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READING + VIDEO

Developing Business Plans and Pitching Opportunities

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1 INTRODUCTION

Coming up with creative ideas is easy; selling them to strangers is hard.

— Kimberly Elsbach, Dean, UCDavis Graduate School of Management[1]

Entrepreneurs are called on daily to explain the business opportunity they are pursuing to potential customers, partners, suppliers, advisers, investors, and employees. Success in launching a new business depends on an entrepreneur's ability to communicate clearly the compelling market opportunity being pursued, the features of the proposed solution, the resources and capabilities required to implement it, the expected benefits for all stakeholders, the risks involved, and how these risks will be managed. While a business opportunity based on a flawed business model often fails, so too will an amazing opportunity that no one understands. A crisp, well-articulated plan and pitch are not panaceas, but they are important components of building successful businesses.[2]

This reading in the *Core Curriculum in Entrepreneurship* explores how to create a compelling business plan and then pitch it to key stakeholder groups who are necessary to turn the vision into a reality. We focus here on how to use the business model designed during the opportunity-shaping phase of the entrepreneurial process to develop the business plan and business pitch. We encourage readers to review *Core Reading: Recognizing and Shaping Opportunities* (HBP No. 8056) to learn more about the analytical process used to craft the business model that serves as the foundation for creating a business plan and pitch.

Historically, entrepreneurs who wanted to found a business would start by writing a traditional business plan (often 25 to 40 pages or longer). This document defined the new venture's proposed strategy; the go-to-market and operating models needed to execute the strategy; and the financial forecasts, risks, and investment plans. These detailed plans are much less common now because mini-plans and pitches have enabled rapid information flow between entrepreneurs and the stakeholders they seek to engage. In this reading, we explore the debate that has recently taken place among practitioners and academics regarding the value of developing a formal business plan and present current thinking in this area.

We begin this reading by discussing the concept of planning and current debates about its role in early-stage entrepreneurial ventures. We discuss the importance of pitching a business plan and then provide advice to entrepreneurs about how to develop a compelling pitch. Tips for practicing and presenting the pitch, as well as protecting intellectual capital, are also provided. A special variation of a pitch is an elevator pitch, which is designed to convey the most critical information about the new venture to a busy listener who is unfamiliar with it. Supplemental Readings provide practical advice: "Developing an 11-Slide Investor Pitch" discusses how to develop a compelling pitch to potential investors; "Business Plan Evaluation Exercise" asks you to analyze the suitability of two short business plans for early-stage investment by using the Business Plan Evaluation Checklist; and "Investor Pitch Exercise" gives you the opportunity to view and evaluate two videos of business plan pitches. An interactive template is also provided to help you create an elevator pitch for one or both of the video pitches. You can also use this template to create an elevator pitch for a new venture you are starting or considering.

2 ESSENTIAL READING

2.1 Developing and Using Business Plans

The evidence is mixed on how much value is created by writing a detailed, traditional business plan. Researchers at Babson College studied 116 new ventures founded by Babson alumni from 1985 to 2003 and found that there was no significant correlation between writing a formal business plan and subsequent business performance.[3] In his review of the literature on small-business success, Gary Castrogiovanni suggests that, while there are examples of successful firms that did not write a formal business plan, formal business planning does offer benefits, which fall into three categories.[4] First, some investors still require a written business plan that they can evaluate prior to selecting entrepreneurs to pitch in person. Second, the process of writing a business plan enables entrepreneurs and founding teams to debate critical ***assumptions*** they are making and to identify areas of uncertainty. In this scenario, the business plan becomes a document of record that captures decisions and assumptions, identifies early essential activities, and enables entrepreneurs to clarify and develop a plan for mitigating areas of uncertainty. Third, these same assumptions, along with ***projected milestones***, are used to identify resources needed and to develop cash flow forecasts, which in turn determine how much financing must be raised, when it will be needed, and the type of investors needed at different stages of the new venture's life cycle.[5] The sidebar "Comparing a Business Model to a Business Plan and a Business Pitch" explains the differences among these key components of a new venture.

Comparing a Business Model to a Business Plan and a Business Pitch

A ***business model*** is created using an analytical process through which an entrepreneur collects and analyzes information needed to make choices on:

- Strategic positioning (e.g., markets to serve, products to offer, and the role to play in an industry)
- Capabilities and resources needed to execute the strategy (e.g., employees and partners, infrastructure, operating and go-to-market plans, and financing)
- Value proposition for all stakeholders (e.g., customers, partners, employees, owners, and investors)

The business model defines the entrepreneur's assumptions, which determine financial forecasts and cash flow projections, and highlights the level of uncertainty and risk in key assumptions and financials.

A ***business plan*** is a document that articulates the proposed venture's business model and provides significant additional detail. Four types of plans—a traditional plan, a mini-plan, a go-to-market plan, and an operating plan are described in Exhibit 3 later in this reading.

A ***business pitch*** is a presentation that can be used to communicate the business model to investors, customers, partners, advisers, potential employees, and other stakeholders.

Many entrepreneurs report that they revise the original idea or model for their business many times as they gain insights during the early stages of planning the business and writing the business plan. For this reason, many believe that early-stage venture planning should be thought of as an opportunity for the founding team to debate the assumptions that frame the business model for a proposed new venture and to identify areas of uncertainty that must be resolved. These debates should extend beyond the founding team to include customers, knowledgeable industry experts, advisers, and potential partners. Later, a business plan that articulates a clear understanding of the assumptions that frame the new venture's emerging business model enables the founding team to design experiments and determine milestones and metrics that the founders can use to learn all they can as they launch the business, attract early adopter customers and partners, and develop and launch the entry product or service.

Early debate among ***founders***, trusted advisers, and partners as they clarify assumptions about the business model and reach consensus on how to proceed leads to a clearer understanding of areas of agreement and disagreement. Perhaps even more important, the discussions set a precedent and a process for the ongoing open debate and collaborative decision making that are the hallmarks of a strong team, one that must make decisions under conditions of high levels of uncertainty. For that reason, Castrogiovanni and other researchers and practitioners believe that business planning is most valuable as an internal tool to structure the founding team's assumptions, interests, and expectations.[6] Once assumptions are clarified, the plan can then be used to communicate externally. As discussed later in this reading, how the business plan is communicated—in a pitch, a mini–business plan to accompany a pitch, or a formal, detailed document—varies according to the type of opportunity; the planning style of the team; and the expectations of various stakeholder groups, especially investors.

The business plan and pitch that emerge through this analysis, debate, and dialogue are the culmination of a detailed opportunity analysis, as depicted in **Exhibit 1**. The "opportunity funnel" in the exhibit illustrates how the founding team's evaluation of the context is refined to develop a unique business opportunity that fits with the experience, connections, capabilities, and passions of the founding team. The Business Plan Evaluation Checklist, available in the Supplemental Reading section, expands on the evaluation criteria summarized in the funnel.

EXHIBIT 1 Turning Ideas into Plans and Pitches

Source: Adapted from Harvard Business School, "Jumpstarting Entrepreneurial Innovation," HBS No. 1841C–MMC by Lynda M. Applegate.

2.2 Creating a Business Plan

> Most [business plans] waste too much ink on numbers and devote too little to the information that really matters to intelligent investors. . . [Business plans should] show that the entrepreneurial team has thought through the key drivers of the venture's success or failure.
>
> —William A. Sahlman[7]

The concept of a business plan has changed dramatically since the 1990s, when William Sahlman wrote his classic article "How to Write a Great Business Plan," yet his message still holds true: When communicating with investors, customers, partners, or key employees about a new venture, entrepreneurs should focus on the information that matters in making critical decisions. Back in the mid-1990s, most ***venture capital* (*VC*) *investors*** required a formal written business plan as part of their due diligence process when investing in new ventures. Today, we know that a business plan can take many forms—from a series of well-crafted pitches that can be used to communicate with customers, partners, key employees, and investors to a formal written document. When using pitches rather than a formal written document to communicate their business plan, entrepreneurs often provide supporting documents (e.g., biographies of key team members; cash flow forecasts with key assumptions; and agreements from key customers, suppliers, investors, and advisers) to provide information not included in the pitch.

Ellen Rohr, a business consultant and author of *The Bare Bones Biz Plan*, stresses that the "primary purpose of a business plan is to help you gain clarity and hold yourself accountable for moving in the direction you want."[8] She goes on to say: "Unless you have your intentions for the business written down [in some form], you might miss an opportunity to communicate it to someone else or even to clarify things for yourself." Indeed, we have found that the process of formulating a business plan serves several important functions for early-stage ventures. For example, a business plan provides:

- An opportunity to test ideas and determine whether viable business opportunities exist.
- The foundation for debating and analyzing key assumptions, developing financial forecasts, and designing early experiments.
- A baseline that clarifies aspirational milestones as the entrepreneur experiments to build a minimal viable product or service offering that will engage the market.
- A clear statement of the metrics that will be used to test assumptions and measure performance as the team works to achieve key milestones.
- An approach to communicating with others about the business while raising money; assembling a team; and attracting suppliers, customers, and partners.

Entrepreneurs should consider their business plan to be a "living" document that evolves as they begin pitching and implementing their vision. Marla Malcolm and her husband, Barry Beck, the co-founders of bluemercury, learned firsthand that, even though they had developed a formal written business plan to raise their first round of seed financing, the business model it articulated was far from finished. They began by raising $1 million in seed funding to build an upscale, exclusively online luxury cosmetics and beauty care boutique. But as the founders began to implement the plan, they identified three problems: (1) suppliers did not want to participate in an online distribution channel that they believed would damage their exclusive luxury image; (2) the upscale customers bluemercury sought to attract wanted more guidance on selecting beauty care products than could be provided online; and (3) within months, several well-funded competitors—including Beauty.com, Eve.com, and Gloss.com—were all launching online sites to sell similar products to a similar customer segment.[9]

Clearly, the assumptions in the Becks' first business model and the business plan they used to raise initial financing were inconsistent with what bluemercury's founders learned as they engaged more deeply with the market and attempted to launch their venture. They redefined their business model on the basis of what they were learning and developed a second business plan. This second plan took the form of a series of pitches that were used to purchase two brick-and-mortar stores close to the founders' home in the Washington, D.C., area. These stores, which already had existing relationships with the luxury beauty product suppliers and customers that bluemercury wanted to attract, formed the foundation for a second series of experiments that the founders used to test their revised business model. Bluemercury's second model, organized around high-end stores where customers could learn about and purchase products from knowledgeable salespeople and receive spa treatments, included in-store computer kiosks where salespeople could introduce customers to bluemercury's website for replacement purchases and additional information.

The bluemercury example demonstrates how engaging in an ongoing planning process helped the founders clarify and refine their assumptions while experimenting with different business models and interacting with the market. As their knowledge increased, they developed different business plan documents—one written and one in the form of a series of pitches—to clarify their own thinking and to communicate their evolving, dynamic business model to suppliers, customers, investors, and employees. While the founders used the initial business plan to obtain financing from a strategic investor, the purpose of the second business plan and pitches was to purchase two existing stores. Given that the stores had an operating history, cash flow assumptions for the second business plan were much more accurate than for the first plan. After a year of experimentation, the founders launched the new bluemercury stores and website, and positioned the company for expansion.[10] You can learn more about how Marla and Barry Beck scaled bluemercury in *Core Reading: Leading High-Growth Ventures* (HBP No. 8082).

The iterative business planning process used by the bluemercury founders enabled them to understand their business, the opportunity they were pursuing, and its context in great depth. Equally important, this process enabled them to engage in an informed dialogue with investors, customers, suppliers, and key employees as they continually revised the business model and other documents and pitches associated with the business plan.

These early business plans focused on launching and scaling the business. In 2006, the founders were ready to sell part of bluemercury to harvest some of the value they had created. In 2006, the business planning process involved much less uncertainty. The founders had audited financials that demonstrated strong growth in revenues and profits. They had well-crafted operating plans that detailed the activities needed to select new sites for new retail stores, and to launch a bluemercury beauty product line. They had detailed plans for the resources and financing needed and had developed a set of metrics and milestones that could be used to measure progress toward achieving cash flow breakeven forecasts and profitability in all of the company's stores. As the founders considered bringing in strategic and private equity investors who would want to acquire a portion of the company, the purpose and form of the written business plan shifted again. The ***investor pitch*** book was now a slick 40-page document, full of photographs and images intended to evoke the clean, modern environment of the bluemercury stores.[11] Within a few months, the Becks received letters expressing interest from nearly a dozen companies and private equity funds. By spring 2006, using the new investor pitch and a series of presentations, they had sold a majority stake in bluemercury to an investor group at a pre-money valuation of $62 million while retaining their Chief

Executive Officer (CEO) and Chief Operating Officer (COO) roles and ensuring the cash needed to continue growing bluemercury.[12]

But the new business plan was not only used to communicate to potential investors; it was also used as a working document to help guide the company's expansion plans. One year later, anticipating the global economic recession, the founders' disciplined planning process alerted them to a contracting economy. In 2007, they reversed an ambitious expansion plan that had included opening bluemercury stores in malls across the United States. This fast action enabled the company to emerge from the global economic recession relatively unscathed.[13] By 2014, bluemercury had 62 physical store/spa locations across the United States, a robust online presence, a best-selling beauty product line, and it was regularly featured in leading fashion publications such as *Women's Wear Daily, Vanity Fair, Allure,* and *InStyle.*[14]

The process of continually refining the business model for a new venture and then communicating it to customers, suppliers, partners, employees, and investors is critical when building and growing high-impact businesses. While many believe that the ability to adapt quickly is intuitive, the ongoing planning process demonstrated by the bluemercury founders enabled them to innovate continuously, learn as they grew by designing experiments to test uncertainty in key assumptions, and to communicate what they were learning with key stakeholders.

Capturing Financial Information in a Business Plan or Pitch

Whether an entrepreneur is preparing a pitch or writing a traditional business plan, well-documented financial projections are critical. Typically, business plans include forecasted cash flow (including sources of revenue, costs, and expected losses) and forecasts for when the venture will stop burning cash, turn cash flow positive, and begin generating profits. In an investor pitch, these financial projections are often summarized, and detailed financials are provided in supplementary material. ***Financial forecasts*** are typically projected over three to five years; this time frame may be longer for a venture that requires long-term investments prior to turning cash flow positive. For example, many biotech and clean tech ventures require significant investments over ten or more years prior to turning cash flow positive. And while early-stage projections are often based on uncertain assumptions, the process of generating these forecasts and establishing potential scenarios identifies critical areas of uncertainty and risk, and helps develop approaches to mitigating risk. Expect potential investors to pay careful attention to projected financials and to ask questions to clarify the level of uncertainty in key assumptions.

Exhibit 2 shows an example of a financial forecast developed by the founders of car sharing service Zipcar prior to launching the business. Note that Zipcar developed these assumptions and forecasts as part of a more detailed business plan that discussed the industry, potential market, and strategic positioning that the founders intended to pursue at the time of launch. The plan also included a detailed description of how Zipcar's founders intended to enter the market, including early adopter customers; the initial service offering; and the detailed personnel and operating costs needed to develop, launch, and grow the business. Despite this careful planning, the Zipcar founders needed to update the forecasts regularly as they began implementing their plan and communicating with customers, partners, and investors. Learn more about the planning process Zipcar's founders followed in *Core Reading: Recognizing and Shaping Opportunities* (HBP No. 8056).

EXHIBIT 2 Sample Cash Flow Assumptions Developed by Zipcar's Founders

	Assumption (per unit)	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues						
Trips/member/month	4					
Miles/trip	22					
Hours/trip	4					
Beginning members		0	440	856	908	1,180
Attrition	15%	0	66	128	136	177
Ending members		440	856	908	1,180	1,196
New members		440	482	180	408	193
Average number of members		220	648	882	1,044	1,188
Application fee (per new member)	$25	$11,000	$12,050	$4,510	$10,205	$4,825
Annual fees (per avg. member)	$75	16,500	48,600	66,150	78,300	89,100
Per mile charge	$0.40	92,928	273,715	372,557	440,986	501,811
Per hour charge	$5.50	232,320	684,288	931,392	1,102,464	1,254,528
Total revenues		$353,848	$1,021,145	$1,377,564	$1,635,631	$1,854,198
Costs						
Variable Costs / Car						
Beginning cars		0	24	48	50	66
Ending cars		24	48	50	66	66
Average number of cars		12	36	49	58	66
Lease cost (car/year)	$4,400	$52,800	$158,400	$215,600	$255,200	$290,400
Access equipment (car/year)	$500	6,000	18,000	24,500	29,000	33,000
Fuel (car/year)	$1,080	12,960	38,880	52,920	62,640	71,280
Insurance (car/year)	$1,700	20,400	61,200	83,300	98,600	112,200
Maintenance (car/year)	$400	4,800	14,400	19,600	23,200	26,400
Parking (car/year)	$600	7,200	21,600	29,400	34,800	39,600
Total variable costs		$104,196	$312,588	$425,467	$503,614	$573,078
Fixed Costs: Corporate level						
Corporate insurance		$800	$800	$800	$800	$800
Reservation system		2,895	3,160	12,000	6,000	7,000
Administration—corporate		100,000	100,000	100,000	100,000	100,000
Benefits	20%	20,000	20,000	20,000	20,000	20,000
Office space		0	0	5,000	5,000	5,000
Office equipment and supplies		1,000	1,000	1,000	1,000	1,000
Phone		1,200	1,800	1,800	1,800	2,500
Total corporate overhead		$125,895	$126,760	$140,600	$134,600	$136,300
Fixed Costs: Boston Office						
Billing (member/year)	$24	$5,280	$15,552	$21,168	$25,056	$28,512
Administration—local		24,000	24,000	24,000	24,000	24,000
Benefits	20%	4,800	4,800	4,800	4,800	4,800
Office space		0	0	5,000	5,000	5,000
Office equipment and supply		1,000	1,000	1,000	1,000	1,000
Telephone and datalines		1,200	1,800	1,800	1,800	2,500
Marketing		10,000	12,000	12,000	12,000	12,000
Background checks (per new member)	$20	8,800	9,640	3,608	8,164	3,860
Total Boston overhead		$55,080	$68,792	$73,376	$81,820	$81,672
Total overhead costs		$180,975	$195,552	$213,976	$216,420	$217,972
Operating income		$68,677	$513,005	$738,121	$915,597	$1,063,148

Note: Revenues do not include Security Deposit and Interest Income on Security Deposit.
Source: Reprinted from Harvard Business School, "Zipcar: Refining the Business Model," HBS No. 803-096 by Myra Hart, Michael J. Roberts, and Julia D. Stevens.

Protecting Intellectual Property

Prior to sharing information with people outside the business, founders should discuss how to protect the ***intellectual property*** (***IP***) that is being developed or will be developed as they launch their venture. The entrepreneur must walk a cautious line, balancing the need to get stakeholders on board with the risk that confidential information will be compromised. While many advisers and lawyers suggest that founders ask everyone to sign a ***confidentiality*** or ***nondisclosure agreement*** prior to discussing the business or sharing written documents, most savvy investors, advisers, customers, and partners often refuse to sign these agreements until they formally join the company's board of advisers or directors or enter into a similar contractual agreement with the new venture. Founders should understand that any document—including business plans, technical specifications or drawings, PowerPoint slides, or e-mails—that they create and share with others is considered a public disclosure of their invention or creative work. US law states that inventors have one year from the time of the first public disclosure to file a provisional, design, or utility patent. Public disclosure and the impact on patentability differ in countries around the world. For example, in Europe, a public disclosure can immediately prevent an entrepreneur from filing a patent in the future. Japan gives a six-month grace period for filing a patent if the public disclosure was a presentation at a scientific meeting.

A Massachusetts Institute of Technology website for students and faculty members provides the following advice for inventors who may wish to patent their invention: "US patent law is among the most lenient in the world with regards to prior disclosure of your invention. It allows you to publish your invention or offer it for sale prior to filing a patent application, provided that you file your patent application within one year of the publication or offer for sale. If you wait longer than one year, your patent rights are forfeited. . . . If you have already disclosed your invention, check with a patent attorney before deciding not to try for a patent since your 'public disclosure' may not have been 'enabling,' or there may be some residual valuable, patentable information that you did not disclose."[15]

It is generally recommended that founders check patent law in all countries in which they intend to do business and that they consult with a lawyer familiar with patent law in countries where they wish to sell their invention prior to publicly disclosing it. Even if a founder is not planning to patent, it is still important to get legal advice early and many incubators and accelerators offer legal consultation services to entrepreneurs.

US law defines a patent as an intellectual property right granted by the US government to an inventor "to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States" for a limited time (e.g., 20 years for a utility patent) in exchange for public disclosure of the invention when the patent is granted. In addition to patents, other legal approaches to protecting IP include trademarks and copyrights.

Learn more about protecting IP in the United States at the United States Patent and Trademark Office.[16] Learn more about global IP protection by reviewing the World Trade Organization's Trade-Related Aspects of Intellectual Property Rights, better known as the TRIPS Agreement.[17] Entrepreneurs who wish to learn more about protecting intellectual property around the world can also visit the World Intellectual Property Organization (WIPO). Founded in 1883 (when Johannes Brahms was composing his third symphony, Robert Louis Stevenson was writing *Treasure Island,* and John and Emily Roebling were completing construction of New York's Brooklyn Bridge), the mission of WIPO—now a United Nations Agency—is to "promote innovation and creativity for the economic, social and cultural development of all countries, through a balanced and effective international intellectual property system."[18]

2.3 Types of Business Plans

Most business plans have common components and follow a similar format, but the elements and level of detail included in each section differ from plan to plan. For example, a new venture aimed at launching a mobile app for consumers may begin by developing a ***minimal viable product*** (***MVP***) plan that defines how the founders plan to engage the market in the design of the new offering. The development of a more detailed plan for exploiting the full market potential of the mobile app opportunity and for securing the partnerships needed with other industry players may be completed after the MVP experiment. A venture that plans to develop a new pharmaceutical drug, however, will need to deal more explicitly with the science behind the drug, the regulatory approval process, and related risks. In addition, the founders may need to develop a full business plan early to raise the significant amount of capital required to fund the drug discovery process. A venture that relies heavily on complex design, manufacturing, and fulfillment may devote more time to planning the manufacturing process and operating model than a venture that is relatively simple to launch.

In summary, entrepreneurs should not blindly follow a common format but should instead focus first on explaining the key features of their specific business model, the assumptions that were used to develop financial forecasts, the levels of uncertainty and risk, and the approaches for mitigating risk. Entrepreneurs must also know the audience for their plan and pitch, then they should tailor the plan to make it accessible, relevant, and interesting to the target audience. They should recognize that the business planning process often results in different types of plans and pitches, each customized for a specific purpose and audience. Four types of plans are presented in **Exhibit 3**. The Further Reading section provides information on websites that contain additional information on developing business plans and pitches, including templates for creating them.

EXHIBIT 3 Common Types of Business Plans

PLANS PREPARED FOR EXTERNAL STAKEHOLDERS

Mini-business plans contain a summary of essential components of a new venture's strategy, its go-to-market and operating plans, and how these plans translate into financial forecasts. The mini–business plan also provides appendixes that include supplemental information that may be needed when pitching to investors, customers, partners, key employees, and advisers. These appendixes may include background and biographies for key team members, detailed market data and forecasts, discussions of industry trends, listings of key industry players and comparisons with competitive products, and financial forecasts. Mini-plans are typically used as supplements to one or more well-crafted pitches when searching for financing or to gain the support of customers, partners, advisers, and other key stakeholders.

Traditional business plans contain a more detailed discussion of the strategy and the go-to-market and operating plans and provide significant detail on how these plans translate into financial forecasts, including multiple scenario-based stress tests to clarify key areas of uncertainty and risk. These more detailed plans may be required by some investors, customers, partners, or other stakeholders for due diligence purposes—especially for breakthrough discoveries that will require significant capital over long periods of time before an entry product can be delivered to early adopter customers. Formerly the gold standard for articulating the goals and plans for a new venture, traditional plans are increasingly being replaced by pitch decks and mini-plans.

PLANS USED FOR INTERNAL PLANNING PURPOSES

Go-to-market plans describe the unmet needs of early adopter customers; the product, service, or solution that will be developed to address these needs; and the value proposition and benefits that will be delivered. This type of plan defines the specific features that will distinguish the entry product or service from competitive products and other alternatives that customers are currently using or could use; the industry's competitive dynamics and how the new venture will establish a unique and differentiated position. Detailed plans are also provided for how the founding team will educate customers about the venture's offerings and pricing, deliver products or services, and provide after-sales service. This plan also defines the approach that will be used to "cross the chasm" from selling to early adopters to attracting mainstream customer segments, and the venture's plans to scale the business by entering new markets, launching new products, and exploring new business opportunities. The go-to-market plan forms the foundation for identifying the revenue models and the market potential of the new business at the time of entry and as it scales to exploit growth options.

Operating plans define the key activities and milestones that must be accomplished as founders develop, produce, and deliver the venture's first offering. The operating plan is also used to identify the resources (e.g., talent, technology, infrastructure, equipment, facilities) that will be needed to launch the new venture and the resources needed to scale the operation. The operating plan, along with the go-to-market plan are typically used as the foundation for creating experiments the new venture will undertake to reduce uncertainty and prove the viability of their business. Operating plans are also used to identify assumptions regarding operating costs for the financial plan.

2.4 Pitching a Business Plan

No matter what form their plan takes, most entrepreneurs will be required to create targeted and convincing pitches to assemble the resources and build the ecosystem needed to launch a new venture.[19] This reading focuses on two types of pitches. The first is a ***business plan pitch***—a compelling presentation that can be used to pitch a new venture to investors (inside or outside the business) and to customers, partners, advisers or key employees. The second is an ***elevator pitch***—a one-paragraph description of a new business or opportunity. The idea behind an elevator pitch is to describe the business or opportunity in a way that captures the interest of someone who is unfamiliar with your idea in the short time it takes to ride an elevator from the first to the tenth floor of a building. Often a pitch this short is used in an e-mail introducing the business to gain the immediate attention of an investor or other resource you are attempting to attract. Templates for creating business plan pitches and elevator pitches are available in the supplements to this reading.

Preparing to Pitch

The first guiding principle for an entrepreneur preparing a pitch is straightforward: Do your homework. Clarify your objectives in making the pitch. Is it to gain financial commitments or attract partners, or do you have another purpose? Learn what is important to the people who will be listening to the pitch and get objective data to support your claims. If pitching to raise financing from sophisticated venture investors, you want to emphasize, for example, the initial cash flow and eventual profits. If pitching to attract employees or partners, you may want to emphasize the intrinsic excitement of joining the venture. Trusted insiders can often provide a wealth of critical information that can be used to help frame the pitch. For example, the entrepreneur can find out who will be attending the ***pitch presentation*** and what the attendees would like to learn about the founding team and company. It is also helpful to know why these individuals invited the entrepreneur to pitch the business plan and whether attendees or others who have influence over them have expressed concerns that the presenter should be prepared to answer. For example, as Ted Morgan and Mike Shean, the co-founders of Skyhook Wireless, prepared to pitch their new software solution enabling mobile devices to become "location-aware" to Apple CEO and founder Steve Jobs, they talked with people who had pitched to Jobs in the past. One of the critical details they learned was that successful negotiators with Steve Jobs often avoided committing to a price or other key contract features during the first meeting, even if Jobs pushed them to do so. If possible, before pitching to key investors and partners, entrepreneurs should also talk with industry and market experts so that they are prepared to answer tough questions and clarify how they plan to attract the key partners, customers, and suppliers.

Entrepreneurs can also use online resources to access information they need for their pitch. For example, if pitching to venture capitalists, the entrepreneur may visit the VC firm's website, review the biographical information on the people who will be at the meeting, and find businesses in which the partners have invested. If pitching to a company that might be considering a strategic investment, entrepreneurs can visit the company's website and review information on products, customers, recent acquisitions, and investments. If pitching to a publicly owned company, it is helpful to read the latest news, press releases, investor information, and presentations. Internet research databases can provide important information on customer priorities, industry trends, and competitors' strengths and weaknesses. An Online Research Guide is available in the supplement to *Core Reading: Becoming an Entrepreneurial Leader* (HBP No. 8051).

Crafting the Pitch

A common problem in preparing a pitch is that the entrepreneur tries to convey too many facts but not enough of the compelling information that the audience needs in order to make decisions. To avoid this pitfall, it is helpful to identify the objectives for the meeting up front and then to craft the pitch to clearly convey the information that makes it easier to achieve the objectives. Because the initial pitch to an investor, key customer, or partner may not result in an immediate decision, it should be designed to grab listeners' attention and spark their interest in learning more. Appendixes should include detailed information on the industry, competitors and customers; biographies of key people, partners, and advisers; and other relevant information.

For an initial meeting, entrepreneurs often prepare a 20-minute pitch that can be communicated in a dozen slides or fewer. A template for creating an 11-slide investor pitch that covers the key components of a business plan is included in the Supplemental Reading section.

Practicing the Pitch

Once the pitch is developed, and well before the entrepreneur begins to pitch to key stakeholders, it is helpful to do several "dry runs" with partners and advisers who already understand the business. The goal is to refine the content and timing, and to ensure that the information on the slides provides strong visual cues to the ideas that must be communicated. Make sure the presenter's verbal comments expand on and clarify what is on the slides and that animation features build complex graphics as the entrepreneur explains them. Avoid reading long lists of bullet points. Instead, whenever possible, use graphics to convey key concepts. This is especially true early in the presentation, when the entrepreneur attempts to convey complex information in, for example, explaining the ecosystem of suppliers, partners, customers, and channels that must be built for a successful launch. Here also is the time to explain the roles that participants, including the new venture, will play in the ecosystem, as well as the benefits and costs of assembling a strong ecosystem or entering an existing one.

After early test runs, the team can progress to presenting the pitch to supportive audiences who are in a position to give valuable feedback but who do *not* understand the new venture. Subsequently, team members can pitch to more important audiences (for example, potential investors or partners).

As entrepreneurs deliver the pitch in front of friendly but knowledgeable audiences, they should request feedback on whether the following questions have been addressed. The first group of questions (the *why* questions described below) are critical, because they are often the questions that savvy venture investors use to determine whether to invest. In short, these *why* questions address three factors: Why this? Why now? Why this team? Other questions address additional features of a good pitch.

- *Why?* Why is this opportunity unique and compelling for this specific audience and for the stakeholders whose support will be needed to make the business a reality? Why is this a good time to launch this venture? For example, is the window of opportunity opening and will it stay open long enough to build a sustainable business and deliver expected returns? Why are the founder and team best positioned to exploit this opportunity? Do they have the passion, commitment, connections, and mind-set to make the decisions and hard choices needed to turn their vision into reality?
- *Who?* Who are the key stakeholders for the business (e.g., customers, founders, suppliers, advisers, and investors)? Within customer markets, who is the user and who makes the buying decision? Who are the founders? Can they attract the top talent (employees, partners, advisers) and other resources required?
- *Where?* Where are key customers, suppliers, partners, and talent located? Where is the company located? Where will the product be developed, sold, and used? Is location an important consideration in understanding the opportunities and challenges of building, launching, and growing this business and exploiting the opportunity?
- *What?* What products and services will be offered and at what price? What are initial and follow-up offerings? What differentiates this offering from others in the marketplace? What is the value proposition for all stakeholders? What are the key milestones and deliverables?
- *When?* When will the first product or service reach the market? When will follow-up offerings, markets, and businesses be launched? When will returns be delivered to investors? When will key milestones be reached? How much uncertainty is there in the assumptions behind the milestones and deliverables?
- *How?* How will founders attract the resources and build the capabilities required to meet key milestones? How do they plan to build products and develop services? How will they market, sell, and deliver their offerings? How will they attract key stakeholders and ensure customer loyalty and engagement?

Like the business plan on which it is built, the pitch is a living document that is continually revised in response to changes in the market or industry or from the experience gained engaging the market, launching the venture, and delivering the pitch to various audiences.

Presentation Tips

A well-documented business plan and presentation are essential to a successful pitch, but they are not enough. The pitch needs to tell a story that makes the market's compelling need, or the ***market "pain,"*** real to the audience and convinces them that the proposed offerings are the logical solutions to meeting this need or alleviating this "pain." The pitch should be exciting and engaging. It should communicate the opportunity so that the audience clearly understands the size and scope of the longer-term opportunity as well as the attractiveness of the entry opportunity. Showing energy, passion, and commitment is essential. The audience should believe that this is a compelling and unique opportunity and that the founding team—above all others—is in the best position to build a successful business to address this important market need.

Unless there is a very good reason to do otherwise, it is usually best if only one person presents. The correct person to do the pitch depends on the audience and the type of pitch. For example, the CEO often pitches to investors; the head of marketing and sales may take the lead on customer pitches; the Chief Technology Officer (CTO) may deliver the pitch to key technical recruits or partners. It is helpful to have founding partners attend the meeting along with a *few* senior executives from the founding team. Anyone attending the meeting should know what role she or he will play during the meeting and the type of questions she or he will be expected to answer.

As we've discussed, if intellectual property is central to the value of a venture, the entrepreneur should take steps to secure it by using nondisclosure agreements where practical and by filing for patent protection and trademarks as indicated, while keeping in mind that public disclosure of the business may preclude the filing of patents at a later date. In fact, ownership of IP will be an item that potential investors will want to assess. When the entrepreneur does not have the resources to apply for a full patent, a provisional application can offer some protection by providing an early effective filing date in the event of later competing patent applications.

It's important to secure trademarks and mark pitch slides with copyright symbols. In addition, clearly mark that the information contained on each slide is confidential and provide citations for information obtained from other sources. At the end of the presentation, entrepreneurs may take the precaution of collecting any handouts they passed out earlier. It is also wise not to share information on a new venture too far in advance of delivering a formal pitch. While it is possible to keep future plans somewhat vague by talking at a high level about potential options for future growth, it is also important to ensure that the pitch will generate excitement by communicating some specifics of the compelling opportunity.

The Elevator Pitch

Entrepreneurs will likely have many variations of their elevator pitch—longer versions, shorter versions, and versions targeted to different audiences. Indeed, entrepreneurs in early-stage ventures often find themselves needing to talk about their venture and its evolution in both formal and informal settings. As a result, it is essential to have an elevator pitch ready when an investor, potential customer, potential employee, or other stakeholder asks, "Tell me about the business you are starting."

An elevator pitch is designed to convey succinctly and clearly the most critical information required by a listener who is unfamiliar with the business. The information in the elevator pitch can be used as a guide to develop an executive summary for the business plan or an introductory e-mail, or to help frame an in-person response to a question about the business. The entrepreneur should practice the elevator pitch (and multiple variations) until he or she feels confident about delivering it clearly and in a memorable way without sounding rehearsed.

An interactive elevator pitch template is found in the Supplemental Reading section.

2.5 Conclusion

To attract the support and resources needed to launch the business and grow it to achieve its full potential, entrepreneurs must develop a well-honed business plan and pitch. The process starts with a thorough analysis of the opportunity, including the business vision and entry strategy, the go-to-market and operating plans, the financial forecasts and the business model assumptions that support them, and the key milestones and metrics that the entrepreneur will use in implementing the plan. The process of analyzing the opportunity is discussed in detail in *Core Reading: Recognizing and Shaping Opportunities* (HBP No. 8056).

Preparing a business plan—whether it's a mini–business plan; a traditional business plan designed to attract investors, partners, customers, or key hires; or an internally focused go-to-market or operating plan—can enforce discipline on founders, forcing them to articulate the market, product, or service and the resources required to launch. A pitch is crafted to present the plan to an audience. Successful entrepreneurs tailor the pitch by focusing on the audience's key questions: why, who, what, where, when, and how.

Once the planning process is completed, it is the entrepreneur's job to develop a compelling written business plan or pitch that can be used to attract a key stakeholder to provide the support needed to launch the business. The best way to do this is through preparation, practice, and feedback. Developing a business plan and pitch is a major accomplishment, but there is much more to be done. Now the hard work begins: attracting talent, building a team and the ecosystem needed to launch the venture, financing the venture, and conducting the experiments needed to launch the business and gain traction in the market. These topics are discussed in other readings in the *Core Curriculum in Entrepreneurship* series.

3 SUPPLEMENTAL READING

3.1 Developing an 11-Slide Investor Pitch

Given the limited time most entrepreneurs have to present their ideas to investors, pitches need to be concise and focused on efficiently delivering essential information. Additional information can be conveyed through an accompanying mini-plan or appendixes. This outline describes an investor pitch that can be delivered in about 20 minutes. The slides can be tailored for other audiences, such as customers, key employees, or partners.[20] Slides should focus on images, graphics, and charts that convey information clearly and visually. Capture talking points in an accompanying document or in the Notes section of the PowerPoint presentation.[21] Entrepreneurs should know how to use animation features to build information-rich slides or fill in key information as they "tell their story."

Title Slide

The title slide should include the company name, and names, titles, and contact information for the entrepreneur, the team, and key partners. During the pitch, the entrepreneur can use the title slide to begin establishing credibility by briefly mentioning relevant biographical information for the entrepreneur, partners, and advisers. Inform the listeners that detailed biographies are available in the supplementary documents available with the pitch. While on the title slide, let the listeners know that the pitch will take about 20 minutes and clarify with the listeners how much time they have available for the pitch. Also, let listeners know that there will be time for questions and discussion at the end. By letting them know this at the outset, the entrepreneur can avoid getting drawn into long side discussions that detract from the compelling story he or she is attempting to tell. Keep in mind, however, that questions signal interest, and it is important to avoid dampening listeners' enthusiasm and interfering with their understanding of the opportunity by being too rigid. Taking questions without allowing the presentation to suffer is part of the art of pitching. As discussed in the slide descriptions below, it is helpful to provide additional detail in a set of appendixes or supplements that can be passed out to accompany the pitch. The entrepreneur can refer to these appendixes to answer questions that require detail not available on the slides.

Slide 1: Executive Summary

A pitch should start with an executive summary that provides a *high-level* summary of the problem or opportunity that the entrepreneur plans to exploit. This summary should describe customers, the pressing problem the venture intends to solve, the proposed solution and why it is unique and valuable to customers able and willing to pay, why this team is ideal for launching the business, and the current state of the business. In other words, the executive summary does the same job as an elevator pitch. The speaker should mention any important industry trends and disruptors (e.g., technologies or changes in regulations, demographics, or society) that have created a window of opportunity. This slide should be geared to the audience and the purpose of the meeting. Investors often want to know at the beginning of the pitch how much money the entrepreneurs are attempting to raise. When pitching to potential partners or key employees, it is important to let them know what role they will play and what value they will receive. By the end of this introduction, the listeners should be thinking: "This is a great opportunity"; "This is the right time to invest (or join)"; and most important, "This is the right team to exploit the opportunity." A compelling executive summary generates interest and sets the stage for the rest of the presentation.

Slide 2: Market Positioning/Problem Description

Describe the market and the problem ("pain") that customers experience today and provide information on the size and growth rate of the total addressable market. This slide should also describe specific market segments, with each segment's size and growth rate, and highlight the segment that the entrepreneur plans to address at the time of launch. Inform the audience of the founder's expectations about how fast the venture will grow and the approach that will be used to gain the interest and participation of early adopters. Toward the end of the discussion of this slide the presenter can also highlight how the venture's market position might evolve over time to include mainstream and new customer segments.

Slide 3: Product Positioning

Explain the product or service and how it will address the market opportunity or alleviate the "pain" described in Slide 2. Provide more detail on the window of opportunity for entering the market and how long it will be open. This slide should provide a high-level description of any new technologies or features that differentiate the solution from those available today or those that will be available soon. Unless presenting to a knowledgeable audience, the presenter should avoid highly technical language and industry jargon. The slide can refer the audience to a technical appendix or to a white paper for a more detailed description of key technologies.

Slide 4: Business Network (Ecosystem) Positioning

Show a diagram of the business network or ecosystem that identifies key customers, suppliers, partners, and other players that must participate to make the venture successful. Use this slide to discuss the role the venture will play and how the new business changes (and hopefully improves) relationships and economics among the players. If the venture decreases the power or positioning of a powerful player, the entrepreneur should be prepared to explain how the risk of retaliation will be mitigated. Once again, the description of the business ecosystem should be high level and should refer to an appendix for more detail. The entrepreneur can also use this slide to cover key relationships and connections that the founders have in the industry and the plan to establish additional critical connections. The appendix can show the details of any key partnership agreements that have already been made.

Slide 5: Competition or Substitutes

Discuss key competitors and substitutes and how you will differentiate your offering from available (or potential) alternatives. If appropriate, the slide can use a product-market positioning matrix or other graphic to highlight relationships among the key competitors and the differentiating features of the entrepreneur's offering versus those available in or entering the market. Engage in a more in-depth discussion of how to attract key suppliers, channel partners and customers to switch from a competitor or substitute product to your offering. By this point in the pitch, the entrepreneur should have demonstrated a thorough understanding of the industry and competition, and how the proposed product or service clearly differs from existing offerings in ways that matter to customers. Provide additional details on competitors' strengths, weaknesses, and offerings in a supplemental business plan or appendixes.

Slide 6: Customer Benefits

Describe the benefits that will be delivered, who will receive them, and when. By this point in the pitch, it is important to ensure that everyone understands the size of the market and growth trajectory, exactly what the new venture will sell to whom, and how much customers will be willing and able to pay (e.g., key revenue models and drivers). If the people who will use the product are not the same as those who will be buying it, address this point here and/or in the market-positioning slide. By this point, listeners should have all the information they need to understand the revenue model and the assumptions behind the revenue projections, which will be presented in a later slide.

Slide 7: Operations

Identify the capabilities and resources needed to design and launch the initial product and service offerings and those needed to grow the business over the next five years. The slide should include product development, production, marketing, sales, customer acquisition and retention, service delivery, partnerships, and any key administrative activities such as finance, human resources (HR), information technology (IT). Identify key people that need to be hired, outsourcing partnerships, capital equipment, IT infrastructure and systems, facilities, and so on. Show progress to date in acquiring the resources and building the capabilities needed to operate the business, and discuss plans to acquire additional resources. This slide may be accompanied by an appendix or supplement that provides additional detail on operating plans and costs. By this point, investors should have all the information they need to understand the cost assumptions of the financial projections.

Slide 8: Financials

Provide high-level cash flow projections and identify the key assumptions behind them. Show best-case and worst-case scenarios around important assumptions and discuss the influence of changes in key assumptions on revenue and cost projections. More detailed financial information will be required when presenting to sophisticated investors and partners during the due diligence phase of the investment decision. The goal in the initial pitch is to provide enough detail to convey that the founders understand the financial risks and returns, and can defend the business model and produce the data needed for due diligence.

Slide 9: Risks

Discuss key areas of risk and how they will be managed. Demonstrate an understanding of all categories of risk, including: (1) financial and investment risk, (2) strategic risk (e.g., market uncertainty, technological/product uncertainty, industry and regulatory risks, capital intensity) and (3) operating risk (e.g., hiring and retaining talent, developing entry-level and follow-up products, acquiring and retaining customers). Discuss approaches that the venture has taken and will take to manage those risks, including ploanned experiments.

Slide 10: Implementation, Status and Traction, and Financing

Articulate key milestones (e.g., product development deadlines, beta tests, market launch, follow-on launches, and potential market expansions). Discuss the current status of the business and provide estimates for when key milestones will be achieved and key risks/uncertainties that will be addressed. Discuss experiments that are planned to test assumptions and reduce uncertainty and metrics that can be used to measure insights gained from those experiments. If possible, identify the minimal viable product (MVP) that could be built to begin to engage the market, the resources (including financing) that are needed to build the MVP, and progress made toward securing those resources. Show the team's current estimate for the total investment that will be required, current plans for how the investment will be staged within rounds of financing, the timing between rounds, and expectations for how the funds will be used at each stage. Mention that these numbers may change based on what the team learns during implementation and reiterate some of the key areas of uncertainty that must be resolved. By this point in the presentation, investors should be confident that the entrepreneur understands how to implement the series of experiments needed to achieve key milestones and mitigate risk.

Slide 11: Closing Slide (the "Ask")

End by returning to the opening slide (or a variation of it) and summarize the business case that has been made, the resources needed from the audience, and next steps. Then open the floor to questions.

Optional Supplementary Slides or Handouts

Sources and Bibliography: This optional slide includes key sources of data used in preparing the slides and business plan, including published and unpublished papers, analyst reports, company reports, interview notes, and other documents. Be sure to reference sources on the slides where data is used or in a supplementary slide at the end of the presentation.

Appendixes: Additional detail can be placed in slides and/or in hard-copy supplements that can be reviewed during the pitch. Common appendixes include industry and market analysis, competitors and their offerings, market share data and projections, technology white papers, management biographies, status of patents, agreements with key stakeholders and hires, and financials.

3.2 Business Plan Evaluation Exercise

This exercise enables you to review two disguised mini–business plans that were submitted to an angel network by two founding teams seeking an early-stage investment. You will then have the opportunity to assume the role of the angel network's managing director and decide whether to invite one or both of the founders to pitch their plan to the angel network's members. As you analyze the content in the plans, identify additional information needed to strengthen the plans and suggest how the entrepreneurs can obtain the information.

The two mini-plans are versions of plans pitched in 2005 to CommonAngels, an angel network located in Massachusetts, by founders of AEC Systems and ZenG, two companies whose names and other identifying information have been disguised. The timeliness of the information in these cases is not important—you are judging each on the quality of the mini–business plan in providing the information needed by the managing director of the angel network as he attempts to determine whether to invite the entrepreneur to present and what additional information may be needed. For example, the AEC Systems business plan was pitched before the iPhone or iPad were launched (June 2007 and April 2010), so consider the value of this idea before the explosion of apps that fueled the mobile broadband revolution. Also note that this pitch was made at the height of the construction industry boom that preceded the collapse in late 2008 and 2009.

Read the AEC Systems and ZenG mini–business plans and fill out the business plan evaluation checklist for each. You can save your work by saving this file under a new filename.

Study Questions

1. Review the business plan evaluation checklist, which will be used throughout the due diligence process. Identify which criteria you believe will be most important for deciding whether to invite an entrepreneur to deliver an initial pitch to the group. Place an asterisk (*) beside those criteria.

2. Assume you are the managing director of a new angel network that has received the two mini–business plans from the founders of AEC Systems and ZenG. Use the business plan evaluation checklist to evaluate the strengths of each mini–business plan.

   Identify what information each plan does and does not provide. If the plan does not address the specific criteria, mark the rating box DK (don't know). If the plan addresses the specific criteria, rate its strength and explain the rationale for your decision in the comments box.

   Make a decision about whether to invite the entrepreneur to present his or her initial pitch to the angel network members and check one of the investment recommendations.

3. If you plan to invite a founding team to present, identify questions you want the team members to be prepared to answer and specific information you want them to include in their pitch.

4. If you do not plan to invite a founding team to pitch, identify the key reasons for your decision. Provide recommendations for the founders about how they might revise the plan and whether they should consider resubmitting their revised plan to the angel network or to another type of investor.

5. Be prepared to defend your decision and rationale.

AEC Systems Business Plan

In late 2005, AEC Systems began searching for seed financing. One of the key targets in its search was CommonAngels, which it pitched in early 2006. Below is a disguised version of the business plan that AEC pitched to CommonAngels. The company name, founders' names, several key advisers' names, and some data are disguised.

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AEC Systems: The Leader in Mobile Computing for the AEC Industry

Mobile, tablet-based solutions have replaced paper and pencil for companies like UPS to support delivery of $15 packages and for Coca-Cola to deliver $2,000 shipments of soft drinks to grocery stores, but architects, engineers, and contractors still use paper and pencil to coordinate, communicate, and collaborate on delivering $250 million construction projects. Each day of delay on a construction project of that size costs $30,000 to $50,000, yet project plans, contracts, and status information are often "stuck between the seat cushions of a company pickup truck."

AEC Systems is the first to market with a suite of applications for architects, engineers, contractors, and property owners. Our software solution, which is offered on a monthly subscription basis (currently $300 per month per user), is unique because it runs on a rugged, tablet-based PC and enables users to share, mark up, and comment on architectural drawings; monitor safety inspections; track materials and costs; manage work orders and punch lists; check calendars; send e-mail; and manage projects from startup through handover to the owner. (*Note:* AEC Systems' solutions can also run on any standard laptop running a Microsoft Windows operating system.) Users can work online in the field using readily available cellular or satellite communication services, or they can work offline if a network is not available. Once in the office, they can upload information to their standard computers and connect to the company intranet or public Internet through a docking system or standard Ethernet cable.

AEC Systems was incorporated as a Delaware LLC in April 2005. Our co-founders, Jon Kay (MBA, Harvard Business School, with over 10 years of experience in marketing and selling enterprise software) and Aaron Oman (MS, Harvard Graduate School of Design, with over 10 years of experience as an architect and contractor), have attracted an experienced software developer and a top-notch board of advisers, including Tom Curn (who has over 15 years of experience as a CEO, has built two successful venture-backed technology businesses in the mobile and enterprise computing segments, and has worked for 10 years as a consultant at Accenture), and Jack Macon (a successful contractor, real-estate developer, technology entrepreneur, and professor at Massachusetts Institute of Technology [MIT]).

AEC Systems signed its first paying customer in September 2005 and by year-end had signed four additional customers for a total of $25,000 in bookings. In addition, we have successfully signed our first follow-up project with one of our initial customers. We project that by year-end 2006, we will have successfully grown our deal size from a $20,000 annual subscription fee per customer to a $100,000 annual subscription fee per customer and will have over $500,000 in bookings.

The Market

AEC Systems targets the architectural and engineering services and construction (AEC) industries that manage over $4 trillion in construction projects worldwide. At entry, we intend to target the US market, which was a $1.2 trillion market in 2005 and grew over 10% per year during 2004 and 2005. Within this market, we are targeting the $311.4 billion nonresidential building market, which grew by over 7% between 2004 and 2005. Nonresidential construction is forecasted to grow by 8.1% between 2006 and 2011, to $514 billion. (See **Exhibit 4** for a summary of AEC's market size by segment.)

Exhibit 4 AEC Systems Market Size by Segment (United States)

Nonresidential Building Contractors						
	Number of Firms	Revenues	Average Number of Users	Total Users	Annual Revenue per User	Total Potential Annual Sales
Top 25	25	$1.5B–$1.8B	2,000	50,000	$1,200	$60,000,000
26–50	25	$800M–$1.8B	500	12,500	1,500	18,750,000
51–100	50	$460M–$800M	250	12,500	2,100	26,250,000
101–200	100	$260M–$460M	100	10,000	3,000	30,000,000
201–300	100	$177M–$260M	50	5,000	3,120	15,600,000
301–400	100	$121M–$177M	35	3,500	3,120	10,920,000
401–1,000	600	$50M–$121M	15	9,000	3,300	29,700,000
1,001–7,000	6,000	less than $50M	7	42,000	3,300	138,600,000
	7,000			144,500		$329,820,000
Heavy Construction Contractors						
	8,850			134,250		$205,200,000
Design and Engineering Firms						
	12,500			105,000		$213,000,000
Private Owners						
	1,000			22,500		$66,120,000
Public Owners (Government, Military)						
	1,600			45,010		$135,000,000
Total Annual Market Size				451,260		$949,140,000

Source: AEC Systems company documents. **Note: M = Million; B = Billion**

Over the past few years, the construction, architectural, and engineering services industry segments were in the top 10 in terms of annual software purchases of over $10 billion per year. Most of this spending was for project and business management software that was not available in the field. While traditionally viewed as late adopters of IT solutions, firms in our target industry, and our target users within these firms, have also shown that they adopt technology very quickly if it is easy to use, has immediate benefits in terms of saving time and money, and is priced correctly. For example, the construction industry was one of the very early adopters of the fax machine in the 1980s and Nextel walkie-talkies in the 1990s. As mobile software applications continue to mature, we believe the AEC industries are ripe to begin adopting mobile computing solutions. Based on a tiered, monthly, per-user subscription fee of $100 to $300 and a US market of over 30,000 firms, we estimate a total US market for AEC Systems software of approximately $1 billion in annual revenues.

The Product

The idea that sparked the launch of AEC Systems came to one of the founders while he was returning a rental car at the airport on the way home from a project site. As he packed the clipboard with his faxed project list from the contractor, faxed copy of the project management timeline, a printed version of the Excel spreadsheet budget, and numerous other contracts and paperwork into his bags, he noted the handwritten notes in the margins that he would need to download into his laptop on the plane. He then picked up the large tubes of architectural drawings that he had carried in the field and also thought of the time that would be needed to update them. As he watched the rental car checkout person scan the bar code on the car, print his receipt, and complete the transaction, he wondered, “Can’t mobile technology make my job more efficient?” These ideas formed the foundation of a joint research project at the MIT Center for Real Estate and the Harvard Graduate School of Design. After extensive analysis of available solutions, AEC Systems’ founders recognized the tremendous opportunity to apply best practices in mobile information technologies to address key pain points in the AEC industry. They also were able to attract the attention of leading industry experts and researchers who worked with them on developing AEC Systems’ market entry solutions. Two patents are pending on the AEC Systems technology.

Exhibit 5 AEC’s Tablet PC

Source: AEC Systems company documents.

The AEC Systems solution combines specially designed software with a mobile tablet PC to enable architects, engineers, contractors, and property owners to link to architectural drawings, documents, spreadsheets, data, and personal productivity applications while they are in the field; to update those documents by either writing on them or using a stylus-based keyboard similar to a Blackberry’s; and then to share those documents by e-mail or by linking them to their office PC and network. What’s different about AEC’s rugged tablet PC (shown in **Exhibit 5**) versus a pocket PC or mobile device—both of which had been tried and failed—is that the tablet PC solves two main problems. First, most contractors need a much larger, clearer screen for viewing complex, architectural drawings; the tablet PC, as in standard PCs, allows multiple windows to be open and worked on simultaneously. Second, it allows users to write on the tablet in their own handwriting and provides sophisticated handwriting recognition translators that simplify the process of updating architectural drawings, project management software, spreadsheet software, and so on. Alternatively, the information can be stored as handwritten text and linked to any document. AEC Systems provides solutions designed by its users to support field activities and to integrate seamlessly with both the common, off-the-shelf software and communication systems used in the industry and the proprietary software. In addition, users can work offline if a satellite or cellular network connection is not available.

By enabling users to focus on the work and not on the paperwork, our solutions make processes more efficient, decrease costs, increase quality, and improve project management. To date, we have worked with five large customers and have case studies that document ease of adoption and use and the benefits our solutions deliver. We estimate the annual savings on a $200 million project to be (based on an average of 20 users):

- $576,000 in efficiency savings per year (calculated based on documented average saving of six hours per week × 20 users per customer × the cost per user of $100 per hour × 12 months).
- $240,000 in project acceleration savings per year (calculated based on documented two days per month of average project acceleration × $10,000 carry cost per day).
- $1 million in cost recovery value per project.

The saving results noted in the third item come from work we have done with our initial customers who use our solutions to develop metrics for quantifying and tracking the quality of subcontractor work in a manner similar to tracking bugs in a software program. Today, faulty data and insufficient performance monitoring result in subcontractor recovery averages of less than 0.05%

industrywide. Our customers have improved this rate and are reporting an additional $1 million in annualized cost recovery per year.

Competition

AEC Systems is the first to market with a rugged, tablet PC–based solution for managing the full range of activities of contractors, architects, engineers, and owners while they are in the field supervising large, nonresidential construction projects. Potential competitors include players that provide a wide range of AEC contractor management and property management systems (for example, Meridian, Primavera, and Bentley), computer-aided design (CAD) software firms (for example, Autodesk and Bentley), enterprise software firms (e.g., SAP, Oracle, and Sage Timberline), and new entrants that provide tablet-based mobility solutions for a wide variety of field workers (for example, Field2base and Latista). We are unique among these competitors because of our deep domain expertise and experience in the construction industry, enterprise software design and operations, and mobility solutions. Our board of directors includes leading experts in architectural design, construction, and construction project management, and our founders and board members have decades of experience in building successful enterprise software and mobility solutions. The uniqueness of our vision and the ease of use and immediate benefits delivered by our entry software product, coupled with the contacts we have through our network of advisers, have enabled us to deploy AEC Systems successfully in projects for leaders in the industry, including contractors (William A. Berry, Macomber Builders, Turner Construction, John Moriarity, and SDC) and architecture and design firms (Arquitectonica, Elkus Manfredi, Janson Design Group, and Polshek Partnership).

Operating Model

Currently, we are in the product development and field-testing phase and have hired a software developer who has worked with the founders on developing the beta version of the product. The success of our entry solution with our five early adopter customers suggests that it is time to expand our organization to include formal product development, marketing, and sales teams.

Our marketing and sales model will be consistent with the model that has been successful for other software firms that sell to the AEC industry. We sold to our initial customers through our founders' and advisers' contacts in the field, and we will continue to leverage these contacts for future sales. We also plan to hire two salespeople to work in the first two regions of the country where we are already working with customers: New England, the site of three of our five projects, is projected to grow at the pace of the market through the next five years, and Southern Florida, the site of the remaining two projects, has been growing ahead of the market and is projected to continue its aggressive double-digit growth. In addition, one of the architectural firms we are working with in Florida has recently won a project in Dubai and is considering using our software solutions to help manage the project. While we do not plan to expand into global markets in the future, we will support current customers on projects outside the New England and Southern Florida regions and outside the United States.

This viral, word-of-mouth, project-centered approach will be the core of our marketing efforts in the near term as we evaluate opportunities to expand on a project-by-project basis. Our near-term marketing plans will also include building a website that allows customers and potential customers to download brochures; customer case studies; collateral company, product, and marketing information; press releases and coverage by industry research groups (for example, Gartner and Forrester); webinars; and attendance at trade shows and conferences.

As we gain traction in the marketplace, we have decided to preempt established players entering our niche by beginning partnership discussions with leading AEC construction management software firms, such as Meridian and Primavera, and computer-aided design firms, such as Autodesk and Bentley. We plan to enter talks with Meridian in early 2006 and will expand our partnership program during 2006 and 2007. In addition to enabling us to integrate our mobile solutions more closely into the design and management systems most commonly used by our customers, these established software players already sell to our target clients and can serve as sales channel partners.

From a product development perspective, we currently have one developer who has over a decade of experience building enterprise and mobility systems. Over the next year, we plan to grow our product development group to five people.

We currently contract with Allegiance Technology for our tablet PC hardware. Allegiance Technology has built its reputation for delivering leading-edge solutions to mobile professionals and specializes exclusively in tablet PCs. In addition to helping us design our customized tablet PC, Allegiance also configures the hardware and accessories (e.g., camera, carrying case), installs the AEC software, and serves as a value-added reseller working with our customers after the sale to customize the AEC solution to meet their specialized needs and to integrate with other technology. Allegiance also provides customer support and service, including toll-free lifetime tech support, a no-downtime warranty program, and access to demonstrations and training.

Funding and Financials

Since its founding in 2005, AEC Systems has begun work with five customers and has $25,000 in bookings. Our revenue model includes a basic subscription fee and, when needed, a consulting fee to work with Allegiance in order to customize the software and thus meet a specific customer need, and to integrate our systems with proprietary software and databases. Currently, our revenues are 90% subscription fees and 10% consulting. Our revenue projections for 2006–2011 are shown in **Exhibit 6**.

Exhibit 6 AEC Systems Revenue Projections 2006 to 2011

	2007	2008	2009	2010	2011
New bookings*	$1,238,800	$4,826,976	$12,667,150	$28,967,456	$34,567,456
GAAP revenues**	$876,459	$3,367,701	$10,593,136	$27,515,208	$51,926,393
EBITDA***	($1,250,000)	($500,000)	$400,000	$3,500,000	$8,000,000
Number of users	585	2,395	7,145	18,008	30,970

* Bookings include new annual software subscriptions (90% of bookings) and services related to opening new accounts (10% of bookings). Revenues include all recognized revenues in a given year based on a subscription fee of $100 to $300 per user per month.

** GAAP = Generally accepted accounting principles

*** EBITDA = Earnings before interest, taxes, depreciation and amortization

Source: AEC Systems company documents

We are currently seeking to raise $1.4 million and plan to use the money to:

- Hire two salespeople to expand sales in New England and Southern Florida.
- Develop a website and begin marketing.
- Hire five product developers to sustain our engineering and product lead.

As we gain traction in the marketplace, we anticipate raising an additional $3 million to $5 million in late 2006 to begin rapid penetration of US and international markets and to expand the product offering. New bookings are forecasted to be $4.5 million in 2008 and $50 million by 2011.

Business Plan Evaluation Checklist

Company name: ____________________ Your name: ____________________ Date: ____________

Rate each criteria:
1 (weak); **2** (neutral); **3** (strong); **DK** (don't know); **NA** (not applicable)
and provide a brief rationale for your rating. When complete, fill out the **Investor Summary** at the end.

FAVORABLE BUSINESS CONTEXT	RATING	RATIONALE
Industry trends/disruptors signal high impact potential		
Total market size and potential fit with entrepreneur expectations for growth		
Favorable competitive, regulatory, societal context		
Window of opportunity is open and will remain open long enough to capture value		

Comments:

ATTRACTIVENESS OF THE OPPORTUNITY	RATING	RATIONALE
Market attractiveness		
Ability to attract early adopter customers		
Value of offering to customers who are willing to pay		
Pricing/differentiation vis-à-vis competitors and substitutes		
Expected competitor response		
Able to attract outside resources and build capabilities		
Sound selling strategy		
Time to market vs. window of opportunity		
Appropriateness of financial forecasts and requirements		
Forecasts supported by assumptions that clarify risk and uncertainties		
Key risk and uncertainties have been identified; plans are in place to manage/mitigate risk		

Comments:

Rate each criteria: 1 (weak); **2** (neutral); **3** (strong); **DK** (don't know); **NA** (not applicable)

STRENGTH OF TEAM/ADVISERS	RATING	RATIONALE
Background/experience vis-à-vis venture		
Background/experience as entrepreneurs		
Connections to industry/ecosystem		
Passion and motivation, ethics and values		
Willingness of team to accept guidance		
Availability of talent (current and future)		
Background/experience of advisers/partners		
Adviser willingness/ability to support venture		
Access to needed services (e.g. legal, audit)		
Reference checks		

Comments:

Investor Summary

Company name: ____________________ Your name: ____________________ Date: ____________

INVESTMENT OPPORTUNITY	RATING	RATIONALE
Entry strategy and operating plan provide a platform for future growth		
Overall outlook for venture		
Appropriateness of financial requirements, plans to use capital, and implementation plans		
Availability of follow-on financing		
Fit with investor interests and expertise		
Investor access to required non-financial resources		
Exit opportunity and timing		
Potential synergies with other portfolio companies		
Favorable capital/governance structure		

Overall Comments:

Investor Recommendations

Check One: ☐ Invite to Present ☐ Invite to Revise and Resubmit ☐ Do Not Invite to Present

1. What are the key strengths of the plan?

2. What are the key weaknesses?

If you checked "Invite to Present"

1. What additional information or revisions would you like the founders to provide in their presentation?

2. What questions should they be prepared to answer?

If you checked "Invite to Revise and Resubmit"

1. What additional information or revisions would you like the founders to add to their plan before resubmitting?

If you checked "Do Not Invite to Present"

1. What are key reasons you rejected the plan?

2. What recommendations would you give to the founder?

Source: Adapted from Harvard Business School, "CommonAngels™ (A)," HBS. No. 810-082 by Lynda M. Applegate and Kaitlyn Simpson.

ZenG Business Plan

In early 2005, ZenG began searching for seed financing. One of the key targets in its search was CommonAngels. Below is a disguised version of the business plan that ZenG pitched to CommonAngels. The company name, founders' names, and some data are disguised.

****

ZenG: The Power of Zero

ZenG was formed as a Delaware C Corporation in July 2004 to develop and deploy efficient gasification systems that convert municipal solid waste (MSW) and construction and demolition waste (C&D) into clean energy. The reasons to do so are compelling:

- In the United States alone, over 400 million tons of MSW and C&D are created each year, with over 250 million tons ending up in landfills. Once in landfills, this waste converts into approximately 460 million tons of carbon dioxide (CO_2)-equivalent greenhouse gas, of which 50% is methane, a substance 22 times more harmful to the environment than CO_2 itself.
- Landfills are the largest human-made source of methane gas emissions, accounting for over 8% of total greenhouse gas generation, and they have been active emitters of greenhouse gas for over 50 years.
- MSW and C&D are rich in carbon content, with a dry-weight BTU per pound of 6,000, and are easily converted into synthetic natural gas (syngas). In a world of $60-per-barrel oil, ZenG is poised to exploit the opportunity to create clean power with a limitless supply of free fuel.
- One ton of MSW or C&D contains enough energy to power 250 homes. We estimate an untapped energy potential of over 110,000 megawatts of power from a never-ending supply of feedstock, which would enable us to power 16 million homes.
- An electrical generating company that could tap into this energy would generate over $28 million in annual high-margin revenue and simultaneously prevent over 430 million metric tons of greenhouse gas emissions.
- Regulatory changes with respect to renewable energy credits and carbon emissions offsets also create the potential for significant near-term return to investors in ZenG.

ZenG has designed a module that will convert 450 tons of MSW or C&D into more than 30 megawatts of clean energy per day. We intend to construct and operate a proof-of-concept facility in Massachusetts to be operational in May 2007. Once we have the proof of concept, our first plant can be built in 12 months and delivered at a cost of under $1,600 per kilowatt. Multiple modules can be bolted together for larger waste applications.

The Market

Target customers for ZenG systems are traditional and renewable energy power developers. Municipalities also represent customers in the sense that they provide access to our primary source of fuel (MSW or C&D) and will provide the site for ZenG's facilities. The overall market in the northeast United States alone is over 70 modules. Nationally, the market is 300 modules, which represents over $2.5 billion in annual revenues.

We seek initial deployment opportunities in Massachusetts that will generate significant value by avoiding the cost of traditional energy sources, making available renewable energy credits, and providing access to long-term waste-handling contracts. Once we have proven the concept in Massachusetts, ZenG will target its resources elsewhere in North America and Central America, including the Caribbean Basin. ZenG intends to self-develop the prototype module while also working with outside developers. In addition to Massachusetts, we currently have interest from Maryland, Michigan, New York, California, and Hawaii. This interest has occurred with almost no outreach effort.

The Product

ZenG has designed an efficient gasification system that converts MSW and C&D into clean energy, shown in **Exhibit 7**. This system will be deployed as a 450-ton module that can be licensed by transfer station owners, developers, state energy officials, and municipalities.

Exhibit 7 ZenG's Gasification System

Source: ZenG company documents.

ZenG's approach integrates innovative methods for producing zero-emission electrical energy from MSW and C&D waste with proven technologies. ZenG has filed patent applications in the United States and around the world relating to the treatment method for the mix of organic and inorganic material and the process of converting it to large volumes of zero-emission syngas per ton of waste processed. This syngas is then converted into electricity through combined-cycle power production. Our patents comprise a first line of defense against competition, with additional patent and trade-secret filings anticipated once our proof-of-concept facility is operational.

ZenG's technology and operations are designed to minimize the business risks undermining or limiting the success of previous attempts at commercial-grade waste gasification.

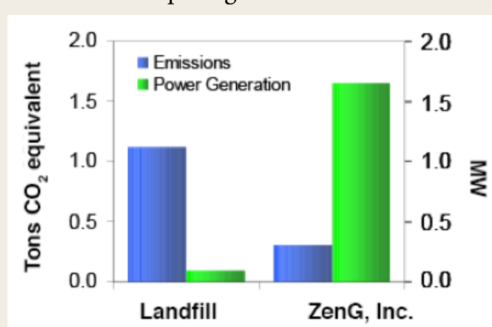
In addition to assembling a top-flight management team and the support of some of the world's leading experts, we have mapped out an approach to serving the electrical energy marketplace that is differentiated from our forerunners and competitors by two salient factors:

- We have minimized technology risk through the integration of commercially proven technology subsystems into a small-footprint, modular design.
- Partnerships with existing C&D waste-transfer stations enable us to gain access to reliable supplies of feedstock and to avoid lengthy site-assignment permitting activities. We have already secured commitments from a potential proof-of-concept partner in Massachusetts, with funding pending.

Competition

Competition includes landfills, waste-to-energy (incineration) firms, and other gasification firms. ZenG has distinct advantages over each (see **Exhibit 8** for an example). *Landfills* depend on high waste-tipping fees and, due to landfill gas issues, have become expensive to operate. ZenG will derive revenues from six sources, and tipping fees are only one. *Waste-to-energy* firms incinerate waste and, in doing so, generate small amounts of energy through single-cycle steam turbines. These facilities also generate large volumes of toxic ash that requires landfill disposal. ZenG systems generate large amounts of energy through combined-cycle power production, generate no residual ash or residue, are considerably more economical to construct, and are significantly more profitable to operate. *Other gasification technologies* are less heat-efficient, and therefore less net energy is available as a saleable product. The net effect is an overdependence on waste-tipping fees as a revenue source.

Exhibit 8 Comparing ZenG to Landfills



Source: ZenG company documents.

Environmental and Social Impact

ZenG represents a unique form of renewable energy. We not only create significant volumes of clean energy, thus lowering dependence on fossil fuels, but also simultaneously create measurable improvements to the environment in terms of lowered greenhouse gas emissions and lowered waterway pollution by avoiding the creation of landfill gas emissions and waterway runoff.

Funding and Financials

ZenG will have a (very) small sales organization focused on selling our power module to transfer station owners, developers, state energy officials, and municipalities. We will derive revenues from the sale of each 450-ton module in the following (approximate) proportions: core technology licensing fees (2%), equipment markups (13%), revenue royalties on energy sales (45%), tipping fees (15%), extended warranties (2%), royalties (20%), and carbon and other emissions trading royalties (3%). We expect the proof-of-concept facility to be completed in mid-2007 and the first plant to be operational by 2009. While we expect to begin operation of the first unit at cash flow negative, margins will quickly rise as various royalty revenue streams come online.

We are currently seeking $2 million in seed financing to complete technology development. In early 2006, we intend to raise a $3.8 million Series A round and will use the money to complete the proof of concept. In late 2007, we intend to raise a $20 million Series B round to build the first plant. In early 2009, we intend to raise an additional $20 million Series C round that will be used to scale the business to 15 plants. See **Exhibit 9** for projected financials.

Exhibit 9 ZenG Projected Financials, 2009 to 2014

	2009	2010	2011	2012	2013	2014
License sales		1	2	5	10	10
Total licenses		1	3	8	18	28
License, equipment, and royalty revenue		$2,250,000	$9,105,571	$21,316,714	$48,094,572	$75,400,286
Licensing expenses		300,000	900,000	2,550,000	5,550,000	8,700,000
Licensing income		$1,950,000	$8,205,571	$18,766,714	$42,544,572	$66,700,286
Plants on line		1	2	3	4	5
Total plants on line		1	3	6	10	15
Total income plant 1		$4,724,535	$4,878,757	$5,048,401	$5,235,010	$5,440,280
Total income other plants		—	6,499,583	16,742,469	31,024,764	49,672,186
Plant income		4,724,535	11,378,340	21,790,870	36,259,775	55,112,466
ZenG share of plant income		2,362,267	6,989,087	14,243,929	24,334,840	37,490,670
Plant license fee		300,000	900,000	1,800,000	300,000,000	4,500,000
One-time technology license fee	750,000	1,500,000	2,250,000	3,000,000	3,750,000	3,750,000
Total ZenG plant income	$750,000	$4,162,267	$10,139,087	$19,043,929	$31,084,840	$45,740,670
ZenG operating income	750,000	6,112,267	18,344,658	37,810,643	73,629,412	112,440,957
Fixed costs	5,410,760	4,197,552	5,037,062	5,854,841	6,807,731	7,918,487
ZenG pretax income	(4,660,760)	1,914,715	13,307,596	31,995,802	66,821,681	104,572,471
Income tax	—	—	1,731,704	11,184,531	23,387,588	36,582,865
ZenG net income	**($4,660,760)**	**$1,914,715**	**$11,575,891**	**$20,771,271**	**$43,434,093**	**$67,989,606**

Business Plan Evaluation Checklist

Company name: ______________________ Your name: ______________________ Date: ______________

Rate each criteria:
1 (weak); **2** (neutral); **3** (strong); **DK** (don't know); **NA** (not applicable)
and provide a brief rationale for your rating. When complete, fill out the **Investor Summary** at the end.

FAVORABLE BUSINESS CONTEXT	RATING	RATIONALE
Industry trends/disruptors signal high impact potential		
Total market size and potential fit with entrepreneur expectations for growth		
Favorable competitive, regulatory, societal context		
Window of opportunity is open and will remain open long enough to capture value		

Comments:

ATTRACTIVENESS OF THE OPPORTUNITY	RATING	RATIONALE
Market attractiveness		
Ability to attract early adopter customers		
Value of offering to customers who are willing to pay		
Pricing/differentiation vis-à-vis competitors and substitutes		
Expected competitor response		
Able to attract outside resources and build capabilities		
Sound selling strategy		
Time to market vs. window of opportunity		
Appropriateness of financial forecasts and requirements		
Forecasts supported by assumptions that clarify risk and uncertainties		
Key risk and uncertainties have been identified; plans are in place to manage/mitigate risk		

Comments:

Rate each criteria: 1 (weak); **2** (neutral); **3** (strong); **DK** (don't know); **NA** (not applicable)

STRENGTH OF TEAM/ADVISERS	RATING	RATIONALE
Background/experience vis-à-vis venture		
Background/experience as entrepreneurs		
Connections to industry/ecosystem		
Passion and motivation, ethics and values		
Willingness of team to accept guidance		
Availability of talent (current and future)		
Background/experience of advisers/partners		
Adviser willingness/ability to support venture		
Access to needed services (e.g. legal, audit)		
Reference checks		

Comments:

Investor Summary

Company name: ______________ Your name: ______________ Date: __________

INVESTMENT OPPORTUNITY	RATING	RATIONALE
Entry strategy and operating plan provide a platform for future growth		
Overall outlook for venture		
Appropriateness of financial requirements, plans to use capital, and implementation plans		
Availability of follow-on financing		
Fit with investor interests and expertise		
Investor access to required non-financial resources		
Exit opportunity and timing		
Potential synergies with other portfolio companies		
Favorable capital/governance structure		

Overall Comments:

Investor Recommendations

Check One: ☐ Invite to Present ☐ Invite to Revise and Resubmit ☐ Do Not Invite to Present

1. What are the key strengths of the plan?

2. What are the key weaknesses?

If you checked "Invite to Present"

1. What additional information or revisions would you like the founders to provide in their presentation?

2. What questions should they be prepared to answer?

If you checked "Invite to Revise and Resubmit"

1. What additional information or revisions would you like the founders to add to their plan before resubmitting?

If you checked "Do Not Invite to Present"

1. What are key reasons you rejected the plan?

2. What recommendations would you give to the founder?

Source: Adapted from Harvard Business School, "CommonAngels™ (A)," HBS. No. 810-082 by Lynda M. Applegate and Kaitlyn Simpson.

3.3 Investor Pitch Exercise

The television show *Shark Tank* is a reality program that features entrepreneurs pitching their business ideas to the Sharks, "tough, self-made multi-millionaire and billionaire tycoons," in hopes of securing investments for their companies. You can find information about the program at http://abc.go.com/shows/shark-tank. Review the biographies of the individual Sharks at http://abc.go.com/shows/shark-tank/cast and identify the expertise and resources each one brings to the table.

This exercise enables you to practice evaluating business plan pitches as you view two pitches that were delivered to investors on the *Shark Tank* reality television show. After you view and evaluate the pitches, use the available template to create an elevator pitch for one or both of the pitches. While *Shark Tank* focuses on entertainment value and is therefore different from the exhaustive due diligence process used by VC investors and sophisticated angel investment groups, this exercise will enable you to:

- View and critique two short investor pitches.
- Evaluate the questions the investors ask.
- Evaluate the pitches and identify additional information requested by investors.
- Practice developing an elevator pitch.

Click on each video title to view the pitches, pausing as indicated in the boxed text to consider the questions. Use the interactive Pitch Evaluation Worksheet following each video clip to record your responses. (You can retain your work by saving this document under a new filename.)

As you view the videos, notice that the investors are asking questions to help deepen their understanding of the venture's business model and each entrepreneur's ability to execute. They are not trying to trip up the entrepreneur. Learning to ask the right questions is the hallmark of successful entrepreneurs, advisers, mentors, and investors.

In **Video 1,** inventor and entrepreneur Jeff Stroope wants the Sharks to invest in his fire hose coupling device so that he can begin manufacturing. Use the Pitch Evaluation Worksheet to evaluate the Hy-Conn pitch and to rate its quality before proceeding to the next pitch.

VIDEO 1 Hy-Conn *Shark Tank* Pitch

Source: "Shark Tank" courtesy of Sony Pictures Television.

Scan this QR code, click the icon, or use this link to access the video: bit.ly/hbsp2pLdEKd

1 **Stop the video at 2:09** ("Who's ready to make millions with me?"). What questions would you ask? Try to ask questions that help clarify what drives revenue and cost.

2 **Stop the video at 4:22** ("$500,000"). Are there other questions you would like to ask? Would you invest?

3 **Stop the video at 5:06** ("Like that one?"). Does this change your interest in investing? What new questions would you ask?

4 **Stop the video at 5:31** ("You realize how difficult it is to change the entire industry?"). How difficult is it to change an industry? Are there other industries that could use this invention that would be easier to enter than the government firefighting industry?

5 **Stop the video at 6:04** ("Jeff, do you have anything else in your pockets?" "No, sir."). Why are the Sharks getting interested now? What changed when the entrepreneur showed a consumer product version of his innovation? Would you invest? If so, what would you offer in terms of both cash and equity stake? What does your offer imply about the valuation you are making with regard to the business?

6 **Stop the video at 6:33** ("Wait a second. Before you consider that madness. . ."). What is Mark Cuban offering? Why did he offer an employment contract and a percentage of profits plus cash and equity? What would you offer if you were Kevin O'Leary?

7 **Stop the video at 7:20** ("I'll pay you a royalty in perpetuity."). What is the difference between the two offers? What incentives do they provide to the entrepreneur?

8 **Stop the video at 7:45** ("You're sucking the life out of him."). As the entrepreneur, what questions would you have for Mark and Kevin? Would you want to counter with a different offer?

9 **Stop the video at 9:21** ("between the two offers."). What offer would you accept?

10 **Play the video to the end.** Take a moment to fill in your worksheet. What insights did you get about pitching opportunities from watching this video clip?

Pitch Evaluation Worksheet for Video 1 (Hy-Conn)

Opportunity Name ______________________________ Date ____________

Presenter(s) Names ____

Rate each pitch using the following key:
1 (weak), **3** (neutral), **5** (strong), **DK** (don't know), **NA** (not applicable)

CONTEXT	Favorable regulatory/societal context and trends	
	Favorable window of opportunity	
MARKET	Attractive market	
	Clear customer need	
INDUSTRY	Favorable competitive dynamics	
	Available suppliers and partners	
CAPABILITIES	Access to talent and expertise	
	Able to become best in class	
ECONOMICS	Top-line growth potential	
	Bottom-line productivity	
PRESENTATION	Personal passion	
	Clear and compelling	
	Realistic	
	Ability to implement	

Source: Reprinted from Harvard Business School, "Jumpstarting Entrepreneurial Innovation," HBS No. 1841C–MMC by Lynda M. Applegate.

In **Video 2**, inventor and entrepreneur Dominique McClain Barteet is offering 20% equity in her company, Onesole, for $500,000. As you view the Onesole video, answer the questions posed on the video. Use the Pitch Evaluation Worksheet to complete an evaluation of the Onesole pitch.

VIDEO 2 Onesole *Shark Tank* Pitch

Source: "Shark Tank" courtesy of Sony Pictures Television.

Scan this QR code, click the icon, or use this link to access the video: bit.ly/hbsp2uoAvRj

1. Stop the video at **0:23** ("I am seeking $500,000 for 20% equity in my company."). What does this imply about Dominique's thoughts about the value of her company today? Do you think it is worth this amount?
2. Stop the video at **1:38** ("'Cause you don't have Onesoles on"). As investors, what questions would you want to ask?
3. Stop the video at **4:59** ("I've never had a business class, never had a shoe design class."). How would you respond to the entrepreneur?
4. Stop the video at **5:47** ("What a fascinating story!"). What have you learned from the questions that the investors asked? As one of the Sharks, would you make an offer? If so, what offer would you make?
5. Stop the video at **6:06** ("And you get the $500,000."). Why did Robert Herjavec want to involve the other four Sharks? When do you want to syndicate a deal and bring others in? Will the other Sharks want to share the deal with Herjavec?
6. Stop the video at **7:59** ("The buyer will fire you after you are filthy rich."). Should Dominique take the offer?
7. Stop the video at **8:19** ("What are you going to do?"). Review the offers on the table. What does each deal imply in terms of pre-money and post-money valuation of the company? What does each Shark bring in terms of connections and experience? Which offer should Dominique accept?
8. Play the video to the end. Take a moment to fill in your worksheet. What new insights about analyzing and pitching opportunities did you get from watching this video clip?

Once you have evaluated the pitches in both videos, use the Elevator Pitch Template that follows the Pitch Evaluation Worksheet to create an elevator pitch for one or both opportunities.

Pitch Evaluation Worksheet for Video 2 (Onesole)

Opportunity Name ______________________________ Date ____________

Presenter(s) Names ____

Rate each pitch using the following key:
1 (weak), **3** (neutral), **5** (strong), **DK** (don't know), **NA** (not applicable)

CONTEXT	Favorable regulatory/societal context and trends	
	Favorable window of opportunity	
MARKET	Attractive market	
	Clear customer need	
INDUSTRY	Favorable competitive dynamics	
	Available suppliers and partners	
CAPABILITIES	Access to talent and expertise	
	Able to become best in class	
ECONOMICS	Top-line growth potential	
	Bottom-line productivity	
PRESENTATION	Personal passion	
	Clear and compelling	
	Realistic	
	Ability to implement	

Source: Reprinted from Harvard Business School, "Jumpstarting Entrepreneurial Innovation," HBS No. 1841C–MMC by Lynda M. Applegate.

Elevator Pitch Template

Name of Company ______________________________ Date ____________

For ________ who are dissatisfied with
IDENTIFY CUSTOMER SEGMENTS THAT USE OR WILL USE YOUR OFFERINGS

(or demand) ________, our company
EXPLAIN THE COMPELLING PROBLEM OR NEED YOU ARE ATTEMPTING TO ADDRESS

________ provides ________
INSERT COMPANY NAME BRIEFLY DESCRIBE YOUR PRODUCT AND SERVICE OFFERINGS IN TERMS OF A SOLUTION

________.
TO YOUR CUSTOMERS' COMPELLING NEEDS

Unlike competitor products and other alternatives, such as ________, we
NAME KEY COMPETITORS AND ALTERNATIVES

offer superior value because ________
EXPLAIN WHAT DIFFERENTIATES YOUR BUSINESS FROM COMPETITORS AND SUBSTITUTES

________.

The business was founded ________ and plans to pursue the following opportunity:
GIVE DATE

________. We have currently completed
LIST AN OPPORTUNITY YOU WOULD LIKE TO PURSUE OR ARE ALREADY PURSUING

the following: ________
DESCRIBE THE STAGE OF DEVELOPMENT, INCLUDING WHETHER THERE IS A WORKING PROTOTYPE AND WHETHER IT HAS

________. We have already secured access to: ________
BEEN VALIDATED WITH CUSTOMERS LIST KEY RESOURCES YOU

________. We currently need
OR YOUR PARTNERS ALREADY HAVE THAT CAN BE LEVERAGED FOR THE NEW OPPORTUNITY

________. We are projecting to deliver the following
EXPLAIN THE RESOURCES NEEDED, INCLUDING MONEY, TALENT, ETC.

benefits: ________
IDENTIFY KEY STAKEHOLDERS, FOR EXAMPLE, CUSTOMERS, SUPPLIERS, OWNERS, PARTNERS AND EMPLOYEES, AND THEN DESCRIBE

________ and expect to begin delivering that value
THE TANGIBLE BUSINESS VALUE YOU WILL CREATE

by ________.
GIVE DATE

4 KEY TERMS

assumptions The expectations that are the foundation for forecasts and resource allocation in a business plan.

business model The articulation of a concept for a business that defines how the organization will interact with its environment to define a unique strategy, attract the resources and build the capabilities required to execute the strategy, and create value for all stakeholders.

business pitch A presentation that communicates the business model to investors, customers, partners, advisers, and potential employees.

business plan A document that articulates the business model and provides significant additional detail on a planned (or existing) venture.

business plan pitch A presentation used to pitch a business plan to investors (inside or outside the business) and to customers, partners, or key employees.

confidentiality agreement An agreement with a third party requiring he or she not reveal some or all aspects of information shared with him or her. Also known as a *nondisclosure agreement*.

elevator pitch A (typically verbal) pitch designed to convey the most critical information about the venture to a busy listener.

financial forecast Projected revenue, expenses, and cash flow of a venture.

founders The individuals who form the initial team for a new venture, typically developing the original concept and business model.

go-to-market plan A document that describes the unmet needs that the new venture will address for early adopter customers and the value proposition and benefits that will be delivered.

intellectual property (IP) A product of the human intellect, such as inventions; the rights of the creator are protected by law.

investor pitch A presentation of the business model and plan in summary. It is geared specifically for potential investors.

market "pain" The difficulty a potential customer experiences with existing market products (or a lack of market solutions) that motivates him or her to seek or utilize a new product or service.

mini–business plan A document that summarizes essential components of the new venture's go-to-market and operating plans and how these plans translate into financial forecasts.

minimal viable product (MVP) A product or service with highly limited functionality that is used to test market acceptance of a concept, a specific product, or service features.

nondisclosure agreement
See confidentiality agreement.

operating plan A plan that defines the key activities and milestones that must be accomplished as founders develop, produce, and deliver the venture's first offering. The operating plan is also used to identify the resources that will be needed to launch the new venture and the resources needed to scale the operation.

pitch presentation The presentation during which the founders convey their plan. It is typically delivered verbally using slides and sometimes provides supplementary information.

projected milestones Specific benchmarks established to enable founders to track the progress of a new venture.

traditional business plan A detailed document that describes the concept, market approach, team, financial plan, and operating plan for a venture.

venture capital (VC) investors Investors who provide capital to start ventures and support small companies that wish to expand but do not have access to public funding. Also known as *venture capitalists*, or *venture investors*.

5 FOR FURTHER READING

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6 ENDNOTES

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2 This reading is based on tools available in Lynda M. Applegate, "Crafting Business Models," HBS No. 808–705 (Boston: Harvard Business School, 2008) and Lynda M. Applegate, "Jumpstarting Entrepreneurial Innovation," HBS No. 1841C–MMC (Boston: Harvard Business School, 2008).

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21 Lynda M. Applegate, "Crafting Business Models," HBS No. 808–705 (Boston: Harvard Business School, 2008).

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