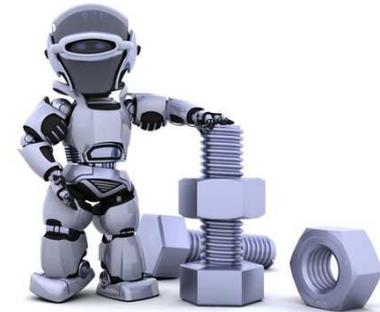
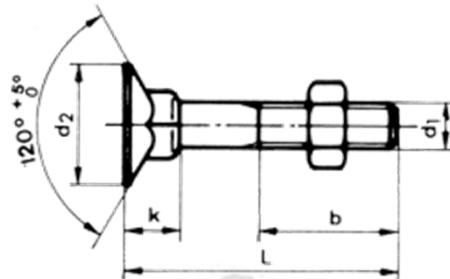


The 25th Annual The Nuts and Bolts of New Ventures/Business Plans MIT Course 15.S21



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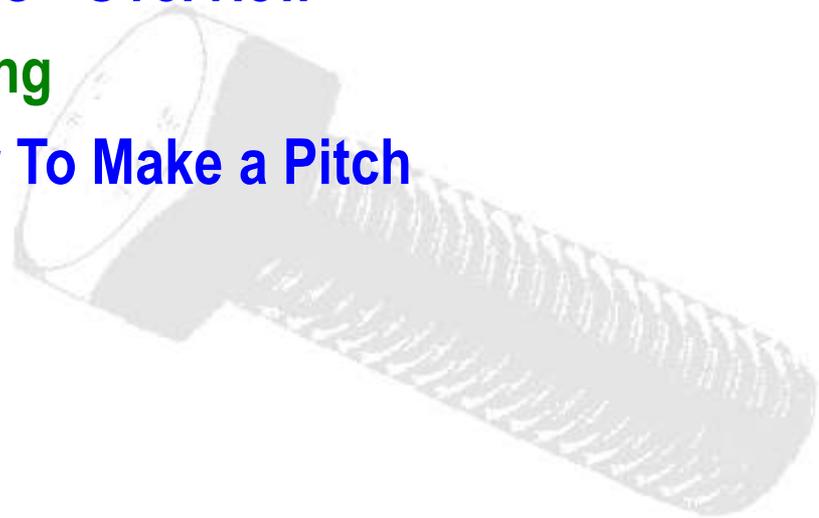
nutsandbolts.mit.edu

The Nuts and Bolts of New Ventures/Business
Plans

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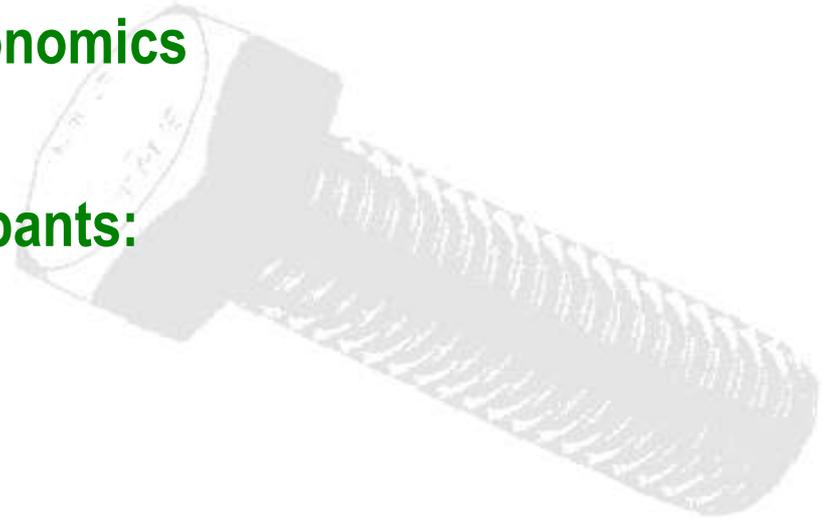
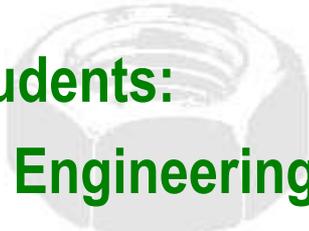
Tonight's Plan

- 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

- Introduce our Teaching Team
- **Introduce our Case Study**
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= **Virtual Ink**

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 user.*

[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
- Introduce our Case Study
- **Business Plan Basics - Overview**
- **Break – Team Building**
- **Steve Pearse: How to Make a Pitch**



SESSION 1: BUSINESS PLAN BASICS

What We Will Discuss Today:

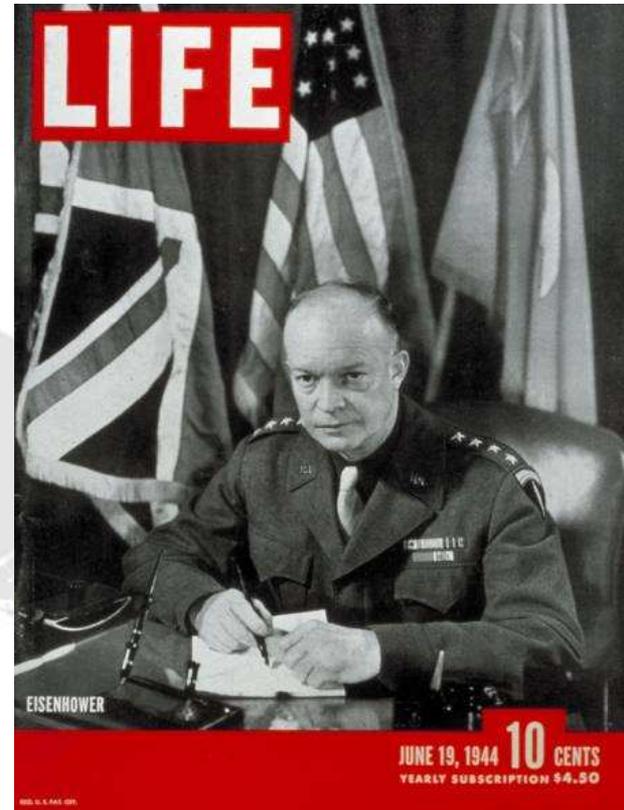
- Why Write A Business Plan?
- What Should Be In A Business Plan?
- The Business Plan As A Financing Document



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?

THE WALL STREET JOURNAL. * * * * Tuesday, January 9, 2007 B9

SMALL BUSINESS

ENTERPRISE | By Kelly K. Spors

Do Start-Ups Really Need Formal Business Plans?

Studies Find Often Time Wasted Gathering Data With No Link to Success

Business schools and consultants have long preached that writing a formal business plan greatly improves a start-up's odds of success. But a growing number of academics are questioning whether that's really the case.

Budding entrepreneurs can spend months, sometimes years, polishing elaborate 50- to 100-page business plans that include financial projections, market research, and intricate details on day-to-day planning and organization. But skeptics say there's little concrete evidence that extensive planning is highly correlated to success.

A more practical approach, they say, for entrepreneurs who aren't seeking external start-up financing from venture capitalists or angel investors, is to write a "back-of-the-envelope" plan with basic financial projections, such as cash flow, and fine-tune the business model after launching the business.

'Just Do It'

"What we really don't want to do is literally spend a year or more essentially writing a business plan without knowing we have actual customers," says William Bygrave, an entrepreneur-

inal idea and developed outsourcing-management software geared toward companies with annual revenue of more than \$1 million. While the planning helped him learn about the industry, it didn't point out the fundamental flaw of his original idea.

"We were handed one or two prospects in the planning stage, but it was a lot harder going after a broader base of customers after we launched," Mr. Gupta says.

The critics of formal planning contend that it runs counter to what's at the heart of the entrepreneurial spirit: the ability to learn and adapt through experience. And there's a growing body of research supporting the notion that formal planning may not make much difference.

a full business plan "the opportunity will be gone."

Knowing Customer Base

Benson Honig, a professor at Wilfrid Laurier University in Ontario, Canada, says his research of 396 nascent entrepreneurs in Sweden from the late 1990s also found no correlation between business planning and profitability. Instead, his study found the biggest predictor of success to be knowing customers in advance. Mr. Honig says he teaches "contingency planning" to his students—or thinking about a business as constantly progressing, changing and making decisions based on the market climate—in

stead of traditional business planning.

Business-planning advocates counter that plans, while not always perfect, can help nascent entrepreneurs nail down important aspects of their concept, and sometimes prevent costly mistakes.

Bygrave, a counselor for Score, a group of retired business executives who counsel entrepreneurs, says one client wanted to start a business designing custom scrapbooks. But it wasn't until she started formally planning that it became clear she would only make \$3 an hour for her labor.

Untold Failures

Scott Shane, a professor at Case Western Reserve University, says most studies that discount 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.

Planning Debate

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

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The Bottom Line: There are questions whether entrepreneurs may be spending months fine-tuning 50-page

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 they 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

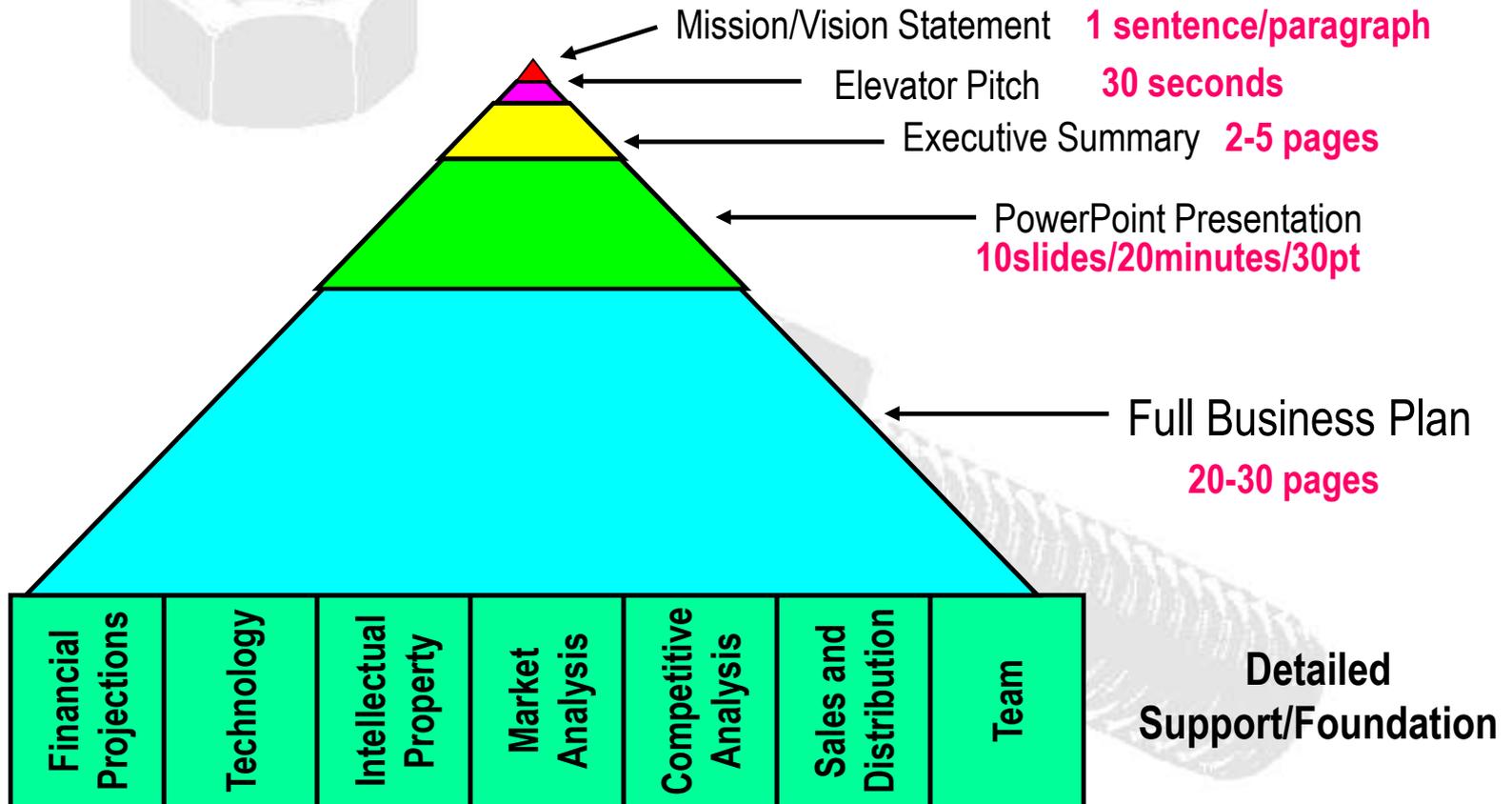
How We Create Value for Users

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



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

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

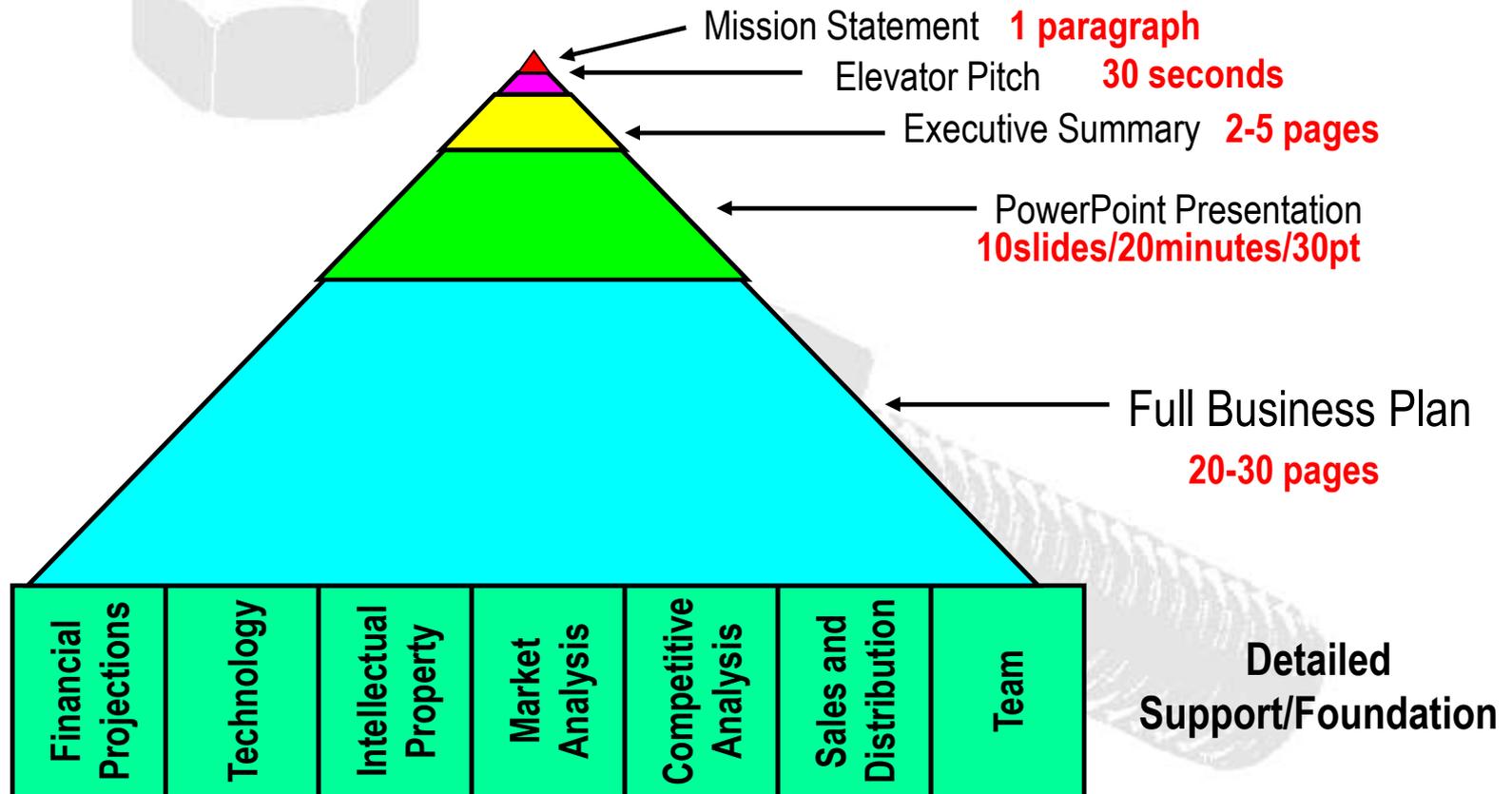
- **SUMMARY**

- **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**



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15.S21 Nuts and Bolts of Business Plans
January IAP 2014

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