
Business Planning Principles and Applications

Moller Maersk Innovation & Change Management Workshop

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Desired Outcomes of the Presentation

1. You understand the basic concepts to properly approach a fundraising business plan.
2. You are familiar with the key elements of any business plan and how to constructively construct these sections for fundraising as well as for the success of your business.
3. You will understand what are the critical success factors of business plans to people who will provide funding.
4. You will understand the difference between an operating business plan and a fundraising business plan relative to the frequency with which it gets updated.

Outline:

- I. **Basic Concepts**
- II. **Business Plan Elements**
- III. **Critical Success Factors**
- IV. **The Dynamic Business Plan**

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Purpose of Business Plan

- Internal use of plan
 - Focus
 - Alignment
 - Commitment
- External use of plan
 - Get funding
 - Set expectations
 - Alliances/Partnerships/Mergers

Definition of a Business Plan?

- Written
 - Commitment
- Quantitative
 - Measurable
 - Financials
 - Milestones
- Clarity
 - Specific
 - Convincing

Understand Your Audience

- Management Team
- Employees
- Customers/Partners
- Funders
- Other influencers
- Acquirers

Planning is absolutely essential for any new venture

Elements of Business Plan

- Market → Customers → Market
- Product or Service
- Technology/Competitive Advantage
- Operations
- Competition
- Team
- Financial Projections
- Exit Strategy>Returns
- Executive Summary

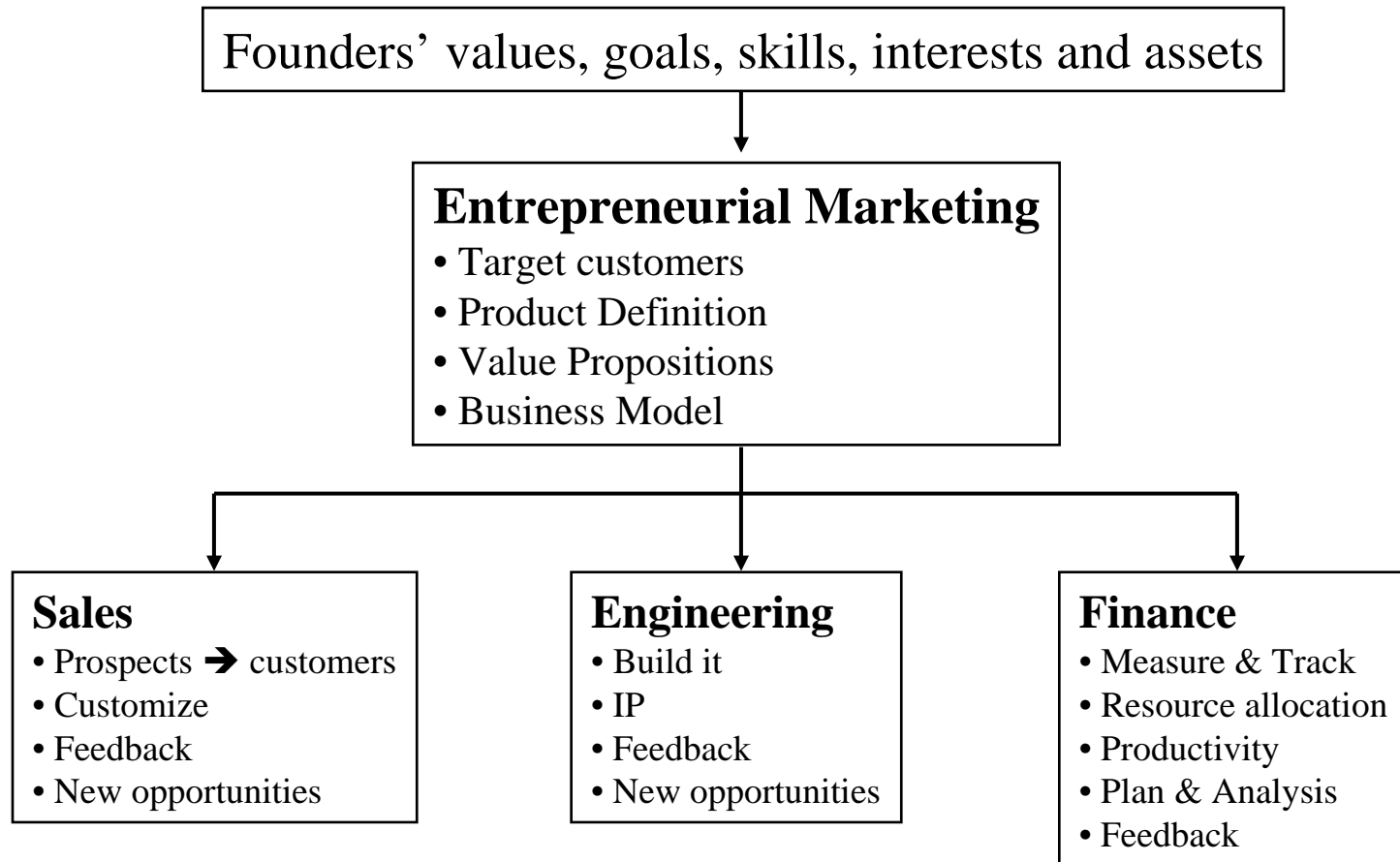
Basic Concepts of Fundraising

- ▶ What is the reason for your business?
- ▶ Then, what is the objective of financing?
- ▶ What is your long term financing strategy?
- ▶ What is the objective of this financing activity?
- ▶ What is your preferred source? Compatible with your culture, owners objectives and needs?
- ▶ Is the Board of Directors clear on all of the above?
- ▶ Understand your target customer – this is sales
- ▶ Business Plans to raise money vary by objective and target audience
- ▶ All Business Plans are not exactly alike ... but they do have the same key elements

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Simple Logical Flow



Elements of Business Plan

- ▶ Market → Customers → Market
- ▶ Product or Service
- ▶ Technology/Competitive Advantage
- ▶ Operations
- ▶ Competition
- ▶ Team
- ▶ Financial Projections
- ▶ Exit Strategy/Returns

Seeing the Future Opportunity



Market → Customers → Market

- ▶ Focus on your ***first*** market only
- ▶ Richly describe your target customer in all dimensions
- ▶ Name them specifically
- ▶ Size the overall market
- ▶ Describe the “as-is” state
- ▶ Name the ones you specifically have spoken to who have this pain/opportunity
- ▶ Describe Key Characteristics of target customers/market
- ▶ Describe their ability to get funding to buy new solutions
- ▶ What is the compelling factor/event that will make them buy
- ▶ Who are other entrenched players
- ▶ Name the first 10 target customers
- ▶ If successful, what would be your next logical market?

Gathering Information & Understanding

***Entrepreneurial Marketing
is not a spectator sport!!!***



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Quantifying the Value Proposition

“When you can measure what you are speaking about and express it in numbers, you know something about it; When you can not measure it... your knowledge is meager and unsatisfactory.”

-- Lord Kelvin

Example: Toy Development Process

<u>Today's Process</u>		<u>Development Times</u>			
4 Weeks	4-14 Days Model Types: 2D Drawings 3D CAD Models 3D Hand Models	2 Weeks Engineering Manufacturing Rework	2 - 3 Months Tool cavity development - analog CNC Software CNC Milling		16 Weeks Total Development Time
Ideation Phase	Tech Package Design	Looks like Works like	Commercialization		
4 Weeks** Could be lower with FreeForm	4 Days Model Types: FreeForm Native File	3 Days Engineering Manufacturing Rework	3 Weeks Digital tool cavity via STL CNC FreeForm Files CNC Milling		8 Weeks** Total Development Time
FreeForm Process					
US Design Firms		↑	↑		↑
Asian Tool Suppliers		70% Reduction in Time	70% Reduction in Time		50% Reduction in Time FreeForm

Evaluating Marketing Section

▶ Bad:

- ▶ Lead with Technology
- ▶ Addressing many markets
- ▶ “China Syndrome”
- ▶ No solid economic value proposition
- ▶ No competition

▶ OK to Good:

- ▶ Understand customers
- ▶ List customers
- ▶ Top down and bottom up sizing of market including growth rates
- ▶ Reasonable addressable market and market penetration assumptions

▶ Great:

- ▶ Spoke to lots of specific customers - includes testimonials and listed contact info
- ▶ Identified champion(s) and committed user advisory board
- ▶ Compelling and proven value proposition validated
- ▶ Demonstrated that target customers are well funded & have compelling reason to buy
- ▶ Target customer is proven to be well connected community with strong WOM
- ▶ Deeply understand existing suppliers and vulnerabilities

Product or Service Section

- ▶ Focus on your ***first*** product (or service) only
- ▶ Describe in simple terms what it is and how much it costs
- ▶ What is the economic value of your product to the target customer
- ▶ What is the competitive advantage over the alternatives?
- ▶ What new products do you anticipate coming on the market and how will you hold a sustainable competitive advantage against them?
- ▶ How are you choosing to compete – product, product innovation or customer intimacy?
- ▶ Who has an analogous business model to yours?
- ▶ Once you have succeeded with this product, what could it lead you into next? (<10% of effort)

Evaluating Product Section

- ▶ Bad:
 - ▶ Lead with Technology – excited about features
 - ▶ Too many products
 - ▶ Incremental or unsustainable advantage
 - ▶ Relies on emotional purchase
 - ▶ Unclear pricing model

- ▶ OK to Good:
 - ▶ Emphasis on benefits
 - ▶ Demonstrated strategy for sustainable competitive advantage
 - ▶ Working prototypes and convincing plan to build
 - ▶ Customers willing to pilot or have successfully piloted product and are happy

- ▶ Great:
 - ▶ Product is tested and in production with customers making them lots of money today
 - ▶ Enthusiastic install base buying more and more
 - ▶ Significant and sustainable competitive advantage over existing and on the horizon suppliers
 - ▶ Plan to achieve pricing power
 - ▶ Recurring revenue – consumable(s)
 - ▶ Distributors and customers want to partner

Technology/Competitive Advantage

- ▶ Focus on your *first* product (or service) to start
- ▶ Are you choosing to compete on price, technological innovation or customer intimacy?
- ▶ What is your Intellectual Property?
- ▶ What is the state of your technology? Is there technology risk still?
- ▶ What are the technical benefits over the alternatives?
- ▶ What is the source of your competitive advantage and how do you intend to continue to develop and protect it?
- ▶ How do you intend to achieve sustainable competitive advantage over the current and future suppliers?

Evaluating Technology Section

▶ Bad:

- ▶ Not proven yet
- ▶ Not focused
- ▶ Not aligned
- ▶ Too long – not more than 2 slide and preferably one
- ▶ Come off as a solution looking for a problem
- ▶ No sustainable advantage

▶ OK to Good:

- ▶ Focused, aligned and concise
- ▶ Strategy to leverage initial success for sustainable competitive advantage
- ▶ Fundamental blocking patents
- ▶ Proven technology

▶ Great:

- ▶ Passionate technical member of the founding team
- ▶ Communicates well internally and externally
- ▶ Enjoys solving problems
- ▶ Strong linkages to innovation centers for ongoing sourcing of ideas

Operations Section

- ▶ Two Key Elements
- ▶ Development Plan
 - ▶ For first product
 - ▶ Timetable
 - ▶ Personnel & materials
 - ▶ Capital equipment
 - ▶ Third party products, service and/or IP
 - ▶ Partners
- ▶ Go To Market Plan
 - ▶ Business model
 - ▶ Sales model
 - ▶ Marketing lead generation plan
 - ▶ Corporate partnering

Evaluating Operations Section

▶ Bad:

- ▶ Not credible
- ▶ No dates
- ▶ Unclear milestones
- ▶ Lack of understanding of sales model to make money
- ▶ Lack of flexibility relative to delays in market adoption or product development
- ▶ Too long

▶ Good:

- ▶ Good detail
- ▶ Understand the need to develop and have contingency plans – optimistic yet realistic
- ▶ Creating demand for new product through indirect channel
- ▶ Too much marketing expense before product is proven
- ▶ Understand what don't have yet

Competition Section

- ▶ Describe the incumbent competitors
 - ▶ Number
 - ▶ Size and market share
 - ▶ Product and company position
 - ▶ Technology and likely product roadmap

- ▶ Describe emerging or potential competitors
 - ▶ Stage and backing
 - ▶ Company and product position
 - ▶ Technology and likely roadmap

- ▶ Position your venture relative to these competitors
 - ▶ How you will chose to compete (price, technology or customer intimacy)
 - ▶ Short term and longer
 - ▶ Projection on who will win in the scenarios and potential alliances

Evaluating Competition Section

▶ Bad:

- ▶ No competition
- ▶ Emotional hatred for a competitor
- ▶ Naïve perception of competition
- ▶ All focus on technology
- ▶ Lack up understanding of strengths and weaknesses
- ▶ Lack of scenario planning

▶ Good:

- ▶ Deep understanding of competitors' business strategies on how they compete
- ▶ Deep understanding of competitors' vulnerabilities
- ▶ Laser focus on high influence, fast growing beach head customers where can capitalize on competitors' weaknesses
- ▶ Strategies to utilize weak competitors
- ▶ Multi-stage view of how market will evolve
- ▶ Flexibility to move quickly as new scenarios unfold in the future
- ▶ Competitive juices toward competitor but always rational

Team Section

- ▶ Describe the members of the team
 - ▶ Founders
 - ▶ Employees
 - ▶ Committed follow on hires
 - ▶ Advisory Board
- ▶ Additional skills needed and when you plan to add them
 - ▶ CEO
 - ▶ VP of Marketing
 - ▶ VP of Engineering/Development
 - ▶ VP of Sales
 - ▶ CTO
 - ▶ CFO or Controller or VP of Finance

Evaluating Team Section

▶ Bad:

- ▶ Individual
- ▶ Not willing to acknowledge what they don't know or have
- ▶ All technical
- ▶ Lack of marketing, sale or general management expertise
- ▶ Paying themselves too much

▶ Good:

- ▶ Passionate
- ▶ Team
- ▶ Experience
- ▶ Track record of success
- ▶ 3 Ks
- ▶ Right match for stage of company
- ▶ Scalable

Financial Section

- ▶ Get the top line right with assumptions clear (units, price, etc.)
 - ▶ Separate revenue streams (one time, recurring, product, service, government funding)
- ▶ Get Cost of Goods Sold Right with assumptions clear
 - ▶ Include Gross Margin
- ▶ Break out Sales and Marketing, Development and Overhead
- ▶ While doing the P&L is fine, Cash Flow is much more important
- ▶ Balance Sheet is good to have but Cash Position is most important by far and that should be put in summary 5 year Cash Flow Chart
 - ▶ Will also look at growth in working capital
- ▶ Do out five years then have quarterly and monthly versions ready
- ▶ Make clear sources of funding
- ▶ Best to show three cases when possible

Evaluating Financial Section

▶ Bad:

- ▶ Lack of credibility – e.g., missing cash consumed in working capital when growing
- ▶ Too much detail
- ▶ Low growth
- ▶ Low gross margin
- ▶ High G&A

▶ Good:

- ▶ Credible and justifiable high top line growth
- ▶ Credible and justifiable high margin
- ▶ Good Development expense ratio early on
- ▶ Marketing and Sales expense coming on after offering validate
- ▶ Flexibility to survive delays in development or market adoption – and presence to have built this in
- ▶ Ability to understand and adjust assumptions – sensitivity analysis in other areas as well

Exit Strategy/Returns Section

- ▶ How does the investor get their money back?
- ▶ What range of returns can be expected if the plan is successfully executed?
- ▶ What are the comparables?
- ▶ What are the options?
 - ▶ IPO
 - ▶ Acquired
 - ▶ Next round
 - ▶ Cash flow is so strong
- ▶ Venture Capitalist want IPO or Sale of Company
- ▶ Who are possible acquirers? What is the plan to keep those options alive and lines of communication open?
- ▶ Why uniquely would they buy your venture?

Evaluating Exit Strategy Section

▶ Bad:

- ▶ No Exit Strategy proposed
- ▶ Lack of credibility
- ▶ No estimates of return
- ▶ Too long
- ▶ Too few options
- ▶ Only built to be sold and not sustainable business

▶ Good:

- ▶ Understand needs of funders
- ▶ Thoughtful analysis
- ▶ Quantified
- ▶ Business grows to be cash flow positive and sustainable
- ▶ Clear plan for differentiation and fills gap in potential buyer's strategy
- ▶ Realistic numbers with examples
- ▶ If IPO, need to have enough size

Elements of Business Plan

- ▶ Market → Customers → Market
 - ▶ “As-is” state
 - ▶ Opportunity for Value
 - ▶ Market Size
 - ▶ Key Characteristics
- ▶ Product or Service
 - ▶ What is it
 - ▶ Value Proposition
- ▶ Technology/Competitive Advantage
- ▶ Operations
 - ▶ Development Plan
 - ▶ Go to Market Plan
- ▶ Competition
- ▶ Team
- ▶ Financial Projections
- ▶ Exit Strategy/Returns

Executive Summary

- *2-3 pages*
- *Opportunity size*
- *Customer testimonials*
- *Financials*
- *Competitive advantage*
- *Team*

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Intangibles: Is it Convincing?

- Does it convince you?
- Does it convince your team?
- Does it convince your customers?
- Can you explain it to my mother?
- Does it stir up passion?

Critical Success Factors

- ▶ Passion
- ▶ Referenced in
- ▶ Market opportunity
- ▶ Proven customer value proposition/traction
- ▶ Team → Quality of Presentation and Ability to Tell the Story
- ▶ Sustainable competitive advantage
- ▶ Return of Investment
- ▶ Technology
- ▶ Partnership/trust/fun factor
- ▶ Synergies with rest of portfolio

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Dynamic Business Plan?

- Depends – for fundraising or operational guidance?
- Once you have commitment, Business Plan takes on new role
- It is dynamic and a living document
- Measured against plan at a minimum quarterly
- Full planning (also budgeting process) done at least annually

Fund Raising - Dynamic Business Plan?

- ▶ “A business plan is a living document”
- ▶ Do not change financials unless you have to
- ▶ Do not confuse a fund raising business plan with your ongoing business planning
- ▶ Changing can create configuration management problems and you will always be explaining changes
- ▶ If it is not ready, don't give them out. Only give out the Exec Summary and make sure that is right.
- ▶ If the number go up, just mention it but don't change the document
- ▶ Changes create credibility issues and configuration management nightmares
- ▶ A Fundraising Business Plan should **not** be a Dynamic Business Plan

How Often Do I Use My Business Plan?

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Layers of Commitment

- Elevator Pitch (1 minute)
- Escalator Pitch (3 minutes)
- Taxi Cab Pitch (5 minute)
- Commuter Train Pitch (30 minutes)
- Plane Pitch (45 minutes)

The Five Minute Business Plan

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First Question

- What does your audience want?

The Five Minute Business Plan

- Six slides
- Apply these suggestions with reason
- Feel free to remove or consolidate

Slide #1: Introduction

- Name of Company
- Compelling Tag Line
- Visual
- Story demonstrating target customer, as is state, urgency, desired & possible state, your value proposition
- Tell him what you want them to remember – three key points

Slide #2: Target Customer/Pain

- Who is the Target Customer? How many of them are there? (Who)
- What is their pain or opportunity? (Why)
- Speed of adoption? (Why Now)
- Who has the money? (Who Pays)
- Specific examples you have met...

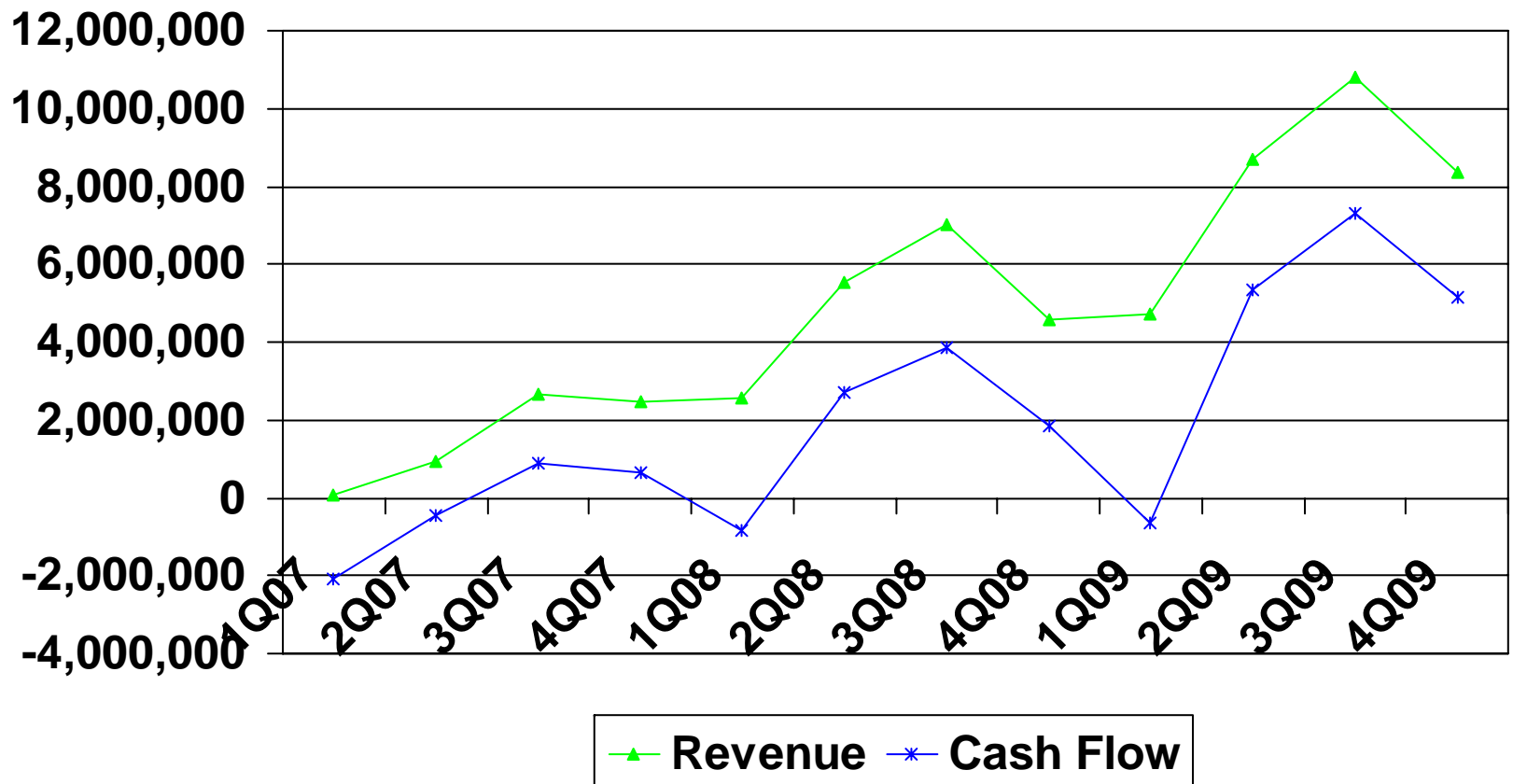
Slide #3: Your Solution

- Explain your solution (“pencil sell”) (What)
- Quantified Value Proposition (How Much)
- Unique Selling Proposition (Why You)

Slide #4: Financials

- Be careful not to overload!
- Simple graph with top line growth and cash flow –and a few other things (less is more)
- Key Factors to know and possibly include:
 - Units installed
 - Costs
 - Market penetration
 - Investment required → ROI
 - Key Milestones driving financials
 - Value of company estimations & exit strategy

Summary Quarterly Financials



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Slide #5: Team & Competition

- Team today (Why You II)
- Team future
- Competitors and Sustainable Competitive Advantage

Slide #6: Summary and ASK!

- Summary of three key points
- Call to Action
- Then have your “ASK”!

Other Resources

A great resource online written by an MIT Sloan Graduate available to everyone:

[http://www.deloitte.com/dtt/cda/doc/content/DI_WRI
TING%20BUSINESS%20PLAN.PDF](http://www.deloitte.com/dtt/cda/doc/content/DI_WRI
TING%20BUSINESS%20PLAN.PDF)

Or Google:

“Deloitte & Touche Writing an Effective Business Plan” and it is the first entry

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