



UNIVERSITY *of* NICOSIA

Session 2

Transforming a blockchain idea into a business plan

BLOC 515: Blockchain and Entrepreneurship Management

Session objectives

- To explain and analyse the sections of a business plan document
- Upon the completion of this session, students are expected to:
 - Enrich their understanding of the key elements of a business plan
 - Develop individual ideas regarding possible new decentralized applications capable of disrupting the current status quo

Session outline

1. Introduction to business plan
2. Strategic overview
3. Competitive analysis
4. Management team
5. Marketing plan
6. Operations plan
7. Financial overview
8. Conclusions
9. Further Reading

1. Introduction to business plan

Introduction to business plan

Why do we need a business plan?



A. To prove that we are serious about our business



B. To assess the feasibility of our venture



C. To determine our financial needs



D. To attract investors

Introduction to business plan

Why do we need a business plan?

- To prove that we are serious about our business
- To establish business milestones
- To better understand competitors
- To better understand our customer
- To enunciate previously unstated assumptions
- To assess the feasibility of our venture
- To document our revenue model
- To determine our financial needs
- To attract investors
- To attract partners
- To understand and forecast our company's staffing needs
- To reduce the risk of pursuing the wrong opportunity
- To force us to research and really know our market
- To attract employees and a management team
- To plot our course and focus our efforts
- To position our brand
- To judge the success of our business
- To reposition our business to deal with changing conditions
- To document our marketing plan
- To uncover new opportunities

Source: <https://www.growthink.com/content/20-reasons-why-you-need-business-plan>

Introduction to business plan

Business plan: a formal document outlining the details of a new business idea

- A formal document outlining the details of a new business venture or product idea.
- It serves as a roadmap for where the business is going.
- It identifies:
 - the opportunities,
 - strengths,
 - growth potential of the business idea,
 - potential risks,
 - threats, and
 - challenges that the new venture might face.

A business plan shows to your potential investors that you know everything you can about your industry

Introduction to business plan

A business plan answers to various questions

- Why do we choose this business idea?
- What is the need and opportunity?
- Why now?
- Who are the potential customers?
- How do you price your product or service? (price to sell)
- What is the selling and buying process look like?
- How about competition? In which way will our idea be different from competitors?
- Will this idea be profitable? If not when we will achieve profitability?
- What are the financial projections?
- How much funding are we requesting?

Indicative sections of a business plan

There are many different templates for a business plan available

Indicative sections of a business plan

- Executive summary – a synopsis of your idea
- Strategic overview – what you do
- Competitive analysis – market analysis
- Management team – who you are and management structure
- Marketing plan – how will you market your idea
- Operations plan – the actions to create and sell the product
- Financial overview – balance sheets, projections, funding requested

Executive summary

Executive summary is a snapshot of your idea

- ½ to 1-page long synopsis of the business plan
- It draws attention to the key information that are significant for potential investors or partners

A short description of:

- What the business/service/ product is;
- Why is it relevant to consumers (how it fills a gap in the market or creates a new market entirely);
- Why the new idea is likely to be successful (report reasons); and
- Some high-level financial projections and an explanation of the amount of capital you seek to raise.



Source: <https://www.thebalancesmb.com/executive-summary-of-the-business-plan-2948012>

2. Strategic overview

Strategic Overview

Strategic overview talks about your business

Business overview:

- Vision, mission, values, goals, and objectives
- Type of business operation
- Business structure
- Business location
- What the business has already achieved

Strategic Overview

It also explains your business model

Business Model

- Business model should answer questions like:
 - What is the problem the business helps solve?
 - How does the business solve this problem?
 - Who is the intended user that stands to benefit from this innovation?
 - Why is the business uniquely suited to address the problem detailed above?
 - How does the business create revenue by addressing this problem?
- Business model should focus on user center design
- Consider using Doblin Framework for innovating business models

Strategic Overview

Doblin framework helps to identify new opportunities and build viable innovations

- Profit Model
- Network
- Structure
- Process
- Product Performance
- Product System
- Service
- Channel
- Brand
- Customer Engagement
- How you make money
- How you connect with others to create value
- How you organize and align your talent and assets
- How you use signature or superior methods to do your work
- How you develop distinguishing features and functionality
- How you create complementary products and services
- How you support and amplify the value of your offerings
- How you deliver your offerings to customers and users
- How you represent your offerings and business
- How you foster compelling interactions



Source: <https://doblin.com/ten-types#>

3. Competitive Analysis

Competitive Analysis

Competitive analysis examines current and potential competition

- Competitive analysis uses various strategic analysis tools that analyze:
- **The macro-environment** (e.g. trends in the macro-environment that might affect the venture's success but that the entrepreneur cannot control). (**Example:** New York's BitLicense laws are favorable for certain bitcoin actors.)
- **The business itself** (e.g. SWOT analysis is a tool used to identify the strengths and weaknesses (factors that are internal to the organization), and opportunities and threats (external factors that are out of the organization's control) that exist.
- **The industry and competitive environment** in which the business operates: it determines (a) how attractive the industry is that you plan to enter, (b) how external factors could affect competition within an industry, (c) which industries are most favorable to compete in, and (d) how a business can strategically position itself to gain market share within the industry.

Competitive Analysis

The macro-environment encompass factors upon which we can not exert influence

- **Macro-environment:** STEEPLE is a common framework for analyzing the macro-environment
- **STEEPLE** is an acronym that represents the:
 - Socio-cultural,
 - Technological,
 - Economic,
 - Environmental,
 - Political,
 - Legal, and
 - Ethical environments.
- Each of these components represent a part of the macro-environment that business owners have to take into account as part of their competitive analysis
- Example of political trends: The Monetary Authority of Singapore (MAS) has provided funding and dedicated agencies to facilitate the growth of blockchain in the country's finance industry.

Competitive Analysis

STEEPLE analysis influences organization's decisions

- **Socio-cultural:** it is related to factors such as age, education-level, culture, interests etc of target audience. It affects customers purchasing decision. Socio-cultural data helps to take decisions about product price or features or marketing campaign.
- **Technology** affects the operations of a company. It is vital to keep up with the technology to stay in business. In blockchain area this is of high importance.
- **Economic** factors impact the operation of a company (e.g. GDP, currency fluctuation, tax policies, unemployment)
- **Environmental** factors affect business operation (e.g. waste management and disposal, energy saving technologies, pollution, environment protection etc)
- **Political** factors (e.g. political situation, stability, laws, lobbying) are important for running a company.
- **Legal** factors (e.g. consumer law, labor law, health and safety law etc) knowledge is important especially when entering international market to avoid violation.
- **Ethical** factors define what is good or bad for the employees or clients.

Competitive Analysis

Porter's five forces are important for industry and competitive analysis



Source: <https://theintactone.com/2018/04/21/sm-u2-topic-5-porters-five-forces-model/>

Competitive Analysis

Identify and spy competitors

Identify competitors:

- Direct competitors (same resources and product or service offerings to serve the same customer needs)
- Indirect competitors (different resources and product/service offerings to satisfy similar customer needs)
- Potential competitors (they fall within each other's "areas of interest", possessing the resources and capabilities to potentially compete in each other's markets or industries).
- Do not limit your competitive analysis to your industry
- Stalk your competitors



Source: <http://www.xverify.com/blog/spy-competitors-emails/>

4. Management team

Management team

It talks about you, your skills-experience, reputation you have and expectations

- It reports:
- **Who** are you and where you are from;
- **What** qualifications, skills, and relevant experience your team possesses;
- **What** you have accomplished (mention past successes and failures;
- **What** kind of reputation you hold within the business community (or for an intrapreneurial venture, the position you hold in the organization); and
- **What** your expectations are for the new venture or idea are, and your projections for the venture.

Management team

The goal is to persuade the investor by telling the truth

- The key is to convince senior management or potential investors that the management team is qualified to successfully implement the business model.
- It is important to be transparent about any potential gaps in the team;
- Be sure to mention whether any additional personnel still need to be hired (or onboarded)

5. Marketing plan

Marketing plan

It explains how you are going to get your customers to buy your product/service

It includes subsections such as:

- Products and services (product features, benefits for customer, etc)
- Unique selling proposition (USP) (it answers why you should buy from us and not the competitors?)
- USP example: Domino's Pizza: "We deliver hot, fresh pizza in 30 minutes or less, or it's free."
- Pricing strategy (should be competitive and with reasonable profit)
- Sales and distribution plan
- Promotion and advertising plan (it answers to the question "how you're going to deliver your USP to your prospective customers?")

Marketing plan

It explains how you are going to get your customers to buy your product/service

- It illustrates **what marketing channels** and associated strategies (e.g. direct or indirect channels) **you plan to use** at relevant stages in the conversion funnel
- which plots how many times an average lead is exposed to the product or service before converting to a paying customer.
- Consider what habits you would like potential users to form.
- How you can configure your marketing strategy accordingly.
- Your **strategy** should **tell a story** that speaks to your potential user's worldview, and should communicate how your product/service is relatable to your user/customer and inspires change

6. Operation plan

Operation plan

Operational plan refers to daily tasks required for running the business

- It refers to your system for creating and delivering your product to customers
- What are the actions that must be taken to achieve certain objectives or goals
- Describes your location, facilities, equipment, suppliers, inventory requirements etc
- Operation plan shows how the components in the business model's configuration work together to produce the offering, and is subsequently distributed to customers.
- In the operations plan, you would also detail your distributions model, and whether or not you are relying on your own channels, or a strategic partnership to proliferate your product or service.
- Hints:
 - Show what you have done so far
 - Demonstrate that you understand the process for producing and delivering your product.

Operation plan

It reports who, what, where and when is involved in the business activities

Operation plan should be

- Specific
- Measurable
- Achievable
- Relevant
- Timely

Hints

- Focus on goals
- Set KPIs
- Communicate KPIs
- Discuss the production process
- Create milestones and deadlines
- Understand and manage cost and budget
- Manage risk

7. Financial analysis

Financial analysis

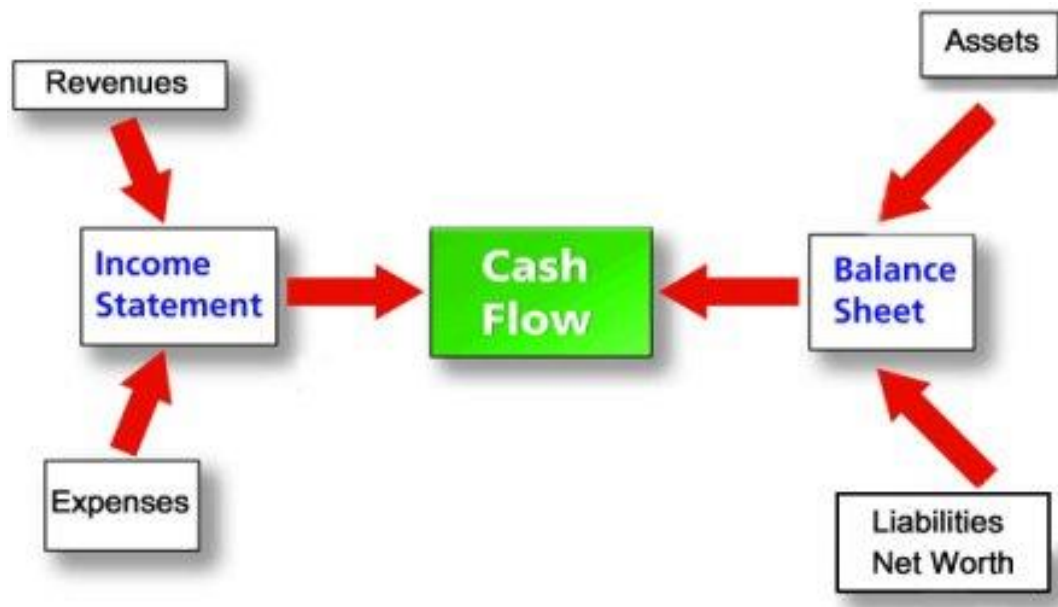
Financial analysis is based on three main statements

- **Financial Statements:**
- **The income statement:** How profitable is the firm? (it shows the profits and losses of a company over a period of time)
- **The balance sheet:** What is the financial position of the firm? (it illustrates an organization's current financial position by providing information about assets, liabilities, shareholder equity etc)
- **The cash flow statement:** Is the firm generating enough cash to finance operations and make capital investments? (It indicates the total amount of cash that a business received for a period (cash inflows) and the total cash payments that a business made over the same period (cash outflows)).

Financial analysis

Financial analysis answers to three main questions

- The income statement: How profitable is the firm?
- The balance sheet: What is the financial position of the firm?
- The cash flow statement: Is the firm generating enough cash to finance operations and make capital investments?



Source: <http://www.thebusinessplanstore.com/financialstatements.htm>

Financial analysis

The income statement shows profits and losses over a specific period of time

- This measures the financial performance of the organization by determining the net profit (or loss) for that period.
- The definition of net profit is defined in relation to other terminology characterizing the income statement below.

Financial analysis

The income statement uses metrics like revenues, net sales and cost of sales

- **Revenues:** The amount of money a company receives, reflected before expenses are deducted in order to determine its net income.
- Also referred as **Net sales:** The amount of sales generated by a company which excludes returned, or missing goods.
- **Cost of Goods Sold (COGS) or Cost of Sales (COS):** Direct expenses contributing to the production of goods.
- **Gross margin:** This is a percentage determined by: $(\text{Revenues} - \text{COGS}) / \text{Revenues}$
- The gross margin indicates the efficiency of operations as well as how products are priced.

Financial analysis

metrics like SG&A, net profit and net profit margin

- **Selling, General and Administrative expenses (SG&A):** Costs in running the company, which don't pertain directly to production costs.
- **Net profit/income:** A company's total income after expenses have been deducted.
- **Net profit margin:** A percentage calculated from net income after tax, divided by sales.
- Like the gross margin, this metric allows comparability across companies, as well as measures the earnings accruing to the shareholders.

Financial analysis

Customer Acquisition Cost is an important metric of income statement

Customer Acquisition Cost (CAC) = $\frac{\text{cost of sales and marketing}}{\text{the number of customers acquired}}$

- **COGS or Cost of Sales** is factored into the calculation for determining gross profit.
- Gross profit is one of the figures that potential investors are interested in
- The COGS indicates what percentage of business expenditure is directly related to producing a product or delivering a service; as such, **the lower the COGS, the lower the CAC** will be

Financial analysis

Average Revenue Per User (ARPU) is another import metric

- The income statement reflects the total revenue that you generate over a specific period of time, and this revenue figure is used to calculate the ARPU.
- The higher the revenue, the higher the ARPU will be.
- To generate higher revenues we have to:
 - increase the price of goods or services, or
 - attract more customers.
- Attracting more customers does tend to drive up CAC, which may negatively influence profit margins.
- Thus, you need to maintain a fine balance between increasing prices to generate revenue and increasing marketing spend

Financial analysis

Lifetime Value of a Customer metric

- **Lifetime Value of a Customer (LTV):** LTV metric is used to determine the profitability of the proposed business model in the long term

$$\text{LTV} = \text{ARPU} \times \text{number of purchases} \times \text{time frame}$$

Example

- Web-based businesses - Subscription-based revenue model: an LTV that exceeds the CAC is essential, as this means that the revenue that customers bring into the business exceeds the cost of bringing in that revenue (Skok, 2016b).

Financial analysis

The balance sheet illustrates an organization's current financial position

It provides information about the following:

- **Assets** refer to what an organization owns.
- **Liabilities** refer to what an organization owes.
- **Shareholder equity** is the value of shareholders' investments in the firm, and constitutes the difference between assets and liabilities.

$$\textit{Equity} = \textit{Assets} - \textit{Liabilities}$$

Financial analysis

The balance sheet illustrates an organization's current financial position

- **Working Capital:** measures a company's operational efficiency and its short-term health through its ability to meet its short-term obligations. It is calculated through the following equation:

$$\text{Working capital} = \text{Current assets} - \text{Current liabilities}$$

- In order to fund their daily operations, companies usually tend to either increase or decrease current assets and current liabilities.
- **A Working Capital Requirement (WCR)** is the minimum amount of financial resources needed for a company to cover its expenses in its day-to-day operations.

Financial analysis

Cash flow statement reveals the movement of cash through the bank account

- It indicates the total amount of cash that a business received for a period (cash inflows) and the total cash payments that a business made over the same period (cash outflows).
- For financial reporting purposes, a period is usually one financial year.
- **It is the most important statement** as it reveals the true financial health of an organization.

Financial analysis

There are three types of cash flow

- **Operating activities:** All cash flow transactions incurred during the normal business process, (e.g. paying suppliers, salaries).
- **Capital investing activities:** Cash transactions that arise from the purchase or sale of assets, or the acquisition of a minority or majority interest in a company.
- **Financing activities:** Any sources of financing the company partakes in, either through debt (e.g. a bank loan or bond) or equity from shareholders.

8. Conclusions

Conclusions

A business plan:

- Assists in clarifying an idea and creating awareness of the opportunities and potential difficulties of a new venture.
- Provides important details about key organizational members that will be involved in the project, how much it will cost to launch the project, and whether the business model is sound given macroeconomic, competitor, industry, and customer-related factors.
- Assists founders or senior management in consolidating a proposed business model or business model innovation.
- It is a realistic assessment of everything that could go wrong or right, and how the management team plans to react.

9. Further reading

Further reading

Doblin Framework - 10 Types of Innovation

https://www.doblin.com/dist/images/uploads/Doblin_TenTypesBrochure_Web.pdf

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Questions?

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