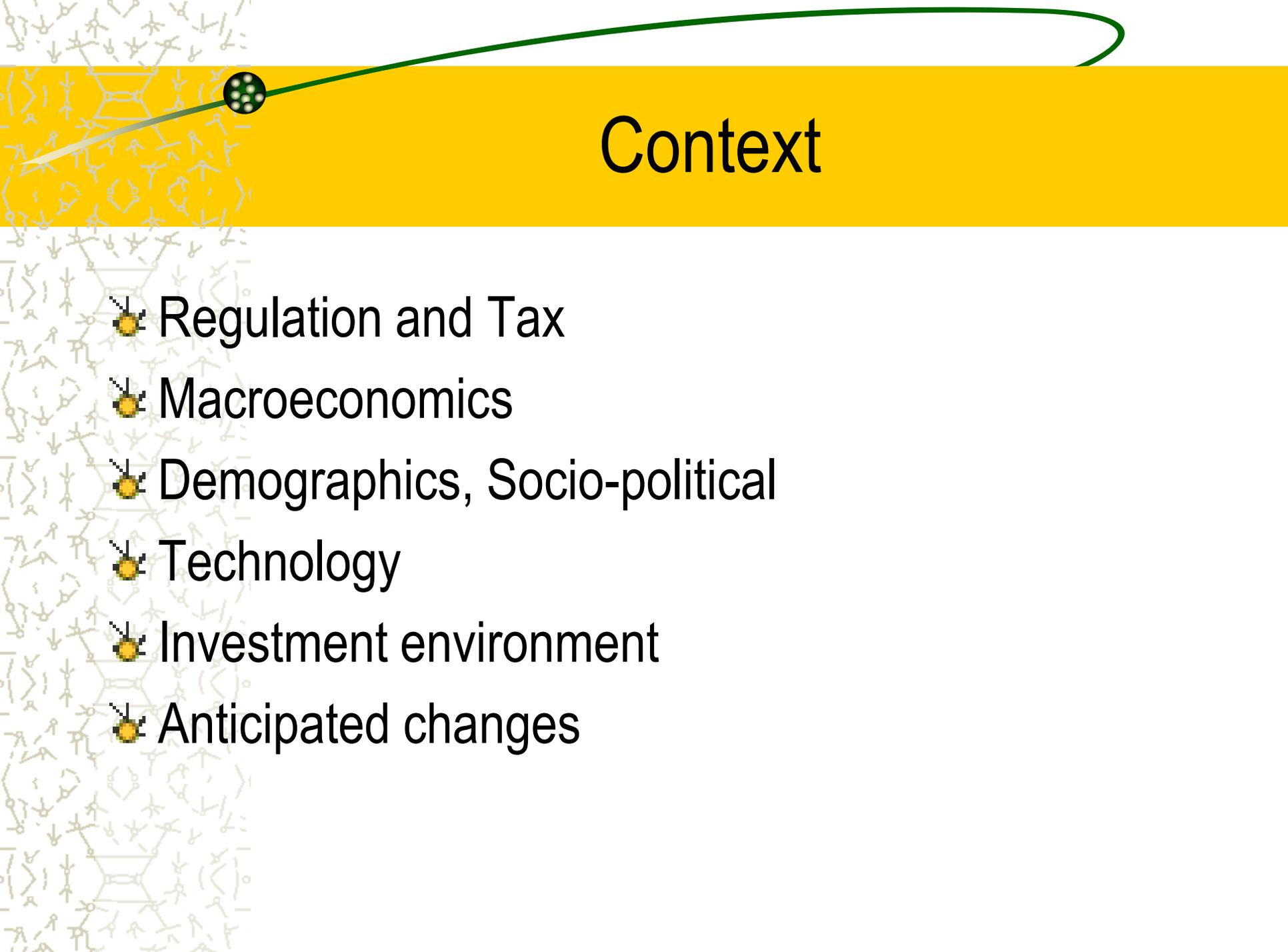
- ✦ Competition

- ✦ Economics



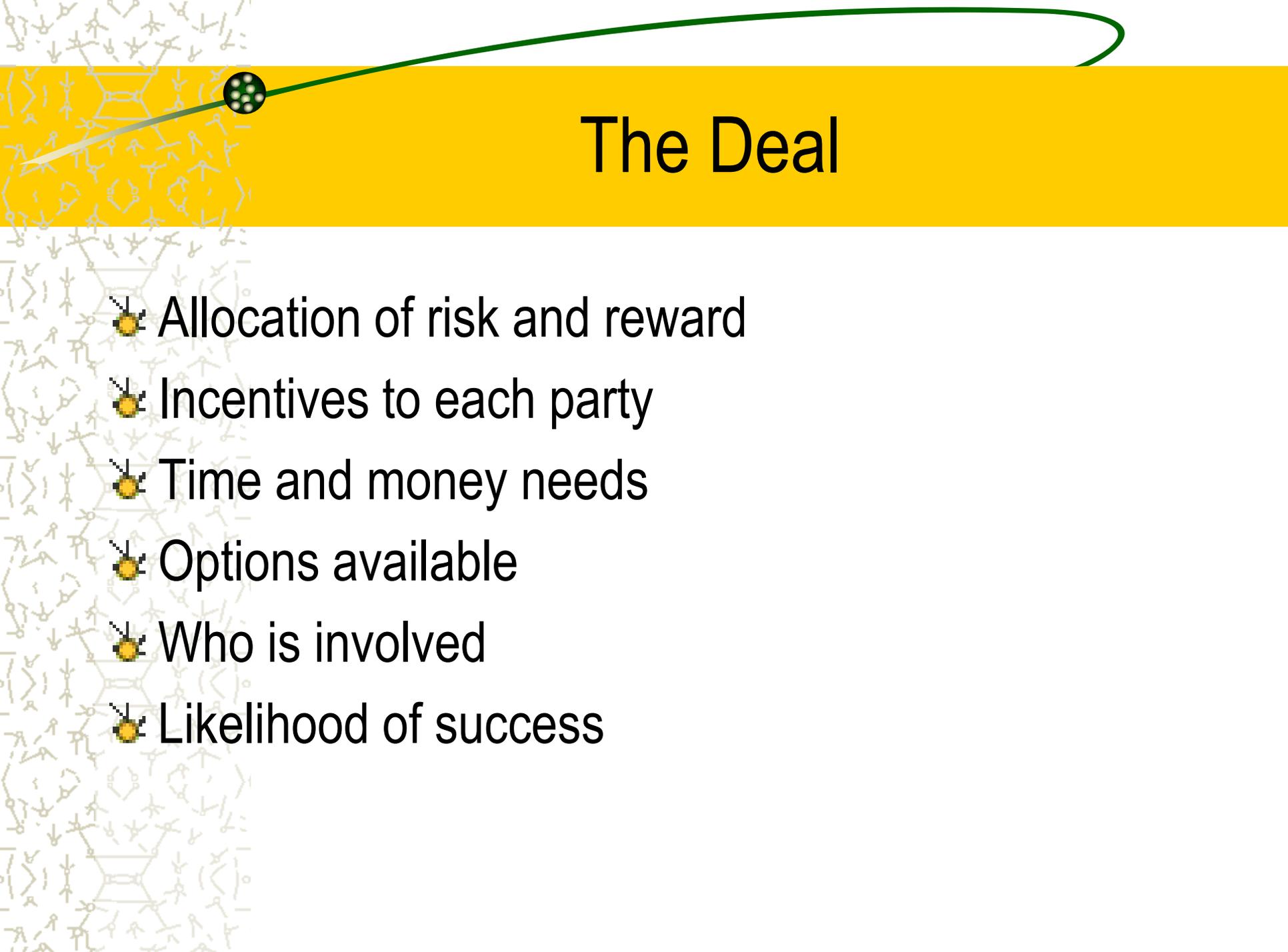
The Customer

- ✦ Who is the customer
- ✦ How does the customer make decisions
- ✦ How will the product or service be priced
- ✦ How will the customer be reached, and what will that cost
- ✦ How much does it cost to support the customer
- ✦ How easy is customer retention



Context

- ✦ Regulation and Tax
- ✦ Macroeconomics
- ✦ Demographics, Socio-political
- ✦ Technology
- ✦ Investment environment
- ✦ Anticipated changes



The Deal

- ✚ Allocation of risk and reward
- ✚ Incentives to each party
- ✚ Time and money needs
- ✚ Options available
- ✚ Who is involved
- ✚ Likelihood of success

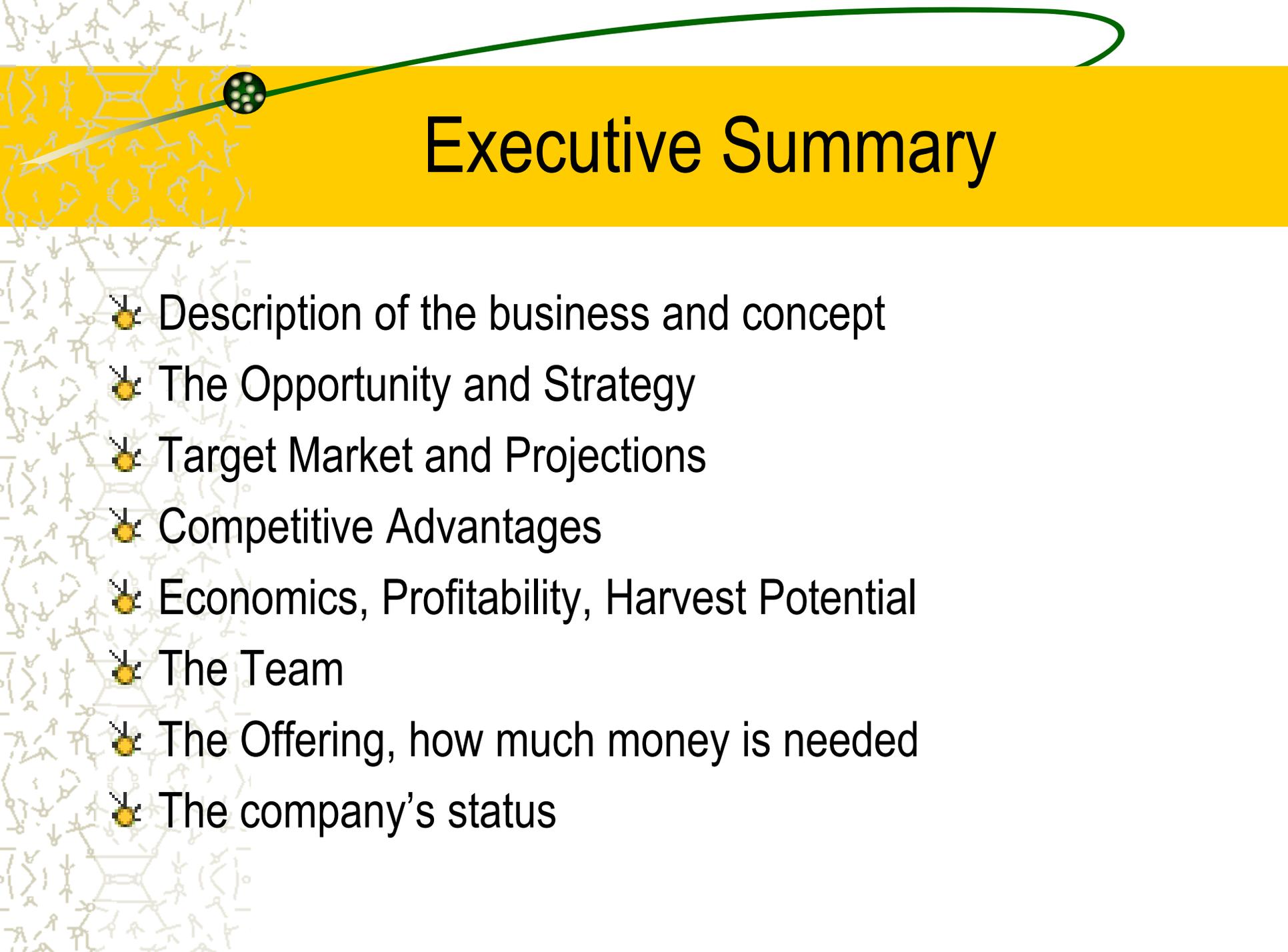
Plan Components

- ✦ Executive Summary
- ✦ Description of Industry, Company, Products
- ✦ Market Research and Analysis
- ✦ Economics of the Business
- ✦ Marketing Plan
- ✦ Design and Development Plans
- ✦ Operating Plans
- ✦ Management Team



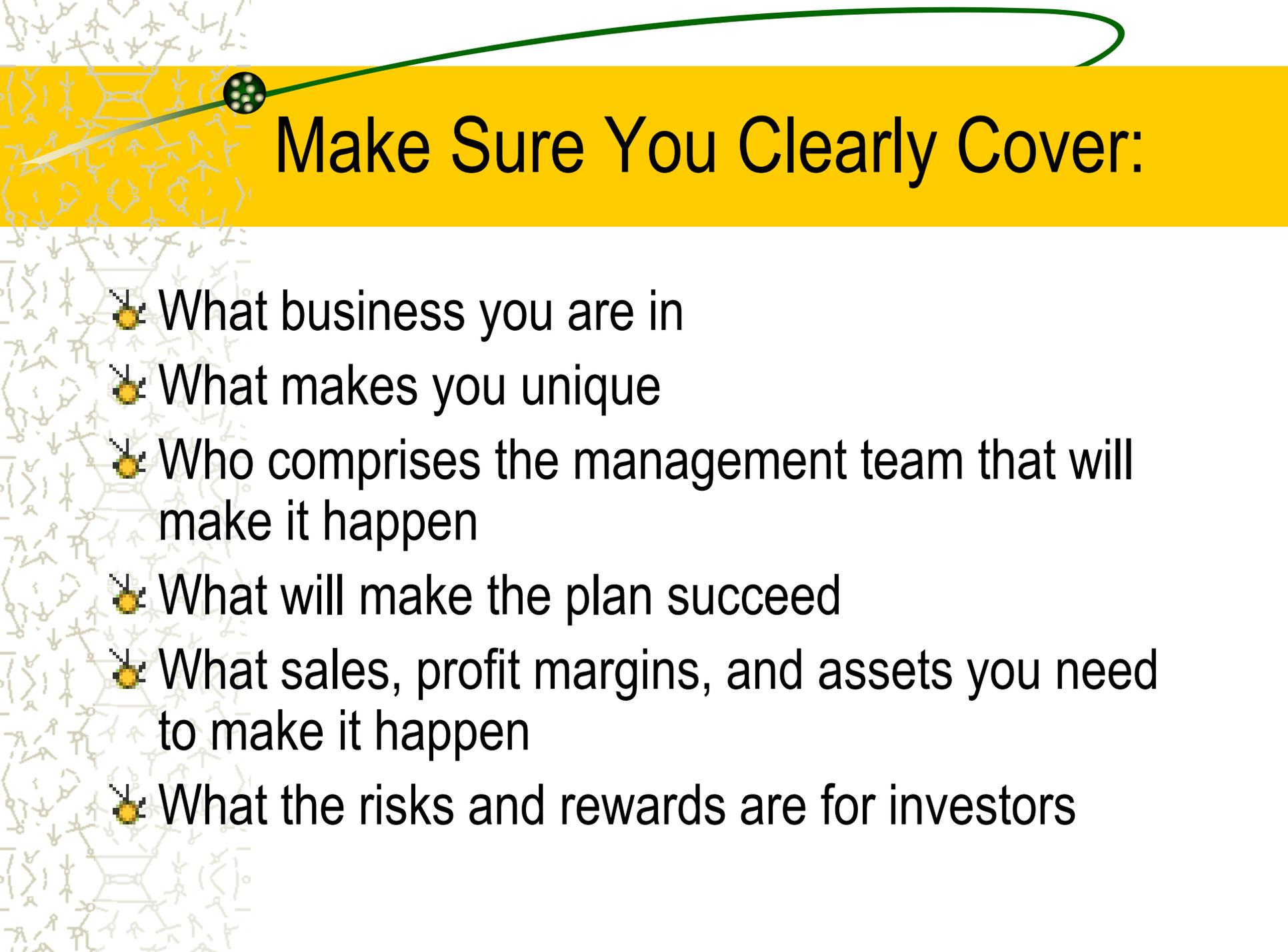
Plan Components (Cont.)

- ✦ Overall Schedule
- ✦ Critical Risks, Problems, and Assumptions
- ✦ Financial Plans
- ✦ Proposed Offering
- ✦ Appendixes



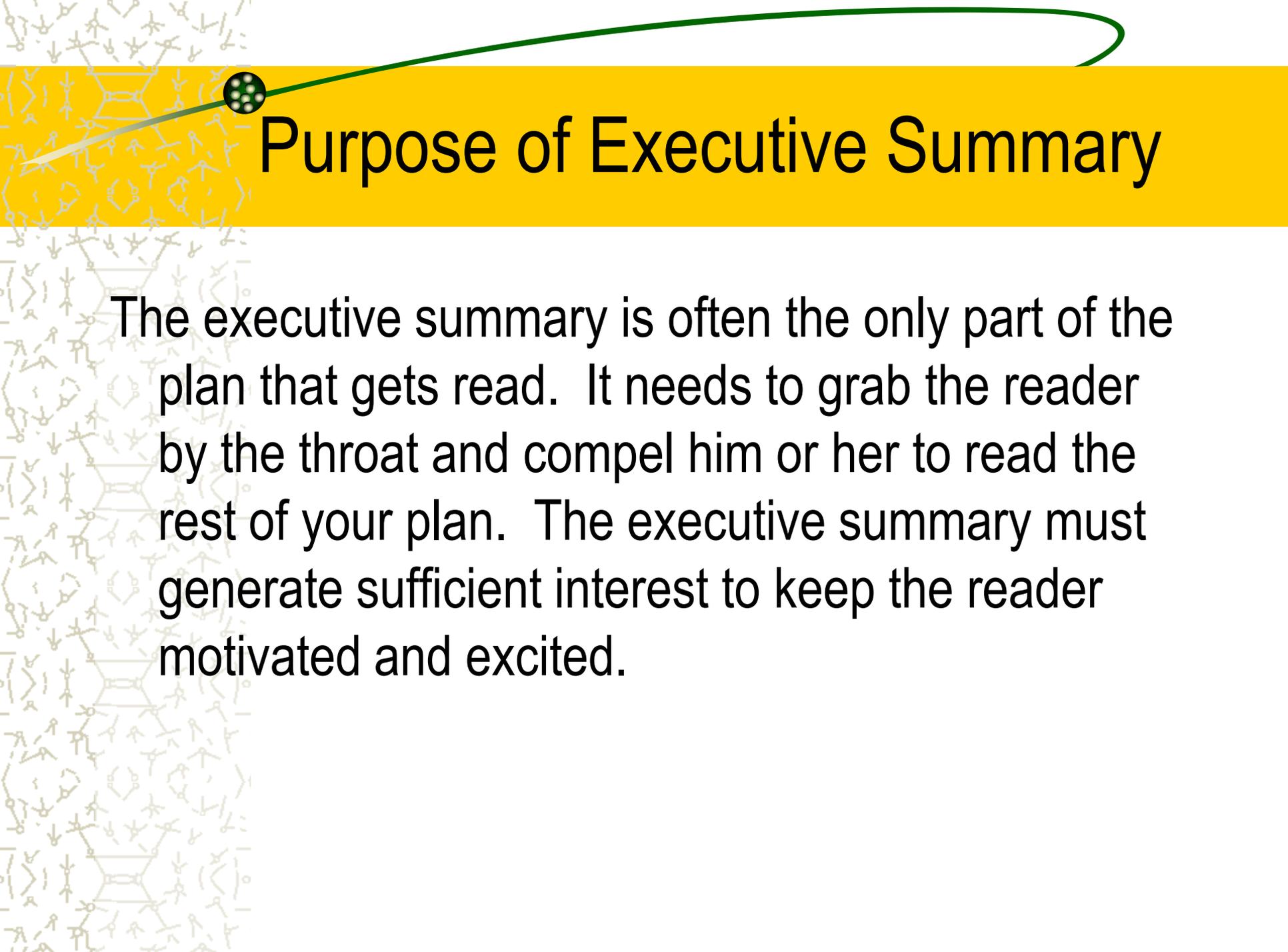
Executive Summary

- ✚ Description of the business and concept
- ✚ The Opportunity and Strategy
- ✚ Target Market and Projections
- ✚ Competitive Advantages
- ✚ Economics, Profitability, Harvest Potential
- ✚ The Team
- ✚ The Offering, how much money is needed
- ✚ The company's status



Make Sure You Clearly Cover:

- ✦ What business you are in
- ✦ What makes you unique
- ✦ Who comprises the management team that will make it happen
- ✦ What will make the plan succeed
- ✦ What sales, profit margins, and assets you need to make it happen
- ✦ What the risks and rewards are for investors

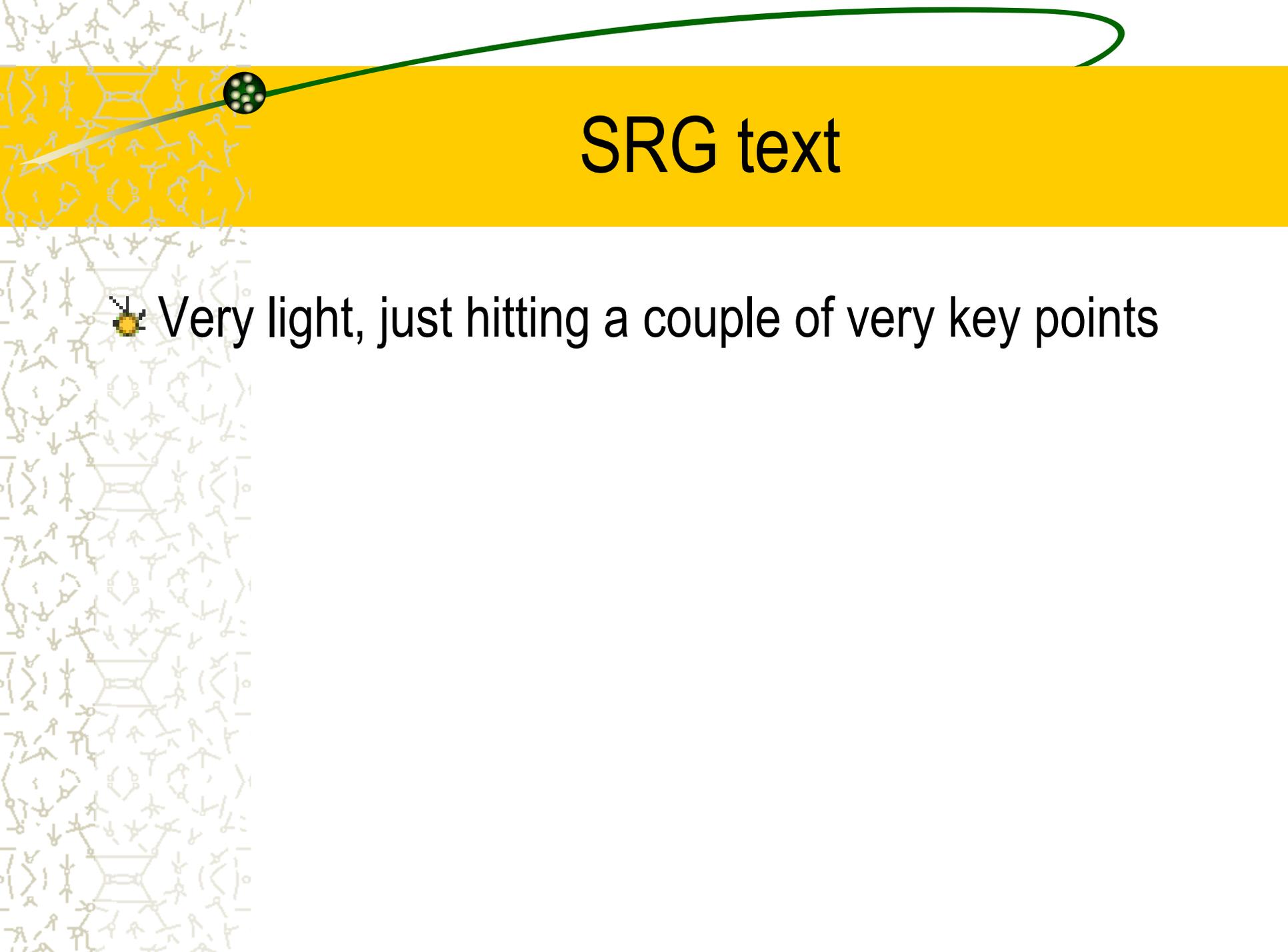


Purpose of Executive Summary

The executive summary is often the only part of the plan that gets read. It needs to grab the reader by the throat and compel him or her to read the rest of your plan. The executive summary must generate sufficient interest to keep the reader motivated and excited.

Executive Summaries

- Target your reader: This may be the only thing the reader reads, so try hard to give him what he wants.
 - Banks want track records
 - Venture capitalists want new technology
 - Angels want excitement
 - Division presidents want synergies
 - People grading papers want everything, all presented in a brief, concise manner



SRG text

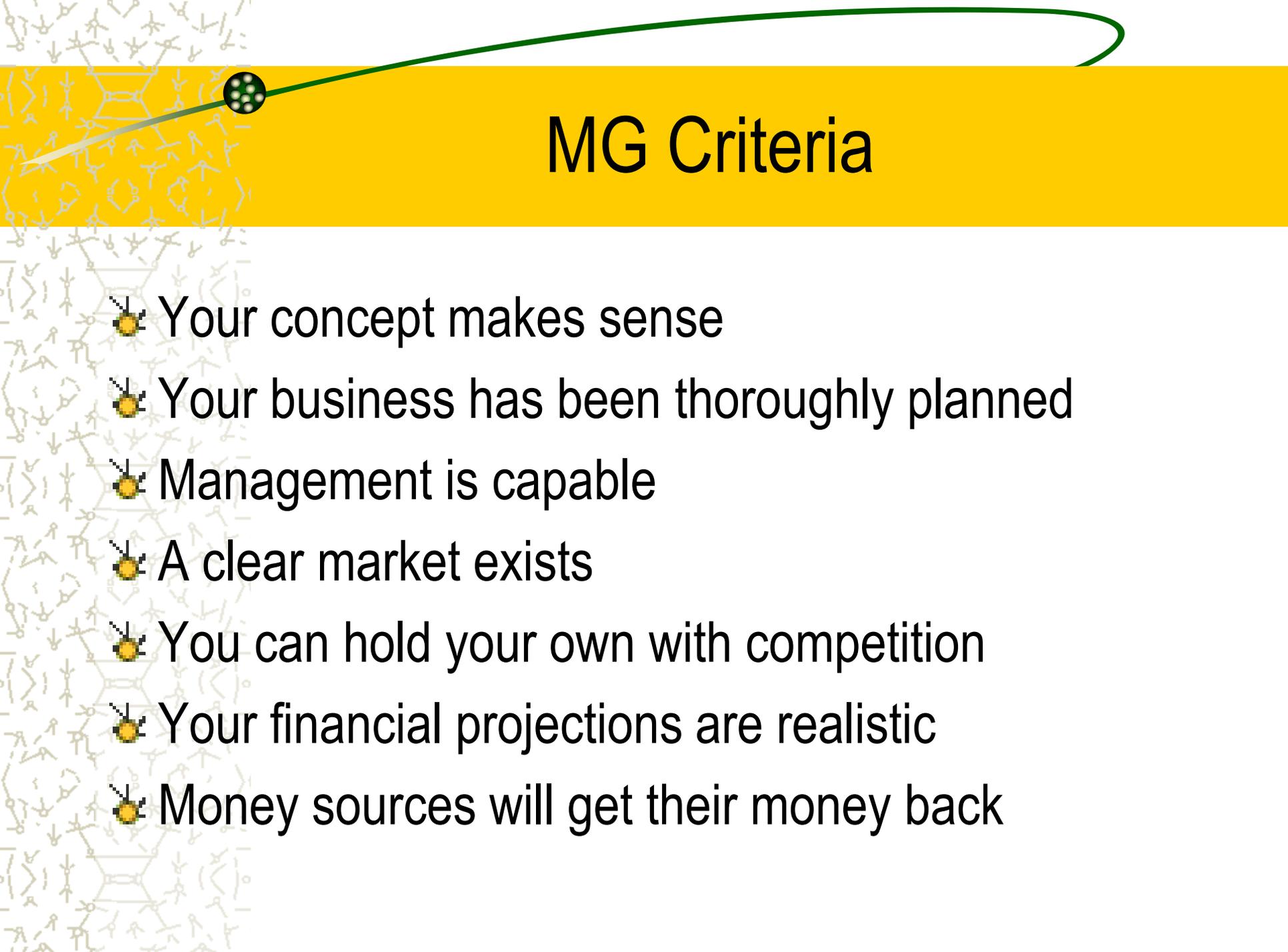
• Very light, just hitting a couple of very key points

Timmons

- ✦ Description of the business and concept
- ✦ The opportunity and strategy
- ✦ The target market and projections
- ✦ The competitive advantages
- ✦ Economics, Profitability, Harvest Potential
- ✦ The team
- ✦ The offering

How I would do it

- ✦ Target your audience - why do they care?
- ✦ Start with a conclusion
- ✦ Proclaim the opportunity - what currently exists, how / why it can be made better
- ✦ Discuss the economics and finances as they relate to the opportunity
- ✦ Raise a few potential issues and resolve them
- ✦ Summarize and re-conclude



MG Criteria

- ✦ Your concept makes sense
- ✦ Your business has been thoroughly planned
- ✦ Management is capable
- ✦ A clear market exists
- ✦ You can hold your own with competition
- ✦ Your financial projections are realistic
- ✦ Money sources will get their money back

Papers from class

- ✖ Need more excitement, forcefulness, etc.
- ✖ Generally weak summaries and conclusions
- ✖ Excellent qualitative analysis
- ✖ Good SWOT analysis
- ✖ Good identification of opportunity
- ✖ Need to focus more on the numbers - business is about both personal satisfaction and \$

Description of Industry, Company, Products

- ✦ The Industry
- ✦ The Company and Concept
- ✦ The Product or Service
- ✦ Entry and Growth Strategy



Market Research and Analysis

- ✦ Customers
- ✦ Market Size and Trends
- ✦ Competition and Competitive Edges – product, price, approach
- ✦ Estimated Market Share and Sales
- ✦ Management's perspective on the market
- ✦ The reaction the company expects from the market



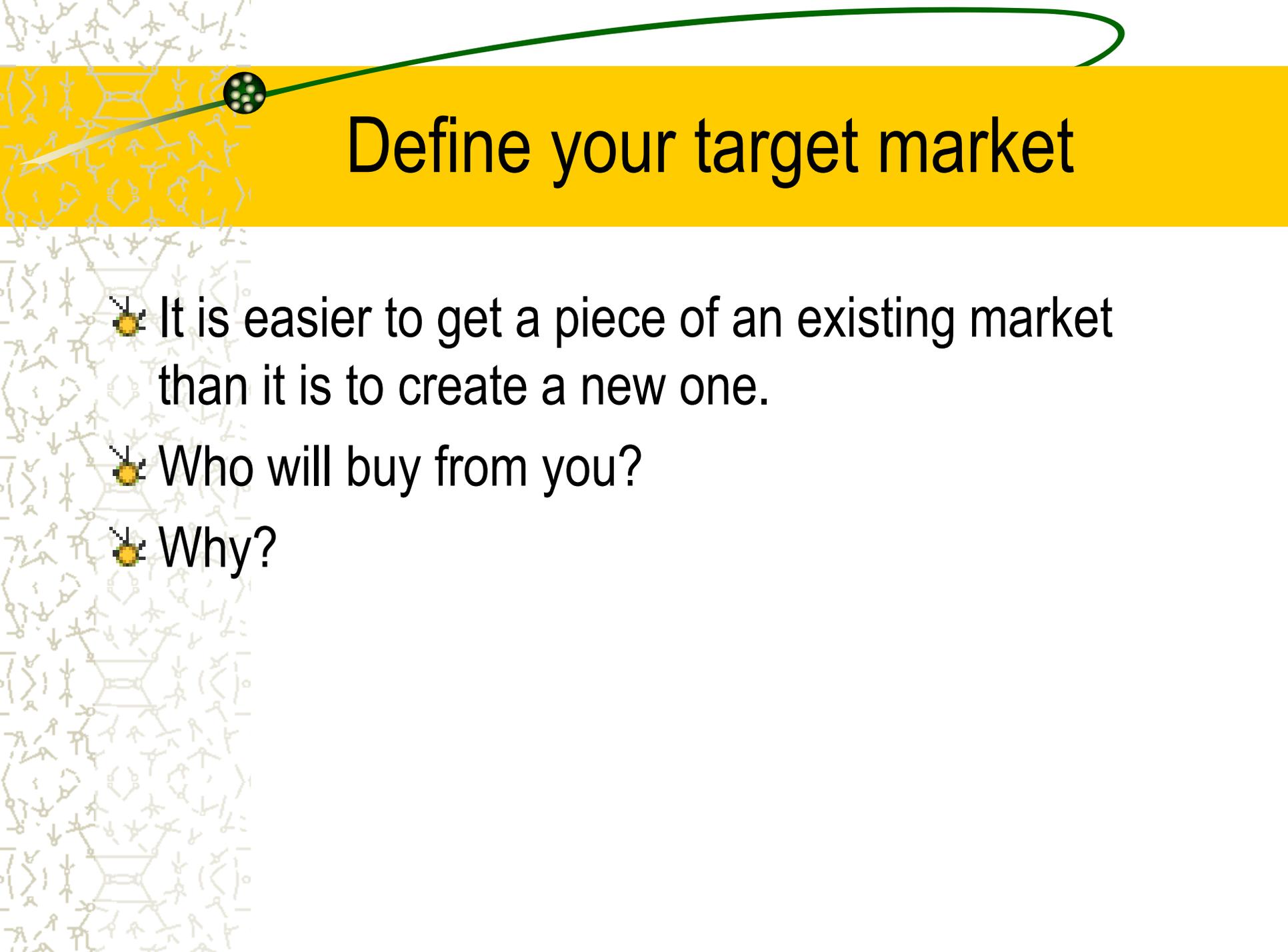
Economics of the Business

- ✦ Gross and Operating Margins
- ✦ Profit Potential and Durability
- ✦ Fixed, Variable, Semi-Variable Costs
- ✦ Months to Breakeven
- ✦ Months to Reach Positive Cash Flow



Marketing Plan

- ✦ Overall Marketing Strategy
- ✦ Pricing
- ✦ Sales Tactics
- ✦ Service and Warranty Policies
- ✦ Advertising and Promotion
- ✦ Distribution



Define your target market

- ✚ It is easier to get a piece of an existing market than it is to create a new one.
- ✚ Who will buy from you?
- ✚ Why?

Target market - cont.

✦ What are their buying patterns?

- Reason / trigger for purchase
- Frequency of purchase
- Interval between purchases
- Quantity of each purchase
- Where used?
- How used?
- Method of payment

Target Mkt. cont. – What are your buyers sensitive to?

- Price
- Quality
- Brand name
- Product features
- Selling method
- Packaging
- Convenience
- Service
- Location
- Credit policy
- Return policy
- Maintenance
- Warranty

Target Mkt. cont. – Market Size

- ✦ Current size
- ✦ Growth rate
- ✦ What changes are occurring?
- ✦ How do the changes effect your business?

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Target Mkt. cont. –

What strategic opportunities are available as a result of your analysis of the target market?

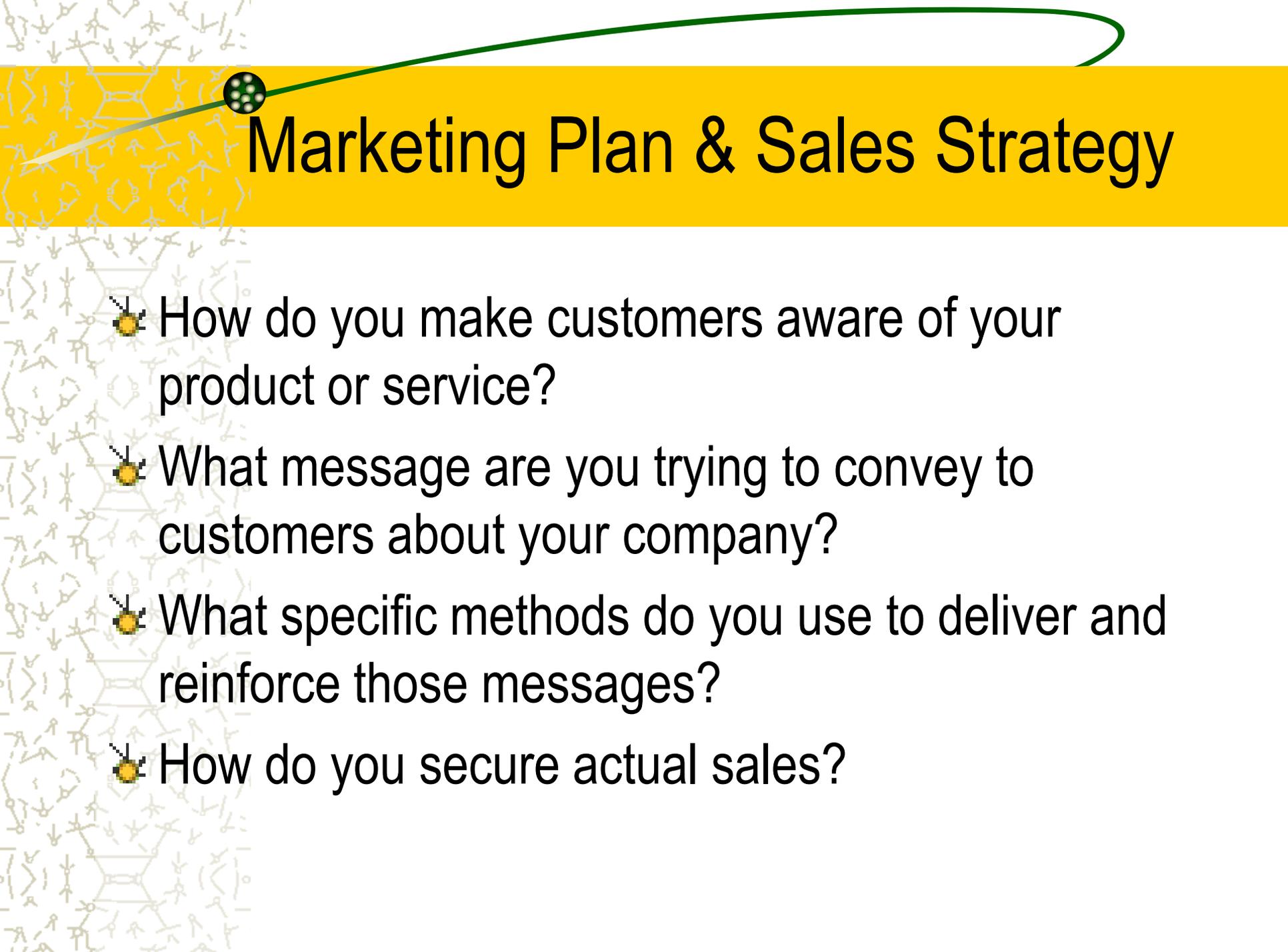


Market Analysis - Competition

- ⚡ Don't underestimate it
- ⚡ Don't be afraid of it
- ⚡ Don't be emotional about it
- ⚡ Don't over-react to it
- ⚡ Don't under-react to it

Marketing - Competitive Analysis

- ✚ **Customer perception:** features, costs, quality, durability, maintenance, image, perceived value, relationships, social value, etc.
- ✚ **Operational Factors:** your financial resources, your customer's budgets, economies of scale, operational efficiencies, product line breadth, strategic partnerships, personnel
- ✚ **Future Competition:** barriers to entry - patents, start-up costs, expertise, market saturation



Marketing Plan & Sales Strategy

- ✚ How do you make customers aware of your product or service?
- ✚ What message are you trying to convey to customers about your company?
- ✚ What specific methods do you use to deliver and reinforce those messages?
- ✚ How do you secure actual sales?

The 4 P's of marketing

✦ Product

✦ Price

✦ Place

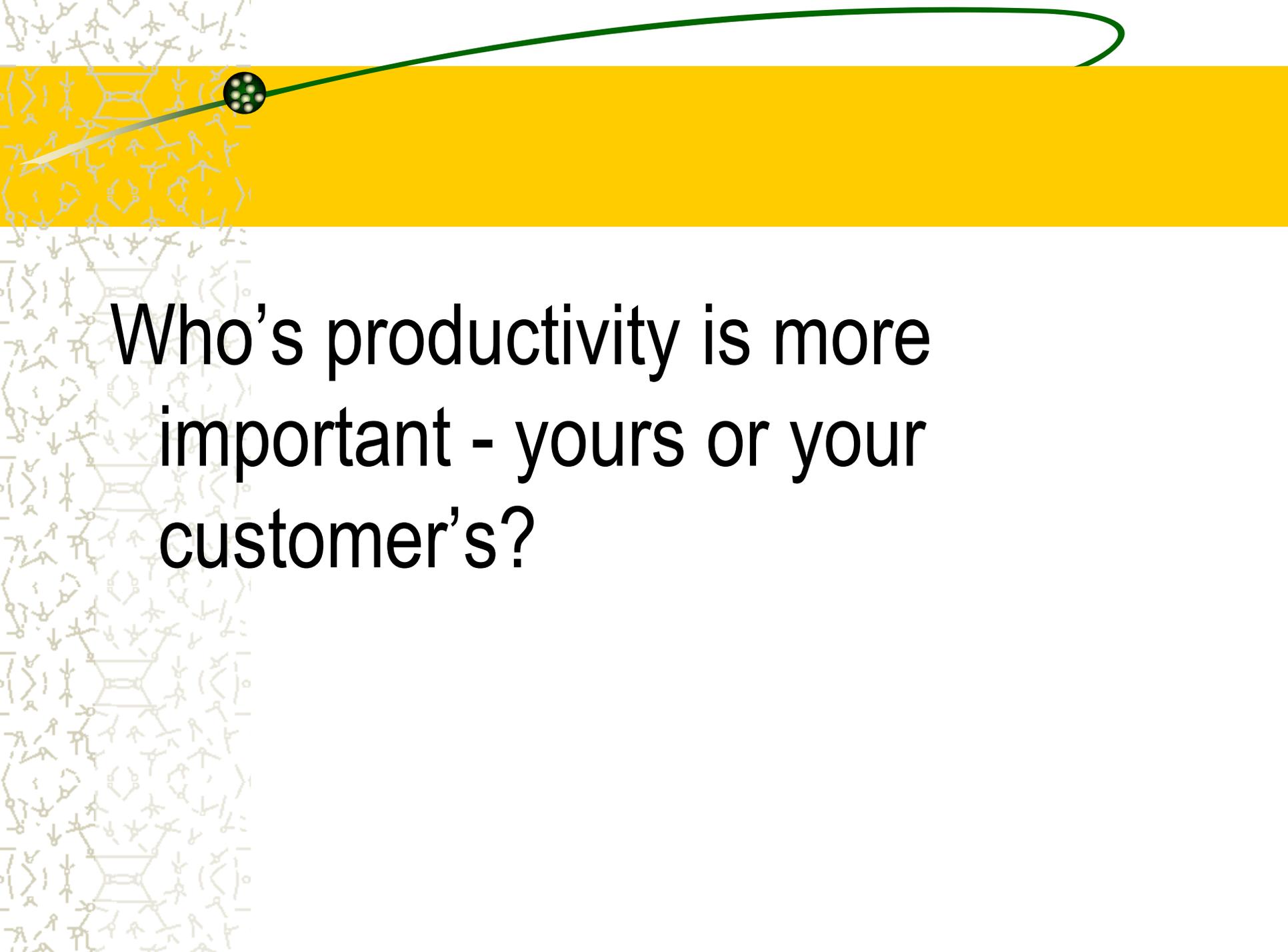
✦ Promotion

What are customers buying from you?

- ✦ Selection
- ✦ Time savings
- ✦ Quality
- ✦ Price
- ✦ Fashion
- ✦ Experience / Assurance
- ✦ Solutions / Information

The 5 F's that customers want

- ✦ **Functions** - meet their needs
- ✦ **Finances** - savings, increased productivity
- ✦ **Freedom** - convenience, time
- ✦ **Feelings** - self-image, respect for company
- ✦ **Future** - how will it effect their lives



Who's productivity is more important - yours or your customer's?

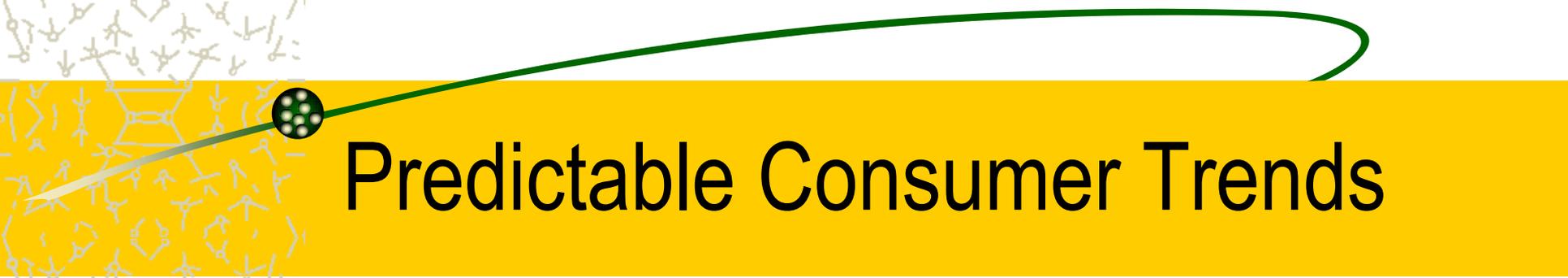


● The 00's consumer's biggest concern



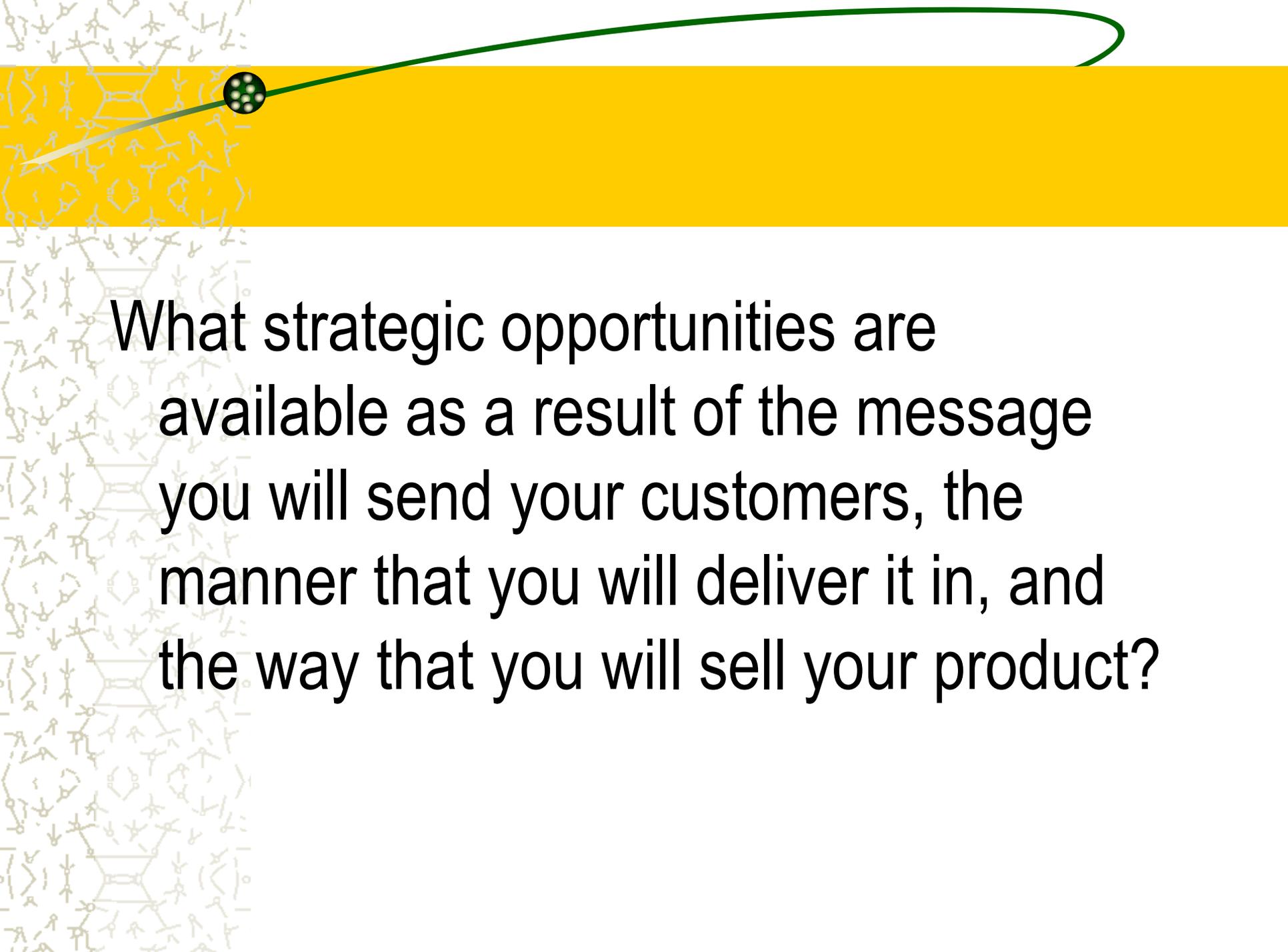
Stress

- Always rushed
- Never enough time
- Too worried



Predictable Consumer Trends

- ✦ Aging Population
- ✦ Working Women
- ✦ Changing Household Make-up
- ✦ Declining Real Income ???????
- ✦ Exploding Ethnic Population



What strategic opportunities are available as a result of the message you will send your customers, the manner that you will deliver it in, and the way that you will sell your product?



Design and Development Plans

- ✦ Development Status and Tasks
- ✦ Difficulties and Risks
- ✦ Product Improvement and New Products
- ✦ Costs
- ✦ Proprietary Issues



Operating Plans

- ✦ Operating Cycle
- ✦ Geographic Information
- ✦ Facilities and Improvements
- ✦ Strategy and Plans
- ✦ Regulatory and Legal Issues



Management Team

- ✦ Organization
- ✦ Key Personnel
- ✦ Compensation
- ✦ Employment and Incentive Agreements
- ✦ Other Investors
- ✦ Board of Directors
- ✦ Supporting Professional Advisors



Financial Plans

- ✦ Historical Financial Statements
- ✦ Pro-Forma Financial Statements
- ✦ Breakeven Chart and Calculations
- ✦ Cost Controls
- ✦ Highlights
- ✦ Thoroughly documented assumptions

Financial Mechanics

- ✚ All financial statements should be linked together and interactive
- ✚ Do not hard-code; keep the assumptions and input separate from the calculations and presentation
- ✚ Build a pyramid, capped by a precise summary and underpinned with successive layers of increasing detail
- ✚ Always build the model from the bottom up – do not rely on global averages, especially for businesses that are seasonal or non-homogeneous



Proposed Offering

- Desired Financing
- Offering
- Capitalization
- Use of Funds
- Investor's Returns

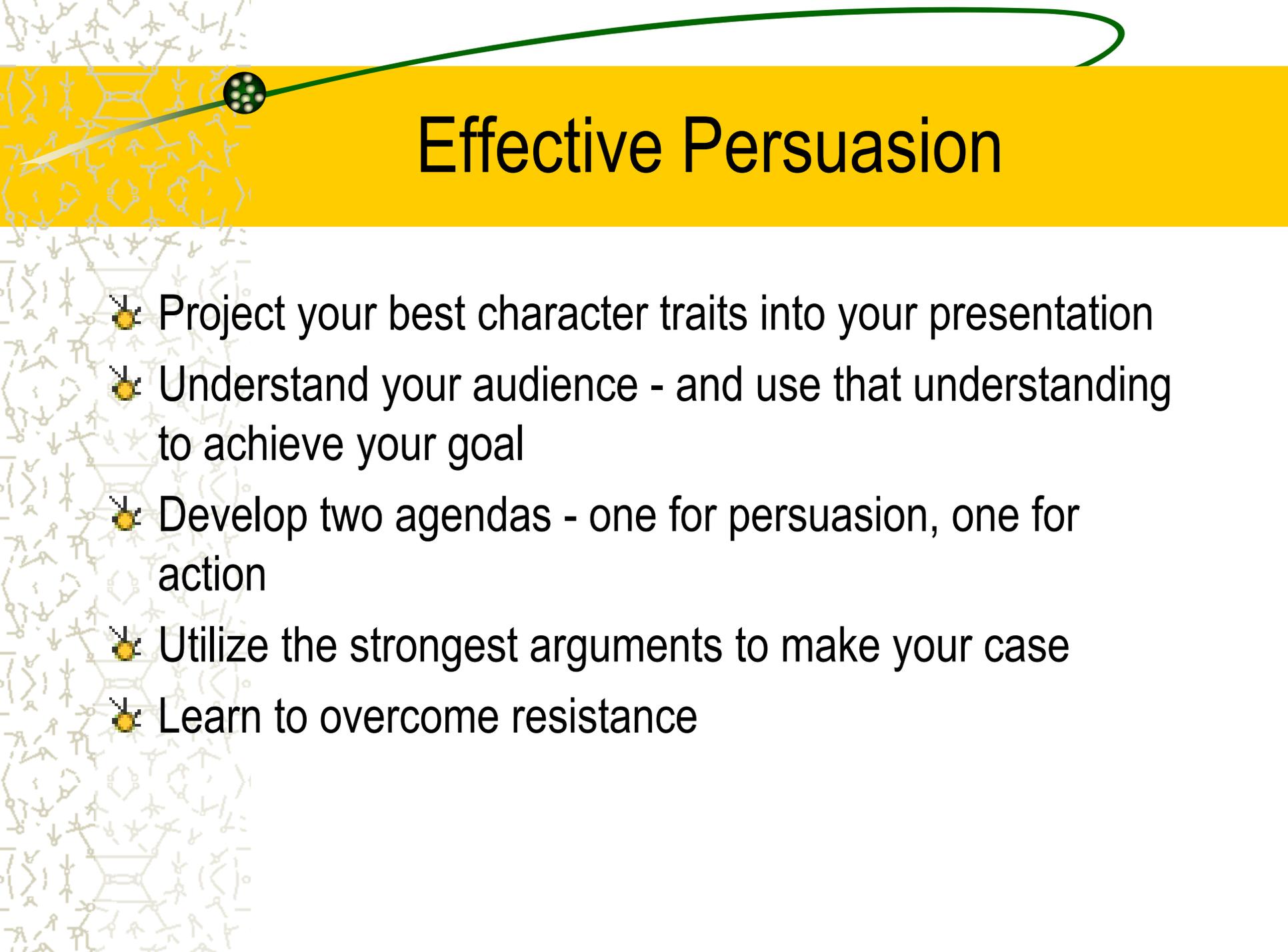


Business plan tests

- ✚ Is it credible?
- ✚ Does it outline a time and action plan?
- ✚ Does it provide enough detail and information for approval?
- ✚ Is it exciting and involving?

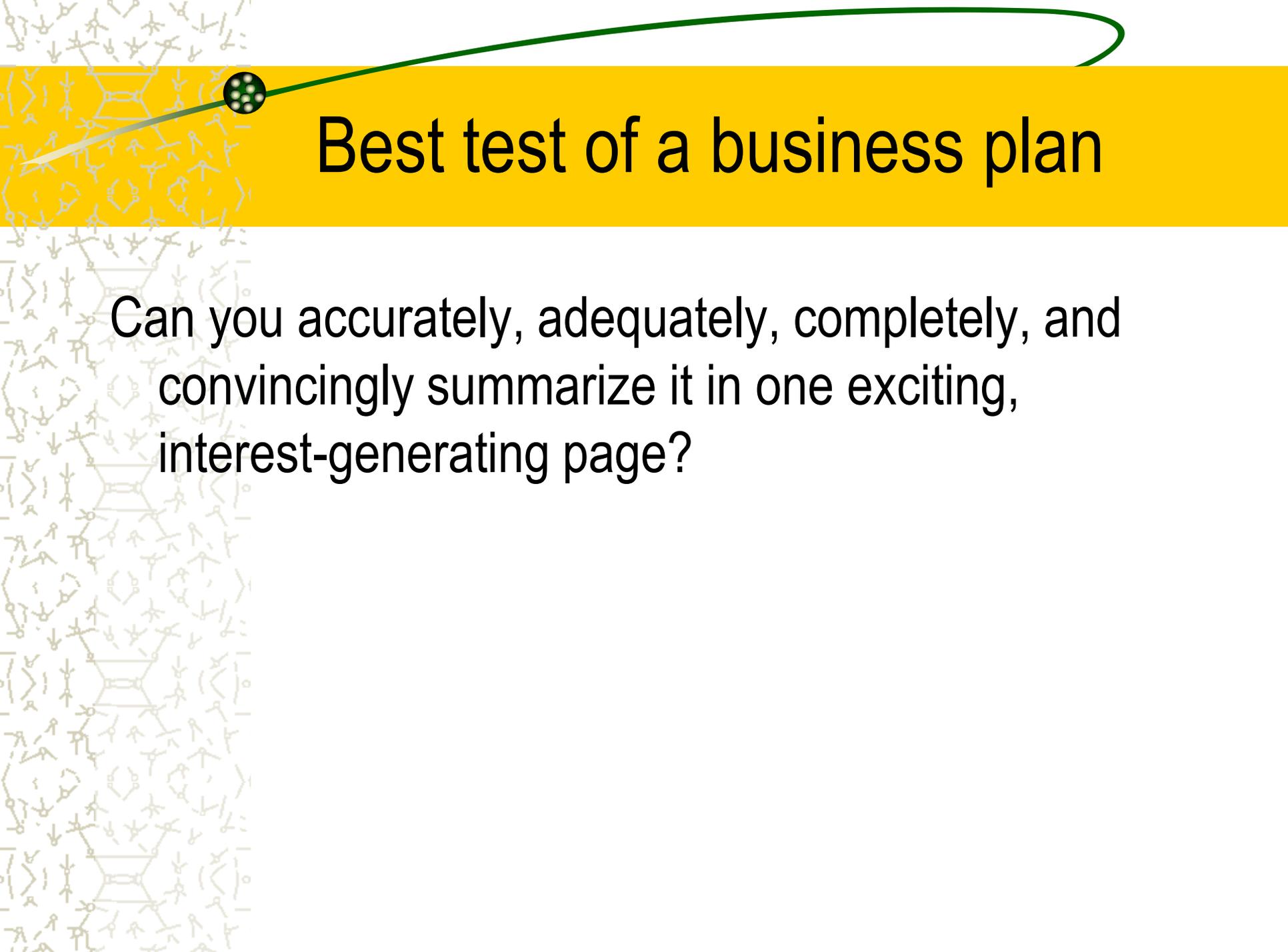
Most common reasons ventures are not funded:

- ✚ Lack of confidence in management
- ✚ Unsatisfactory risk / reward ratio
- ✚ Absence of a well defined business plan
- ✚ Investors' unfamiliarity with products, processes, or markets
- ✚ The business' unattractiveness to investors



Effective Persuasion

- ✦ Project your best character traits into your presentation
- ✦ Understand your audience - and use that understanding to achieve your goal
- ✦ Develop two agendas - one for persuasion, one for action
- ✦ Utilize the strongest arguments to make your case
- ✦ Learn to overcome resistance

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Best test of a business plan

Can you accurately, adequately, completely, and convincingly summarize it in one exciting, interest-generating page?

