

Session 3

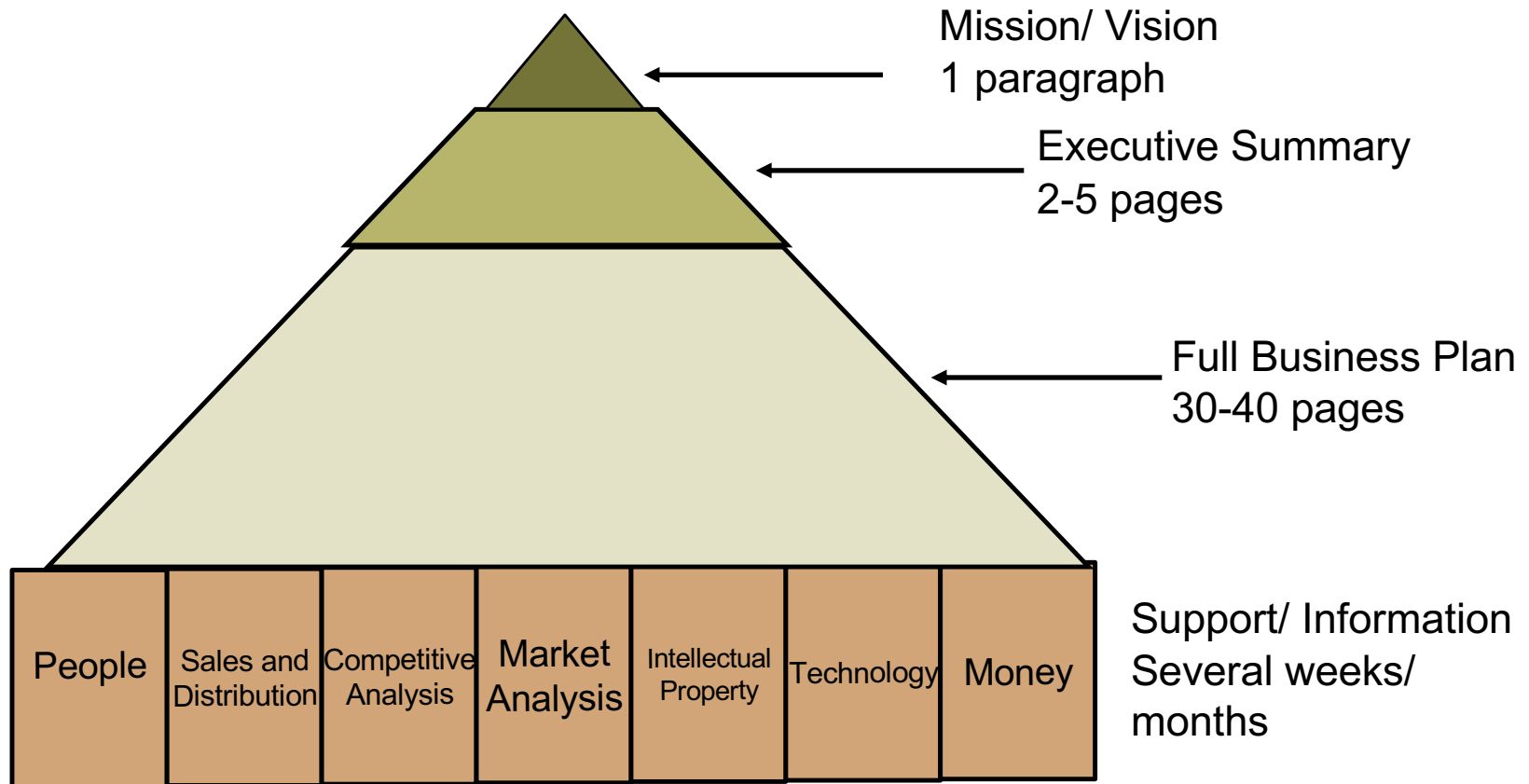
The Basics of Business Plans

Include excerpts from the material prepared by Joe Hadzima Senior Lecturer MIT Sloan School for the Course “The Nuts and Bolts of Business Plans”, 2008

Learning Objectives

- To introduce an overview of Business Plans Basics
- To understand
 - Why prepare a business plan?
 - Who should write the business plan?
 - How should look the business plan?
 - What should be in a business plan?

The Business Plan: A Supported Idea/ Vision



Hadzima, J., 2008

The Business Plan: Definition

“A business plan is the written document that details the proposed venture. It must describe current status, expected needs, and projected results of the new business. Every aspect of the venture needs to be covered: the project, marketing, research and development, manufacturing, management, critical risks, financing, and milestones or a timetable.”

D. Kuratko & R. Hodgetts, 2004

Business Plans Basics

- Why prepare a business plan?
- Who should write the business plan?
- How should look the business plan?
- What should be in a business plan?

Why Write a business plan?

THE WALL STREET JOURNAL. * * * * Tuesday, January 9, 2007 B9

SMALL BUSINESS

ENTERPRISE | By Kelly K. Spors

Do Start-Ups Really Need Formal Business Plans?

Studies Find Often Time Wasted Gathering Data With No Link to Success

Business schools and consultants have long preached that writing a formal business plan greatly improves a start-up's odds of success. But a growing number of academics are questioning whether that's really the case.

Budding entrepreneurs can spend months, sometimes years, polishing elaborate 50- to 100-page business plans that include financial projections, market research, and intricate details on day-to-day planning and organization. But skeptics say there's little concrete evidence that extensive planning is highly correlated to success.

A more practical approach, they say, for entrepreneurs who aren't seeking external start-up financing from venture capitalists or angel investors is to write a "back-of-the-envelope" plan with basic financial projections such as cash flow, and fine-tune the business model after launching the business.

'Just Do It'

"What we really don't want to do is literally spend a year or more essentially writing a business plan without knowing we have actual customers," says William Bygrave, an entrepreneur

and developed outsourcing-management software geared toward companies with annual revenue of more than \$1 million. While the planning helped him learn about the industry,

a full business plan "the opportunity will be gone."

Knowing Customer Base

Benson Honig, a professor at Wilfrid University in Ontario, Canada, searched 396 nascent businesses in Sweden from the late 1990s and found no correlation between planning and profitability. His study found the biggest success to be knowing the customer in advance. Mr. Honig says "contingency planning"—or thinking about what to do if things go wrong—as constantly probing and making decisions about the market climate—in a business plan, planning advocates say, while not always helping nascent entrepreneurs understand important aspects of the market and sometimes prevent

Planning Debate

The News: Some academics doubt the conventional wisdom that formal written business plans do much to help start-ups succeed.

The Background: Some recent studies suggest there's little correlation between having a business plan and profitability. Advocates of business plans counter that the plans give entrepreneurs focus and prevent costly mistakes.

The Bottom Line: There are questions whether entrepreneurs may be spending months fine-tuning 50-page business plans, when they might be better off just sketching out basic financial projections and launching the business.

stead of a formal business plan when pitching his idea to investors in 1999. He succeeded in raising \$4 million in venture capital by convincing them that the market for people needing a one-stop place on the Internet to refinance was ballooning.

Tim Petersen, managing director of Arboretum Ventures, a health-care venture-capital firm in Ann Arbor, Mich., says he generally prefers getting five-to-10-page summaries of business ideas or PowerPoint presentations over lengthy business plans.

"I'll have to confess, it's not always crucial to have the 60-page business plan," he says. While most entrepreneurs seeking should have their ideas well-formulated, "some people will get a little caught up in the perfection of their plan," he says.

Even some believers of business planning say formal planning foes have some valid points. Tom Kinnear, executive director of the entrepreneurial studies institute at the University of Michigan says writing a business plan shouldn't take more than three or four weeks.

"There's no question that some people are obsessed with writing plans that are too wrought with detail," Mr. Kinnear says. "Early on, all you really need is a compass."

WSJ.COM

Read summaries of academic research on business planning at WSJ.com/OnlineToday.

SMALL TALK

Kelly Spors answers questions from readers about entrepreneurship

Q: Our company started a new division that really took off. It now accounts for 80% of sales. Should we change the company name to the division's name in order to better protect our rights to the name? (It's trademark registered, but

But if it's rather generic or less ear-pleasing—and you're legitimately worried about its weak trademark protection, as you say—why risk building your brand around it? (To boot, that division's trademark will be no better-protected if you make it the com-





Jay Adelson is an American entrepreneur. In 2014 Jay co-founded Center Electric. In 2013 he founded Opsmatic, a technology company that improves productivity on operations teams

Do I need a Business Plan: Ask Jay

<http://www.youtube.com/watch?v=MCbLihzsbE8>

versus

Ask Tim Berry: Do I even need a Business Plan?

<http://www.youtube.com/watch?v=Le3nGwxJVhg>

Tim Berry is an American entrepreneur and published business author. He is the founder and chairman of Palo Alto Software and bplans.com.



Why Write a business plan?

Shifting the research question from

- 'Does writing a business plan enhance new venture performance?'

to

- 'Does writing a business plan have an impact on venture performance and does this vary depending on the profile and business context of the venture?'

Burke et al., 2010

Why Write a business plan?

- Business plans effects differ across different types of venture profiles and their business contexts
 - business plans are particularly helpful at increasing the growth performance of apparently lesser able entrepreneurs
 - business plans are particularly helpful for ventures launching a new product of service

Burke et al., 2010

Why write a business plan?

- Because I have to... ensure financing!!!
- Because I have to...
 - find strategic partnering
 - explain business to customers/suppliers
 - attract key people/ employees
 - help the management to navigate their way to their objective

The business plan provides the entrepreneur with a communication tool for outside partners as well as an operational tool for guiding the venture towards success

Why write a business plan?

- Because I need to... understand my business
 - The business plan is a result of a planning process
 - Who are my customers?
 - Why will they buy my service or product?
 - What will they pay?
 - How will I make and deliver the service/product
 - What resources (people, money, technology) will I need?
 - How can I make money/ create value?

“Writing a business plan forces you into disciplined thinking if you do an intellectually honest job. An idea may sound great in your own mind but when you put down the details and numbers, it may fall apart”

Eugene Kleiner, Venture Capitalist

Benefits of a business plan for the entrepreneur

- The time, effort, research, and discipline needed to put together a business plan force the entrepreneur to view the venture critically and objectively.
- The competitive, economic, and financial analysis included in the business plan subject the entrepreneur to close scrutiny of his assumptions about the venture's success.
- The business plan quantifies objectives, providing measurable benchmarks for comparing forecasts with actual results.

The business plan is the entrepreneur's roadmap for a successful enterprise

Who should write the business plan?

- CEO/ entrepreneur alone?
- The team?
- A hired writer/consultant?

The entrepreneur must own the business plan

What should be in a business plan?

- Executive Summary
- Business Description - Business Opportunity
- Products / Services
- Market/ Competition Analysis
- Marketing Strategy
- Operations Plan
- Organisational Plan - Management Team
- Financial Plan - The required Financing Package
- Risk Assessment
- Milestone Schedule
- Annexes

Notice That "Technology" Is NOT A Section

Executive Summary

- An Executive Summary is
 - NOT an introduction
 - NOT a preface
 - NOT a random collection of highlights
- An Executive Summary IS the Business Plan in miniature

Executive Summary

- The Executive Summary tells
 - Who you are: business description
 - What is the business opportunity
 - What your vision/ strategy is
 - What you are doing and/or propose to do
 - What is the market
 - What is your SUSTAINABLE competitive advantage
 - What is the management team
 - What profitability and harvest potential there is
 - How many € do you need and what will you do with them
- When the reader is finished he/ she should be able to tell someone what you are up to.

Business Description

- Business name and industry
- Business history (if any)
- Vision/ Mission
- Business drivers
- Business model
 - Co-operations?
- What, if any, skill gaps exist how will these be filled?
- Business prospective over time?

Products/ Services

- Describe the products / services in simple terms
- What is the Unique Selling Proposition of the product?
 - lower price, higher quality, faster operation, unique product?
 - advantages for customers
- Will there be after sales services, warranties...?
- Is there legal protection? (patents, copyrights, ...)
- Is it available for sale? when will it be ready?
 - current stage of development: plan, prototype,...

Market Analysis

Before writing the market analysis section...

Conduct a market research

- Define objectives
 - eg build sales of a product distributed through the Internet
 - increase market share based on online sales
- Gather data from secondary sources
 - trade magazines, libraries, government agencies, statistical agencies, universities, Internet,....
- Gather information from primary sources
 - use a data collection procedure (observation, networking, interviewing, focus groups, experimentation
 - construct a questionnaire

Market Analysis

- Market size & state of development
- Anticipated growth
- Market segments
- Target market
 - Who are your customers?

Some segmentation criteria...



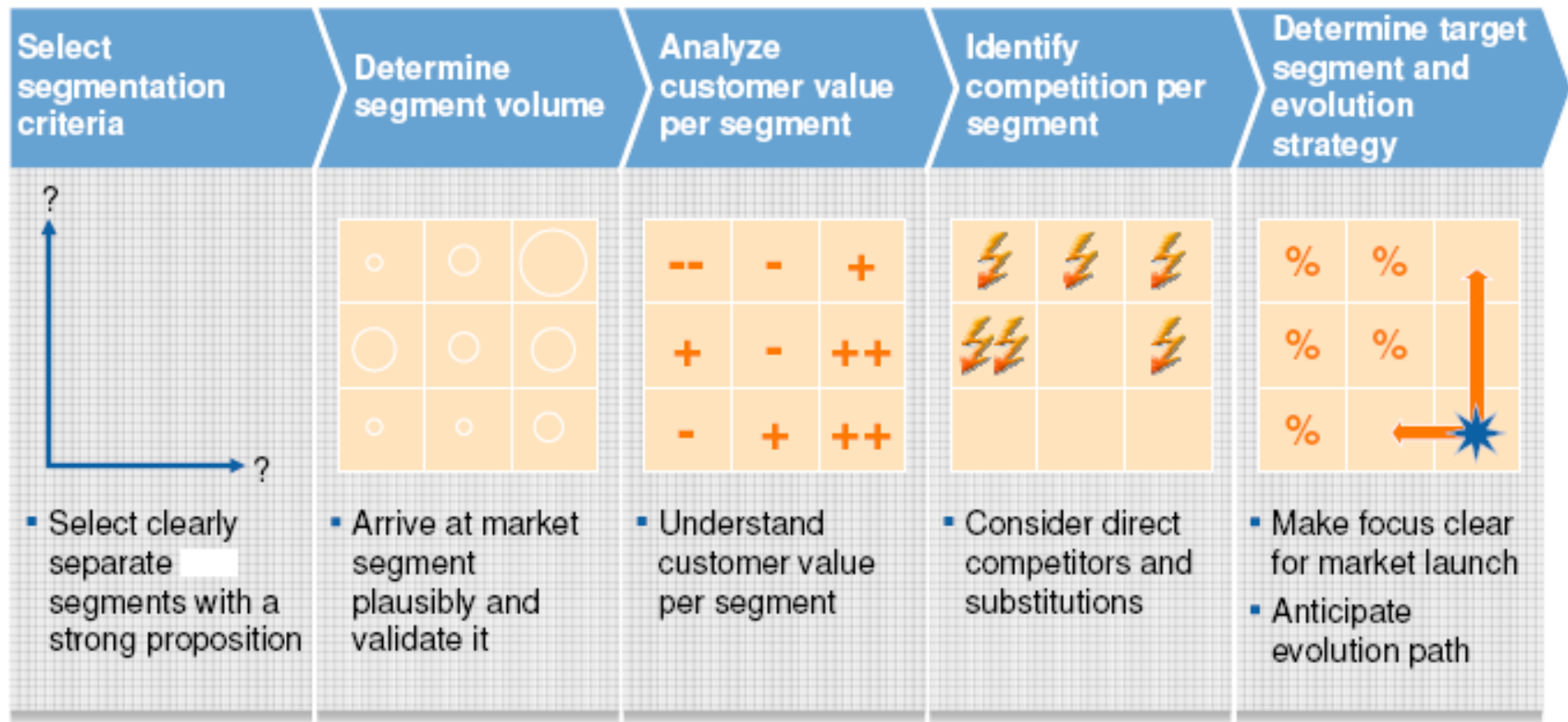
- **Location:** country, urban/rural (population density)
- **Demographics:** age, sex, income, profession, company size
- **Lifestyle:** techies, counterculture, active seniors
- **Behavior:** frequency of product use, product application
- **Buying habits:** brand preferences, price consciousness



- **Demographics:** company size, industry, location
- **Operations:** technology employed (e.g., digital, analog)
- **Buying habits:** centralized or decentralized purchasing, purchasing criteria, supplier agreements
- **Situational factors:** urgency of need, order size, etc.

McKinsey & Company, 2010

Market Segmentation



McKinsey & Company, 2010

Competition Analysis

Existing and planned products in marketplace

- Existing Competitors
 - Who are the competitors?
 - What are their strengths and weaknesses?
 - How will you be better than them? Competitive advantage
- Threat of Potential Entrants
- Threat of Suppliers
- Threat of Customers
- Threat of Substitutes

Positioning your product vis-à-vis the competition
Estimated Market Shares: Current Players, You

Complete the Situation Analysis by...

- **Macro-environmental analysis**
 - PEST factors at national/ international level

SWOT analysis

- Identify opportunities and threats
- Identify strengths and weaknesses
- Use your strengths to take advantages of opportunities and/or to avoid threats
- Diminish your weaknesses

Marketing Strategy

- What is your Marketing Mix Strategy?
 - Packages of products /services provided
 - Pricing
 - Cost reduction using e-marketing?
 - Segmented pricing?
 - Place/ distribution
 - Distribution must match strategy/pricing
 - Direct selling?
 - Intermediaries?

Distribution: Some criteria

- Direct Sales

- When?

- Customer loyalty necessary, concentrated customer base

- Risks

- High cost, low market penetration

- Intermediaries

- When?

- Limited market access, need for deep knowledge of the market (e.g. international market)

- Risks

- Dependence on intermediaries, split of value added

Marketing Strategy

- Promotion and Advertising
 - Online advertising
 - Email
 - Content sponsorship
 - Traditional means
- Sales Tactics
 - How will you reach the customer?
 - Who will be the 1st customer, 2nd customer etc.?

Estimate marketing costs

Remember that promotion and advertising cost is always higher than estimated

Operational Plan

- For manufacturing operation
 - describes the complete manufacturing process
- For non manufacturing operation
 - describes the chronological steps in completing a business transaction
- For Internet Business
 - describes the complete transaction process from the actual development of the website, how it functions, the procedure for ordering and the final steps involved in completing the transaction

Operational Plan

- Where is development - product status today?
- What development is needed?
 - Time and resources needed for development
- Operating Cycle
- Geographical Location – Facilities, equipment needed
- Strategy and Plans
 - outsourcing vs. in-house
- Costs

Be aware of Regulatory and Legal issues

Operational Plan

Reasons to “outsource” Web development

- Speeds completion of the project
- Personnel cost savings due to faster completion
- Faster web site’s loading (technical tricks to speed the load times of Web sites known to development firms)
- Design firms tend to produce a more user friendly product
- Graphic and information design tends to be more professional
- Outsourcers are aware of copyright rules

You don't get a second chance to make a good impression

Organizational Plan

- The Internal Team
 - Background of principals
 - How (if any) long has the company been in operation?
 - Roles & responsibilities of the management team
- The External Team
 - Board of Directors
 - Advisors
 - Don't "name drop" if the external person has not agreed to be mentioned
- Salaries?
- Total Costs?

Financial Plan

- **Economics of Business**

- What Are Your:

- Expected Margins
 - Profit potential
 - Fixed, variable and semivariable costs
 - Months to breakeven
 - Months to Cash Flow Positive

Financial Plan

- Actual Income Statements and Balance Sheets (if any)
- Pro Forma
 - Income Statements
 - Balance Sheets
 - Cash Flow Statements
 - Breakeven Chart
- Assumptions should be stated
 - Get these right or defensible
 - Key assumptions that govern financial projections relate to market analysis, pricing strategy,...

Financial Plan

- Spread-sheets
- Do numbers balance?
- Do the numbers tie to the PLAN
- CASH IS KING
 - Illiquidity is cause of bankruptcy
- Use traditional financial statement presentation – Now is NOT the time to invent new methods of presentation
 - Get help if you aren't expert
- Tie to rounds of financing/expansion

Financial Plan

- **The required financing package**
 - How much cash you require to set up the business?
When repayment will be?
 - When will you need key amounts of resources?
 - How much money will come from you?
 - Where do you expect to raise all other funds?
Venture capital, bank loan?...
 - What is on offer to an outside investor?
 - What security, if any, is available on a loan?

Risk Assessment

- Be sure to address Negatives as well as Positives
 - There might always be negatives/problems
- Set the stage for the reader
- Show that you have a plan for getting around or minimizing the negatives
 - Alternative courses of action
- Reduce Dependencies If Possible

Possible risks

- DEMAND!
- Competitive reaction
- Suppliers, eg. quality and costs issues
- Partnership failure
- Execution, e.g. development delay, shortage of qualified labour

Milestone Schedule

- Develop a timetable or chart to demonstrate when each phase of the venture is to be completed, e.g.
 - Incorporation of the venture
 - Completion of design and development
 - Completion of prototype
 - Hiring of sales representatives
 - Signing up distributors and dealers
 - Ordering production quantities of material
 - First orders
 - First sales and deliveries
 - Payments of first accounts receivable (cash)
- It shows the relationship of events and provides a deadline for accomplishment

Appendices

- Separately Bound Volume
- Resumes of Principals
- Product Literature
- Trade Press/Business Press
- Patents (front page)
- Testimonials Letters
- Technical Information

Fine tuning...

- Have an Independent Reader Review the Plan
 - One or more independent readers for feedback:
 - Retired industry pro?
 - Customer?
 - Consultant?
 - Professor?
 - Accountant- yes definitely
 - Lawyer- yes definitely

Business Planning: What's next?

<http://www.youtube.com/watch?v=UaMOPQBbcYc>

Thank you for your attention

Contacts :

Irini Voudouris, ivoudour@aueb.gr

Erifili Chatzopoulou, erifili@aueb.gr

Manos Sofikitis, msofikitis@aueb.gr

"This project has been funded with support from the European Commission. This communication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein"



586418-EPP-1-2017-1-MA-EPPKA2-CBHE-JP

Co-funded by the
Erasmus+ Programme
of the European Union

