

# Business Plans

# What is a Business Plan

A business plan is a formal statement of a largely enforced business goal, the reasons why they are believed attainable, and the plan for reaching those goals. It may also contain background information about the organization or team attempting to reach those goals. ([http://en.wikipedia.org/wiki/Business\\_plan](http://en.wikipedia.org/wiki/Business_plan))

A business plan is used to interest and attract support, and therefore it is also a

- marketing document
- and possibly a legal document to raise capital

A business plan forces entrepreneurs to think through the business in a systematic way, and therefore it is also a document that articulates

- critical aspects of the business
- how to create and keep customers
- basic assumptions
- financial projections

Business plans are written and rewritten and rewritten to reflect changing circumstances and changing stakeholders

# What Is a Business?

A business plan is ultimately a plan for a business

Per Theodore Levitt,

1. The purpose of a business is to create and keep a customer.
2. To do that you have to deliver goods and services that people want and value at prices that are attractive.
3. To continue to do that, the enterprise must produce revenues in sufficient excess of cost, in sufficient quantity, and with sufficient regularity to attract and hold investors.
4. No enterprise, no matter how small, can do this by instinct or accident. Businesses must clarify their purposes, strategies, and plans. And these must be clearly communicated to investors and employees.
5. And in all cases, there must be an appropriate system of rewards, audits, and controls to ensure that what is supposed to happen actually happens, and if not that the situation is quickly rectified.

# Why Write a Business Plan?

Per Jeffrey Timmons,

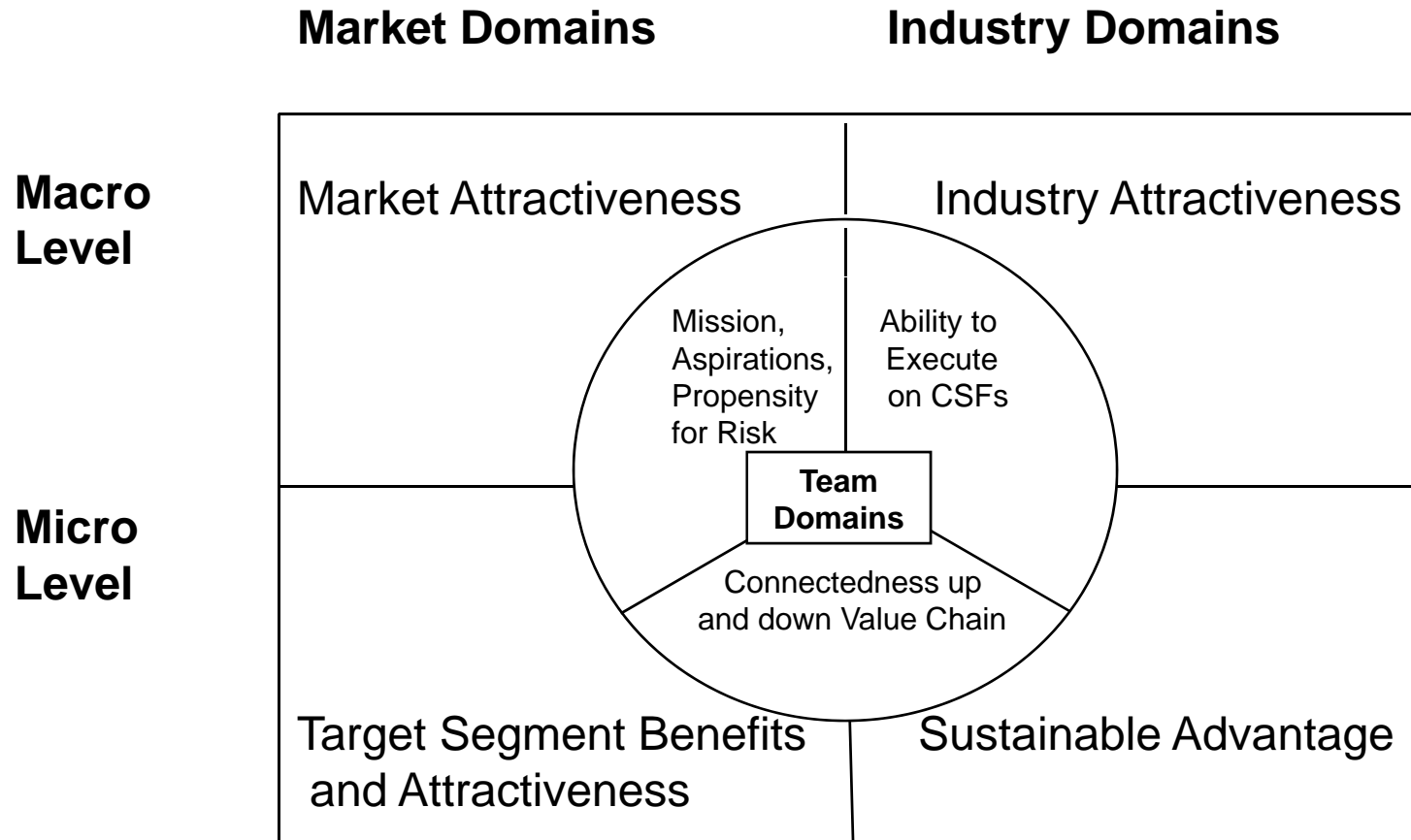
- A business plan is a *selling document* that conveys the excitement and promise of your business to any potential backers or stakeholders

A business plan

1. Is used to interest and attract support
  - marketing document
  - legal document to raise capital
2. Is a document that articulates
  - critical aspects of the business
  - how to create and keep customers
  - basic assumptions
  - financial projections
3. Forces entrepreneurs to think through the business in a systematic way

# When is Writing a Business Plan Warranted?

Per John Mullins (London School of Business):



John Mullins, *The New Business Road Test* (Prentice Hall: 2003).

# Target Segment

Can you identify any customers?

- what customer pain will your business idea resolve
- evidence that your idea is superior (better, faster, cheaper) enough to get customers to change what they are doing now
- evidence that customers will buy
- list of initial customers

Defining a targeted market segment

- who, in terms of demographics or psycho-graphics
- where, in terms of geography
- benefit expected

Will this segment lead to others?

# Market Attractiveness

What sort of business do you want?

- niche or promising

How large is the market?

- number of customers
- how much do they spend
- how fast has the market grown, and will it continue to grow
- large markets offer the chance for multiple players and for segmentation

What economic, demographic, socio-cultural, technological, regulatory, or fashion trends will affect your market positively or negatively?

In short, the key variables are market size and market growth

# Industry Attractiveness

What industry are you competing in? Can you define it clearly?

- How attractive is this industry?
- Can you do a SWOT analysis?

According to Michael Porter these five competitive forces determine industry attractiveness (i.e. margins):

- 1. Threat of new entrants:** How difficult is it for others to enter this industry?
- 2. Threat of substitute products or services:** What are the substitute products and services to yours? How difficult is it for them to steal your customers?
- 3. Bargaining power of suppliers:** Do suppliers have the power to set terms and conditions?
- 4. Bargaining power of buyers:** Do customers have the power to set terms and conditions?
- 5. Rivalry among competitors:** How intense is the competitive rivalry in the industry?

The interdependence among these factors prevents one competitor from earning above-average returns

- It is only through competitive advantage that a firm can earn above-average profits for a time
- These above-average profits are a function of strategically erected entry barriers

Hyper-competition (as theorized by Richard D'Aveni) argues that all competitive advantages are temporary because of increased and increasing competitive rivalry

# Sustainable Competitive Advantage

Per Michael Porter (Harvard) the strength of an opportunity is a function of the strength of its competitive advantage:

A sustainable competitive advantage is a difference that can be preserved - a proprietary asset, a core competence, which

- delivers greater value to customers
- and/or comparable value at lower cost
- or enters a niche market where there is no competition

Competitive strategy is about being different

- deliberately choosing a different set of activities to deliver a unique set of values

Do you possess proprietary advantages that other firms cannot duplicate?

- What is the evidence?

Can your business develop and deploy superior organizational resources, assets, processes, or values that other companies will have difficulty in matching?

- What is the evidence?

Is your business model viable?

- Can it be expanded to new markets? Is it scalable?
- How much time do you have till you run out of cash?

# Team Domain

Are you clear about your mission, aspirations, and risk propensity?

- How much do you care about this business?
- How focused are you?

Can you identify the few critical success factors, the ones that really make a difference?

- Can you and your team really do this?
- Where is the evidence?
- Do you have the experience and drive?
- Can you sell this product/service?

Who do you know up, down and across the value chain?

- How well do you know this business, the customers, the key suppliers, other key players from whom you will need support?

# Scoring the Seven Dimensions Model

Which domains are critical?

Which are necessary but not sufficient?

Which increase an opportunity's attractiveness, but are not critical?

Which do you know and which do you still need to figure out?

***In the end, it always comes down to market demand, market size and structure, and margin analysis***

# The 10<sup>th</sup> Annual JHU Business Plan Competition

See the website:

<http://www.jhu.edu/bpc/>

Categories:

1. Biotechnology
2. General Business
3. Medical Devices

Prizes per category:

1st place: \$5,000

2nd place: \$3,000

3rd place: \$1,000

Key dates:

February 20: plans due

March 27: semifinals

April 10: finals

Mentors are available

# The Value Proposition

Per Carlson and Wilmot:

1. What is the important customer and market *Need*?
2. What is the unique *Approach* for addressing this need?
3. What are the specific *Benefits per costs* that result from this approach?
4. How are these benefits per costs superior to the *Competition's and the alternatives*?

Curtis R. Carlson and William W. Wilmot, *Innovation*, (Crown Business: 2006).

A value proposition in business and marketing is a statement summarizing the customer segment, competitor targets, and the core differentiation of one's product from the offerings of competitors. In *Crossing the Chasm*, Geoffrey Moore writes, "Positioning is the single largest influence on the buying decision." Value propositions are often used in a business model and business plan to describe value added.

Geoffrey Moore's value proposition should answer the questions: "Why should I buy this product or service?" as well as "Why should I do anything at all?" It is a clear and specific statement about the tangible benefits of an offering.

# The Business Model

The business plan must lay out the new venture's business model

A business model is

- The way a business creates and keeps customers
- The way a business
  - Organizes inputs
  - Converts inputs into value-creating outputs
  - Delivers the outputs to customers
  - Gets customers to pay for the outputs
- The way a business establishes competitive advantage

# Strategy

The business plan must describe the new venture's strategy

- What to sell and to whom
- What activities need to be performed
  - to deliver goods and services to customers
  - for sales and cash flow targets to be met
- What resources need to be available and what infrastructure needs to be in place for these activities to be performed efficiently and for efficiency to improve over time

# What the Judges are Looking for

1. Is the value proposition realistic?
2. Are the competitive advantages believable?
3. Is the target market prediction sensible?
4. Considering the value proposition, competitive advantage and target market prediction, does the revenue and profit model make sense?
5. Who are the first customers and how important is the venture to these customers? Is it expensive for these customers to switch?
6. Does it appear that the team is well constituted? If not, how difficult will it be to hire people with the necessary competencies?
7. If intellectual property is important, can it be protected?
8. What is the expected timeframe and pay-off for new investors?
9. Is it likely the business will be around in five years?
10. Is the executive summary clear and well written?

# The Executive Summary

See the following website for required forms:

<http://www.jhu.edu/bpc/html/entryforms.html>

## COMPANY NAME

PRIMARY CONTACT INFORMATION
Full Name of Primary Contact
E:
T:

### Topics to Cover

- Market Opportunity
- Product Service Offering
- Business Model
- Market Overview
- Customer Profile
- Competition Overview
- Financial Projections

LIMITED TO ONE PAGE

COMPANY PROFILE
<u>Category</u>
<u>Industry</u>
<u>Stage of Development</u>
<u>Team</u>

## FINANCIAL PROJECTIONS

	YR01	YR02	YR03
Revenues (\$ mil)	\$	\$	\$
Expenses (\$ mil)	\$	\$	\$
EBITDA (\$ mil)	\$	\$	\$

# Elements of the Business Plan 1

Per William Sahlman (Harvard),

- The opportunity
- The context
- The risks and rewards
- The deal
- The people

# Elements of the Business Plan 2

Per David E. Gumpert,

- Cover page
- Table of contents
- Executive summary
- The company
- The market
- The product/service
- Sales and promotion
- Finances
- Appendix

# Elements of the Business Plan 3

Per Michael J. Roberts (Harvard),

- Executive summary
- The company
- The product or service
- The market
- Competition
- Sales and marketing
- Operations
- Financials
- Appendix

# Elements of the Business Plan 4

Per Jeffrey Timmons,

- Executive summary
- Industry, company, and product/service
- Market research and analysis
- Economics of the business
- Marketing plan
- Design and development plans
- Manufacturing and operations plan
- Management team
- Overall schedule
- Critical risks, problems, and assumptions
- Financial plan
- Proposed company offering
- Appendices

# Elements of the Business Plan 5

Per Looser and Schlapfer (McKinsey),

- Executive summary
- Project idea
- Management team
- Marketing
- Business systems and organization
- Realization schedule
- Risks
- Financing

# Another Format

1. Cover page
2. Executive summary
  - Opportunity
  - Context
  - Risks and rewards
  - The deal
3. Product or service offering
  - Description of product or service
  - Origin of the opportunity
  - Description of market/industry
  - Sources of competitive advantage
4. Market analysis
  - Size of market
  - Competition – both companies and products/services
  - List of likely customers
  - Evidence of market research
  - Sales and promotional plans, including timelines
5. Operational analysis
  - Description of how the product or service will be manufactured or created
  - Action steps necessary to deliver the product or service to customers
  - Timelines
  - Description of any necessary vendors
  - Organizational structure required
6. Financial analysis
  - Summary of annual cash flows
  - Three year monthly cash flows
  - Required start-up capital and usage
  - Returns to investors
7. The deal
  - Sources of start-up capital – the combination of equity and loans
  - Cost of equity and loans
  - Ownership structure
8. The team
  - Team members, qualifications, and roles
  - Outside advisors
9. Appendices

# The Marketing Plan

1. Introduction
2. Situational analysis
  - business environment
  - competitors
  - company
  - competitive advantages
3. Target market
  - demographics
  - psychographics
4. SWOT analysis
5. Marketing objectives and goals
6. Marketing strategy
7. Marketing tactics (4 P's)
  - product
  - price
  - promotion
  - place
8. Control and implementation
9. Market research
10. Summary

# Summary

The business plan must answer these questions:

- What is the customer benefit?
- What problem does the business model solve?
- What is the market and how large is it?
  - How can the market be segmented and what is the target market?
  - How can these customers be reached, i.e. informed and influenced?
  - What will customers pay and how much will they buy?
  - Who else is in the market?
  - What is your evidence for all of this?
- How will the venture make money?
- ***How will you accomplish this?***

# Appendix: Market Entry Strategies

# Market Entry Strategies for New Corporate Ventures

Should the market entry attempt to rapidly seize significant market position or seek stealthy penetration?

- A universal component of marketing strategy is its content: details such as pricing, marketing mix, distribution channels, packaging, and target markets, which are affected by the characteristics of the product, costs, the situation, market size and growth rate, industry characteristics and perhaps most important of all, the strategic marketing objectives that are sought.

There are two additional features of entry strategy:

1. Aggressiveness of entry. This refers to the force applied—the power, strength and velocity of effort and amount of resources committed.
2. The focus of the entry effort—the extent to which the effort is sharply focused or on a broad front.
  - Research has demonstrated a high correlation between venture performance and aggressiveness of entry (here performance was measured by market share achieved).
  - The evidence is quite strong that new product and new venture performance on a firm-wide basis is greatly affected and perhaps fundamentally determined not by the percentage of successful entries but rather by the losses of expensive failures, which dilute and dissipate the gains of successes. This indicates a need for effective damage control of potential failures, so they do not cripple the chances for success.

Aggressiveness can be applied not only in the sales and marketing effort through expenditure on advertising and promotion, the size of the sales and marketing organization, pricing practices, discounting, deals, and publicity, but also through investment in production facilities, inventories, training of personnel in advance of entry, and number and dispersion of plant and office locations.

Given the potential for big wins and for equally big losses associated with massive-scale market entry we have described it is clear that management faces some real dilemmas in deciding whether to be aggressive and/or focused in the entry strategy. ***All the combinations of force and focus have their advantages and disadvantages***, but we suggest that some clues as to what is the most appropriate entry strategy can be derived from looking at the nature of the market environment that the firm wishes to enter.

## Market Factors that Shape Entry Strategy 1

There are two market variables that have a tremendous impact on the strategy chosen for entry of a new product – the market can either be munificent or sparse, hostile, or benign.

Munificence describes the structure, size, and nature of the market being entered, whereas hostility captures the structure and nature of the firms competing for that market.

- Clearly, the degree of munificence of a market is closely related to market size, but judging the market size for a new venture can be confusing. It is one thing to examine an existing market, for example, for detergents, to identify the players, determine their share, review the rate of growth of the market, determine the cost of achieving and holding share, and make some reasonable assumptions based on competitive and marketing history as a basis for entry planning
- It is quite another to examine an unfulfilled market need, to calculate a potential if the need is met with the proposed new product entry, and then to estimate what the rate of market development will be. And in addition, what competitors will do and when they will do it. Traditional market research is not very useful for this purpose. The more innovative a product is, the more difficult it is to estimate the rate of market development.
- Under these circumstances, feel, intuition, and direct personal contact with prospective customers and the market by the new venture champion may be more revealing than existing data about a nonexistent market. ***This is one area where the individual entrepreneur with a vision has an advantage over the objective market researchers of the corporation*** who may only measure whether there is a market, and if so, how large. The entrepreneur adds the dimension of a vision of a future market and through personal immersion seeks a way to alter, modify, and adapt in order to fill the need that has been perceived. ***The fundamental difference, however, between the market analyst and the entrepreneur lies in the ability of the entrepreneur to see what is possible rather than current reality alone—to see future relationships between factors that add value, opportunities, the essence of the entrepreneurial act.*** An important part of the entrepreneur's view of the market in relationship to the business concept is the continuous adaptation and modification of the concept to attempt to fit concept or product to what is being learned from immersion in and contact with the market.

## Market Factors that Shape Entry Strategy 2

For making the munificence judgment, three important characteristics besides existing size and growth rate must be examined in addition to market size:

1. **customer risk:** the level of consumer risk attached to purchasing the new product
2. **technology turbulence:** rapid change of technology can reconfigure the market, thus, a critical question about munificence is how long will the munificence last
3. **category life cycle:** opportunities for success are higher quality for first movers with products in the early stages of their life cycle because of potential munificence and lack of hostility

Competition is the principal key to determining the hostility of the market. If the market is crowded with competitors and the business is crucial to their success, the market will be very hostile. If there are no competitors, or the competition is highly fragmented and no clear market leadership is present, the market may be effectively benign.

In addition to market share, the salience of the product to each competitor will determine the strength of competitive response. If the competitor is highly dependent on the product for the firm's success, then an aggressive fight can be expected against a new entrant.

Market hostility is also affected by industry capacity compared with market size. When capacity is greater than the market size, competitive action will be more intense, and may indeed suggest that the entry strategy to be followed is not to enter at all or to enter through acquisition of existing capacity at low cost.

## Making the Entry Strategy Decision

Although the degrees of aggressiveness and focus are a continuum, for purposes of clarity and simplicity we choose two levels for each: relatively aggressive and non-aggressive and relatively focused and broad-front.

- The activities to which varying force or aggressiveness can be applied are amount and type of advertising and sales promotion, size of the sales and marketing organization, pricing, investment in production facilities, amount of service supplied to customers, level of discounting, introductory deals, inventory levels held for minimum delivery time, and, not the least, publicity.
- Increased aggressiveness may be reflected in the timing of these activities as well as in the amount of money spent. For example, the opening of regional sales offices and employment and training of sales and marketing people can be initiated and timed for operation to coincide with the anticipated availability of product from a plant that is in the process of being built, rather than waiting for assurance of availability of product.

The degree of focus is reflected by the number of market segments initially addressed, the extent of geographical dispersion, and the size and variety of the product or service line offered.

# Four Entry Strategies

## 1. The Blitzkrieg

- This is a highly aggressive, broad-front strategy using all forces over a wide scope of geography and market segments for the purpose of establishing a strong, widespread market position as early as possible.
- Because this strategy requires rapid market penetration, it probably would not be appropriate in a situation where there is not a munificent market—existing or clearly potential. This approach might, however, be taken even in a hostile market, provided internal commitment and resources are great enough to overcome competition over an unpredictable but necessary time.

## 2. The Cavalry Charge

- This strategy is highly aggressive and focused. All the elements that can be aggressive might be used, that is, advertising, public relations, sales force intensity, and aggressive pricing, and they are concentrated on a market segment and/or a limited geographical area. This strategy is not uncommon for new consumer products. In building a new business around a technology, a cavalry charge would select one application, rather than many, focusing all effort in a concentrated fashion to achieve early success.
- The cavalry charge requires a market that is munificent but not so hostile that the market segments into which entry is deferred are lost to competition.

## 3. The Strike Force Approach

- This strategy is non-aggressive and focused. It is a low-key, calculated entry into a narrowly defined market. It uses relatively fewer resources than other approaches and demands less of a commitment from the firm.
- This non-aggressive and focused strategy might be appropriate for a market that is hostile and sparse. The venture can quietly enter the market and establish laying the groundwork for further expansion. In a particularly hostile market, this back door entry can give the firm a foothold without alarming competitors.

## 4. Guerrilla Tactics

- A guerrilla approach calls for a non-aggressive but wider scope of entry characterized by the use of relatively low resources used to strike where they can be most effective in establishing a position in a market.
- A guerrilla approach is appropriate in a market that is munificent but hostile. The breadth of market will support a broad entry, but the presence of major competitors calls for a less aggressive approach. It is also appropriate for exploration to determine the markets to focus on later without generating strong competitive interest or counteraction.

# Market Entry Strategies

Factor	Blitzkrieg	Cavalry Charge	Strike Force	Guerrilla Tactics
<b>Market Conditions</b>				
Hostile	+	-	+	+
Benign	+	+	-	-
Munificent	+	+	-	+
Sparse	-	-	+	-
<b>Firm Resources</b>				
Ample	+	+	-	-
Restricted	-	+	+	+
Critical Mass Needed to Start	+	+	-	-
<b>Diversity</b>				
Great (poor fit)	-	-	+	N
Small (good fit)	+	+	-	N
<b>Corporate Culture</b>				
Risk Averse (non-experimental)	-	-	+	+
Supports Experimentation	+	+	+	+
<b>Market Life Cycle Stage</b>				
Early	-	-	+	+
Developed	+	+	N	N
Mature	-	-	+	+
<b>Salience to Entry Firm</b>				
High	+	+	N	N
Low	-	-	+	+
<b>Threat to Existing Customers</b>				
Low	+	+	N	N
High	-	-	+	-
<b>Proprietary Protection</b>				
Strong	+	+	+	+
Weak**	-	-	-	-
(-) means that the strategy is less appropriate, or not necessary				
(+) means that the strategy is appropriate or necessary				
(N) means that the variable does not have any major effect on the appropriateness of the strategy				
** Salience and resource availability will override this negative if the market is munificent				

# Entry Strategies

Per William Bygrave,

Winning strategies include some combination of the following attributes: better, cheaper, and faster.

- However, more often than not, your competitive advantage will be complemented by the tacit knowledge held by the people within your company.
- The most difficult aspects of a firm's strategy to imitate are the people and the execution of the strategy.

Successful launches are iterative.

- Benchmark competitors and learn “best practices” from firms that operate inside and outside your industry of interest. Create a simple matrix that identifies the firm, its margins), major cost categories, and any other elements that you think might be useful.
- You can devise your initial market test once you have a strong understanding of the competition.
- Developing a market test schedule not only guides your learning, but helps you understand when, how, and how much it will cost to achieve the next milestone.
- The concept of escalating market tests is powerful. While you can visualize and plan for your business in great detail over a long period of time, you never truly learn whether it is a viable business until you make a sale.
- The goal is to create a platform on which to grow your business