# BUSINESS PLANNING GUIDE

## For Startups and Intrapraneurial Ventures

Developed by Marc H. Meyer

This is a general business planning guide that should help you structure your research, planning, and presentation of new business ideas. Integrate and apply what you have learned in the various disciplines to propose a new division in your company or launch a startup (funded either by your company or others). Most of the information requirements for intrapraneurial ventures and startups is the same.

The purpose of business planning is to help teams think through an integrate all the key issues requires for business development, and drive these answers into a cohesive business model. Before you start working on the business plan, ask yourself who are the "right" types of people to have on your team and what it will take to get them to participate. Also, think about your executive sponsors or seasoned business advisors. You wil want to have quick feedback loops with sponsors and advisors before you make formal presentations for funding/investment.

For specific project questions and advise, contact Marc Meyer (mhm@neu.edu)

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## Title Page:

The title page must have the name of your project/business and your contact information, and the amount of funds (incremental or otherwise depending on corporate context) requested for startup.

## The Table of Contents

1. Executive Summary
2. Business Model: (Defined for Products and Services)
3. Market Analysis: Demand, Customers Profile, and Competitive Analysis
4. Solutions: Technology, Products, and Services.
5. Brand Strategy, Channels, and Market Development
6. Operations, Production, Supply
7. Organization [Defined for Sales, Development, Production, and Management Team]
8. Financial Analyses

Clear writing is essential. Brevity is a must.

Remember, the characteristics of all good business plans are a powerful marketing concept, clear tie-ins between your product or service and the methods for selling and promotion, an organization plan with depth, and reasonable, realistic financials and investment proposals.

**Intrapraneurial plans** need to highlight why the proposed new division or spin-off cannot survive in an existing mainstream business. The most successful ones leverage existing competencies into new markets or new types of applications. **Startup plans**, in particular, need to show proprietary technology, a clear path to profitability, and some pretty impressive business partnerships to get quick traction.

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Our experience is that executives and investors want to see evidence of :

- **A Robust MARKET,**
- **A Distinctive Product or Service SOLUTION**
- **A Balanced, Experienced TEAM,**
- **A BUSINESS MODEL that Generates or Contributes to Sales (New and Recurring) and Earnings.**

Perhaps most important, they want to see **FOCUS** in everything that you propose and do.

A few graphics to liven up the plan are helpful. Philosophy and informality do not work. Plans should between a dozen twenty pages in length. Anything more will be viewed as indicating an inability to focus.

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## Executive Summary:

The Summary must grab the reader. Most executives and investors will only read the Executive Summary, go straight to the resumes, and then to the financials. If they like these, they will then read the rest of the plan.

The Summary is a concise statement of the purpose of the proposed venture -- its vision of greatness in the form of a distinctive market position that you hope to achieve. The first two sentences in particular must show the focus of the business initiative.

The, within one or two pages, you should be able to describe:

- The business opportunity (a) the market need, and b) the form of the business, i.e. a new division, spin-off, startup, or acquisition
- The key advantages supporting the business
  - a growth market
  - a distinctive solution or distribution capability
  - a strong management team, with a combination of **industry experience** and a **balance of skills.** (If you don't have one, identify who you require.)
- the funds needed and the purpose of funds

These days, it is not even worth trying to get the business going unless you have the right people involved almost from the start.

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# The Business Model:

This section brings the reader into the next level of detail. In this day and age, executives and investors are getting back down to basics. They want to know that the products and services are REAL, and that there is a solid business model generated from these products and services.

- **Products and Services**: Briefly describe the types of products or the types of services provided by the business. Explain what percentage of the projected revenues are derived from each, the margins from each, and how you expect that to change as the business grows.

- **The Business Model:** An explanation of Revenue rampup, and requirements in R&D, Manufacturing, and Advertizing/Promotion to support that Revenue rampup, and how this all leads to profitability, e.g. the "path to profitability." These are tough issues, and your answers must conform to known industry successes.

- **Startup Capital and Anticipated Stages of Funding**: Describe the required startup funds, and expected subsequent funds and their purpose (e.g. for channel development or creating production capacity for expansion.)

- And, for Ventures, **Return on Invesetment** over 5 years. For startups, professional investors generally expect to see their equity grow as follow: 2 times in 2 years, 3 times in 3 years, 4 times in 4 years, 5 times in 5 years. Valuations will be based on comparative benchmarks in your industry space, more than project sales and profits.

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## Market Analysis:

This section has three parts**: Industry Description, Customer Profile,** and **Competitive Analysis**.

1. **The Industry Description** and **Market Growth Drivers:** this section provides information on the **total size** of the market, **its major segments**, the growth rate of those segments, and the specific segments or niches that your business will target. This information typically comes from Web or library sources, your own company studies, published government statistics, trade association data, business magazine articles, and so forth. Footnote key sources as part of the credibility game. **You must have data !** Bottom-line: Are there compelling demographic or industrial trends that create the need for your products and/or services?

2. **The Customer Profile** and the Compelling Applications/Solutions That They Need: This section provides specific information about customers needs and preferences relative to your product and service. **The most effective way to gather this information is to do a small customer survey** – to talk to people, focusing on the "four P's" of product (features), price, promotional preferences, and distribution (where and how they prefer to buy, support needs, timing, etc.) If you use a questionnaire, summarized responses should be enclosed in an Appendix. Bottom-line: Are you satisfying a latent need? Are you addressing problems that no one else is addressing?

   Taking this effort seriously usually creates a winning business proposition. Just because you might be a representative user, you are not excused from talking to other target customers or users. Your own insights will be shaped by what they have to say. A short cut is to find other organizations or companies that have recently completed a user requirements market research study. If you can find this, all the power to you.

3. **The Competitive Assessment** identifies either the flaws in your direct competitors or gaps in the market that are not addressed by them. Go down the list of each major competitor. Summarize their marketing concepts and strategies -- and their vulnerability. Once again, **you must have data** from competitors or more generally, about existing solutions to the problem you are trying to

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solve. Bottom-line: How will you achieve clear points of competitive differentiation? Is it by cost? By features? By both cost and features?

At the end of the day, anyone reading this section must come away knowing that a) **you know the market**, b**) that the market is healthy**, c) that you will **be focused in your marketing and really know customers' needs**, and d) that you can **beat "the guys next door"**. This section is incredibly important – for new division, startup, or acquistion. **In many ways, this entire project hinges on the quality of your insight into customers and competitors.**

*You may wish to use the market segmentation grid template from the Innovation course as an exhibit to summarize your findings. You should apply concepts from Market Analysis and Global Markets.*

**For INTRAPRANEURS:** You must talk to your own customers to validate their needs not being satisfied.

**For STARTUPS:** If you do not have a team member with deep experience in the industry that you wish to start the company, forget it. Do something else.

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## Solutions: Technology, Products, and Services

The purpose of this section is to describe the engineering effort entailed in developing the new product (if appropriate for your business). You may include diagrams or higher level schematics, if appropriate. You need to talk about how the architecture can support a stream of products, and how it fits in with the key standards and emerging technologies in the industry. What are key platforms, the product lines based on them, and the rollout of specific products year by year? Make a chart that shows this if it is appropriate. This is one of the key forms of leverage in the business. A word for technologists here: even though you could easily write thirty pages on this section, DON'T. You do not want to tell the reader how to make the thing -- just it's value proposition for the target buyers.

Inclue product prototype pictures in the Appendix if possible, and definitely bring as many as possible to your presentations.

Major subsections of this part of the business plan:

- **Product strategy and strategic focus** in terms of market segmentation and customer needs.
- **Product or service design points**: the things that the product or service must do, at a minium. Some people call this a product or service charter. I like to call them "goal posts" for key dimensions of the product or service.
- **Underlying platforms, derived product lines, and products**.
- **Proprietary technology, intellectual property** status and strategies.
- **Development plan and milestones**.
- **Development costs by growth stages**. This may include engineering, IT, or plant and equipment.

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# Sales Plan: Branding Strategy, Channels and Market Development

Executives andd investors are going to want to see three basic things in the Sales Plan:

- That you understand the importance of selling -- and will not short change investment in building sales capability in the first years of the business.

- That there is a "fit" between the strategies for the 4P's of marketing -- ie. that your channels are suitable for the features of the product, that customers read the media where you advertise, etc. *Hopefully, you learned these concepts in your Creating and Sustaining Value course, and some of your integrative sessions.*

- That the Sales Plan has strong growth potential.

Thiscontains four sections: Sales Targets and Projected Revenues, Channels and Promotion

1. **Pricing, Sales Targets and Revenue Projections:** What is the specific staging of market segment attack for the business ? What type of revenues are expected from these efforts over time? You must include the pricing and market penetration assumptions behind these revenue projections. It is useful to consider constraining factors: channel or sales force capacity, production capacity, placement costs, etc.

2. **Trade/Channel Strategy:** Describe your channel structure, ie. direct or through intermediaries. If you will use middlemen, describe who they are, their location, and their margins. Who are the very best channel partners to have for your type of product or service? Remember, the biggest is not necessarily the best, because they may be carrying a thousand other products in addition to your's. What are the qualification programs that you need to develop for channel partners? What do you need to do to make them successful in terms of training and advertizing support? Channel selection must be defended in terms of suitability relative to your product or service (margins availability, selling skills required, intensive versus selective distribution objectives). Describe your Promotional efforts in terms of **the message**, **the media**, and the **promotional budget**.

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3. **Branding Strategy and Promotional Message:** What is the structured branding message for your target buyers (s)? Examples of brand constructs from consumer product s companies can be particularly useful here, even for technology products.

**Bottom-line**: The reader must come away convinced that you have sales experience on your team and that you have truly listened to these team members. If you don't, or you haven't, try your hand at something else!

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## Operations, Production, Supply

This section will vary widely depending on the nature of your business, product versus service, internal versus external production. The key questions that executives and investors will have are:

- Do you have a clear strategy for gaining competitive access to the materials, components, or labor that you require as part of the supply dimension of your value chain?
- Do you have a clear strategy for not only starting production, but scaling it up should rapid growth be achieved?
- Do you have a plan for improving the profitability of your product or service as volumes increase? It does not good to anyone to ramp revenues without improving margins.
- Do you have someone on your team that has managed similar operations before?

Here are the specific subsections follow these questions:

1. Supply strategy
2. Production strategy (or delivery of services)
3. Logistics and fulfillment
4. Locations or equipment for delivery services, or plant and equipment for production, and expense or capital requirements of major types.

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# Organization Plan:

This section first provides a description of the management team. A balance of skills, and evidence of experience and success, are essential. **Do not give short shrift to writing this particular section. It may be the deciding factor for executives and investors, and the ultimate success factor for your venture. Include resumes of key management in an Appendix.**

> **For INTRAPRANEURS:** Team members are typically current employees who will be reassigned to this venture. Why are they the best candidates to launch the new division?
>
> **For STARTUPS:** Resumes are typically enclosed in an Appendix. We can't emphasize enough the importance of industry experience as an element of the team. A Board of Directors might also be proposed if that helps your case (which it usually does).

*Think back to the CEOs/COOs that you have met. Who should run the business that you propose? This is such an important decision. Is it you? Are you ready for it? Do not sell yourself short!*

The subsections of this part of the plan are:

1. **Managers:** Backgrounds and Responsibilities, and Key Hires over the next 12 months.
2. **Organization:** Startup Staffing and Growth Projections
3. For Intrapraneurs: **Incremental versus reassigned headcount by functional area**
4. **Advisory Board or Formal Board of Directors**

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# Financial Projections and Objectives

This section containts financial analyses, using concepts and methods from your Finance course. We have also developed financial templates that you can use as a guide. **FINANCIAL TEMPLATES** have been developed for your use and are available at www.marchmeyer.com site under the Teaching section.

**For INTRAPRANEURS:** Download Intrapraneurship Financial Template. This template is essentially a P&L and Cashflow statement.

**For STARTUPS**: Download Entrepreneurship Financial Template. This template is a set consolidated financial statements: P&L, cashflow, and balance sheet.

You do not have to use these particular templates – but you might find that they save you lots of time!

It is easy to print out 20 pages of spreadsheet projections that have little value. Your financial statements must be concise and realistic. Readers will be most interested in a set of integrated financial statements:

- A Proforma P&L: revenue projections, margins, and contribution to earnings.
- A revenue justification statement, be it based on volumes, number of customers, etc.
- A cashflow statement, highlighting your path to profitability as well staged investments
- A proforma balance sheet, highlighting growth in shareholder's equity

Whatever financial statements you provide, be sure to have an initial page that states assumptions and a brief description of the overall business model.

**REMEMBER**, as you transition from planning the business to actually getting started:

- **Cash is King!** Anything that you can do to reduce cash outflows should be strongly considered. Corporate spinoffs or pure startups often save themselves licensing fees for core technology by providing the corporate parent or supplier equity. Office overhead, including computers, should be considered with extreme care. You might be able to sublet space at attractive rates, and avoid longer term leases, from a larger corporation in the process of cost cutting.

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- **Marketing Expense versus R&D Expense for Technology Ventures:** The days when new businesses spent $2 million on R&D and $10 million on marketing are probably over, unless you work for an established consumer products company! Shoot for a 1:1 ratio for industrial systems businesses; and perhaps a 2:1 ratio for Web plays.

**The bottom line is that operating 3 years in the red just won't fly anymore. You need to show a clear path to profitability in 12 to 24 months – and the sooner the better.**

**Also, FOR STARTUPS,** remember that imprudent equity decisions can make the business unviable before it even begins to sell its first product.

- **Officer salaries/equity.** Founders of startups typically receive salaries of about $150k, and hold 10-20% equity after initial financing. Only pay the management team what the business can afford. Unpaid salaries placed on the balance sheet as debt are the first things wiped out in subsequent stage financing.

- **Equity.** Get advise from professionals equity participation rates. In general, guard your equity carefully. Don't give stock away to startup lawyers, accountants, relatives,etc. in the beginning of a business – most don't contribute to the business after 6 months, and you can't get their equity back. Startup valuations for technology ventures (with business plans, a management team, and a prototype) will range between $5 million and $12 million. Corporate investors tend to value startups/spinoffs at higher valuations. Figure 40% for seed and first round investors; 20% for employees; 5% for board members; leaving 35% for the founding team.

- **Capitalize for more than you think you need:** In general, if your projections show that you need $1 million to develop the first product, try to get $2 million. You will find it very difficult and equity-expensive to raise incremental amounts of money in "need to have" situations.

- **Recognize investor expectations**: the money they put into the business for their portion of the total equity must grow to 5X over five years, even with dilution for subsequent shares. If an early

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VC is not pleased with your performance, he or she will not participate in subsequent rounds. That is one of the surest ways not to get any takers at all in subsequent rounds. That is why you need to get investors with enough dry powder to last through three or four rounds, and work your hardest to set realistic goals and meet them.

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