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IDEA business planning guide

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IDEA Business Planning Guide

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 initiative in your company or launch a cash generating business (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 and integrate all of the key issues required for business development, and to drive those answers into a cohesive business model. Before you start working on the business plan, ask yourself who the "right" types of people are 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 will want to have quick feedback loops with sponsors and advisors before you make formal presentations for funding/investment.

The IDEA Business Planning Guide forms the backbone of your entrepreneurial journey through the different venture stages of Ready, Set, and Go.

> **Ready Ventures:** At this stage you've begun developing your plan by answering questions such as what is my market, how will I make money, and what type of team members do I need. As a Ready stage venture you should not expect to be able to thoroughly build out each section of your business plan. As you work through this you will often find yourself seeking guidance, which is where IDEA's venture workshops, mentor workshops, and other entrepreneurial programs around Northeastern will help you.
>
> **Set Ventures:** At this stage you've identified the core concept of your business. You now know where you're going and what type of team, resources, and time you will need. This is the stage

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where you will identify milestones that will help guide your business through the coming months and years. As you prepare to become a Go stage venture, you will be paired with an IDEA coach who will support and connect you with all that IDEA offers.

Go Ventures: As a Go stage venture, you're well on your way to becoming a successful, fully-functioning business. At this point you've assembled a team, you understand your customer, and you are executing your plan. To be a Go stage venture you should be able to fill out each section of the IDEA Business Planning Guide with a clear understanding of how it ties back into your venture. You may require funding at this stage, which is where the IDEA Gap Fund comes into play. Your coach will work with you to identify appropriate funding milestones to apply for that will help you receive funding.

Remember, this document will always be a work in progress. Don't ever hesitate to revise and revist it as you and your venture mature.

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Title Page:

The title page must have the name of your project/business and your contact information (both personal and business).

The Table of Contents

1. Executive Summary
2. The Business Model and Financial Goals
3. Market Analysis: Demand, Customers Profile, and Competitive Analysis
4. Solutions: Technology/Intellectual Property, Products, and Services
5. Go-to-Market: Channels, Pricing, Promotion, and Sales Plan
6. Operations
7. Team
8. Milestones
9. Financial Projections

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.

Investors (and sponsoring executives for a corporate venture) want to see evidence of :

- **A well-defined, robust MARKET**
- **A distinct product or service SOLUTION that target customers need and want to buy.**
- **A balanced, experienced TEAM**

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- **A sensible BUSINESS MODEL,** featuring recurring revenue and that generates cash with each sale and operating profit within a reasonable period of time.

Most importantly, investors want to see a clear, driving **FOCUS** in everything that you propose and do.

A few graphics to liven up the plan are helpful. Philosophy and informality rarely add additinoal value to the written business proposals. Plans should not exceed 12 pages in length, not including cover page, table of contents, financials and attachments.

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Executive Summary:

1 page single-spaced, with line breaks between paragraphs

The Summary must grab the reader. Most executives and investors will only read the Executive Summary, and if it peaks their interest they read the packet of resumes and financial plans. If these three segments promote thought and curousity within the read, the remaining portions of the business plan are read.

The Executive Summary is a concise statement that summarizes your venture proposition, defining the desired outcome of this undertaking. The first two sentences in particular must show the focus of the business initiative.

The Company – Write two or three sentences that roughly follow this format:

> ABC is a (startup, spinoff, internal corporate venture) seeking to be a market leader in the target segment of (name your target segment.) The Company is focused on (solves *what problem*) for (*who – which target users*) in that target segment. The (products or services) of the Company will provide (name the major benefits) that will makes it unique in the marketplace.

Then, write one short paragraph for each of the following topics:

- The **market opportunity** in terms of target market segment, target customer, and the customer problems to be solved. Summarize the size and growth characteristics of the target market in a way that demonstrates a robust, attractive target (or addressable) market.

- The **distinctive products, services, or distribution assets** you seek to provide, and the extent to which it either creates IP or leverages current IP. The IP statement can be critically important for certain types of biotech, materials science, or information technology ventures.

- The startup / management team, hopefully with a combination of **industry experience** and a **balance of skills.** If you don't have a management team – e.g. it is just yourself – use a few sentences to identify key management that you seek to recruit in the first few months of the

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venture. An investor is going to want to see that have the right people involved from the start, or at least know what types of persons you require so that the investor can help you build a powerful team.

- **The funds** requested for the venture at this stage of growth and th**e uses of those funds in terms of achieving major milestones.**

The Business Model and Financial Goals:

1 page, single-spaced, breaks between paragraphs

Investors want to know that the products and services are REAL, and that a sustainable business model can be generated from these offerings They want to know that users have the cash to pay for what you wish to sell. And, they want to see that the business itself has the potential to generate cash in a reasonable time frame (typically, within the first 3-5 years).

This requires not only a robust target market and compelling product or service solutions, but prudent decisions on how to best stucture the revenue model as well as how to structure certain operating activities such as R&D, production capabilities and needs, and distribution requirements. Each of the sections below should be a short, concise paragraph.

- **Revenue Model:** Briefly describe the types of products or services provided by the company. Then, within this "mix", the percentage of the projected revenues are derived from each offering as well as their expected gross margins (sales minus cost of goods sold). You might also want to indicate how these percentages will change as the business grows. Indicate how your pricing for products and services compares to direct competitors. This should reflect your competitive positioning: premium performance/pricing strategy or low-cost player. Then, quickly address the driving factors behind recurring revenue opportunities. This is a primary topic for investors

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as they search for long-term growth prospects. Identify these plans within this section of your business model.

- **Financial Goals**: No business model is complete without providing goals for the "metrics" that are derived primarily from the projected profit and loss (P&L). That means the gross and operating margins you hope to achieve for the level of revenue that represents a reasonably scaled-up business. Also, put in a statement on how these booked revenues translate into cash for the typical customer, meaning how will one transaction be represented in terms of inflows and outflows. When can revenue be recognized from the sale for that customer? When does that recognized revenue convert into cash? These two time periods can vary depending on the customer base and the business model.

Market Analysis

2 pages, single-spaced, breaks between paragraphs

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

1. **Addressable Market: Industry, Target Segment, Size and Growth:** 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! Show a graph if possible.** You need to be able to prove your choice of target industry segment. Also in this section is a description of major trends that are affecting buyers and buying behaviors in the target segment. These trends might be regulatory in nature, political threats or concerns, disruptive technologies, new science, or the emergence of new channels to market. This is *environmental scanning.* Entrepreneurs are wise to look for signs of turbulence or chaos in an established market – this presents opportunities for creative problem solving.

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Questions on the Investor's Mind:

a) *Is the venture placed in a robust, growing market? Does the entrepreneur have hard, current data to back up his/her assertions that this is a robust market?*

b) *Has the entrepreneur defined an "addressable" or target segment within a broader market in a manner that is clear, pragmatic, and actionable – e.g. specific users with specific needs can be identified and served?*

c) *Are there compelling societal, governmental, technology, or industrial trends that are causing turbulence in a market, creating a common need among users?*

2. **The Customer Profile and the Compelling Applications/Solutions That They Need:** Every entrepreneur needs a clearly defined customer. This section provides specific information about customers' needs and preferences relative to your product and service. You should provide an in-depth profile of the target user's relative size in terms of the overall market, needs and frustations, current solutions and limitations of those solutions, buying preferences, and needs for related products and services in addition to your own. If there is a difference between the user and the buyer, then state that clearly in this section, and list their respective needs and requirements. State how this fundamental insight drives your proposed venture. The most effective way to gather this information about users and buyers is to observe and talk to them in their own environment. Go to their place of use and their place of purchase. If you use a questionnaire, summarized responses should be enclosed in an appendix. If you are a representative user (which is how many new companies begin), you must still go out into the field to understand the needs of other users and buyers. A common method is to find other organizations or companies that have recently completed a user-requirements market research study. This valuable information becomes part of your arsenal when pitching the business proposal.

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Questions on the Investor's Mind:

a) *Does the entrepreneur have a crisp picture of the target user or buyer in terms of what they need and how they buy? Is that based on reading what others have written or first hand, intimate experience with users and buyers? Has the entrepreneur invested time with users and buyers?*

b) *How is the entrepreneur's appreciation of the users' needs special or different than current competitors? Is the entreprenuer addressing problems that no one else is addressing, and will they become a priority within the target market?*

c) *How does that understanding of the target user translate into a compelling product or service offering? Does the business model proposed by the entrepreneur align with these user and buyer insight?*

d) *Does the chosen business model effectively reach the targeted user?*

3. **Competitive Assessment** identifies either the flaws in your direct competitors or gaps in the market that are not addressed by their existing products or services. Go down the list of commercial offerings, functions, and features for your competitors. This is far more than a simple Web search, however. If appropriate, go to both the place of sale as well as the place of use for your competitors' products. One of the primary reasons why investors shun specific business plans is that the entrepreneur thinks that few competitors are in existence, resulting from their lack of competitor research and the understanding of current strategies. Summarize the competing marketing concepts and strategies – and their vulnerability. Where are the gaps? How will your venture differentiate itself? Is it in the area of product or service, in pricing, in channel? Once again, **you must have data** from competitors or more generally, about existing solutions to the problem you are trying to solve. A table/diagram showing competitors – and the gap you will fill – can be useful here.

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Questions on the Investor's Mind:

a) *Who are the primary competitors? What are the "big boys" in the mainstream market doing in this area? If they aren't working on it, why not?*

b) *What other funded startups are working this space? Who are the investors and do I know them? Who can I call to find out the action that is happening in this space?*

c) *What are the clear points of competitive differentiation that the entrepreneur is proposing? How is that achieved? By feature, by cost, by sales capability?*

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Solutions: Technology, Products, and Services

1-2 pages, single-spaced, line breaks between paragraphs

The purpose of this section is to describe the product and service portfolio, the staging of that portfolio, and the development effort and time needed to get the first product or service in market. If your venture is to strictly be a reseller, then use this section to define those products and services you hope to distribute to the target market.

This is one of those sections we need to get into some detail not covered in prior chapters. This is not so that you can write a lot of pages for this section. To the contrary, this section should only be several pages with a figure or two. But to write those pages well, you need to learn a lot.

1. **Product or service design**: this section is the translation of user needs and requirements from the Market Analysis section into new product and service design. What is the minimum level of functonality? What are the added levels? A graph or diagram of the product, system, or service design is an important illustration in this part of the plan.

   Questions on the Investor's Mind:

   a) *Are the insights discovered and presented in the Market Analysis section driven into a compelling base level product, system, or service design? Does that design "sing?" Or, do we need to get some professional product designers on the case?*

   b) *Is this entrepreneur trying to do too much in the first one to two years? Is s/he sufficiently focused? (You would be surprised how the well-intentioned enthusiasm of "youth" can produce anxiety in an investor who relishes innovation but also wants to mitigate and manage risk).*

2. **Proprietary technology, intellectual property, and or any legal issues:** For biotech, medical device, materials, and energy ventures, and to some extent even software ventures, IP issues can be a show-

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stopper for many professional investors. This is often an essential component in technology-focused businesses because *IP can create an "unfair" winning advantage.* If you haven't figured out an IP strategy, the investor may walk away. When entrepreneurs think about intellectual property, they think about patents. Patents, which are applied for through the US Patent and Trademark Office (uspto.gov), are typically prepared by an experienced attorney who has previously worked with young and mature ventures. The manner and method in which patent applications are filed takes time, experience, and to varying degrees familiarity with the area of science or technology involved in the patent. The classic patent is a "design patent," which is the design or architecture of a new invention. Once a patent is received – a process that now typically takes several years – it is still up to the entrepreneur to enforce the patent against infringements. Your legal "monopoly" lasts for 17 years from the date that the patent is issued. There are also patents which can be granted for the creation of a new business method in the most general sense. New workflows or methods for accomplishing a given task are relevant. Some entrepreneurs are trying to patent new business methods and models. For example, there are patents surrounding various aspects of on-line auctioning, or risk management in life insurance, or even the delivery of rich media content over mobile networks. In summary, do not underestimate your potential to qualify for a patent.

3. Is the venture or any of the founders currently involved in litigation or practices that might be harmful to the venture and/or University? If so, please disclose all pertinent information in this section and provide clearly labeled attachments as needed. Addtionally, if the venture has any outstanding debts or financial obligations including but not limited to taxes, please disclose them clearly in this section.

Question on the Investor's Mind:

a) *Is there any IP in this venture and does the entrepreneur appreciate the importance of it for the value of the company?*

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Go-to-Market

1-2 pages, single-spaced, line breaks between paragraphs

Should you receive funding for your venture, a lot of money and effort over the next five years will be allocated to building a powerful go-to-market strategy. More than any other section in the business plan, these elements must fit together in a cohesive, pragmatic, and affordable fashion. Perhaps more importantly, the reader must come away convinced that you have sales experience on your team and that you have truly listened to those team members. If you don't have a person with selling and channel experience, recruit someone with this expertise and integrate them into your management team, or as a trusted advisor. The sections of this part of the business plan are:

1. **Trade/Channel Strategy*:*** In this part of the plan, you need to describe the channel structure, ie. If it is direct to user or through intermediaries. If you will use middlemen, describe who they are, their location, and most importantly, their standard margins. If you are going to pursue multiple channels, how will they be synchronized and how will you avoid channel conflict? As many entrepreneurs have learned (the hard way), the biggest channel partner is not necessarily the best, because they may be carrying a thousand other products in addition to yours. The larger outfits have a tendency to not want to work with small firms who have limited resources to promote their new brands and a limited number of SKU's to create on-shelf brand awareness – in other words, a lot of effort required to drive little sales. An initial set of conversations with buying decision-makers in large channel partners of any sort, or store owners in small independents chains, is an essential part of doing your homework prior to pitching investors. How else is an investor going to know that you can deliver the channel in your plan as well as the revenue associated with that channel? Additionally it is important to describe a typical sale cycle for your product or service.

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Question on the Investor's Mind:

a) *Success in a venture is all about revenue – at least in the first couple of years. Do these folks understand how to "engineer" revenue as much as they understand how to engineer their product or service?*

b) *Do the entrepreneurs really understand the sale cycles and methods to improving volume given these occurances?*

2. **Branding, Advertising, and Promotion:** Describe your company's branding: the company name, the name of its product lines or service lines, and then, the specific product names. Also describe the messaging around this branding. Then, in just a few sentences, explain why this branding is relevant and truly meaningful to your target users. Do you have any data that proves this? And, how does your branding differentiate your venture from current competitors? Then, briefly describe the venture's promotional efforts in terms of **the message** and **the media** or other form of promotional outlets, such as tradeshows. Investors will also want you to have done your homework on the cost of these different venues and work that into your projected P&L. Moreover, if you select a particular promotional channel it must be one that is respected and used by the target user. These are expensive and important investments.

Questions on the Investor's Mind:

a) *How much work are these folks going to need to make a first-rate impression in their target market?*

b) *Do they have an attractive website right now? Is that because they are working in stealth mode or don't really care about marketing? If they have a website, what is the conveyed message? Solutions? Reliability? Customer value? Or, just a tech or services shop ?*

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c) *Do I like what they are going to call their product or service? Does it make any sense to the target buyer and user?*

3. **Layout and Merchandising (for retail ventures or retailed product ventures only):** A diagram of your proposed store layout or on-shelf/in-store display would be a very useful exhibit here. The investor wants to see that you appreciate key principles of merchandising – where to place things in a store and how to place them for your target customer. If you are providing products to sit on retailers' shelves, how will you draw attention to sku's in a crowded retail environment? Will it be with in-store sampling and displays or posters? Will it be through a point of sale "shipper" or rack? Here, an experienced hand on the team can add substantial value in designing the sales strategy prior to launch. You can also learn a lot by calling local vendors who are in the business of creating these materials.

Operations

1 page single-spaced, line breaks between paragraphs

This section typically describes the "back end" of your company—all the important activities that happen outside of R&D and sales or distribution. For most businesses, this section is critical because the management of production and manufacturing, and of the suppliers that come before manufacturing, is the key to achieving operating profit. The buzzwords are easy to say—low-cost, high-quality suppliers or low-cost, high-quality manufacturing—but hard to achieve. The goal is to make smart decisions about what you do *in-house,* what you do *external* to the company, and for those areas that are external, being very careful about the external partners with whom you are going to entrust with a large portion of the corporate operations. The sections of this part of the business plan are:

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Managing Suppliers: If your venture will use suppliers, a simple Web search will quickly reveal all the major suppliers of components that might go into your product. That might be food ingredients, electronic components, entire computers, or chemicals. Select one or two well-known suppliers that match your venture's needs and then call their sales offices to find unit prices based on volumes. Use the most sensible of these choices in your financial projections. Or, if your company is making a software product, what are the toolkits that you or your engineers want to use, and what is the cost of these toolkits? (This might be somewhat redundant to text in the R&D section of your business plan—but that is okay.)

Managing Production: In the "old days," entrepreneurs would carefully design and install their own production equipment and processes, gradually ramping up production to meet growing demand. However, as modern products have become modular, companies have as well. Many entrepreneurs now find larger, well-established manufacturers who will cut, shape, extrude, and otherwise assemble finished products on a subcontract per unit basis. The good ones have extensive quality control systems that would take years to build and considerable sums of capital for an entrepreneur to develop on his or her own. Even businesses that do not make physical products can benefit from the same approach. For example, companies making complex software can "rent" machines from Amazon's cloud computing business unit at a truly fractional cost for extra computing power. Or, a service business that needs to crunch huge amounts of data in the delivery of its service can contract with any one of thousands of infrastructure service providers who will host key applications. Most entrepreneurs go to a service provider to build and host their websites—particularly those requiring e-commerce capabilities.

Managing Logistics/Fulfillment: This one is getting easier and easier. For small packages, there is UPS and FedEx. For larger shipments, there are dozens of well-established third-party logistics firms that will organize the shipment of your containers around the world, handling customs and other

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regulatory affairs that would take the typical entrepreneur years to learn. For ventures providing software, the Web is the logistics channel. Simply go to Symantec or salesforce.com (http://www.salesforce.com) to see how online subscription management and software/services delivery should be done.

Managing Customer Service: Making sure that your customers feel well-treated—particularly when they have problems or concerns—is the key to establishing long-term repeat customers. In this part of the business plan, you need to present a simple, effective process for providing customer service, whatever that means for your type of business. For some companies, that might mean training customers. For others, it might be fixing bugs or problems with software, or handling billing and account management questions.

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Organization Plan:

1 page, single-spaced, line break between paragraphs

This section first provides a description of the management team. A balance of skills and experience is essential. **Please provide short overviews of the management team. This 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.**

The subsections of this part of the plan are:

1. **The Founding Team:** Backgrounds and Responsibilities
2. If the business sucessfully scales, what other types of managers do you think will be needed?

Major Milestones with Funding:

1 page, single-spaced, line break between paragraphs

This section contains major milestones for the different functions within the venture. The major categories are:

- Product or service development
- Specific testing milestones with customers (alpha, beta)
- Sales and marketing (launch, tradeshows, expansion)
- Operational milestones, including subcontract manufacturing or capital equipment purchases

Please lay out a timeline that shows the next 18 months of milestones including, but not limited to, Gap Funding, seed, or series A funding.

If you're applying for Gap Funding, make sure your plan considers the five criteria you'll be evaluated on:

1. Quality of Market
2. Quality of Solution
3. Business model: Is there Long-Term Profit Potential?
4. Impact of Milestones
5. Quality of Team

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Financial Projections and Objectives

1 spreadsheet with two tabs, printed out as two separate pages

This section contains just two elements of the full set of financial projections typically associated with business plans. The two elements we require are:

- A detailed projection of revenues, including the assumptions for pricing, different streams of revenue, bundling, services in addition to products, and so forth. At a minimum, these should be annual projections for a period of three years from startup or the current time for going concerns.
- A projected P&L (otherwise known as an Income Statement). The revenue projections from above should flow directly into this P&L, and it should also be at least annual for a period of three years. However, product development plans on a detailed chart will typically use the first 12 months to identify key points of success and progress.

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