

**“Business Planning” –
from TiE’s Book on “The First Mile:
Essentials of Entrepreneurship”**

by

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Aim

- Evaluate
 - Abilities
 - Goals
 - Compatibility of Abilities and Goals
- Develop
 - Framework to evaluate opportunities
- Understand
 - Operating problems of startups
 - Difference from established concerns
- Provide
 - Concepts and Techniques for ramp-up
- Set up
 - Effective business plan

0. Pre-Planning

- Self Assessment
 - Am I the type?
 - Do I like to learn?
 - Can I work for months/years in uncertain and ambiguous conditions?
 - Will I go all out to become successful?
 - Can I work without a boss?
 - Am I good at risks minimization?
 - Am I persistent?

1a. Planning - Ideation

- Problem/Idea/Product
 - Capture, thoroughly explore
 - Discuss with experts, possible customers
- 1-Sentence
 - Description of what I propose to do
- Ask
 - Why do I want to do it?
 - How do I know the customers want it?
 - Can I make the product?
 - Can I sell/distribute the product?
 - How much time/energy am I willing to give?
 - How much capital can I invest?
 - What profit and benefit can I expect?

1b. Planning – Concept and Architecture

- Description of
 - Systems, features, processes
 - Idea using diagrams
- Details of competitive products
 - Customer opinions
 - Differentiation
 - Comparison with proposed offering
- Requirements
 - Assets
 - People, equipment, expertise, raw materials
 - Cost
 - Fixed asset
 - Working capital

1c. Planning – Feasibility Study

- Early questions
 - Any other venture possible, what sales needed to get the projected profit, what are risks and impact, are disaster sequence, contingency plan in place?
- Revenue estimation
 - Projected revenue = TAM*\$ASP/Penetration%
- Costs = FC + (MC/Unit)*(# of units produced)
 - Fixed (independent of units, customers) - FC
 - G&A, NRE, R&D, infrastructure, etc - MC
 - Marginal (cost of additional unit or customer)
 - Sales, production, customer service, delivery, etc
- Risks assessment
 - Technology/product (cost v/s benefit for customer)
 - Market/adoption (acceptance by customer)
 - Execution/team (efficiency of operations)

2. Prototyping

- Technical validation of
 - Functionality and applicability of product
- Development
 - To convey value proposition of product
 - Feeling for cost and resources
 - Demo cost always more than production cost
 - Involve customers continuously
- Alpha testing
 - First real proof of technical viability
 - Study problems, usage difficulties, system/product integration, etc
 - Document everything
- Report on how field trial went
 - Product specification and technical compatibility
 - Problems encountered by customer, and how to solve by modifying prototype
 - Missing features, and costs to incorporate them
 - System failures, and how to avoid

3a. Market Development – Beta Testing

- Key market risk-minimization milestone
- Estimate
 - Customer's cost of ownership
 - Customer spending before offered product gives its promised value
 - Cost of delivery of product
 - Channel delivery, customer service
 - Product valuation
 - How much customer values, and is willing to pay for, the product

3b. Market Development – Market Study

- Information to
 - Develop market plan, identify segments, create differentiated identity
- Market opportunities
 - Competition, area economy, client demography, availability of potential customers,
 - Flat, growing, booming, declining, local/regional/global
 - Technology, and other, elements in the industry
- Customer needs
 - Existing, and possible, competitor products
 - Take inputs from potential customers
 - Trends, statistics, limitations and constraints,
- Competition
 - Present, and possible future, competitors (SWOT)
- Look for niche market

3c. Pre-Launch – Market Planning

- Channel
 - Identification, partnerships, licensing,
- Pricing strategy
 - Never be too low
 - Use benefits-to-price ratio
 - What the customer considers to be of best value
 - $\text{Value} = \text{benefit}/\text{price}$
- Increase value by
 - Increasing benefit
 - Tangible and intangible
 - Gain market share to become profitable
 - Adding new and innovative features
 - Decreasing price

4a. Business Plan – Executive Summary

- Business description
 - Objectives, value proposition, customer pain point addressed
 - Product description, with differentiators
- Management team
 - Past experience and successes, and relevance to present venture
 - Complementary skills for a well rounded unit
- Market and sales strategy
 - Who is the specific customer, market size to be tied to customer
 - Economics of sales, channels and partnerships, resources
- Competition
 - Compare strengths and weaknesses
 - Why venture will be successful, sustainable advantage
 - Industry and regulatory issues of relevance
- Financials and funding
 - Capital required (sales strategy, hiring, capital, expected customer traction)
 - Business financing
 - Profitability scenario
 - Assumptions

4b. Business Plan – Business Definition

- 30 seconds, 1 line description
 - Simple, consistent, easily understood. No grandiose
- Classifying the company
 - Who are the customers?
 - What are you planning to sell?
- Communicating the value proposition
 - Quantify the differentiation vis-à-vis competition
 - How is customer empowered?
 - What problem is solved?

4c. Business Plan – Mission Statement

- Mission statement must
 - Comprehend long term aspirations of the company
 - Say what is desired in ability to serve customers, attract/retain employees, reward investors
 - Resonate with stakeholders and customers
 - Express organization's purpose via commitment, motivation, confidence
 - Allow development of strategy to achieve mission
 - Be time invariant (unlike the strategy)
 - Be convincing, honest, succinct, in active voice
 - Concise, and free of jargon
- Answers the questions
 - What is the raison d'etre? What needs are addressed?
 - Where should the organization go?
 - What are the guiding principles?
 - Who is valued the most?

4d. Business Plan – Market and Environment

- Market definition
 - Be precise/clear, show need, show why customer pain is not solved presently, show growing demand, show potential (20-40%) leadership
- Environment
 - Describe suppliers, present and future competition, potential alternatives
- Market analysis – detailed analysis of
 - What is the idea used for, where are similar products/services utilized, prospects, cost to offer, customer demographics
 - Develop market-segmentation matrix (size, type of needs, culture, location, product/service offered), rationale for market prospects, market characteristics (cycle time, attrition)
- Competitive analysis
 - What/How, SWOT, product/service positioning, USP (service, price, quality, features)
- Market risk summary
 - Will the company be a leader in its space?
 - Is there a high barrier to entry, strong competitive advantage?
 - What is inertia of installed base?
 - What are customer behaviour patterns?

4e. Business Plan – Strategy

- Value proposition
 - Step by step approach to identify who are the customers, where is money coming from?
 - Identify the pain, write company tag line, what is the offering and its benefits?
- Value creation
 - What is value to customer, will technology be adopted, map technology to customer behavior, will current competitors be displaced?
- Value spread
 - Which customer gets greatest benefits based on segments, how to access each customer cluster, what is cost of new customer acquisition?
- Value capture and extraction
 - Plan for penetration/entry, customer access and lower acquisition costs, build barriers for new entrants, promotion and increasing customer base, price for each cluster

4f. Business Plan – Technology/Product Overview

- 2-3 paragraphs on
 - Overview
 - How the product makes things better
 - Use of diagrams/charts etc
 - Idea to product path
 - Product architecture
 - Detailed description
 - IPs
 - Key technologies
 - Product development roadmap
 - Learning to competitive product curve
 - Rationale, risks
 - Technology review
 - Describe key patents/copyrights, IP strategy to protect key assets
 - Unique know-how, team competencies

4g. Business Plan – Financials

- Income statement
 - Company's performance
 - Top-down (TAM, market share, ASP, revenue)
 - Bottom-up (sales contract, customer wise revenue)
 - High potential growth attractive to investors
 - $GPM = Sales - Cost\ of\ sales$
- Cash flow statement
 - Cash position from beginning to present
 - Constant flow of money (in/out)
 - Deals with circulating money (not working capital)
 - Materials, stock, machinery, tax, salaries, bank loans
 - Comprehends
 - Plan for cash needs, avoid unnecessary expenditure
 - Timing for stopping cash burn
- Balance sheet
 - Capital used, liquid assets, business financing, assets

Thank You

Back Up Slides

Tips and Suggestions

Key Ingredients of Business Plan

- Ultimate tool of communication and marketing to all
- Universal, living, easy-to-read document describing
 - Business under proposal
 - How to plan and execute
 - Strengths, value and possible wealth
 - Long term goals
 - Risks
 - Enthusiasm
 - Financial, and not technical, details
 - Value to all stakeholders (partners, financiers, customers, team, etc)
 - Challenges
 - Resources
 - Feasibility and viability

Key Ingredients of Business Plan

- Must contain
 - Executive summary
 - Business definition
 - Mission statement
 - Market and environment information
 - Strategy information
 - Overview of technology/product
 - Financial information
- Use to
 - Hire team
 - Get (alpha) customer buy-in
 - Get financial investment

Why Businesses Fail

- Procrastination
 - Putting off clearing the files
- Ignoring the competition
 - Don't assume consumer loyalty, always formulate new business model, products, services for the competitive edge
- Ineffective market planning
 - Products don't sell themselves, marketing is critical
- Ineffective customer service
 - Work hard to keep customers, service is key
- Wrong team in place
 - Have a team with complementary strengths

Why Businesses Fail

- Non validation of customers
 - Don't assume what the customers want, ask them.
Build business plan around customer needs
- Cash flow problem
 - Track in/out flow of money, make cash flow projections to identify potential trouble
- Closed mindedness
 - Be prepared to accept ideas are wrong, have mentors to bounce ideas, read books
- Poor planning
 - Track realistic, precise, quantifiable goals, milestones. Change plans if the market changes.
- Mixing personal and professional issues
 - Minimize overlap

Business Planning - Slip Ups

- Lacking a vision
 - Vision guides marketing, technology, competition
- Not soliciting opinions
 - Get different points of view
- Bypassing the business plan
 - Important to transfer vision into tangible business
- Creating an unrealistic budget
 - Dependent on customers, competitors, market conditions
- Failing to get market validation
 - To determine position, market segment/priority, target customers, meeting key people
- Failing to validate customers
 - Don't assume what the customers want, build business plan around them

Business Planning - Slip Ups

- Failing to identify differentiation
 - Don't model business after competitor, use their strengths and weaknesses, differentiate
- Underestimating the competition
 - Use competitors for information
- Overlooking the risks
 - Don't ignore, but minimize and manage
- Not expecting the unexpected
 - Provide budgets, adapt to change, even abandon plan if necessary
- Not identifying the reward
 - Have clear set of rewards for self and team