The 25th Annual
The Nuts and Bolts of New Ventures/Business Plans
MIT Course 15.S21

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The Nuts and Bolts of New Ventures/Business Plans
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Tonight’s Plan

• Who are You?
• Introduce our Teaching Team
• Introduce our Case Study
• Business Plan Basics - Overview
• Break – Team Building
• Steve Pearse – How To Make a Pitch
Who Are You?

- Students:
  - Engineering
  - Science
  - Architecture/Planning
  - Management/Economics
  - Other
- Non-Student Participants:
  - Alums
  - Staff
  - Others
Tonight’s Plan

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Virtual Ink Corporation is a computer peripherals company whose lead product automatically transcribes what users write on existing chalk or whiteboards, thus enabling, inexpensive, error-free, real-time transcription of handwriting and sketching.

*e*pen is a labor-saving, productivity and communications enhancement tool that could enable automatic capture of valuable shared thoughts communicated daily between millions of office and academic users.

YouTubeLink
Why Virtual Ink?

- Why We Include It
  - Concept Easy to Understand
  - $50K Entrant
  - Interesting Story of the Times and Company
  - Entrepreneur Yonald Chery provides unusually candid insight. He will be here for the last class

- References to Virtual Ink from time to time
Tonight’s Plan

• Introduce our Teaching Team
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• Business Plan Basics - Overview
• Break – Team Building
• Steve Pearse: How to Make a Pitch
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?

Plans are Worthless

but Planning is Everything

Dwight D. Eisenhower
Supreme Commander, Allied Forces Europe
34th President of the United States
SESSION 1: BUSINESS PLAN BASICS

Why Write a Business Plan?

Planning Debate

The News: Some academics doubt the conventional wisdom that formal written business plans do much to help start-ups succeed.

The Background: Some recent studies suggest there’s little correlation between having a business plan and profitability. Advocates of business plans counter that the plans give entrepreneurs focus and prevent costly mistakes.

The Bottom Line: There are questions whether entrepreneurs may be spending months fine-tuning 50 page business plans, when they might be better off just sketching out basic financial projections and launching the business.

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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/users?
    – Will the buy or use your service or product?
    – What will they pay?
      » Or how will you capture value for your efforts
    – How will you make and deliver the service/product
    – What resources (people, money, technology) will you need?
SESSION 1: BUSINESS PLAN BASICS

It is a Really Simple Concept ….. (whether you are doing a Web 2.0 company, a biotech company or a non-profit social developmental company):

• Create Value
• Capture/Harvest the Value Created
SESSION 1: BUSINESS PLAN BASICS

The Concept is Simple – the Answers are NOT

Scene from The Social Network:
Eduardo: It's time to monetize the site
Mark: What does that mean?
Eduardo: It means it's time for the website to generate revenue
Mark: No, I know what the word means. I'm asking how you want to do it.
Eduardo: Advertising
Mark: No
Eduardo: We've got 4000 members
Mark: 'Cause theFacebook is cool. If we start installing pop-ups for Mountain Dew it's not gonna --
Eduardo: Well I wasn't thinking Mountain Dew but at some point -- and I'm talking as the business end of the company -- the site --
Mark: We don't even know what it is yet. We don't know what it is, we don't know what it can be, we don't know what it will be. We know that it's cool, that is a priceless asset I'm not giving it up.
Eduardo: When will it be finished?
Mark: It won't be finished, that's the point. The way fashion's never finished.
SESSION 1: BUSINESS PLAN BASICS

The Concept is Simple – the Answers are NOT

Facebook Annual Report on Form 10-K 12/31/2012
Part I
Item 1. Business Overview

Our mission is to make the world more open and connected

How We Create Value for Users

How We Create Value for Developers Through the Facebook Platform

How We Create Value for Marketers
SESSION 1: BUSINESS PLAN BASICS

• The Business Plan - A SUPPORTED VISION

- Mission/Vision Statement: 1 sentence/paragraph
- Elevator Pitch: 30 seconds
- Executive Summary: 2-5 pages
- PowerPoint Presentation: 10 slides/20 minutes/30pt
- Full Business Plan: 20-30 pages

Financial Projections | Technology | Intellectual Property | Market Analysis | Competitive Analysis | Sales and Distribution | Team

Detailed Support/Foundation
SESSION 1: BUSINESS PLAN BASICS

• Who should write the Plan?
  • Founder 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 Automatically a Section
SESSION 1: BUSINESS PLAN BASICS

• What Should Be In A Business Plan?

  – Cover Page
    • Name of Venture
    • 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
  – Q: What Do Investors Read First?
  – Q: What Do Investors Read Second?
What is an Executive Summary?

• It is the First Thing Investors Read
• It is a “Resume” for your Full Plan
  • Goal is to get the “Interview” to Give the Pitch
• What Do Investors Really Look For?
  • The “3 Whys”
    • Why This?
    • Why Now?
    • Why This Team?
  • The 4th Why:
    • Why Won’t This Work/Succeed?
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 *(NO TERMS HOWEVER)*
  – 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 growing or 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
    - “Who Loses If You Win and What Will Be Their Response?”
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?
      » “Will the Dogs Eat the Dog Food?”
    - Advertising and Promotion
  - Sales
  - Operations
  - Financing
  - Other

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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

- Technology
- Intellectual Property
- Market Analysis
- Competitive Analysis
- Sales and Distribution
- Team

Mission Statement 1 paragraph
Elevator Pitch 30 seconds
Executive Summary 2-5 pages
PowerPoint Presentation 10 slides/20 minutes/30pt
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Detailed Support/Foundation

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