

Lecture 3

The Business Plan



What is a Business Plan ?

- It is the written document that details the proposed venture
- It must describe current status, expected needs and projected results of new business
- Every aspect of the venture needs to be covered
 - The project
 - Marketing
 - Research and development
 - Manufacturing
 - Management
 - Critical risks
 - Financing
 - Milestones

What is a Business Plan ?

- The most important part of start-up' life is the writing of a business plan.
 - It is a step-by-step execution guide.
 - It charts strategic directions
 - It provides insights into potential pitfalls
 - It tells who their competitors are
 - It tells what the project's real value is (and it is this future valuation that becomes a key start-up goal).
- It is **not** something that is **done only to impress investors**.
- It is done **to refine and clarify the s/w entrepreneur's vision**.

Why a Business Plan ?

- Investors read the business plan because it provides them with insight to gauge the level of sincerity and seriousness that the s/w entrepreneur and his team have.
- Investors (VCs & angels), look at the credentials of the s/w entrepreneur and his team when they study the business plan.
- VCs & angels prefer to see successful senior managers, successful businessmen or s/w running the business/start-up.

Objectives of a Business Plan Should Be...

- To obtain funding
 - to justify the investment required
 - To justify why the investor should part with his capital for this project
- To provide a plan for early corporate development
- To guide an organization towards meeting its objectives
- To explain how the company's business will evolve

Characteristics Guidelines of a Business Plan

- The plan should :
 - Be easy to read
 - Keep the plan respectable short
 - Organize and package the plan appropriately
 - Avoid exaggeration and overdiversify
 - Give realistic evidence on your findings
 - Have a market-driven, value-driven approach
 - Describes the competition
 - Explain the marketing/distribution plan
 - Highlight the company's uniqueness, critical risks
 - Emphasize on the management's strengths
 - Show attractive, realistic projections
 - Identify target market
 - Capture the reader's interest

Common Business Plan Phrases

- We conservatively project.....
- We took our best guess and divided by 2.....
- We project a 10 percent margin...
- Our business model is proven....
- We need only 10 percent market share...
- We are the low-cost producer...
- Our management team has a great deal of experience...

Benefits of Writing a Business Plan

- Force the s/w entrepreneur to view the venture critically and objectively
- The financial analysis subject the s/w entrepreneur to close scrutiny of his/her assumptions about the venture's success
- Allows s/w entrepreneur to develop and examine operating strategies and expected results for outside evaluators
- It quantifies objectives, providing measurable benchmarks for comparing forecasts with actual results
- As a communication tool for outside financial sources as well as an operational tools for guiding the venture towards success

Who Should Write the Business Plan ?

- Each business plan is unique because it is personal and a match of ideas, visions and goals of their founders and their future.
- Ideally, all founders should be involved.
- Caution :
 - Founders should not attempt to write a business plan all by themselves → should seek the help of outsiders who might not share the enthusiasm → make the plan more objective, unbiased.
 - Outsider → understands business, is experienced and willing to spend time with the s/w entrepreneur (who is very excited about his plan) → consultant, businessman, another s/w entrepreneur, your relatives → can be a mentor.

Writing the Plan

- Before you begin writing the plan, promise yourself and your partners that you will try, as much as possible, :
 - To be **unbiased, sincere and honest in your plans**.
- **Concentrate on the problem**, its **value**, the **market** and who else is doing the same thing (**competitors**) and the results are.

The Business Plan's Content

1. Cover Sheet
2. Executive Summary
3. Operations
4. Business Models
5. Market Analysis
6. Financials
7. Business Risks
8. Contingency Plans
9. Justification for Investment
10. Conclusion

Business Plan's Content Can Be Different

1. Executive Summary
2. Mission Statement
3. Business Environment
4. Marketing Plan
5. Management and Personnel
6. ~~Financial Projections~~
7. Legal Considerations
8. Insurance Requirements
9. Suppliers
10. Risks
11. Assumptions / Conclusions

The Business Plan - 1. Cover Sheet

- The cover sheet (one page) includes :
 - Contact details
 - Disclaimers, confidentiality and proprietary rights
 - Disallow the receiver to distribute such information without prior written permission from the company/author.
 - Date of presentation
 - To whom this document is made out
 - “Copy number” – keep track of plans in circulation

The Business Plan - 2. Executive Summary

- It should include :

- Expected Accomplishments

- States the accomplishments that this plan will make in 3 years.

- Eg. Year 1 : \$1 million in revenues and completion of Product 1

- Year 2 : \$3 million in revenues and software program version 2.1 launched.

- Year 3 : \$7 million in revenues and offices in 6 countries.

- Required Capital

- States the amount of capital required to complete product development & launch, and in the execution of this plan, prior to being profitable. Clearly state the amount of money to be raised and how it will be spent.

The Business Plan - 2. Executive Summary

- Highly advised → **write Executive Summary after the entire business plan has been completed.**
- It is the first section of the plan and its objective is to keep the reader interested. If it is not effective, the plan will be dumped without the rest of the document ever being read.
- It is **usually no more than 2 pages.**
- It tells an investor or potential partner what the rest of the plan entails and **ES is the only document that goes to the VC firm or banker first.** If there is interest --> they will ask for the rest of the plan.
- **Do NOT send out the complete plan to anyone** without them asking. It **dilutes your value proposition** and takes away any chance of being funded because investors like to talk among themselves.

The Business Plan - 3. Operations

- This section tells partners and investors that the project is of value and can be executed successfully due to the management expertise available and the ready partnerships in place, to make the overall vision a reality.
 - In the New Economy, business is conducted via various networking events, partnerships, alliances & affiliates. If an org has a ready partnership network in place, half the battle has already been won.

- Investors are looking for info :
 - Tells them the management team has qualities which makes them responsible and caring towards the needs of shareholders
 - To assures them that the s/w entrepreneurs can fulfill the goals outlined in the plan with the objective of delivering the returns promised.

The Business Plan - 3. Operations

- This section should include info on :
 - Management Team
 - States names of key managers in the business, roles, responsibilities and short description of their experience (which should be relevant to their present responsibilities)
 - A summarised CVs should be added (complete CVs provided on request)
 - Company Ownership
 - States the breakdown of shares held by each party within the org. (who owns how many shares, types of shares,..)
 - Investors
 - States background info of investors, if any (ie. Silent partners, active founders + their roles in the org).
 - States any value added the investors bring to the org besides capital.

The Business Plan - 3. Operations

- This section should include info on :
 - Management Team
 - Company Ownership
 - Investors
 - Partners (if any)
 - State the partnerships that the business has and how they assist in achieving its goals
 - Gaps (if any) in Management or Partners
 - States the potential gaps that management has identified (eg. on management side of business, partnerships that the business lacks..)
 - Define them here and stress their importance.
 - Helps investor to gauge if he can offer value in these areas besides providing capital and play a larger part to make the business a success.

The Business Environment

- National trends
- Industry trends
- Local trends

The Business Plan - 4. Business Model

- The business model states how the company makes money. Info includes ..
 - Purpose statement
 - Description of the business
 - Value proposition

The Business Plan - 4. Business Model

- The business model states how the company makes money. Info includes ..
 - Product / Service
 - Describes the product/service in detail.
 - Product/service comparison charts should be added with core focus on the solution's features.
 - Business model / Revenue model
 - Defines the business model of the start-up
 - How the start-up will generate income?
 - Competition / Pricing analysis
 - States the direct, indirect & incidental competitors in the same space
 - Defines competitors' business strategies, market share and concentration.
 - An outline of the pricing strategy for the start-up's products/services

The Business Plan - 4. Business Model

- Pricing
 - Objective
 - Pricing method
 - Industry prices compared to yours
 - Policies/general guidelines

The Business Plan - 4. Business Model – Pricing Strategies

Pricing Strategy	Definition	Example
Penetration Pricing	The organisation sets a low price to increase sales and market share. Once market share has been captured the firm may well then increase their price.	A television satellite company sets a low price to get subscribers then increases the price as their customer base increases.
Skimming Pricing	The organisation sets an initial high price and then slowly lowers the price to make the product available to a wider market. The objective is to skim profits of the market layer by layer.	A games console company reduces the price of their console over 5 years, charging a premium at launch and lowest price near the end of its life cycle.
Competition Pricing	Setting a price in comparison with competitors. Really a firm has three options and these are to price lower, price the same or price higher	Some firms offer a price matching service to match what their competitors are offering.
Product Line Pricing	Pricing different products within the same product range at different price points.	An example would be a DVD manufacturer offering different DVD recorders with different features at different prices eg A HD and non HD version.. The greater the features and the benefit obtained the greater the consumer will pay. This form of price discrimination assists the company in maximising turnover and profits.
Bundle Pricing	The organisation bundles a group of products at a reduced price. Common methods are buy one and get one free promotions or BOGOF's as they are now known.	This strategy is very popular with supermarkets who often offer BOGOF strategies.
Psychological Pricing	The seller here will consider the psychology of price and the positioning of price within the market place	The seller will therefore charge 99p instead £1 or \$199 instead of \$200. The reason why this methods work, is because buyers will still say they purchased their product under £200 pounds or dollars, even though it was a pound or dollar away.
Premium Pricing	The price set is high to reflect the exclusiveness of the product.	An example of products using this strategy would be Harrods, first class airline services, Porsche etc.
Optional Pricing	The organisation sells optional extras along with the product to maximise its turnover.	This strategy is used commonly within the car industry
Cost Plus Pricing	Here the firm add a percentage to costs as profit margin to come to their final pricing decisions.	For example it may cost £100 to produce a widget and the firm add 20% as a profit margin so the selling price would be £120.00

The Business Plan - 4. Business Model

– Business development strategy

- States the **strategies** to be used for the **penetration** of the products/services into the market.
- Includes the **correct pricing**, together with the appropriate **market segmentation** the start-up is targeting.
- Execution plan is stated here

The Competition

- Your **three main competitors**
- **Distance** between you and your competitors
- Trading areas—yours and theirs
- Competitive analysis
 - Product selection
 - Market share
 - Product quality
 - Advertising & Promotion
 - Pricing
 - Workforce
 - Financial condition
 - Equipment/Technology
 - Capacity

The Competition

■ Competition

– Direct competition

- solutions that **compete head-to-head** with start-up's.

– Indirect competition

- solutions that are **substitutes** to the start-up's.

– Incidental competition

- occurs when the start-up is trying to penetrate a market and there is already a major established player who has the required network of customers & resources to execute the start-up's model with little or no effort.

Competitive Advantage

- Quality
- Price
- Selection
- Location
- Speed
- Personal service

The Business Plan - 5. Market Analysis

- Market analysis
 - expect to find credibility behind claims on...
 - Potential performance
 - Market expectations
 - Market demands

- Unreliable statement → “The market is really BIG”

Investors and partners want to be able to define BIG and the assumptions underlying that calculations

The Business Plan - 5. Market Analysis

- Section includes :
 - Market Summary
 - Industry Research
 - Target Market
 - Expected Growth

The Business Plan - 5. Market Analysis

- Always ensure → research data is from a reliable source or from a source whose information is considered reputable and credible in your particular industry.

Financing

■ Debt Financing

- Bank loans
- Federal government loans
- State and local government programs
- Finance companies

■ Equity Financing

- Personal funds
- Private investors
- Partners
- Venture capital firms
- Stock sales

The Business Plan - 7. Business Risks

- Controllable
- Uncontrollable

The Business Plan - 9. Justification for Investment

- This section is needed when you customise your business plan for investors.
- → Justify the investment required
- → Justify why the investor should part with his capital for this project

The Business Plan - Important parts of a Business Plan.

- The calibre of the founders and completeness of the management team
 - founders must be able to demonstrate a strong **commitment** and **drive** towards the overall project and team.
- The solution itself.
 - Investors want to know :
 - The value proposition of the product or service
 - How innovative it is & how it delivers value to its users
 - Is the product a major breakthrough and if so, does it offer a new medium to service old needs ?
 - Will customer education be required ?
 - Most importantly, who owns the intellectual property that is being offered.

The Business Plan - Important parts of a Business Plan.

- **Business model (important)**

- It outlines issues such as :

- What the revenue drivers are?
 - How workable the business strategy is?
 - What the competitive advantage is?
 - “niche” for itself - during economic fallouts, ability to take advantage of booms.
 - sales and marketing strategies

- **Concentrates on the market such as :**

- Growth prospect of the market (growing? shrinking ? maintaining ?)
 - The size of the market, its intensity, competition and revenue potential over the next 3 to 5 years.

The Business Plan - Important parts of a Business Plan.

- The financials should be in sync with the rest of the business plan.
 - The profit and loss, balance sheet and cash flow projections
 - Year 1 - breakdown of financials into monthly projections
 - Year 2, 3, 4, (5, 6) – breakdown of financials into yearly projections
 - Other sets of financials include :
 - Return on investment calculations
 - Cash flow projections at every stage of the start-up's tenure and its assumptions

The Business Plan - Conclusion

- Some people say...a business plan takes almost 6 months to complete. **What do you think ?**
- Ideally, a business plan should be fine-tuned each time it is presented to a selected group for review → core of the plan remains intact, sections can be added.
 - Example :

If the business plan is for an application for government grants whose objective is to build intellectual capital, then a section called **Intellectual Capital** should be added, focusing on such an issue.