Elements of a Business Plan
Elements of a Business Plan

- Executive summary *
- Market analysis *
- Company description
- Organization and management
- Marketing and sales strategies
- Service or product line
- Funding request
- Financials
- Appendix
Why is a business plan important?

- Reality check
- Performance tool
- Motivation tool
- Management development tool
- Road map
- Message sender
Business Case Study

- French to English – Everything
- Business coaching and planning
- Tractor manuals in 98 languages
- Income 10x and vacations 3x
Keys in a business plan

- Evidence of focus and preparation
- Attracting great employees
- Understanding of your target clients
- Appreciation of investor needs (e.g. Burcon story)
# Mega-entrepreneurs

<table>
<thead>
<tr>
<th>Entrepreneurial Company</th>
<th>Founder(s)</th>
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<tbody>
<tr>
<td>Microsoft</td>
<td>Bill Gates and Paul Allen</td>
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<tr>
<td>Netscape</td>
<td>Marc Andressen</td>
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<tr>
<td>Dell</td>
<td>Michael Dell</td>
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<tr>
<td>Gateway</td>
<td>Ted Waitt</td>
</tr>
<tr>
<td>McCaw Cellular</td>
<td>Craig McCaw</td>
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<tr>
<td>Apple</td>
<td>Steve Jobs and Steve Wosniak</td>
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<tr>
<td>Digital Equipment</td>
<td>Ken and Stan Olsen</td>
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<tr>
<td>Federal Express</td>
<td>Fred Smith</td>
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<tr>
<td>Genentech</td>
<td>Robert Swanson</td>
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<tr>
<td>Polaroid</td>
<td>Edwin Land</td>
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<tr>
<td>Nike</td>
<td>Phil Knight</td>
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<tr>
<td>Lotus</td>
<td>Mitch Kapor</td>
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</table>
Small survival rates are low!
Economics and finance cause failures...
Timmons Model of the Entrepreneurial Process

Opportunity

Team

Business Plan
Fits and Gaps

Resources

Source: New Venture Creation by Jeffry A. Timmons
Myth #1 – Entrepreneurs are born, not made.

Reality #1 – The making of entrepreneur occurs with the accumulation of relevant skills, experience, and contacts over a period of years. Finally, an entrepreneur must identify an opportunity, develop a business plan, and start the business.
Myth #2 – Entrepreneurs are gamblers.

Reality #2 – Successful entrepreneurs take very careful, calculated risks. They influence the odds by sharing risk with others and avoiding or minimizing the risk.
Myth #3 – Entrepreneurs are their own bosses and completely independent.

Reality #3 – Entrepreneurs are far from independent and must serve many masters including investors, partners, clients, suppliers, creditors, and employees. However, they can choose their responses.
Myth #4 – Money is the most important start-up factor.

Reality #4 – If the opportunity and talent is there, the money will follow.
Myth #5 – Investors fund business plans.

Reality #5 – Investors fund great teams pursuing viable target markets. Do a 12 slide presentation emphasizing the team, market test, business model test, and valuation points.
Pre-Business Plan

- Good ideas are free 1-10-100
- Execution team
- Market testing
- Business model testing
- Valuation points
Market testing – Will people pay you?

- Secondary research – Internet, industry, analyst reports
- Focus group and surveys to uncover target market
- Focus groups and interviews to test solutions on the target market
- Test with influencers
People only buy two things...

- Good feelings (emotion)
- Solution (logic)
Business model testing – Can you make $?

- Sufficient demand
- Reasonable costs
- Scalability
- Credible execution team
- Competitors are already doing it!
Valuation points – Avoid dilution!

- Not expenses – e.g. office
- Market test
- Business model test
- Credible execution team
- Product prototype
- Brand-name clients
- Major partners
- Smart investors

- Reduced risk = Increased valuation $$$
Executive Summary

- Business concept and model (product or service)
- Opportunity
- Strategy
- Team
- Offering
Opportunity

- Market demand
  - Who is the ideal client? target market!
  - Is the client reachable?
  - What are the key client benefits?
  - Is client payback in less than one year?
  - What is achievable (25% market share and 25% growth)?
Opportunity

- Market structure and size
  - Emerging and/or fragmented
  - $100M+ with a $2B potential
  - Barriers to entry
Opportunity

- Margin analysis (idea or an opportunity)?
  - Low cost provider
  - High gross margins (40%+)
  - Low capital required
  - Break even in one or two years
The Economics Foundations of Competition

Determinants of Profitability

• The fundamental unit of strategic analysis is the industry
• Company economic performance results from two distinct causes:

- **Rules of Competition**
- **Sources of Competitive Advantage**

• Strategy must encompass **both**

Source: Michael E. Porter
Profitability of Selected U.S. Industries

Operating income / assets, 1988 – 95 (%)

Source: Michael E. Porter
Michael Porter’s Industry Model

 Suppliers  

 New Entrants  

 Industry Competitors  

 Substitutes  

 Buyers  

Source: Competitive Advantage, Michael E. Porter
Choosing a Competitive Position
Package Delivery Industry

<table>
<thead>
<tr>
<th>Low-cost</th>
<th>Differentiation</th>
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<tr>
<td>Cost Leadership</td>
<td>Differentiation</td>
</tr>
<tr>
<td>UPS</td>
<td>Fedex</td>
</tr>
<tr>
<td>Cost-based Focus</td>
<td>Differentiation-based Focus</td>
</tr>
<tr>
<td>Airborne Express</td>
<td>DHL</td>
</tr>
</tbody>
</table>

Source: Michael E. Porter
Cost Advantage

- **Activities** create cost
- Total cost position must be **disaggregated** to the activity level
- The relative cost of activities is driven by a series of **cost drivers**
  - Scale
  - Integration
  - Policy choices
  - Institutional factor
  - Learning
  - Fit (linkages)
  - Location
  - Pattern of utilization
  - Sharing across capacity
  - Sharing across businesses
- **Timing**
- Cost leadership usually involves cost advantages in **many** activities
- Cost advantages often requires spending **more** on some activities
- Cost leadership is often accompanied by a **supporting culture / values**

**Linking Cost to Financial Performance**
- Cost advantage is profitable if it exceeds any price discount offered to secure adequate volume

Source: Michael E. Porter
Commanding a Premium Price

• Buyer value (willingness to pay) depends on
  - Lowering the buyer’s overall cost of doing business
  - allowing the buyer to enhance (non-price) value with its customers
  - Increasing end user satisfaction
• Buyer value varies by customer / customer group
• Buyer value is created by discrete activities the firm performs
• Buyers cannot always perceive the non-price value a firm creates
• “Signals of value” may be necessary to communicate the value created
• Creating the value often requires extra costs
• Differentiators should only add cost where it contributes to value
  - Value adding versus non-value adding costs
• The division of value with the customer depends on the buyer’s bargaining power

Linking Value to Financial Performance
• Differentiation is profitable if the price premium exceeds the extra costs of creating it

Source: Michael E. Porter
Industry Structure: U.S. Airline Industry

Threat of Substitute Products or Services

(-) Automobiles and railroads are substitutes for short-haul routes
(-) Private jets aircraft limit sales at the top end of the market
(+ ) Few substitutes for long-haul routes

Bargaining Power of Suppliers

(-) Pilots and mechanics are unionized and exercised very high bargaining power:
(=/-) Only two suppliers of commercial aircraft, but Boeing? Airbus rivalry is intense

Rivalry Among Existing Competitors

(-) Moderate barriers to exit: aircraft are difficult to liquidate at full value
(-) High fixed costs and very low marginal costs lead to vicious price discounting
(-) Airline service is hard to differentiate enough to overcome desire for best schedule
(-) Constant temptation to expand because new flight crews are cheaper

Barriers to entry

Bargaining Power of Channels

(+ ) Power of travel agents has steadily declined

Bargaining Power of Buyers

(-) Many consumers on price
(-) Internet has made price comparisons easy to obtain
(-) Minimal switching costs
(=) Some airlines have monopolistic / oligopolistic position at certain hubs

Source: Michael E. Porter

(=/-) Up-front capital costs not significant enough to stop continual entry
(-) Modest economies of scale
(-) Brand identity weak; low switching costs
Southwest Airlines - Activity System

- Standardized fleet of 737 aircraft
- No meals
- No seat assignments
- 15-Minute Gate Turns
- Limited use of travel agents
- Automatic Ticketing Machines
- Limited use of travel agents
- No baggage transfers
- No connections with other airlines
- No baggage transfers
- No connections with other airlines
- Short-haul, point-to-point routes between medium-sized cities and secondary airports
- Standardized fleet of 737 aircraft
- Very Low Ticket Prices
- “Southwest, the low-fare airline”

Source: Michael E. Porter
**Buyer Value Chain**

**Optometrist**

**Support Activities**

- **Firm Infrastructure**
  (e.g. Financing [ease of payment], Office Space)

- **Human Resource Management**
  (e.g. Staff Recruitment, Training, Oversight)

- **Technology Development**
  (e.g. Continuing Education: Medical, Financial, Information Systems)

- **Procurement**
  (e.g. Materials, Lab Services, Equipment, Media, Ad Services, Office Design)

**Primary Activities**

- **Inbound Logistics**
  (e.g. Product Inventory, Distribution Among Locations)

- **Operations**
  (e.g. Patient Scheduling, Examination and Diagnosis, Record Keeping, User Training)

- **Outbound Logistics**
  (e.g. Fee Collection, Third Party Payment Processing)

- **Marketing & Sales**
  (e.g. Patient Solicitation, Media Advertising, In-Store Selling Activities)

- **After-Sales Service**
  (e.g. Patient Communication)

**Value**

**What buyers are willing to pay**

Source: Michael E. Porter
The Internet and Industry Structure: Typical Impacts

Threat of Substitute Products or Services

(+/-) By making the overall industry more efficient the Internet can expand the size of the market
(-) The proliferation of Internet approaches creates new substitution

Bargaining Power Of Suppliers

(+/-) Raises bargaining power over suppliers, though it can also give Suppliers access to more Customers
(-) Provides a channel for suppliers to Reach end users, reducing the Leverage of intervening companies
(-) Gravitates procurement to Standardized products

Rivalry Among Existing Competitors

(-) Offerings are difficult to keep Proprietary
(-) Migrates competition to price
(-) Widens the geographic market
(-) Lowers variable cost vs. fixed cost, Increasing pressures for price discounting

Bargaining Power of Channels

(+/-) Offers channels for suppliers to Reach end users, reducing the Leverage of intervening companies
(-) Gravitates procurement to Standardized products

Bargaining Power of Buyers

(+) Eliminates Powerful Channels or Improves Bargaining Power over Traditional channels
(-) Shifts Bargaining Power to end Consumers
(-) Reduces Switching costs

Lower Cost

Source: Michael E. Porter
Strategic Positioning- Four Seasons Hotels and Resorts

Value Proposition

- Extraordinary comfort, convenience and service for affluent, experienced travelers who “have everything but time”

Set of Activities

- Focused on hotel management, not ownership
- Single, global brand and positioning
- No hotels or brands catering to other customer segments
- Medium-sized, intimate properties in prime locations
- Architecture combines functionality and excellent design; no monuments or grandeur
- Price premium in every location; few discounts
- Concentrate on individuals and their occasions, not groups per se
- Extraordinary personal service and individual customer attention
- Heavy investment in staff selection and retention
- Extensive staff training

Source: Michael E. Porter
Strategic Positioning
Automobile Insurance

Progressive

**Customer Group**
- High-risk drivers shunned by standard automobile insurers

**Set of Activities**
- Distribution through independent agents
- Sales force that educates independent agents in complex information gathering techniques
- 30-year database on high-risk drivers
- Complex rating scheme
- 14,000 different prices
- 50-300% premium pricing over standard segment
- Adjusters work from offices on wheels to provide immediate response. Adjusters trained and empowered to write out check at scene of accident
- Steep incentives to make a 4% underwriting profit
- Conservative, liquid investment portfolio

Geico

**Customer Group**
- “Preferred”, lowest risk drivers

**Set of Activities**
- Direct customer interaction through direct mail, telephone, and the Internet
- Sophisticated direct mail targeting low risk households
- 35+ year database and modeling utilities on preferred drivers
- Complex rating and pricing system
- Quote rates to only 50% of customers who inquire about coverage
- 15-20% lower prices than competition
- Network of insurance adjusters with cell phones working out of own vehicles for immediate response
- 24-hour customer service to handle sales, policy inquiries, and claims
- Conservative, liquid investment portfolio

Source: Michael E. Porter
Entrepreneur figures out how to do it ...

- Entrepreneur – Synthesis (Can do)
- Manager – Analysis (Can’t do)
- Educational Purposes Only