

PEI Resource Day

Business Plans

An Entrepreneur's Perspective

Terry Drayton
(so-called serial entrepreneur)

January 4, 2001

1

A few questions to think about

- ✓ Who is your business plan for?
- ✓ Is the business opportunity compelling?
- ✓ Can the management team do it?
- ✓ Why will people buy it and how will you get enough of them?
- ✓ Do the numbers work?
- ✓ How much money will the business need?
- ✓ If the business succeeds how much will it be worth?

2

What is the purpose?

- ✔ It is a common perception that business plans are written only because external people believe you need them and that otherwise entrepreneurs wouldn't bother
- ✔ My beliefs:
 - ◆ a business plan is the entrepreneurs best planning tool
 - ◆ any business plan written to be used only as a financing document will be a failure

3

The opportunity must be compelling

- ✔ What is there about your idea that enough people to be willing to buy it from you so that it will be a good business?
- ✔ large, un-served or under served market
 - ◆ how big is the market?
 - ◆ Who are the competitors and how will you compete against them?
- ✔ compelling value proposition
 - ◆ why should customers choose you over alternatives?

4

Who will implement the plan?

- ✓ Strategy is easy compared to implementation
- ✓ Assess yourself and the team:
 - ◆ What are the skills required to be successful in the business?
 - ◆ Does your team have them?
 - ◆ Think about the founder's roles long term
- ✓ Recruiting the team to implement the business is almost always a key factor

5

Getting customers is never easy

- ✓ Marketing: it's the classic stuff
 - ◆ 4P's, channels, margins
 - ◆ competitive positioning is really key
- ✓ Sales
 - ◆ customer acquisition costs matter
 - ◆ costs differ per sales channel: which one can your margins support?
- ✓ Customer service costs are usually ignored
- ✓ Consider Implications for product or service design based on margins

6

What will it cost to be in business?

- ✓ Start-up expenses
- ✓ Product development costs
- ✓ Operating costs
 - ◆ people (benefits are expensive)
 - ◆ premises including technology
- ✓ Capital costs
- ✓ Questions to ask:
 - ◆ how quickly sales will ramp up
 - ◆ impact of operating at low levels of utilization

7

Pull all the numbers together

- ✓ Income statement and cash flow
 - ◆ cash is the most important number!!
- ✓ balance sheet
 - ◆ don't forget about working capital
- ✓ Use the projections to determine how much money you will need to raise
 - ◆ be realistic on all your numbers
 - ◆ let the projection “work” then revisit your assumptions (not the reverse)
 - ◆ try changing key assumptions to understand the impact on your funding

8

Dialing for dollars

- ✓ The amount of money you need will determine the source (i.e., personal, friends/family, angels, VC's, corporations)
- ✓ raising money is always hard and takes time
- ✓ do your homework on investors
- ✓ exit strategy matters a lot to investors
- ✓ persistence is omnipotent and always be nice to the receptionist!

9

So what makes for a good plan?

- ✓ There is no “correct” format as different areas are important for different businesses
- ✓ Some common themes:
 - ◆ be honest, concise and realistic
 - ◆ highlight the positives but know all the problems and risks
 - ◆ a good business plan is never finished; as actual results are known it gets continually revisited and often modified
 - ◆ the numbers really do matter

10