

2.96 - Management in Engineering, Fall 2004

Massachusetts Institute of Technology

Department of Mechanical Engineering

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Writing A Winning Business Plan

MIT: September 13, 2004

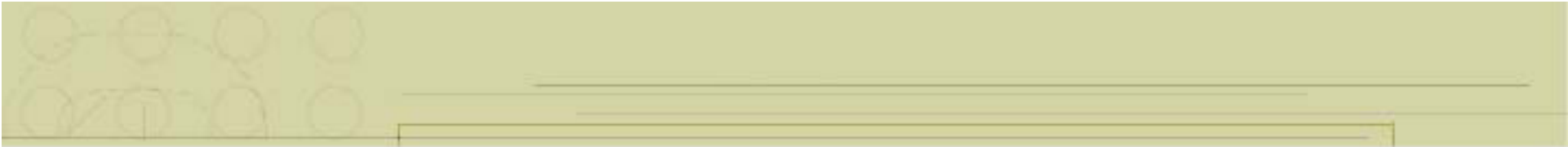
Jack Derby
Derby Management

Why create a Business Plan?

- **For a company manager...**

- Communicates strategic direction
- Communicates tactical agreements
- Communicates company objectives
- Communicates department objectives
- Communicates budget requirements
- Provides for common agreement & buy-in

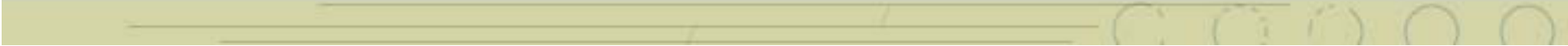
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Strategy ? Tactics ? Objectives?

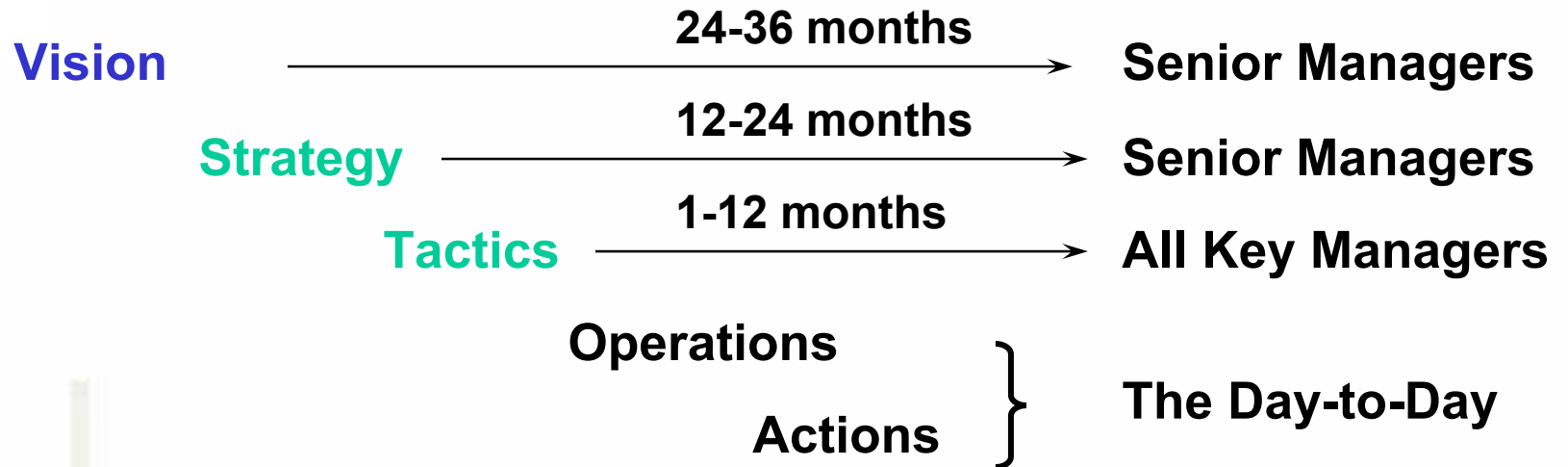
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- Strategy = Direction 1-36 months
- Tactics = Operating Plans 1-12 months
- Objectives = Metrics 1-12 months



Business Planning Architecture

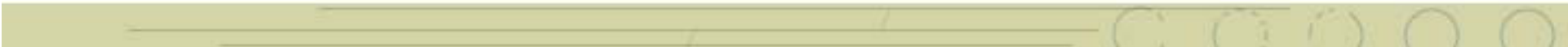
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Why create a Business Plan?

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- **For a company manager...**
 - Communicates strategic direction
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- 

Why create a Business Plan?

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- **For an entrepreneur...**
- Provides the same as a company manager
- Also,
 - ...provides a framework for investors & bankers

Why create a Business Plan?

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- **Most importantly, for you & your team**
 - The actual process of planning is the key.
 - It consolidates management direction.
 - It provides debate & finally consensus.
 - It is a guide when speed bumps happen.
 - It is your company & personal scorecard.

Let's take an example...

- Ideas...mid 1999
- Talk & Strategize
- First Generation Business Plans, summer, 1999
- Raised \$100,000
- First customer, early 2000
- Second Generation Business Plans, mid 2000
- Raised \$ 4 million on Series A

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Writing a plan is tough work!

- **It requires disciplined balance**

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- **It's visionary, but logical.**
- **It's financially perfect, but flexible.**
- **It's for today, but also for 3 years out**
- **It's a formal Plan, but it's easy to read.**
- **It's creative, but it follows *The Rules*.**

How do you start?

Pay attention to *The Do's & Don'ts*.

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- **Be compelling**
- **Be brief, focused, & deliberate**
- **Focus on customers**
 - **How will you sell them?**
- **Focus on cash breakeven**
- **Provide market research & hard data**
- **Be innovative & describe barriers**
- **Create an experienced management team**

Do...

- **Be brief & direct & detailed.**
 - **Get to the bottom line quickly.**
- **Identify what the business is immediately**
- **Identify the business model immediately.**
- **Focus on your customers.**
 - **Who ? How big ? Where ?**
- **Identify the sales model immediately**
 - **Define metrics of Sales productivity**

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Do...

- **Define what's compelling & unique.**
- **Be realistic with yourself.**
- **Remember, you're investing your career.**
- **Define long term objectives for 3 to 5 years.**
- **Describe the 3 to 4 primary strategies.**
- **Focus on cash breakeven**
 - **Make realistic, but exciting projections**

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Don't just start writing

- **Preparation...*The Key to Success.***
 - **What's my Vision?**
 - **Can I explain it to others ?**
 - **What business are we in today?**
 - **What about in 3 years?**
 - **Are we really innovative?**

Don't just start writing

- **Preparation...*The Key to Success.***
 - **What do we really know about...**
 - **Our market & customer targets**
 - **Who our customers will be in 2005**
 - **Our future product roadmap**
 - **Market data, trends, & forecasts.**
 - **Competition**
 - **New technologies in development**

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One more preparation task...

- **Define your starting assumptions...**
 - **Internally, what do we expect for...**
 - **Sales revenue growth rates**
 - **Sales acquisition costs**
 - **Technology investment rates**
 - **Product costs & expected margins**
 - **G&A expense percentages**
 - **Receivables, payables, financing**

**Get a Part
Time CFO**

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Now, you can start writing.

What you need...

- A quiet place and time.**
- All of your data easily available.**
- Start working by yourself.**
- Get the content down quickly.**
- Send a first rough draft to others quickly.**
- Write draft after draft after draft after.....**

The Traditional Business Plan

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- **An Executive Summary**
- **7-9 sections**
- **20-30 pages with financials**

- **Provides clear details**
- **Brings out the richness of the business idea.**
- **Details the market opportunity & complexity**
- **Details the business and sales models**

What's included?

- **7-9 Sections...**
 - 1. Executive Summary**
 - 2. Introduction to the business**
 - 3. Definition of products & services**
 - 4. Overview of markets**
 - 5. Overview of sales & marketing plans**
 - 6. Overview of product roadmap**
 - 7. Summary of manufacturing & operations**
 - 8. Management team bios**
 - 9. Four pages of financials**

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Section 1: The Executive Summary

3-4 compelling pages...

- Clear definition of the business
- Markets
- The business & the sales models
- Competitive advantages
- Management team
- Financials & use of funds

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Section 2. What's the Business?

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- **This section is focused on...**
 - The Business Opportunity
 - The Markets
 - The Technology & The Products
- **It must define...**
 - A clear vision & clear strategies
 - A well defined business & economic model
 - A strong sense of management experience

Section 3: Sales & Marketing

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What's the Market ? The most important section

- Customer analysis: pain & needs
- Worldwide market size & trends
- Competitive strengths & weaknesses
- What's the value creation?

Section 3: Sales

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3.1 The Sales Plan

- What's your Sales strategy?
 - What channels will you use?
 - Is there an innovative channel?
 - What are your penetration tactics?
- What's your sales model?
- What are your metrics?
- What's your hiring & training plan?

Section 3: Sales & Marketing

3.2 The Marketing Plan

- What are your marketing strategies?
 - What are the data points to measure success?
 - What is your price positioning & why?
 - What are your primary tactics in years 1 & 2 ?
 -

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Section 3: Sales & Marketing

3.3 The Customer Support Plan

- Primary objectives
 - Delivery & Response metrics
- Primary policies & tactics
- Outsource or not?
- Future services ?

Section 4: Engineering

The Development Plan

- What are your core technologies?
 - Provide sufficient, not numbing detail.
- What is your development status?
 - Describe your primary milestones.
 - Be conservative. Development will be late.
- What is the product roadmap ?
- Detail the technical team's background.

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Section 5: Operations & Manufacturing

The Manufacturing Plan

- Customer focus is the key
- Outsource or not? Why & why not?
- Primary metrics?
 - Quality, costs, delivery
- What is core in Manufacturing?
- What are unique capabilities & processes?

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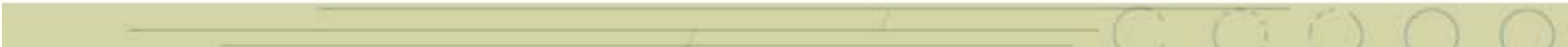


Section 6: Senior Management

Management

- #1 reason business plans fall apart
- #1 reason that investors do not invest.
- Experience is first. Dedication is second.
- Ability to rapidly learn is third
- Too strong an ego is a negative.

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Section 7: The Financials

- **The Rule: Everything Must Sync**
- Your vision & strategies in text must tie in.
- Your market growth objectives must tie in.
- Your business & sales models must tie in.
- Your margin percentages must tie in.
- Your cost of goods must tie in.
- Your expenses must reflect standard %'s.

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Section 7: The Financials

You need...

- P&L's
 - 1st year by month
 - 2nd year by quarter
 - 3rd year by year
- Balance Sheets for each year
- Cash Flows for each year
- 3-4 pieces of paper only

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Section 7: The Financials

You need to list your...

- Primary assumptions
- Primary categories for use of funds
- Primary risks
 - Other than the normal
 - If nothing specific, do not list any.
- What's your exit strategy

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Section 8: The appendices

- **Provide only the compelling things...**

- Product data sheets for primary products
- Any critical publication.
- Do not provide resumes.
- Do not include patents.

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