

How To...Create A Business Plan for Funding and Growth

Momentum Convention 2012

Don Gooding, Executive Director

Maine Center for Entrepreneurial Development

dgooding@mced.biz www.mced.biz

What is a Business Plan?

- For our purposes...
 - A written document (words, numbers, pictures)
 - A guide to starting and running your business
 - A marketing document
 - Secure funding
 - Add team members, advisors
 - Convince suppliers
 - Win a competition
 - A snapshot of evolving ideas
 - A tool to force clear and thorough thinking
 - (Tentative) answers to top 100 questions
 - INTAT!

What is a Business Plan?

- A mix of facts, ***theories*** and persuasion
 - Good place to collect your best guesses
 - Add facts as you know them today
 - A plan of how to turn theories into facts
 - Extrapolates results ***if*** theories turn into facts
- Steve Blank: “No plan survives first contact with customers.”

The Words

- Executive Summary
- Company Overview
- Products or Services
- Market and Marketing Strategy
- Operations
- Management
- Summary Financials
- Financing and Exit Strategies
- Appendix (optional)

Overall Goal

“Overall, the plan is highly persuasive, clear, concise but comprehensive, inspiring, and well thought out.” (25%)

- Persuasive! Inspiring!
- Clear writing = clear thinking
- Concise = understand what is essential
- Comprehensive = wholistic understanding
- Well thought out = work + thinking through + distinctive

Executive Summary

“The Executive Summary is clear, exciting and effective as a standalone overview of the plan. ” (5%)

- Last thing written, first thing read
- Tells the essentials in one page
- Starts with a version of your “elevator pitch”
- Business opportunity: problem you’re solving
- Business concept: product or service (uniqueness! competitive advantage!)
- Market size & description
- Essence of marketing & distribution
- Team - who and why you can do this
- Financial summary, financing needs, exit strategy
- Generate EXCITEMENT!!!!

Company Overview

“The Company Overview clearly and effectively describes the business purpose, history, idea genesis, current status, overall strategy and objectives.” (5%)

- An extended elevator pitch without financials
- Describe the service/product – how will it change the way people live, work or do business?
- Identifies primary customers and key benefits

Answers the following questions:

- What is the purpose of the business?
- Where did it start, where is it now, where is it going?
- Is the concept of the business clearly defined?
- Is there a compelling story?
- What is the value proposition?

Company Overview

Business Purpose Examples

http://www.bplans.com/sample_business_plans.cfm

- “Mirabile Dictu Advertising, LLC is an advertising company dedicated exclusively to advertising programs for national brands. These promotions are for key products found in the hardware store. The sole business purpose is to provide a new avenue of promotional effectiveness for brands so they can secure incremental merchandising with key hardware retailers.”
- “CCC exists to provide fast, reliable technical assistance to local business/small office/home office computer users.”
- “Replay Plastics is a manufacturing company dedicated to converting waste plastic materials into commercially viable products, utilizing environmentally friendly recycling and manufacturing methods.”
- “Catering For Kids is dedicated to providing at-risk youth with an opportunity to gain work experience and transferable skills by providing our customers with healthy, homemade foods and excellent service at reasonable prices.”

Products or Services

“The Product or Service is described completely, concisely and is easy to understand: features and benefits, pricing, current stage of development, proprietary position.” (10%)

- Completely = you haven't left out something *important*
- Concisely = you understand what's important and what's “nice to have” (and leave out the latter)
- Stage: how close to being real? What have you actually done? How long before it's real?
- Proprietary: patents, copyrights, trade secrets
- Features and benefits
- Pricing

Products or Services

Features Vs. Benefits

- Facts Vs. Results
 - Understand your customers
 - Change your point of view
 - Think in terms of results

Customized web site	“It will accomplish exactly what you need, and you won't have to worry paying for services you don't want.”
5.8 GHz frequency hopping digital system	“You can get clear reception anywhere in your house without interfering with other home networks.”
Located at the corner of Forest and Bedford	“Easy to walk to for a quick lunch between classes.”

Products or Services

Method ↓ Pricing →	Fixed List Price	Feature/ Product Dependent	Customer Segment Dependent	Channel Dependent	Volume Dependent	Performance Dependent	Peak Time Dependent	New/ Used	Negotiated	Yield Managed	Real Time	Auction
Asset Sale												
Usage Fee												
Renting/ Leasing												
Subscription												
Licensing												
Brokerage												
Advertising												

Market and Marketing Strategy

The most work, the most important

Business Plan:

“The Market is clearly described, sized and characterized, as are the target customers, their "pain" and willingness to pay and adopt. Competitive analysis is thorough and realistic. Marketing channels, promotion strategies and market share projections are reasonable and realistic.” (15%)

Viability:

“There is a clear market need presented as well as a way to take advantage of that need. The company has a competitive advantage and its offering is sustainable / defendable. Technology, if any, seems viable and protectable. Customers can be identified, reached, closed and retained.” (25%)

Reality Check:

“There is solid proof of customer interest in the specific offering described by the team.” (35%)

Market and Marketing Strategy

- Part 1: The Industry
- Part 2: Competition
- Part 3: Target Customers
- Part 4: Distribution & Marketing
- Part 5: Competitive Advantage
- Part 6: Market Size and Share

Market and Marketing Strategy

Part 1: The Industry

- How concentrated or fragmented is the industry? How many players are there, and how many are large versus small?
- Where is the industry in its life cycle: emerging, early growth, rapid growth, early maturity, maturity, decline?
- Are costs of essential supplies (raw materials, labor, sub-components, wholesale finished goods) going down or up?
- What are industry pricing trends?
- How profitable are the companies in this industry – both the leaders and the niche players?
- Is the rate of new product development in your industry rapid, slow, in-between?
- Have new market/customer segments emerged recently?
- Have competitors introduced new selling approaches in the industry?
- Are the pricing methods stable, consistent or in flux (product vs. service, rent vs. buy, free options, loss leaders, etc.)?
- Do customers now have new requirements?
- Are there significant new regulations affecting the industry?
- What new technologies have recently affected the industry?
- How sensitive is the industry to the strength of the overall economy?
- How are megatrends such as globalization, the growth of mobile, and the aging of the population affecting the industry?
- Are there any other national or economic trends and factors that could affect the venture's business positively or negatively?

Market and Marketing Strategy

Part 2: Competition

- Who are the largest and most important players in the industry?
 - What are their strengths and weaknesses?
 - Have there been recent exits of major players?
 - What significant new products have recently been introduced by competitors?
- Who will the direct competitors be?
 - Have new competitors recently entered the market?
 - Are there potential new competitors that might enter in the future?
- What are the indirect competitors – different ways of satisfying the same needs or wants (aka substitute products)?
 - What are their strengths and weaknesses?
- What share of potential customers do nothing? Why?

Market and Marketing Strategy

Part 3: Target Customers

- Who are your primary initial target customers?
 - What are their demographics (age, sex, income...)?
 - What are their psychographics (personality, values, attitudes, interests, or lifestyles)?
 - BtoB: What are their job titles?
 - Who pays vs. who influences vs. who uses? (INTAT!)
- What is the customer pain, and how do you know it exists?
 - WHY SHOULD CUSTOMERS CARE?
- What is your value proposition, and how does it satisfy the specific needs of your initial target customers?
 - If you start by serving several customers segments, how does your value proposition differ across differing customer segments?
- Who are your secondary customers, initially and over time?

Market and Marketing Strategy

Part 4: Distribution & Marketing

- What are the key marketing channels and methods you will use to:
 - Let customers know you exist?
 - Provide an opportunity for them to evaluate your offering?
 - Convince them to buy?
 - Enable them to purchase and take delivery?
 - Provide support after the sale?
- What is your pricing position relative to the rest of the industry? low price, mid-tier, high price?
- What distribution channels will you be using?
 - What value do you offer the distribution channels?
 - Why should they sell your offering alongside or instead of competing offerings?
- What type of relationship do you want to have with customers, and what type of relationship do they want to have with you? (personal? self-service? community? co-creation?)
 - Are your distribution channels able to support the kind of relationship you want with your customers?

Market and Marketing Strategy

- **Part 5: Competitive Advantage**
- Unique features --> unique benefits --> unique value proposition
 - Technology --> benefit --> value proposition
- How will your service or product compare to those of your competitors in terms of: usefulness, cost, styling, ergonomics (ease of use, user experience), time-to-market, compatibility with related products?
- What do you need to do very well in order to win this market?
- How will you sustain your competitive advantage?
 - Patents, copyrights, trademarks, trade secrets?
 - Future technology/feature development?
 - Unique distribution, supply chain or other partner relationships?

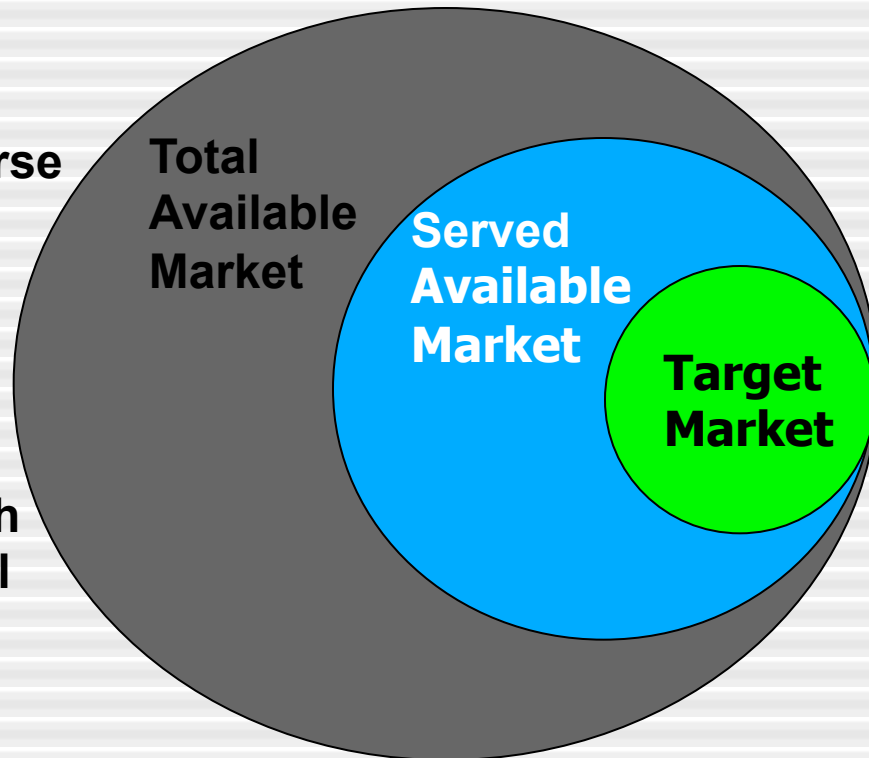
Market and Marketing Strategy

- **Part 6: Market Size and Share**
- What is the current size and expected growth of your market in terms of units and dollars?
 - Total - how are units and average price changing over time?
 - Served – how will your served market change as you add distribution channels?
 - Target – how will your target market change as you expand your value proposition(s)?
- What are the key assumptions behind your market sizing?
- What are the key drivers of market growth (such as population trends, socioeconomic trends)?
- How confident are you in your assumptions or theory about market size and growth?
- How big a share of your target will you get initially? Over time? Why is this reasonable?

Markets: Total, Served, Target

TAM = how big is the universe

SAM = how many can I reach
with my distribution channel



Target Market (for a startup) =
who will be the most likely buyers

Market Size: Summary

- Market Size
 - **How big** can this market be?
 - How much of it **can we get**?
 - Market growth rate
 - Market structure (Mature or in flux?)
- **Most important:** Talk to Customers and Channels
- Next important: Market size by competitive approximation
 - Wall Street analyst reports are great
 - Market research firms
 - USM Business Library

Operations

“Plan shows understanding of Operations. Discussions of plans for production and delivery of product/service, product cost, margins, operating complexity, resources required are thorough, realistic, and show appreciation of risks and need for risk management.” (10%)

- Product development plans - budget? timetable and major milestones? what are your contingencies if there are delays? how long before obsolescence?
- Production plans - how complex is the operation? how are you managing for quality? have you built in contingencies for supply chain issues?
- Delivery plans - any government approvals?
- Product cost detail & gross margins (sales - cost of goods sold)/sales
- What resources are required?
- What are the risks? How are you managing those risks?
- How can you show understanding if you've never done this before??

Management

“Management team section provides backgrounds of key individuals, key personnel required, organizational structure, role of any non-student executives, which students will actually execute the plan, and convincingly demonstrates their ability to execute the plan.” (10%)

- *Background*: sentences, not resumes
- Highlight “domain experience”
- Possibly organization chart (not necessary)
- Compensation & ownership
- “Key” personnel required? Outsourced functions (finance?)
- Advisory board? Board of directors? Investors?

Summary Financials

	Q1	Q2	Q3	Q4	Y2	Y3
Revenue	-	-	\$ 11,000	\$ 52,000	\$ 750,000	\$3,120,000
COGS	-	-	\$ 8,200	\$ 27,100	\$ 337,000	\$1,404,000
Gross Margin			25%	48%	55%	55%
Sales & Marketing	-	\$ 2,000	\$ 4,200	\$ 9,400	\$ 157,500	\$ 622,300
General & Admin.	\$ 5,100	\$ 7,700	\$ 7,800	\$ 9,100	\$ 105,000	\$ 407,800
Product Dev.	\$ 13,200	\$ 15,600	\$ 17,200	\$ 18,100	\$ 91,100	\$ 372,300
Total Expenses	\$ 18,300	\$ 25,300	\$ 29,200	\$ 36,600	\$ 353,600	\$1,402,400
Profit/Loss	\$ (18,300)	\$(25,300)	\$(26,400)	\$(11,700)	\$ 59,400	\$ 313,600
Cash (beginning)	\$ 60,000	\$ 36,700	\$ 9,200	\$ 90,700	\$ 49,800	\$ 21,000
Operating Cash Flow	\$(23,300)	\$(27,500)	\$(43,500)	\$(40,900)	\$ (28,800)	\$ 5,100
Investment	\$ 60,000		\$ 125,000			
Headcount (avg)	3	4	4	4	7	21

Summary Financials

“The Summary Financials are easy to read and understand. Reasonable, justifiable projections have key assumptions explained. The income, balance sheet, and cash flow statements properly correspond. Discussion of trends and comparison to similar businesses are clear and consistent.” (10%)

- Clear, easy to understand
- Key assumptions
- “Properly correspond”
- Trends (growth, ratios)
- Comparison to similar businesses

Financing & Exit Strategies

“Realistic Financing Strategy and timing is described clearly. Exit strategy is well thought out and consistent with financing and overall plan.” (10%)

- Where will needed cash come from?
 - Bootstrapping
 - Friends, family
 - Angel investors
 - Venture capital
 - Banks
 - MTI, SBIR
 - Libra Fund
- How will investors get their money back?
- How long does the team want to do this?
 - Sell? To whom?

Optional Appendix

- Detailed financials
- Detailed product/service description
- Detailed market research
- Resumes
- References
- Assume it *won't* be read except by bankers and *very* interested investors

Overall Goal

“Overall, the plan is highly persuasive, clear, concise but comprehensive, inspiring, and well thought out.” (25%)

- Persuasive! Inspiring!
- Clear writing = clear thinking
- Concise = understand what is essential
- Comprehensive = wholistic understanding
- Well thought out = work + thinking through + distinctive