A great business plan

The Greek mathematician, physicist and inventor Archimedes is reputed to have said, "Give me a lever long enough and a fulcrum on which to place it and I'll move the world."

The business model is about where to put the fulcrum and lever. The business plan is the instruction manual of how to pull the lever and move the world.

The business model and the plan represent an important stage in the transition from the idea to the plausible and viable business.

What you need to know about a business plan

Contrary to the belief of some, the perfect business plan does not exist. It is a fallacy to think that there is a perfect business plan, in case you are seeking to find one.

Often a business plan is written before the business model has been validated. The belief is that it is possible to work out what you don't know about the business before you raise money and execute on the business plan. That is not how to write a business plan.

Having written and executed multiple business plans I've learnt three things…

- Business plans are prepared too early

All too often the business plan is prepared before critical questions such as will the customer buy, what price will the customer pay, how strong are the competitors and what is the best route to market are answered.

The first business plan I wrote for a new product, thinking I could write it before I had fully evaluated the market, failed in the first months. This impressed upon me that validation comes before writing a business plan.

- Business plans fall down on having scant information about the market

Often there is a lot of macro information (large £ billion market… blah blah blah) and financial information but little of what is important that needs to be included which is information about the market specifically the customer and the opportunity in terms of the customer need.

Businesses fail not because the idea was poor or the team wasn't hard working but the market was either not there or it was different to what was assumed.

- Financial projections are always wrong

The message is don't spend time preparing detailed financial projections until you have a validated business model. Of course you will need financial projections for the investor but this comes later.

Don't get wed to the financial projections and what financial projections are prepared should be predicated on assumptions that can be changed as experience is accumulated.

The start-ups that ultimately succeed go quickly from setback to setback, all the while adapting, iterating and improving their business model as they continually learn from customers. This is a lesson I learnt very on in my career.

All that said it is still important to write a business plan, but this comes post validation of the business model.

Why write a business plan?

There are at least five reasons to write a business plan.

- To help you understand an opportunity

It is important for you to know that an opportunity is different from the idea.

Opportunities are perishable, ideas last forever.

Ideas are free, opportunities have (considerable) value and require time, money and effort to realise.

Opportunities have windows, which are determined by change, and there is a lot of change in the world.

There is change in the political (and regulatory), economic, social and technology landscapes. There is change in customer needs and competitor activity. The more change the more opportunities there are.

Finding and exploiting opportunities where others see chaos, confusion and contradiction is the hallmark of a successful entrepreneur.

- To recruit prospective partners (from resellers to suppliers like professional services providers) and team members/employees

Prospective employees will want to know where the new venture is headed and need to be persuaded like the investor to share in the vision and join the train heading for an exciting future.

- To monitor progress and keep you on track

How do you know whether you are making progress unless there is a plan and you know where you are, and therefore what to do if you deviate or fall behind?

When you don’t have a plan all roads lead to the destination. The trouble is the destination might not be what you want or represent success; instead you might find the business fails.

- To refocus or reinvent the business in response to external changes

In the face of change and a dynamic market that exhibits and imposes change on the business, there is need to refocus.

Changes might include entry of a new competitor, new legislation or political change as we are seeing as a result of the Brexit vote.

- To raise funds for the business

Arguably this is the most important reason for writing a business plan. Professional investors, bankers and providers of grants as well as the board will require a business plan in the event you are seeking to raise money from them.

These are the reasons and keep in mind that business plans will change and should be reviewed regularly.

Alongside 'why write a business plan' is another equally important question.

When to write the business plan?

Knowing when to write a business plan is critical. There are three things to heed.

- Writing a business plan before you have carried out a proper and full assessment of the opportunity is a wasted exercise

Why? Because your view of the market opportunity and what you need to do to exploit it will change.

- What comes first is not the business plan but the assessment of the opportunity. There are three reasons for carrying out the assessment before writing a business plan…

Firstly, the assessment enables you to avoid business failure. The assessment affords you the chance to opt out early in the process before investing time, effort and money. This is all about fail fast and fail cheap.

Secondly, for the opportunities that looks promising the assessment kick starts the business planning process and provides a clear view of why the proposed idea makes sense and is plausible.

Thirdly, the assessment collects real data that is essential for a great business plan. In my view too much time is spent on preparing detailed analyses and financial projections and too little time on speaking with customers about what they do, where, when, how and why they do things and carrying out the primary research.

- The most thorough assessment is that afforded by the seven domain analysis

This is a method developed by John Mullins, Professor of Strategy & Entrepreneurship at London Business School, whose method I've adopted (and recommend) and use extensively in advising start-up businesses, including researchers thinking about commercialising their research.

The seven domain analysis is a method of carrying out your assessment of the opportunity for your business that helps you answer that all important question: 'will or won't this business succeed?'

The analysis involves an assessment of three factors – markets, industries and the team in seven domains – and highlights the following:

- Markets are different from industries (markets consist of buyers whilst industries consist of sellers that offer products)

- Both micro and macro considerations are necessary

- The key to assessing the entrepreneurial team goes beyond the CV to understanding their mission, aspirations and risk propensity, ability to execute on critical success factors and connectedness…

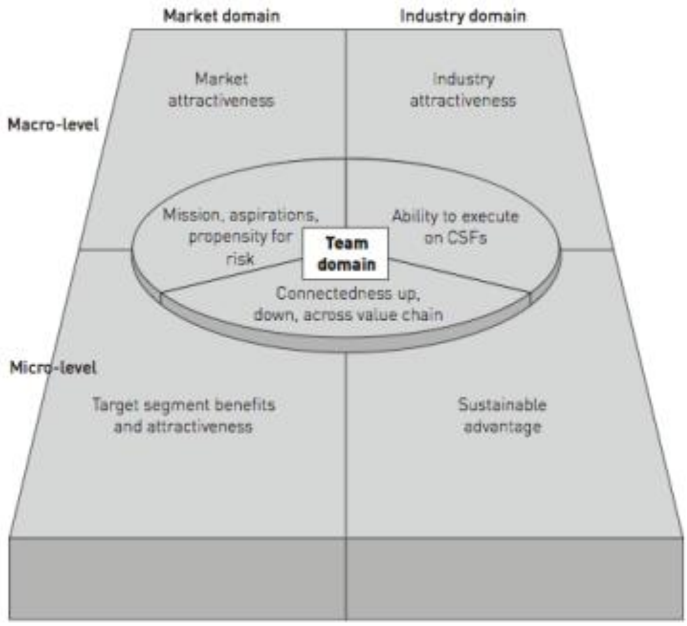
The seven domains analysis more specifically aims to answer three questions that are central in the assessment of any opportunity:

- are the market and industry attractive?

- does the idea offer compelling customer benefits and a sustainable advantage over other solutions to the customer's needs?

- can the team deliver the results?

The analysis involves conducting an assessment in each of the seven domains



In assessing the attractiveness of the market the analysis seeks to answer questions

- at the macro level

The questions include: How large is the market in terms of customers? How much do they spend? How fast is the market growing and what are the macro trends – the PESTLE trends which are answered chiefly through secondary research?

- at the micro level

The questions include: What is the target market? What are the benefits we offer customers in this market and how is the product different and superior – better, cheaper, faster – than competition? How large is the target market and is it growing? And how likely is it that the entry into this target market will provide entry into other markets?

At the micro level you would perform Ansoff's product/market growth analysis and carry out primary research.

In assessing the attractiveness of the industry we seek to answer different questions.

- at the macro level

The questions include what is the competitive rivalry in the context of buyer and supplier power and threat of new entrants and substitutes, for which we use Porter's five forces analysis and secondary research.

- at the micro level

The questions include what is the sustainable advantage and involve determining whether certain (one or more of the three) factors are present that would enhance the ability of the venture to sustain any advantage it has from the outset.

In assessing the attractiveness of the team this involves asking another set of questions to determine their mission, aspirations, ability to execute on critical successful factors and connectedness.

I recommend you read the book 'The New Business Road Test' by Prof. John Mullins that describes the seven domain analysis.

What constitutes a sustainable competitive advantage?

Let's take a close look at what constitutes a sustainable competitive advantage.

To demonstrate that the business will succeed and therefore to be compelling the business plan needs to demonstrate a sustainable competitive advantage.

A new business that starts out with an initial advantage is in a good position, but the hard part and the key to success is sustaining that initial advantage since the initial advantage is not sufficient to build a successful business long term.

Why? Because copiers, fast followers and imitators both from existing competitors and new entrants appear quickly in most industries, so initial advantages can disappear in a heartbeat. The widely talked about 'first mover advantage' is often a myth – for example, Zantac beat Tagamet, Humira beat Remicade, Cervarix beat Gardasil and one you will be familiar with is that Facebook beat MySpace. It is important to heed the advice that best beats first every time.

The key to competing in both high growth and particularly in less attractive industries are factors that enable the company to sustain its initial advantage.

An initial advantage is likely to be sustainable when:

- There is strong intellectual property such as patents, trade secrets and other intellectual property e.g. copyright, designs and trademarks that other firms are not likely to duplicate or imitate

These are particularly important to demonstrate in the science and technology based businesses.

- There are superior organisational processes which again competitors would have difficulty in duplicating or imitating

The processes include sales processes, capabilities like low cost commercial scale (e.g. microbial fermentation) manufacturing, product development, distribution and customer support and resources like talented people and finance

- The business model is economically viable

What do I mean by this? I mean the company can generate and not run out of cash!

Not running out of cash depends largely on four things:

First, revenue is adequate both in terms of covering direct costs and capital investment and reflect a robust revenue model where you know who will buy, how often, how much and how soon you will receive money each time a customer buys.

Second, customer acquisition and retention costs and the time it will take to acquire a customer are viable in some industries e.g. business software such as identity credential management software can take up to 12 months to secure a customer. Similarly in life sciences a new diagnostic test might take several to six months to be adopted by a NHS foundation trust laboratory post authorisation for marketing.

Third, contribution margin is sufficient to cover the necessary fixed cost structure in particular staff, equipment and rent and administration.

Finally, the operating cash is favourable which is about keeping cash tied up in inventory down to a minimum and getting customers to pay quickly and having suppliers on credit terms.

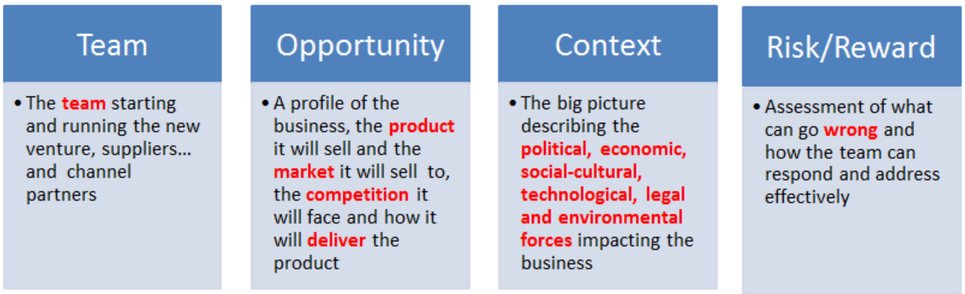
It is important you know that investors are looking for businesses which can buy low, sell high, collect early (in advance is best) and pay later.

The business plan needs to spell out how close to the ideal the new venture will come.

What to include in the business plan?

At this point I want to introduce you to a four factor framework for compiling the necessary content to write a great business plan.

This is the framework described by William Sahlman, Professor of Business Administration at Harvard Business School. It was originally described in a paper published in the Harvard Business Review and remains a definitive work on the subject.



This framework comprises four essential interdependent factors that define the content of a business plan.

- The Team

These are the entrepreneurs starting and running the venture or otherwise commercialising the invention or technology, as well as external parties providing key services and resources for the venture such as accountants, lawyers, IP attorneys, PR professionals and other suppliers, partners, distributors and investors.

- The opportunity

A profile of the business highlighting the product, market (what is attractive about it, how fast it will grow and what will stand in the way of growth) and competition as was described above.

- The context

The context within which the opportunity exists which is the big picture, describing the macro-environmental PESTLE forces that inevitably change but cannot be controlled by the entrepreneur.

- Risk and Reward

Every business plan should include everything that can go wrong and how to manage the things that go wrong.

The framework describes the attributes of successful businesses which are:

- a knowledgeable, experienced and skilled managerial team, where these are directly relevant to the opportunity, and they will have worked together in the past

- an attractive opportunity and a business model that is sustainable – in other words, it has a competitive edge which can be defended

- a favourable context with respect to the regulatory, demographic and economic environments

- a manageable risk profile, where the team that know how to mitigate the impact of adverse events

What does a great business plan look like?

Now that you have defined the business model and assembled the content how do you present that information and what then would a great business plan look like?

The great business plan will follow a structure that investors (and other recipients) will be familiar with and enable them to find the information they are seeking.

This is one familiar format comprising of 9 sections that I like and use.

Executive Summary	• Short overview of the business plan (max. two pages) • Provides reader with everything he/she needs to know
Management Team	• Features a brief profile of each member of the team • Includes duties, experience and whether work'd together before
Company/Product Description	• Details history, mission, ownership, products and partnerships • Presents current status and milestones achieved
Market Analysis	• Describes the target market and how products meet needs • Reviews the PESTLE trends and how these impact customers
Industry Analysis	• Features a description in terms of size, growth, revenues • Includes details of competitors and industry trends
Marketing & Sales Plan	• Sets out how to market and sell the products/services • Defines sales strategy includes sales goal, route and resources
Operating Plan	• Outlines how the business will be run and products produced • Describes front stage (customer facing) and back stage activities
Product Development Plan	• Describes stage of product development, IP and timelines • Details challenges and current risks and partnerships
Financials, Funding and Risk Analysis	• Presents financial projections viz. cash flow with assumptions • Details funds sought, IRR, exit options and risk management

There are three sections of the business plan that I want to highlight and comment on…

First, the 'Management Team' section which you will notice is at the head of the business plan.

This is a critical section; many investors who read the business plan will read the executive summary then go directly to the management team section to assess the strength of the people starting the business and they invariably want to see this section at the beginning

Investors read more business plans with interesting ideas than they can invest in and often it is not the idea that wins the finance but the belief that the management team can deliver and is the best in terms of their mission, aspiration, propensity for risk, capabilities and connectedness.

What investors want to see is a profile of each member of the team that includes three things – title and duties, previous relevant experience and track record, especially of previous successes.

The profile should illustrate how the individual is qualified and will uniquely contribute to the success of the venture. It is also important to highlight whether the individuals have worked together before which means they get along and trust each other.

Any gaps in the management team should be identified and plans to fill the gaps outlined.

Second, the 'Market Analysis' section, which is different from both the industry analysis and the marketing plan sections.

The ‘Market Analysis’ section normally precedes the industry analysis and focuses on the customer and provides a segmentation of the target market and describes the customer behaviour and the specific needs the business intends to serve.

The critical point is that more the team knows about the customer in its target market the better it can gear the business’s products to meet the customer needs.

Important that this section includes details of what customers buy, from whom and why and how they buy (as already mentioned above).

Third, the final section ‘Financials, Funding and Risk Analysis’.

The first thing to include is the revenue projections then the cash flow statement that lays out specifically how much money the business needs (if you are raising money), where the money will come from and what the money will be used for. It is critical as already mentioned that an assumption sheet should be provided and sources for your assumptions should be cited.

The section should also present details of fund raising activity and with that the deal being presented to investors with exit options described and provide details of risk profile that describes the main risks faced by the business and for each the probability of that risk occurring and the likely impact on the business and the key actions management would take to mitigate that risk.

Finally every business plan should have a well-crafted ‘executive summary’ that provides an overview in 2-3 pages and it should be written last and not before. It is not an introduction or preface but a summary and be constructed in the order of the sections that make up the business plan.

In writing the business plan there are some guidelines I would share.

Some guidelines to follow in writing a great business plan

When writing a business plan it is important to remember that the first thing about your new venture that the investor will see is your business plan. If it looks incomplete and sloppy it is easy for the investor to infer the venture is incomplete and sloppy.

When writing a business plan there are some guidelines to follow which relate to – structure, content and style.

- Structure

To make the best impression the business plan should follow a conventional structure as presented earlier; although entrepreneurs want to be creative departing from the conventional structure would be risky and a mistake.

Typically investors are busy people and want to see a plan that has a familiar structure where they can easily find critical information. If the investor can’t find the information they are looking for they’ll give up and move on to the next plan.

There are software packages to assist writing a business plan but I don’t recommend you use these packages as they have drawbacks; they are often inflexibility, fail to distinguish between market analysis and marketing strategy and have too rigid financial reporting and chart of accounts.

Entrepreneurs should avoid a boilerplate plan that looks like it came from a ‘canned source’.

Also you should avoid hiring a consultant or an external party such as an adviser to write the plan. The plan needs to project a sense of anticipation, excitement and optimism about the possibilities, a task best accomplished by the founder of the business.

- Content

The plan should give clear and concise information on all the important aspects of the new venture – covering the four essential factors previously described. It should be long enough to provide sufficient information yet short enough to maintain reader interest. For most plans 20-30 pages are sufficient and any supporting information can go into the appendices.

After the business plan is written it should be reviewed for spelling, grammar and to make sure that no critical information has been omitted. I know of plans sent to investors that have left out important information such as significant market trends, how much money the company needed or what the money was going to be used for. It is important that you don’t be a victim of poor content.

- Style

The plan’s appearance must be carefully thought out. It needs to look professional but not give the impression that a lot of money has been spent to produce it. Investors will know the entrepreneur has limited resources and expects them to act accordingly.

Avoid getting carried away with design it just makes it look amateurish rather than professional.

Finally if it needs to be presented in hard copy then a plastic binder including a transparent cover sheet and a hard back sheet to support the plan is a good choice. Always be sure to include your contact details.