

The 16th Annual The Nuts and Bolts of Business Plans



MIT Course 15.975
January 2005

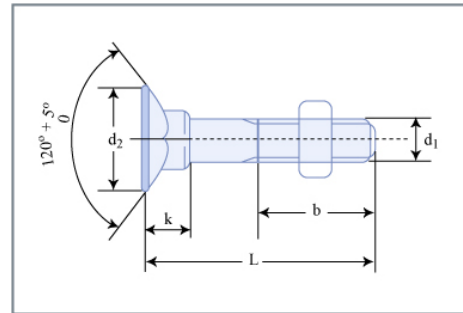


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The Nuts and Bolts of Business Plans

Course Information

MIT Course 15.975

3 Credits Pass/Fail

Class Attendance Required

Written Requirement

- Executive Summary
 - Of an Idea you are thinking about
 - Or of a product/service coming to market today
- Team Efforts Encouraged
 - Email by Thursday with Team/Idea

Course Schedule

6:00pm to 9:00pm

- **BUSINESS PLAN BASICS - Monday, January 10**
- **MARKETING, CHANNELS AND SALES – Tuesday, January 11**
- **REFINING AND PRESENTING YOUR VENTURE IDEA – Wed, Jan 12**
- **NIGHT AT THE MOVIES: TECHNOLOGY STRATEGY; TEAM DYNAMICS – Thurs, January 13**
- **BUSINESS MODELS; FINANCIAL PROJECTIONS – Tues, January 18**
- **PITFALLS AND PLAN EXECUTION – Wed January 19**
- **FORECASTING MARKETS: THE CAPITAL UPDATE FOR 2005 – Thurs January 20****

COURSE READER. CHECK CLASS WEBSITE FOR ASSIGNMENTS ETC

****** In conjunction with the MIT Enterprise Forum Satellite Broadcast- 7:00pm-9:00pm.
Networking and Sign-In at **5:30PM**

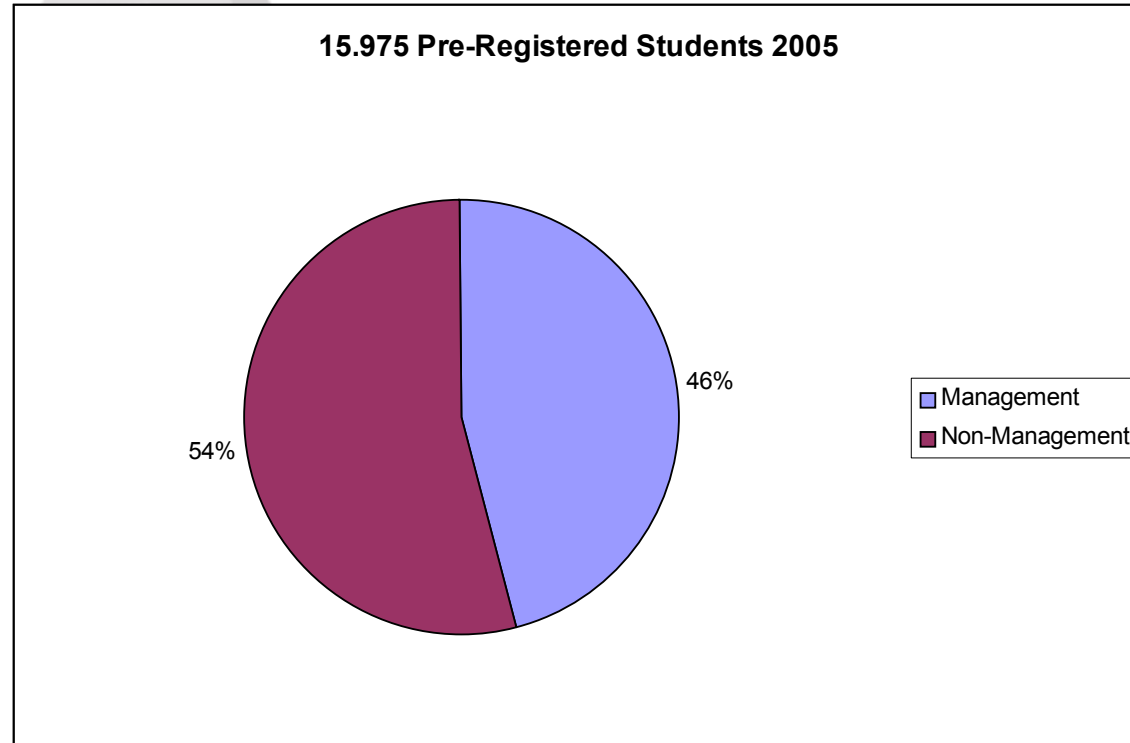
Why Should You Be Here?



- 16th Year, 2,200+ have attended, multiple companies started
- Who Am I ?
- Why Do We Do This Course ?
 - Feedback and Giveback
- Who Should Take This Course ?
- Take This Course For CREDIT



Who Are You?



What Do You Want To Learn?

- From a Sloan MBA with Bachelors in Physics Masters and PhD in Applied Physics (Minor EE):
 - “learn how to write a business plan that will be viewed favorably by possible funders”
 - “learn how to determine the prospects for a start-up to help choose what are and are not good opportunities and to map strategic course for chosen startup”
 - “hear general views from experts on what type of companies do well and which ones don't”
- From an EECS Undergraduate:
 - “I hope to gain insights into what it takes to start a business, and hopefully be inspired to act upon my entrepreneurial interests in the future”
- From a Course 10 Chemical Engineering Undergraduate:
 - “I look forward to being introduced to the type of material I will study to earn an MBA.”

What Areas Interest You ?

- Energy technology including nuclear (fission), hydrogen, and renewables
- Real Estate Finance and Development Investment China opportunities
- Industries: High Tech Products / Medical Products.
- Nanotech/tinytech and biotech
- Strategic Planning Heavy Industry
- Finance and Stock Market
- Overseas software outsourcing (China).
- How scientific and technological innovation in academia can be transferred into commercially viable products and businesses.
- Hard copy communication industry and package delivery services
- Alternative fuels/energies both for automobiles and in other applications.
- Aerospace and possibilities of commercial spaceflight.
- Nonprofits, entrepreneurial skills, technology

How Are We Going To Meet These Interests/Needs?



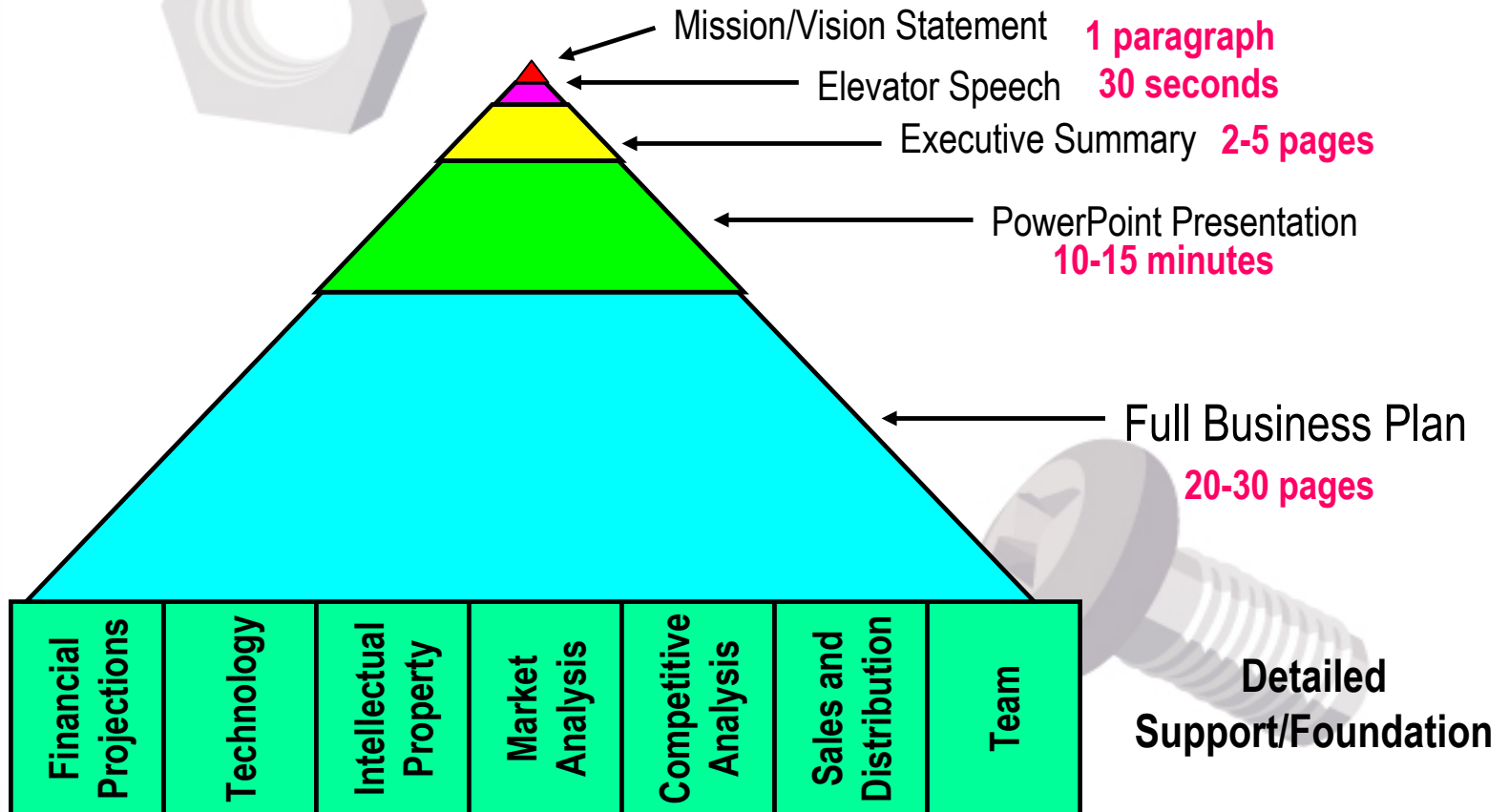
- We Can't and We Won't
 - At Least You Probably Won't Think So At The End Of The Course
- But We Probably Will
 - When You Look Back On The Course A Few Years Out
 - That Is What Your Predecessors Continue To Tell Us



$$H = \frac{E}{R}$$

SESSION 1: BUSINESS PLAN BASICS

• The Business Plan - A SUPPORTED VISION



SESSION 1: BUSINESS PLAN BASICS

What We Will Discuss Today:

- Why Write A Business Plan?
- What Should Be In A Business Plan?
- The Business Plan As A Financing Document



SESSION 1: BUSINESS PLAN BASICS

Why Write a Business Plan?

- Because I have to...
 - Needed for financing
 - Strategic partnering
 - To explain business to customers/suppliers
 - To attract key people



SESSION 1: BUSINESS PLAN BASICS

Why Write a Business Plan?

- Because **I Need to Understand My Business**
 - The Business Plan is a result of a **PLANNING PROCESS**
 - People don't **Plan to Fail**; they **Fail to Plan**
 - Who are your customers?
 - Why will they buy your service or product?
 - What will they pay?
 - How will you make and deliver the service/product
 - What resources (people, money, technology) will you need?
 - Can you make money/create value?

SESSION 1: BUSINESS PLAN BASICS

- **Types of Plans**
 - Operational plans
 - External plans
 - Summary Plan
 - Full Business Plan
- **Who should write the Plan?**
 - CEO alone?
 - The team?
 - A hired writer/consultant?

You need to OWN the Plan

SESSION 1: BUSINESS PLAN BASICS

- **What Should Be In A Business Plan?**
- **Size/Packaging Of The Plan**
 - Avoid the 3" thick binder
 - Separate binding of Executive Summary?
 - How to bind?
 - staple
 - spiral
 - Velabind
 - Accubinder
 - Appearance should be professional but not overly slick

SESSION 1: BUSINESS PLAN BASICS

• What Should Be In A Business Plan?

– The Plan is a **SELLING DOCUMENT**

- Don't lose sight of the vision
- The excitement must come through
- The Plan should project your image

– **BUT: The Plan Must Be Defensible**



SESSION 1: BUSINESS PLAN BASICS

• What Should Be In A Business Plan?

– Elements of a Plan

- Executive Summary
- The Opportunity and the Company and its Services/Products
- Market Research/Analysis
- Economics of the Business
- Marketing Plan
- Design and Development Plan
- Manufacturing and Operations Plan
- Management Team
- Schedule
- Critical Risks, Problems and Assumptions
- The Financial Plan
- Appendices

Notice That “Technology” Is NOT A Section

SESSION 1: BUSINESS PLAN BASICS

• What Should Be In A Business Plan?

• Elements of a Plan

- Executive Summary - *Tonight*
- The Opportunity and the Company and its Services/Products – *Tonight*
- Market Research/Analysis – *Session 2 and Session 3*
- Economics of the Business – *Session 5*
- Marketing Plan – *Session 2*
- Design and Development Plan – *Tonight and Session 4*
- Manufacturing and Operations Plan – *Session 5*
- Management Team – *Session 4*
- Schedule – *Session 5*
- Critical Risks, Problems and Assumptions – *Session 3*
- The Financial Plan – *Session 5*
- Appendices

SESSION 1: BUSINESS PLAN BASICS

- **What Should Be In A Business Plan?**

- **Cover Page**

- **Name of Company**
- **Address**
- **Telephone/fax/email**
- **Confidentiality legend**
- **Securities law legend**
- **Control numbering of copies**



SESSION 1: BUSINESS PLAN BASICS

- **What Should Be In A Business Plan?**
 - **Table of Contents**
 - Put one in
 - Include page numbers



SESSION 1: BUSINESS PLAN BASICS

• What Should Be In A Business Plan?

– Executive Summary

- An Executive Summary is
 - NOT an introduction
 - NOT a preface
 - NOT a random collection of highlights
- An Executive Summary IS the Business Plan in miniature



SESSION 1: BUSINESS PLAN BASICS

• What Should Be In A Business Plan?

-Executive Summary (continued)

- **Size**
 - Two pages (preferable) to five pages (max)
- **The Executive Summary must be**
 - Logical
 - Clear
 - Interesting/Exciting
- **The Executive Summary is like a RESUME**
 - If it gets the reader's attention, the rest gets read
 - The Elevator Speech is to the Exec Summary as the Exec Summary is to the Full Plan

SESSION 1: BUSINESS PLAN BASICS

• What Should Be In A Business Plan?

-Executive Summary (continued)

- The Executive Summary tells
 - Who you are
 - What your strategy/vision is
 - What you are doing and/or propose to do
 - What is the market
 - How many \$\$\$\$ do you need and what will you do with them
 - What your SUSTAINABLE COMPETITIVE ADVANTAGE is
- When the reader is finished he or she should be able to tell someone what you are up to.

SESSION 1: BUSINESS PLAN BASICS

- What Should Be In A Business Plan?

- Executive Summary (continued)

- The Executive Summary Should Contain:

- Description of the Business Concept and the Business
 - The Opportunity and Strategy
 - The Target Market and Projections
 - The Competitive Advantages
 - The Economics, Profitability and Harvest Potential
 - The Team



SESSION 1: BUSINESS PLAN BASICS

- What Should Be In A Business Plan?

- The Body of the Plan-

- The Opportunity

- What is the Market / Opportunity?

- » How big is it now?

- » What are the trends- how fast is it or will it grow?

- Why Is This Time The Right Time For Your Product/Service?

- » Convergence of Opportunity and Solution

SESSION 1: BUSINESS PLAN BASICS

- What Should Be In A Business Plan?

- The Body of the Plan

- **Market Analysis**

- Existing and planned products in marketplace
 - Market segments
 - Market players/competition
 - » Competitive Advantages
 - Estimated Market Shares
 - » Current Players
 - » You



SESSION 1: BUSINESS PLAN BASICS

- What Should Be In A Business Plan?

- The Body of the Plan

- Marketing Plan

- What is your Marketing Strategy?
 - Pricing and Distribution
 - » Pricing and margin erosion
 - » Distribution must match strategy/pricing
 - Sales Tactics
 - » Who will be the first customer, second customer etc.?
 - » How will you reach the customer?
 - Advertising and Promotion

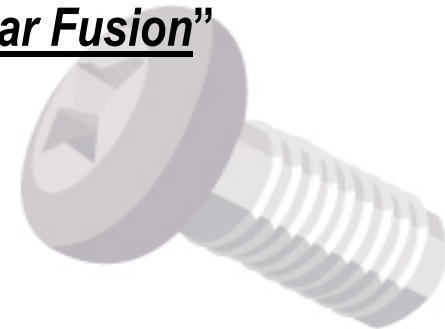
SESSION 1: BUSINESS PLAN BASICS

- What Should Be In A Business Plan?

- The Body of the Plan

- Development Plan

- Where is development today- product status
- What development is needed?
 - » Time and resources needed for development
 - » Do you have to produce a complete product to get going? Avoid “Nuclear Fusion”
- Difficulty and Risks
- Product Pipeline Plans



SESSION 1: BUSINESS PLAN BASICS

- What Should Be In A Business Plan?

-The Body of the Plan

- Action Plan

– What Will You Do and When?

- » Identification of “Credibility Testers”
- » Sequencing to build VALUE
- » Eliminate or Reduce Dependencies
- » Coordination of Schedule, Value Recognition Events and Financing Requirements

SESSION 1: BUSINESS PLAN BASICS

• What Should Be In A Business Plan?

– Appendices

- Separately Bound Volume
- Resumes of Principals
- Product Literature
- Trade Press/Business Press
- Patents (front page)
- Testimonials Letters
- Technical Information
- Confidentiality
- Technical person to technical person discussion

SESSION 1: BUSINESS PLAN BASICS

• Fine Tuning/Targeting the Plan

• Have an Independent Reader Review the Plan

– One or more independent readers for feedback:

» Retired industry pro?

» Customer(?)

» Consultant?

» Professor?

» Accountant- yes definitely

» Lawyer- yes definitely



SESSION 1: BUSINESS PLAN BASICS

The Business Plan As A Financing Document

(Excerpts From Materials Prepared By Lita Nelsen, Director of MIT Technology Licensing Office)

- **A. First Reading: Like a Resume**
 - Make The Cut, So That You Get An Opportunity To Tell Your Story
- **B. Second Reading: Justify The Investment**
- **C. Third Reading: Commit To A Plan**
 - That You And The Investors Can Live With.
- **REMEMBER: If you don't make the FIRST CUT, B and C never happen.**

SESSION 1: BUSINESS PLAN BASICS

The Business Plan As A Financing Document

– MAKING THE FIRST CUT

- An Idea Too Good To Ignore
- A Financial Promise Too Good To Turn Down
- A Team Good Enough To Believe In
- An Action Plan That's
 - » Credible
 - » Focused
- Details That Give Assurance of Insight, Commitment and Follow Through
- Format and Style That Show
 - » Passion
 - » Sanity



SESSION 1: BUSINESS PLAN BASICS

The Business Plan As A Financing Document

- WHY PLANS **FAIL** THE FIRST CUT
 - Insufficient Market
 - Non-Credible Technology
 - » Too Wild
 - » Too Blue-Sky (Unproven)
 - » Not Protectible
 - » Too Mundane
 - Investment Too Large For The Promise
 - Failure to Understand The Market

SESSION 1: BUSINESS PLAN BASICS

The Business Plan As A Financing Document

- WHY PLANS **FAIL** THE FIRST CUT (cont.)
 - Action Plan Not Credible
 - » Too Optimistic
 - » Naïve About The Hurdles
 - » Runs Off In All Directions
 - » Not Ambitious Enough
 - » Regulatory Barriers Insufficiently Addressed
 - » Gaps Filled By Handwaving
 - » No Promises At All
 - Team Not Credible

SESSION 1: BUSINESS PLAN BASICS

The Business Plan As A Financing Document

- **COSMETIC” REASONS FOR FAILING THE FIRST CUT**
 - I Can’t Understand It.
 - Filled With Market Or Technology-Specific Jargon
 - » i.e., WHAT IS THE BUSINESS?
 - Naïve Projections
 - Sloppy: Misspellings, Poor Grammar, Poor Quality Printing
 - Too Damn Long
 - Ignores The Basics
 - “Forget Marketing, My Technology Is Best”
 - Naïve (or Terrible) Writing

SESSION 1: BUSINESS PLAN BASICS

- **SUMMARY**

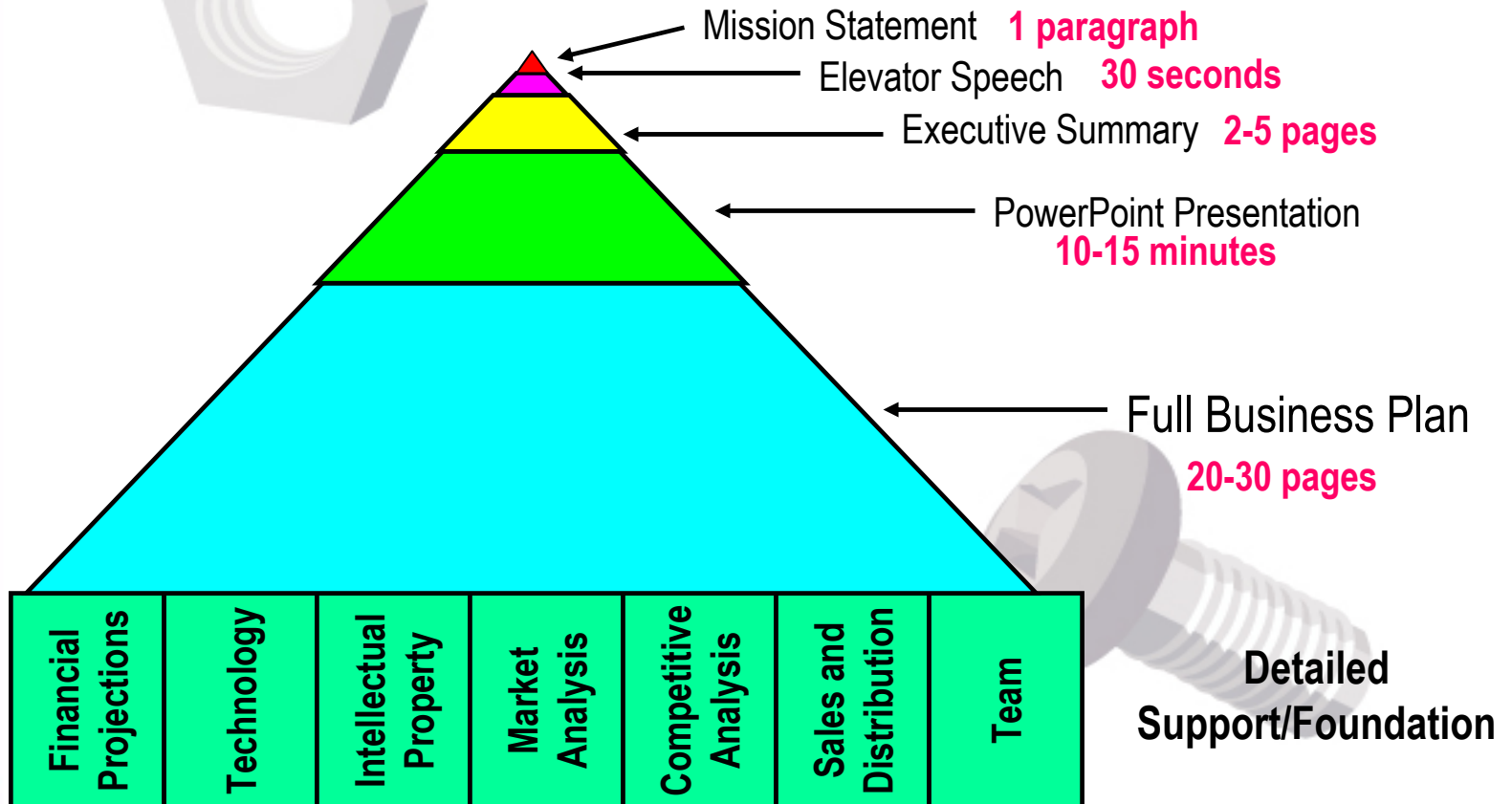
- **We Have Covered**

- **Why Write A Business Plan?**
- **What Should Be In A Business Plan?**
- **The Business Plan As A Financing Document**



SESSION 1: BUSINESS PLAN BASICS

• The Business Plan - A SUPPORTED VISION



Yonald Chery



The Virtual Ink Story



SESSION 1: BUSINESS PLAN BASICS

NEXT TIME:

- **TUESDAY Jan 11, 6:00pm**

MARKETING, CHANNELS AND SALES

-Bob Jones, Sloan 77, Serial Entrepreneur

- Moore, Geoffrey A., *Crossing the Chasm, Marketing and Selling High-Tech Products to Mainstream Customers*, Chapter 1 and 2, Focus on the descriptions of markets in Chapter 2.