

# **Business Plans**

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With thanks to:

Professor Peter Russo

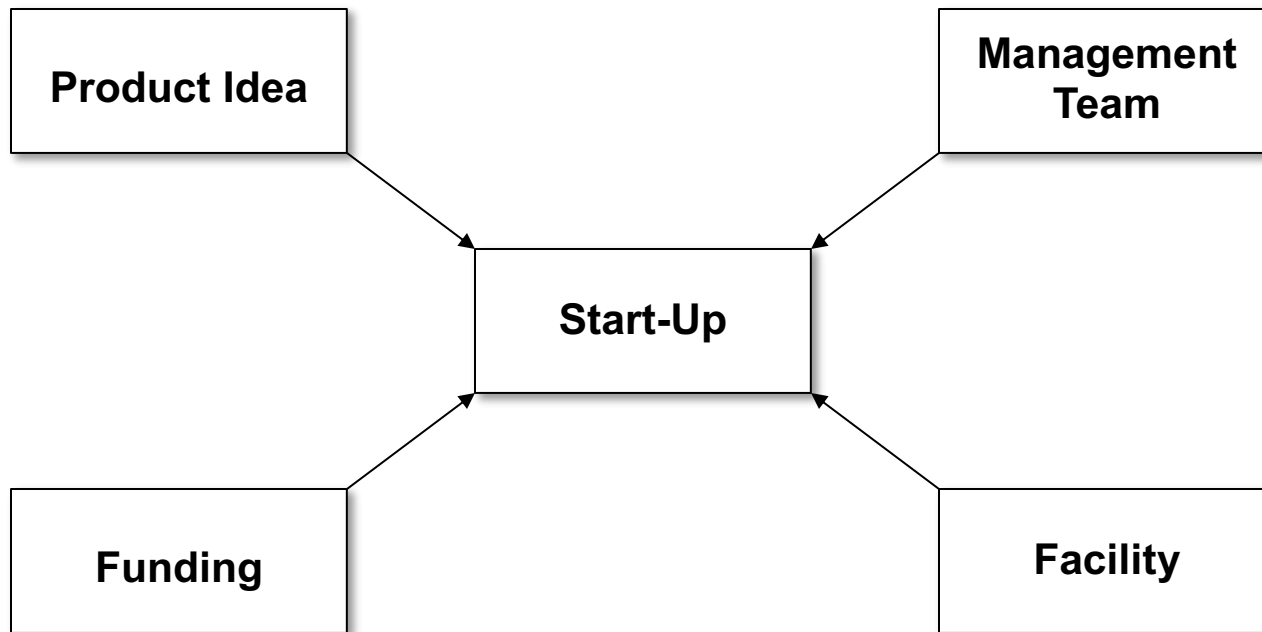
# Business Models vs. Business Plans

- ❑ A Business Model is a company's strategic plan
- ❑ A Business Plan is a company's operational plan
  - ❑ Operational
    - ❑ Costs
    - ❑ Financing
    - ❑ Management team

# Who Needs a Business Plan?

- ❑ Everyone
- ❑ Who will read your business plan?
  - ❑ Very few people
- ❑ It's much more about the process of developing the Business Plan
  - ❑ And periodically updating it
    - ❑ For changing market conditions
    - ❑ For changing technology conditions
    - ❑ For changing financial conditions
  - ❑ Possibly resulting in a Pivot

# What Are the Elements of a Start-Up?



The Business Plan analyses all of these and describes

- ❑ What we need
- ❑ When we'll need them
- ❑ How we'll bring them together

# What Is a Business Plan?

- ☐ It's a process, not a product
- ☐ It's written to develop a successful business
  - ☐ Not just to raise money
  - ☐ Should be used and updated as a management tool
- ☐ Most business failures can be prevented ...
  - ☐ If you have a good business plan

# Who Do We Write Plans For?

- ❑ Resource providers
  - ❑ Investors
  - ❑ Internal sponsors
  - ❑ Strategic alliance partners
- ❑ **Always** for your team!
- ❑ You may need multiple versions
  - ❑ For different constituencies

# What Are They Looking For?

- ❑ What's the problem?
  - ❑ How big is it?
- ❑ How will you solve it?
  - ❑ You and who else?
- ❑ Do I believe you can do it?
  - ❑ The team!
- ❑ Will I make money by helping you?
  - ❑ Financials
- ❑ Exit strategy

# Critical Content

- ❑ Executive Summary
  - ❑ The only part most people will read
    - ❑ You'll use it as a stand alone document to follow up from successful initial investor meetings
  - ❑ 2-5 pages
  - ❑ **Write it last**

# Critical Content

- ❑ Define the problem.
  - ❑ Start with the problem you are solving,
    - ❑ Explain in terms your mother could understand
    - ❑ Quantify the “cost-of-pain” in dollars or time.
      - ❑ “Truly disruptive technology” isn’t enough
      - ❑ May indicate you haven’t worked out the value in use.

# Critical Content

- ❑ Solution and benefits
  - ❑ Not a detailed product specification,
  - ❑ Explain how and why it works
    - ❑ Customer-centric quantification of the benefits.
  - ❑ Intellectual property and “secret sauce”.
- ❑ Focus
  - ❑ Specific solution that you have built or prototyped
  - ❑ Clearly define the customer, channel, and revenue model

# Critical Content

- ❑ Industry and market sizing
  - ❑ Overall industry, market segmentation, market dynamics, customer landscape
  - ❑ Must be a big opportunity
    - ❑ Billion dollar opportunity, and a double-digit growth rate for VC investment
    - ❑ The segment you address
    - ❑ Justify with data from accredited market research groups
      - ❑ Forrester
      - ❑ Gartner
  - ❑ “It’s a \$3 billion market and we only need 1%....” is a killer
- ❑ Explain the business model

# Critical Content

- ❑ Competition and sustainable advantage
  - ❑ Your competition, direct and indirect
    - ❑ Customer alternatives.
  - ❑ Saying you have no competition is not credible
    - ❑ If it's a big opportunity, you have competition
    - ❑ If you say you don't, it probably just means you haven't done the research
  - ❑ Identify your sustainable competitive advantage
    - ❑ Barriers to entry which will keep your competitors at bay.
  - ❑ Don't minimize the sleeping giant
    - ❑ "Microsoft is too big/slow to be a threat."
    - ❑ Are they no threat because the market is too small.
    - ❑ Sleeping giants do wake up, the moment your company shows some traction
    - ❑ Never minimize competing with IBM, Microsoft, etc.

# Critical Content

- ❑ Marketing, sales, and partners
  - ❑ Describe your market penetration strategy, sales channels, pricing, and strategic partnerships.
  - ❑ Rollout timeline with key milestones.
  - ❑ Show you've lined up sales channels, strategic partners, and a viable marketing strategy
    - ❑ Beware "We have strong interest from a major customer."
      - ❑ Unsigned contracts detracts from credibility
    - ❑ Letter of Intent (LOI), contract summaries, or even testimonials bolsters credibility

# Critical Content

- ❑ Executive team
  - ❑ Investors invest in people - not just ideas
    - ❑ Show the team is experienced in starting a new business
    - ❑ Expertise in the selected business domain
      - ❑ Board of Directors
        - ❑ If it includes non-executive
      - ❑ Advisory Board members
      - ❑ Key industry consultants
  - ❑ “A world-class CEO will be joining us after funding” is a killer
    - ❑ Potential investors will ask for names, and place some calls.
    - ❑ Soft responses will kill credibility

# Critical Content

- ❑ Funding requirements
  - ❑ Explain how you calculated the funding requirements
    - ❑ Use of funds
    - ❑ Quantify existing skin-in-the-game, by insiders and outsiders,
  - ❑ Current valuation estimate
  - ❑ Based on cashflow analysis
    - ❑ 25% margin of safety
- ❑ Financial forecast and metrics
  - ❑ Revenues and expense totals for past three years and next five
  - ❑ Breakeven and growth assumptions.
    - ❑ Details in an appendix
  - ❑ Scalable, high-growth opportunities.
    - ❑ Double-digit positive growth per year
    - ❑ Revenues projected to \$20M or more within five years

# Critical Content

- ❑ Exit strategy
  - ❑ The most important section
  - ❑ The only reason people will invest

# So, How Do You Develop a Business Plan ?

- ❑ There is no “right way”
- ❑ The following generally makes sense
  - ❑ The Russo Method



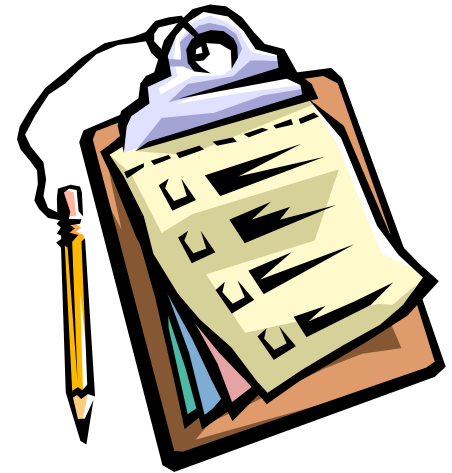
# The Russo Ten Step Process

1. Start with “why am I doing this?”
  - ❑ Need to define a good outcome to achieve it
2. Try to answer the first 2 questions
  - ❑ “What problem am I solving”
  - ❑ “What is my solution?”
3. Outline your market analysis
  - ❑ What do I know?
  - ❑ What do I wish I knew?
4. Begin talking to people
  - ❑ Advisors
  - ❑ Potential customers
  - ❑ Friends



# The Russo Ten Step Process

5. Define your business model
  - ☐ Both revenues & expenses
  - ☐ Consider alternates (list them)
  - ☐ Try to begin a rough spreadsheet
  - ☐ Identify critical success factors
6. Begin formal market research
  - ☐ What questions DO you need to answer?
  - ☐ Where can you find this information?
  - ☐ Consider primary & secondary data
7. List the resources you need to succeed
  - ☐ Human, physical, financial, etc.



# The Russo Ten Step Process

8. Outline the business plan
  - ☐ What parts can you begin to write?
  - ☐ How much more info do you need?
  - ☐ Define a successful scenario
  - ☐ What has to happen?
9. What do you need to do?
  - ☐ Simulate in your model
  - ☐ Write the plan
  - ☐ ...And READ it!
10. Get some feedback
  - ☐ Revise and update



# How Will You Know When You're Done?

- ❑ You're NEVER "done"!
- ❑ The environment is constantly changing
- ❑ You are constantly gaining new information
- ❑ Your capabilities are changing
- ❑ How do these things change your plan?



# What About BP Software?

- ❑ Examples:
  - ❑ Business Plan Pro                      BizPlan Builder
  - ❑ BizPlan.com                              Ultimate Business Planner
  - ❑ Business PlanMaker Prof.              Plan Write for Business
  - ❑ PlanMagic Business                      Business Plan Success
  - ❑ BizPlan|DB                                Venture Planning System Pro
- ❑ \$30-\$130
- ❑ Review: <http://business-plan-software-review.toptenreviews.com/>
- ❑ We do NOT recommend
- ❑ Often gets in the way of a good process
  - ❑ It's the journey, not the destination!
- ❑ Plans tend to look “canned”
  - ❑ It's YOUR story!



# Good and Bad Business Plans

- ❑ What do investors like to hear?
- ❑ What tends to turn them off?

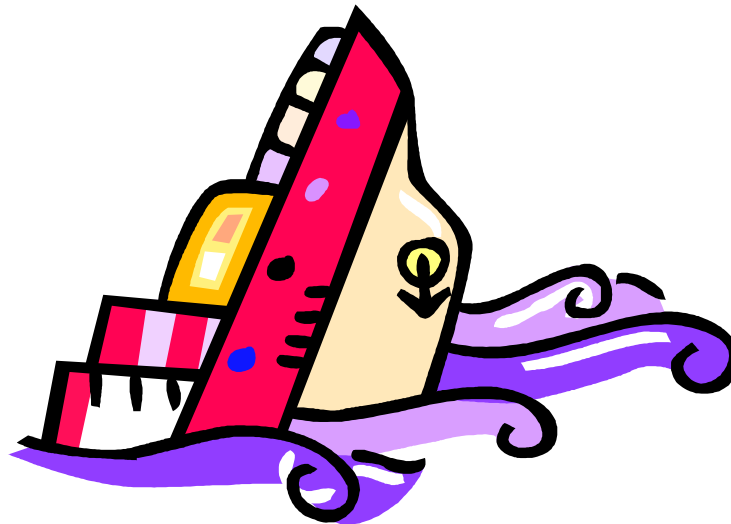
# Ingredients of a Successful Plan

- ❑ Vision
- ❑ Commitment
- ❑ Strategy
- ❑ Time to Market
- ❑ Team
- ❑ Passion
- ❑ Customer Testimonial
- ❑ Competition
- ❑ Capital Need
- ❑ Milestones



# What NOT to Do in a BP

- ❑ What is a “BAD” business plan?
- ❑ What are some of the common mistakes we see?



# What is a “BAD” Business Plan?

- ❑ One that doesn't meet its objectives
- ❑ Fails to help launch a successful business
- ❑ Fails to identify key obstacles / problems
- ❑ Fails to attract interest:
  - ❑ Of investors
  - ❑ Of a team
  - ❑ Of partners
  - ❑ Of other resource providers

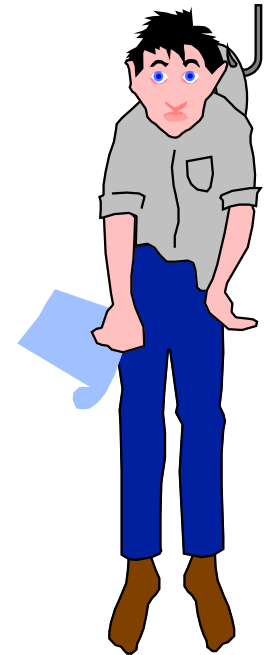
# First Clue That You're Reading a "Bad Plan"...



- ❑ You don't want to keep reading!
  - ❑ It doesn't capture your attention
  - ❑ It's hard to get through
  - ❑ You just don't get it!

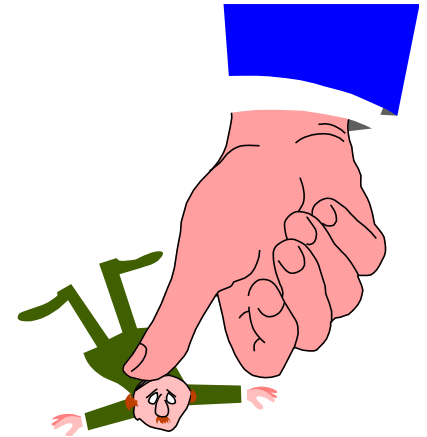
# Most Common Errors in a Plan

- ❑ Lack of understanding of value proposition
  - ❑ ...Or significantly overstates it
- ❑ Lack of understanding of customer
  - ❑ And how to reach them
- ❑ Lack of focus
- ❑ Underestimating inertia
- ❑ Underestimating effort & resources required



# Most Common Errors in a Plan

- ❑ Failure to identify competition
- ❑ Lack of a competitive advantage
- ❑ Unproven team
- ❑ Lack of a robust business model
- ❑ Inconsistent facts
- ❑ Inconsistent logic
- ❑ Over-optimistic financial projections
  - ❑ Never say your projections are “conservative” or worse “very conservative”
  - ❑ They’re undoubtedly aggressive
  - ❑ VC’s will discount them



# Some Practical Tips

- ❑ Keep the plan short
  - ❑ 20 pages of text.
  - ❑ Separate white paper/appendices for other details and reports.
- ❑ Polish the overall look and feel
  - ❑ No more than two fonts in Microsoft Word
  - ❑ Use sans-serif fonts, such as
    - ❑ Arial, Tahoma or Verdana
    - ❑ 12 point
- ❑ Short, simple sentences.
- ❑ Avoid buzzwords, jargon and acronyms.
- ❑ Use simple straightforward language
  - ❑ "use" instead of "utilize"
  - ❑ "then" instead of "at that point in time."
- ❑ Include a table of contents

# Some Practical Tips

- ❑ Bullet points are good
  - ❑ Include brief explanations where needed
    - ❑ Unexplained bullet points usually result in questions
- ❑ Don't overwhelm the plan with too many graphics and flashy colors
  - ❑ A picture is worth a thousand words
  - ❑ Too many come across as clutter
- ❑ Use page breaks to separate sections
  - ❑ Separate charts from text and to highlight tables
- ❑ Use white space liberally, spell-checker, and proofread
  - ❑ One inch margins all around
  - ❑ Use your spell-checker
  - ❑ Proof read a printed copy
    - ❑ Beware the wrong word correctly spelled!

# Corporate Culture

- ❑ Best philosophy for how to manage and grow an entrepreneurial company
  - ❑ Reed Hastings, CEO, Netflix
    - ❑ <https://www.youtube.com/watch?v=iZ7zsWSojHQ>