

Session 5 – Basics of the Business Plan for New Enterprises

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Overview

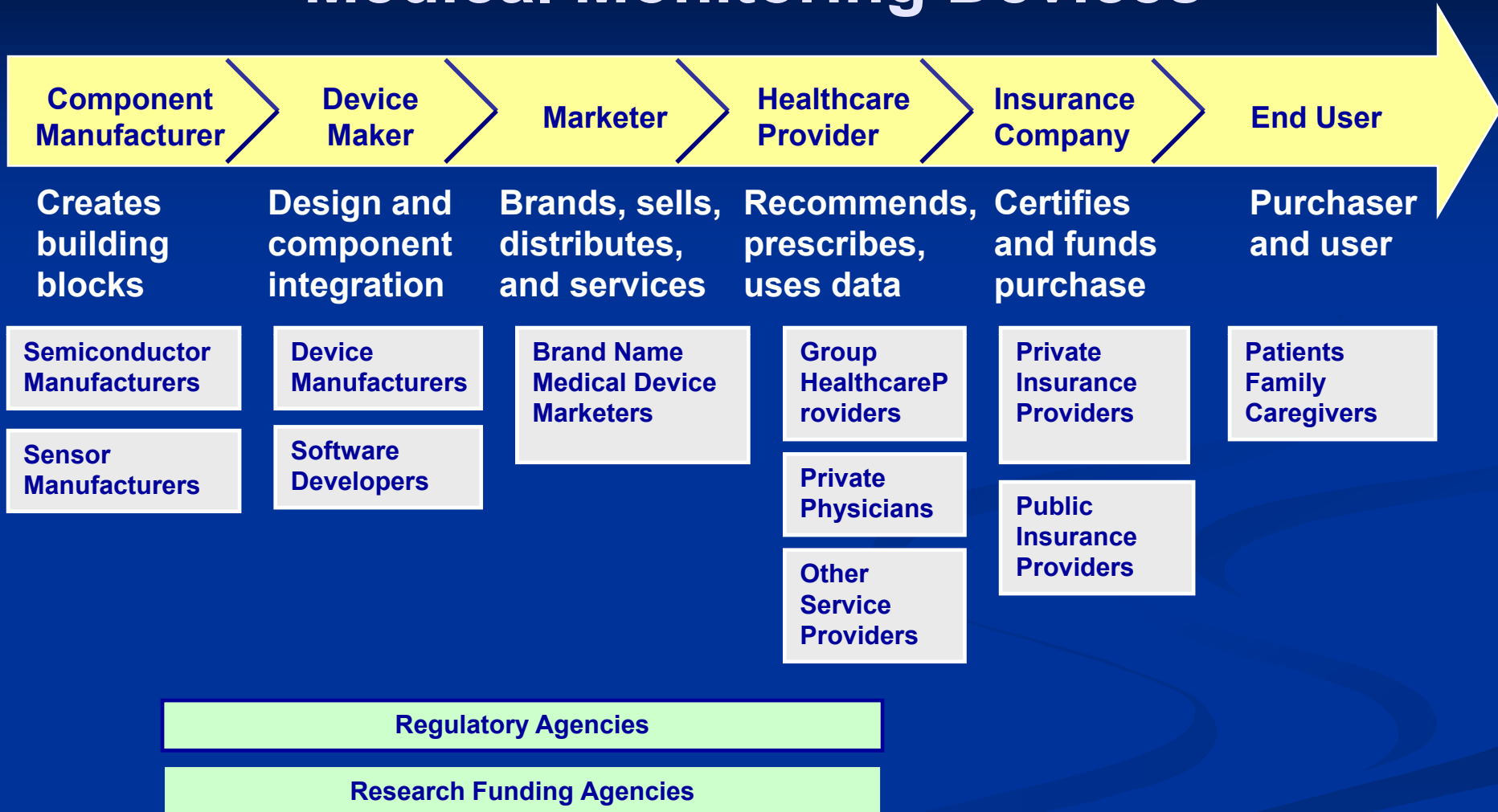
- Understanding your Business Model
- An overview of the business plan (purpose)
- Creating the plan – the essentials (content)
- What comes next:
 - Clear, concise, effective communications
 - Focus on the value proposition
 - Elevator pitch

Understanding Your Business Model

- What role will you play in the industry's value web?
- How many customers will you deal with? How frequently?
- How will you organize the basic processes?
 - Product development
 - Customer acquisition and retention
 - Operations (complex, repetitive, standardized tasks)
- What kinds of resources are required/available?
- What activities will you perform internally? Which will be performed by others? Why?
- How will your business model create or leverage your sources of competitive advantage?

Industry Value Web

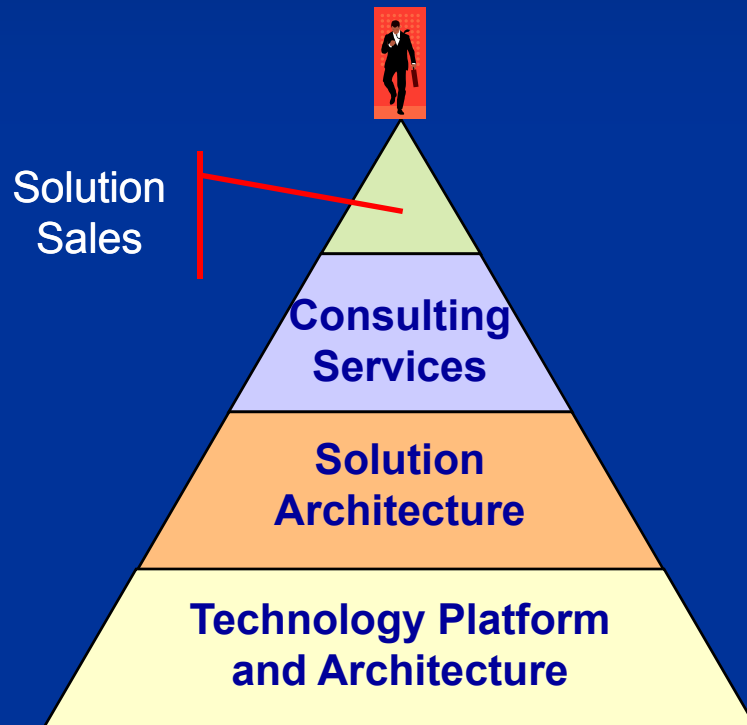
Medical Monitoring Devices



Two Organizational Models

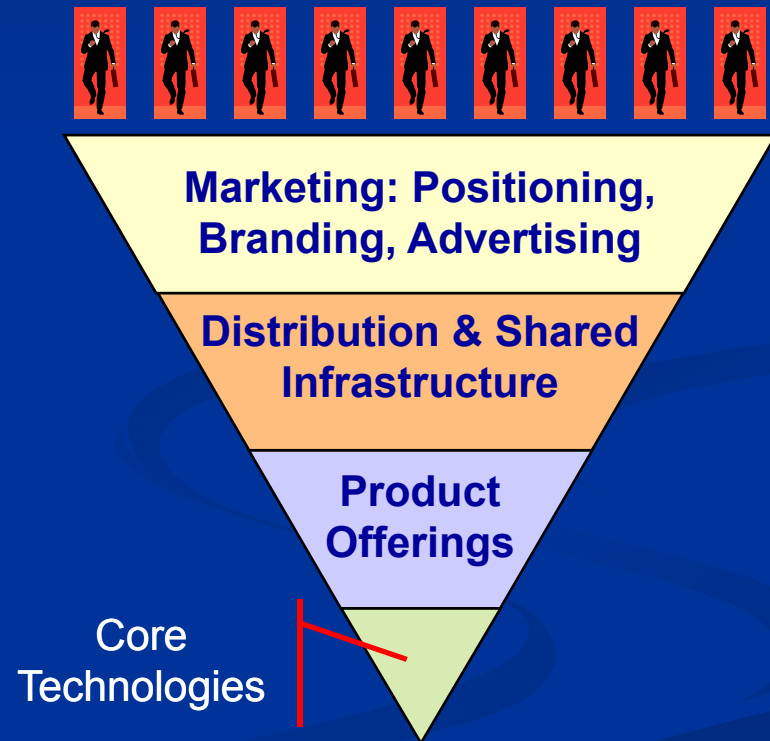
Complex-Systems Model

Few Customers



Volume Operations Model

Many Customers



Business Plan: Purpose

- Multiple purposes:
 - Blueprint for the company itself (short term/long term road map)
 - Attract potential investors
 - Part of a legal document for fund-raising
- Different purposes may conflict:
 - A marketing document may be more optimistic and one-sided than an critical business analysis;
 - For raising funds, may require full disclosure of risks and the legal boilerplate required for securities offerings.



Business Plan: Common Sense Guidelines

- Author must be the entrepreneur (not consultants or packages)
- Different audiences (professional investors, bankers, individuals, employees, advisors, etc.) have different needs and interests
- A business plan is different from an offering memorandum
- Neither necessary or appropriate to outline the terms of the “deal”, but must specify amount and use of funds and how the money will be paid back.
- Should be clear, direct, supportable, and relatively brief (40 pages or so)

Business Plan: Where Do You Start?

- Start with the basic transaction
 - Why is someone (your customer) going to pay you (substantially) more for the good or service you are providing to them than it will cost you to produce it?
 - How will value be created for the customer?
 - What tasks must be completed in order to be able to provide this good or service to the customer?
 - What resources (tangible & intangible) will I need?
- **YOU MUST UNDERSTAND THE BASIC TRANSACTION TO WRITE A GOOD BUSINESS PLAN**

The Pieces of the Business Plan

- Executive Summary
- Description of the Business
- Marketing Plan
- Product Design & Development
- Operations
- Finances
- Management
- Appendices

Section #1: Executive Summary

- Executive Summary – 1st piece read and last piece written
 - The company's status and its management
 - The company's products and services and the benefits they provide to users (focus on the value proposition)
 - The market and the competition for the product
 - A summary of the company's financial prospects
 - The amount of money needed and how it will be used.
 - 1st part read, but the last part written
 - 2 pages maximum length

Section #2: Description of Business

- Description of Product or Service
 - Who are the customers? What are their needs?
 - What is the value proposition (may vary by customer)
 - What needs are met, especially as compared to competitive products?
 - What makes it unique – competitive advantages?
 - How does it create value for the customer?
 - How it is (or will be) produced?
 - Proprietary aspects; patents, etc.

Section #2: Description of Business

- Company History (Origins, Objectives, Operations)
- Background of Founders & Key Employees
- Description of Industry
 - Competition
 - Competitive firms and products (market position, pricing, marketing approaches, etc.)
 - Comparison to company's product (pros and cons)
 - Potential substitutes?

Section #2: Description of Business

- Business Strategy
 - What will be the Company's competitive advantage?
 - How will the Company establish a competitive advantage?
 - What will be the Company's unique sources of value?
 - How will the Company sustain its competitive advantage and unique sources of value over time?
- Major Long Term & Short Term Goals

Section #3: Marketing

- Market Research & Analysis
 - Target Customers
 - Market Size & Potential
 - Market Growth Rate
 - Expected market reaction – resistance, competitive reaction, etc.
 - Market Share across time
 - Market segmentation, buying process, how purchase decisions are made
 - Company's perspective on the market – trends, changes, opportunities

Section #3: Marketing

■ Marketing Plan

- How the product will be sold (direct sales, reps, distribution, mail order, etc.)
- Targeting & Segmentation - How target customers will be identified
- Pricing Strategy
- Advertising, Promotion Plan
- Public Relations & Communications
- Initial launch and introduction to the marketplace

Section #4: Product Design & Development

- Product Development & Design Plans
- Status of Current Research and Development
- Research Needs - Time, Money, People, etc.
- Costs of Development
- Schedules, Timelines, etc. (PERT & GANNT Charts)

Section #5: Operations

- Manufacturing Strategy - internal vs. external
- Facilities, Equipment, etc.
- Suppliers
- Labor
- Costs to Manufacture/Provide Service

Section #6: Finances

- Financial Forecasts
 - Profit & Loss Statements
 - Statement of Cash Flows
 - Break-Even Analysis
 - Balance Sheet
- Exit strategies for investors
- Each piece must be driven by thoroughly documented assumptions & the numbers must map to each section of the plan

- Income statement and balance sheet
- Explicit assumptions
- Consistent with written plan
- External validation (smell test)
- Level of detail less important than overall validity and credibility

Section #7: Management

- Key Personnel
- Legal Structure, Stock Options, Employment Agreements, etc.
- Board of Directors
- Scientific Advisory Board
- Key Advisors & Consultants
- Major Shareholders

Business Plan: Appendices

- Appendices
 - Resumes of key personnel
 - Sample product literature
 - Cover sheet of patent filings
 - Other pertinent material

The 7 Deadly Sins

- Sin #1: No Concrete Goals
- Sin #2: Hubris - Failure to Anticipate Roadblocks
- Sin #3: Lack of Commitment
- Sin #4: Lack of Experienced Management
- Sin #5: No Competition (no Market)
- Sin #6: Vanity - Overestimating the Value of the Idea
- Sin #7: Hidden Assumptions & Rosy Scenarios

What Comes Next?

- Clear, concise, effective communications
- Understand and emphasize the value proposition (may vary by customer)
- Elevator pitch
 - What do you offer?
 - How does it create exceptional value for the customer?
 - Why is it unique (and clearly superior to available alternatives)?
 - All in two minutes or less

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