

## **Changing the World: Entrepreneurship:**

How Innovation and Entrepreneurship Changes the World

-Jack M. Wilson

### **Chapter 8 Organizing, Planning, and Pitching your business.**

*Alexander Osterwalder: "Telling a story that illustrates how your business model solves a customer problem is a clear way to introduce listeners to the idea. Stories give you the "buy-in" needed to subsequently explain your model in detail."*

#### **Introduction**

In order to take an idea and create a new venture, you will need to make some key decisions as to how to organize and execute the venture. As we saw in the Lean Launchpad, the new venture is designed to explore potential business models and learn from customers to refine the business model until you have a business model that can be executed with some success. We know that this may take several attempts, or iterations, at creating the model and you will often need to pivot to try a new direction from iteration to iteration.

You will have to make some decisions about the kind of team that you will need to assemble to execute the plan (chapter 9). You will need to decide how you might want to organize your new venture -will it be a corporation, a partnership, a sole proprietorship or a variation of those that we will explore in this chapter. You will also need to decide how to finance the venture (Chapter 14). This takes some serious thought and planning.

#### **The traditional approach to the business plan is changing**

Until 2010, most new ventures were expected to create a business plan that they could share with potential investors, partners, and even customers. Not all new ventures created a business plan, but it was a fixture of many "business plan competitions" in which entrepreneurs could win some seed money to advance their venture. These competitions served as third party endorsements as well as providing small investment dollars. Many universities launched business plan competitions, with MIT's 100K competition being one of the best known. As we have seen, research on entrepreneurship by Saras Sarasvathy, Steve Blank, Eric Reis, and many others have demonstrated some shortcomings and moved the entrepreneurship community away from the business plan approach in many cases.

Steve Blank became the leading apostle of business plan rejection after 2010. His quote, which we introduced earlier in the text, has come to typify his approach: *"In the real world, most business plans don't survive the first few months of customer contact. And even if they did – customers don't ask to see your business plan."* Steve advocated for the supremacy of business models and he enshrined the concept of the pivot as part of his mantra of the "Customer Development Process." We explored the Lean Launchpad in Chapter 7.

We learned that the Lean Launchpad and Effectual Entrepreneurship, developed by Sara Sarasvathy, provided alternative approaches to the causal model that is typified by the

business plan. These alternative models have their advocates and advantages, but many investors demand a traditional business plan, and many institutions continue to hold “business plan competitions.” For that reason, I will present each of these models to equip the reader with whatever tools might be most useful.

I chair a venture group called the Riverhawk venture fund, and that group provided an interesting learning experience for us. The Riverhawk Venture fund is operated by a group of successful businesspersons, entrepreneurs, and investors who are willing to donate money toward seed funding for university spin-offs. At the first investment meeting of the group, several university related entrepreneurs presented their ideas to the group. A few of the ventures were selected to receive serious consideration for an investment. At that point, some of the investors asked to see the business plans of the proposed ventures. One staffer made the mistake of asserting that “nobody does business plans anymore” and then repeated the Blank quote. The investors did not seem to appreciate the response, and it was at that point that I realized that our students and faculty, as well as most potential entrepreneurs, need to know something about traditional business planning even as that approach appears to be losing proponents.

We will examine the structure of a business plan that incorporates the Business Model Canvas and takes advantage of some of the other aspects of the Lean Launchpad. The complete business plan consists of both a written plan and a prepared pitch. A written narrative of 25-35 pages tells how the founder expects the business to develop over time using the work done in the customer development process and/or feasibility analysis and further work. It is also possible to do a summary business plan that can be about 10-15 pages –this is the kind of business plan that is due later in the course. You will also create a PowerPoint of about a dozen slides that will be described in more detail later in the chapter. Using some of these slides, you will prepare an Elevator speech or Rocket Pitch of one to three minutes. A person pitching a new venture needs to be prepared to present their plan in pitches of a variety of lengths. Not every investor will want the same kind of pitch.

The business plan is written for two different audiences. There is an **inside audience** of founders and early employees. For them, the plan provides guidance in execution, a road map, and forces founders to think through plans systematically. It is also prepared for an **outside audience** of investors, potential partners, and other stakeholders.

Many companies do not write a business plan, but it is often useful. At ILinc we did write a business plan –which helped tremendously. As Steve Blank loved to say, “*no business plan survives first contact with a customer*”, but investors may want to see your business plan and you may want to use it to enter business planning competitions. It is important to recognize that you will likely need to change the plan, to pivot the business, and to adapt to market feedback. Sometimes this kind of document is described as an “evergreen” document, since it is always subject to growth, learning, and revision.

There are several variations of business plans. Earlier we described the Summary Business plan of 10-15 pages which is useful in early stage and preliminary discussions. The full

business plan is the mainstay of 25-35 pages with significant detail to allow investors to invest with confidence. As the company develops, you may wish to expand the plan into an operational business plan. This expansion of the plan is to provide an internal operational guide –or blueprint for operations. The operational plan is approximately double the size of the full business plan but can be much larger.

In most companies, business plans change dramatically as things develop. Don't get stuck in a rut.

The best approach seems to be to:

1. Plan, plan, plan, and then plan some more.
2. Celebrate and rejoice when the plan is done.
3. Now sit down and think about how this plan will fail and what you are going to do when it does.

No whining. As the bumper sticker says, "Stuff Happens."



### ***The Structure of the Traditional Business Plan***

Here is more detail on the structure of the business plan.

1. Cover Page: company name, address, phone number, date, contact person, web site, Facebook, Twitter, etc. Confidentiality statement
2. Table of Contents
3. Executive Summary of 1-2 pages (critically important)
4. Industry analysis
5. Company Description (mission statement, tagline, position, milestones)
6. Business Model Canvas. (This was not part of the traditional business plan in the past.)
7. Market Analysis (market segmentation, target market, competitor analysis)
8. Economics (financial analysis, COGS, contribution/gross margin, fixed costs, variable costs, operating leverage)
9. Marketing Plan (marketing strategy)
10. Product/Service Design and Development Plan (product, service, or virtual prototype)
11. Operations Plan
12. Management Team and Company Structure (B of Directors, B of Advisors, Org Chart)
13. Overall Schedule
14. Financial Projections (sources and uses of funds, assumptions, pro-forma or projected financial statements, ratios –ROI, ROA, ROS, etc.)
15. Summary and Appendix

***The Executive Summary***

The executive summary is the most important portion of the business plan. It is also probably the last portion of the business plan that you will finish! I recommend that you write one to start, but then go to work on the main portions of the plan. That will undoubtedly lead you to make some changes and/or additions to the business plan.

The executive summary MUST tell a compelling story about the entrepreneurial plan that you are developing. It must also tell the reader what you are asking them to do. Are you asking for investors? Partners? In some respects, it is similar to the elevator pitch that is described later. Just like the elevator pitch, you, the entrepreneur, need to know what the most important points are that you need to make and which you can save for the longer narrative. It summarizes the main point and key features, but does not provide detail. The executive summary is most likely the only part of the business plan that most investors will read! Make it good and compelling. The goal is to let the reader know what it is that you are doing, as concisely as possible and in a manner that is so engaging that they simply must read the rest of the plan.

***The hybrid business plan:***

It is possible to combine many of the features of Effectual Entrepreneurship and the Lean Launchpad into a hybrid version of the business plan. In that approach, the business model canvas becomes the organizing principle. This leads to a form that looks like this:

1. Cover Page: company name, address, phone number, date, contact person, web site, Facebook, Twitter, etc. Confidentiality statement
2. Table of Contents
3. Executive Summary of 1 page (critically important). It should clearly describe the venture and tell the reader what is being asked of them.
4. Business Model Canvas. (1 page) then the following pages add details to some of these.
5. Value proposition: What problem(s) are we solving for our customers? What customer needs are we satisfying? What value do we deliver to the customer? What bundles of products and services are we offering to each customer segment?
6. Key activities of the venture: What major things must we do to be successful?
7. The team: This is not an explicit part of the business model canvas, but it is one of the most important items to investors as we will see in the next chapter.
8. Form of Business: Sole Proprietorship, Partnership, LLP, Corporation, LLC, S-Corp
9. Financing Plan: Self, Friends and Family, Bootstrap, Angels, VCs, Debt (Bank/other)
10. Key Partners:
11. Customer segments: What will your target market be?
12. Customer Relationships: the type of relationship a company establishes with its specific customer segments -often driven by customer acquisition and customer retention.
13. Channels to reach the customer: How will you reach the customer?
14. Revenue streams: What value are our customers ready to pay for? For what do they currently pay? How are they currently paying? How would they prefer to pay? How much does each revenue stream contribute?
15. Cost Structure: Main costs you need to plan for initially and continuously.
16. Key Resources: What key resources do we need for: our value propositions, our distribution channels, our customer relationships, our revenue streams?
17. **The Ask.** What do you need from the reader? This is in more detail than the ask in the Executive Summary. Are you asking for an investment in the venture? If so, how much? Are you asking for donations to a Charitable venture? Are you asking the reader to join you in some kind of partnership? Are you asking the reader to become a major customer?

Each of these sections should be very brief. The entire hybrid business plan should be 8-12 pages. You may later want to expand this plan in other ways -both for your own purposes and to recruit investors.

**Presentation to Investors: The Elevator Pitch or Rocket Pitch**

Developing the presentation to investors requires both judgement and flexibility. The judgement is important because you will need to decide what the most important points are, make them concisely, and then be prepared to present more and answer questions if they develop an interest. The flexibility is required because the investors are likely to set the rules and you will need to follow their instructions. If they say to speak 20 minutes, then do it and no more. If they say speak for 3 minutes, then do that. Unless your new venture is incredibly compelling, you will find it hard to set the ground rules for the interaction.

Why do they call it an elevator pitch? Because it puts the speakers in a hypothetical situation in which they get on to an elevator and meet someone who could be an investor, customer, employee, or otherwise become involved in a company or project that the speaker is leading. You have 60 seconds (more generally 1-3 minutes) to get his or her attention before the elevator doors open and your prospect leaves. The idea is to be able to present the most important (the key) information quickly and persuasively in order to interest the prospect in learning more. That could be having them read the executive summary of the business plan, the business plan itself, a business model canvas, or something else that presents the idea concisely and cogently.

In real life, the elevator pitch is not usually delivered in an elevator but is often delivered in boardroom or at a “pitch contest.” In such a case, having a few slides can be helpful, but you do not want to overwhelm the listener. In any real business plan competition, some of these slides are more important than others. Your job is to think about these topics and then figure out how to address the key issues in 60 seconds with the correct emphasis on the most important points. In many cases you may not use ANY slides, but you had still better be able to present your idea persuasively and understandably in sixty seconds or whatever time is given to you.



**Figure 2**  
**First Pitch at Red Sox Spring Training**



**Figure 3 -A pitch well received.**

Slides should be clear and uncluttered with not too much info, but it is good to have other slides ready to help answer further questions. The presentation should be well rehearsed and smooth. You should avoid jargon. It is a good idea to check on AV availability before and either BYO (bring your own) or adapt.

As Alexander Osterwalder, the creator of the Business Model Canvas points out: *“Telling a story that illustrates how your business model solves a customer problem is a clear way to introduce listeners to the idea. Stories give you the “buy-in” needed to subsequently explain your model in detail.<sup>1</sup>”*

Professor Li Sun, UMass Lowell, likes to tell students that the story should be told in three acts:

- Act I: The storm (What Problem? Pain?)
- Act II: The rainbow (Your solution )
- Act III: The pot of gold (Market Potential)

Here are twelve *potential* slides.

1. Title
2. Problem
3. Solution
4. Opportunity and Target market
5. Technology
6. Competition
7. Marketing and Sales
8. Management Team
9. Financial Projections
10. Current Status
11. **The ask: what do you want from them and how will you use it?**
12. Summary of key points, the ask, and request questions.

The most important slide is **“The Ask.”** If there is nothing that you are asking the audience to do, then why are you bothering to speak to them? You do not use all twelve slides. You need to select those that are the most important and useful to you. Keep it crisp and clear.

Appendix 1 describes the variation on the Pitch used by the Difference Makers program - The Rocket Pitch.

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<sup>1</sup> “Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers;” A. Osterwalder; John Wiley and Sons; (July 13, 2010)

There are some things that set off **red flags and warning bells** to an investor audience.

Here are a few:

- Founders with no skin in the game –they have no money at risk
- A poorly documented plan with little citation of evidence supporting the assertions and assumptions in the plan. The best evidence is that from a third party. The very best evidence is when a customer buys or an investor invests time and/or money. The customer purchase is a key aspect of the Lean Launchpad customer discovery process.
- Broadly defined markets rather than carefully targeted markets. For example, if you say that you are targeting the \$550 billion/yr. pharmaceuticals market rather than the \$230 million/yr. ALS treatment market.
- Wildly optimistic financials. One example was when Segway was projecting sales of 40,000 /mo. and then was selling 300/mo.
- Sloppy, poorly written, mistakes in math, and typos,

Expect that investors will challenge you with sharp questions and blunt feedback. When we were seeking our first round of venture investment at ILinc, we settled on three companies who shared in the first round. One of them was GeoCapital Partners, and I told their CEO that one of the reasons that we picked them was that I liked working with him and that he was a nice guy. Stephen J. Clearman, the GeoCapital Partners CEO and Venture Capitalist in ILinc retorted sharply, “I am not a ‘nice guy’ Jack, I am an investor.” Expect investors to ask tough and probing questions. Asking tough questions generally means they are interested. If they are not interested, then they will not waste their time. If you are viewed as a VERY attractive investment, then they will still ask the questions, but do it more diplomatically! Perhaps that’s why I called Steve a ‘nice guy’!

**The absolutely non-negotiable part of the elevator pitch is “the ASK.”** If there is nothing that you are asking for, then don’t bother to give the pitch! What do you want and need of the listener?

Forecasting Innovation is never an easy task. As Yogi Berra liked to say, “It’s tough to make predictions, especially about the future.” Here are a few techniques that planners use:

- Trend Extrapolation,
- Time Series
- Regression analysis
- Modeling
- Customer and market research
- Benchmarking
- Delphi and Experts
- Scenarios-descriptions of alternative potential futures.

Some things are easy to predict such as the relentless improvement in computing described by Moore's Law -in which computing power doubled and the cost halved every year (later that slowed to two years). Many companies took advantage of this easily forecasted trend. Many other kinds of predictions, like family helicopters and anti-gravity machines, were far wrong.

Business planning requires you to make some predictions about where your new venture is going and how it will perform. Making those prediction is a very good exercise for the entrepreneur. Believing those predictions to be accurate would be a serious error. Using the Lean Launchpad approach is probably a better way to plan your new venture, but being able to create a business plan continues to be a useful skill.

Here are a few scenes from local pitch contests and business plan contests.

#### The UMass Lowell Difference Maker Competition



M2D2-Mass Medical Device Development at UML Business Plan Competition.  
<http://www.uml.edu/Research/Centers/M2D2/medicalchallenge.aspx>

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Take your venture to the next level through this 12-week program!
- November 17: Legal Issues for Small Business (in Spanish)  
More info TBA!
- November 20: Entrepreneur Meetup  
More info TBA!

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Featured Entrepreneur

Mass Challenge- <http://masschallenge.org/accelerator/awards>



The MIT \$100 K Competition - <http://www.mit100k.org/>



### **Appendix 1 Difference Maker Rocket Pitch**

The Rocket Pitch is a variation on the elevator speech which is used by the UMass Lowell Difference Maker Program. The Rocket Pitch consists of three slides delivered in three minutes. The three key points to be covered include:

- The Opportunity
- The Market -
- The Business Model –how do you make money and why do your customers value the product or service?
- 

This format originated at Babson College and is well described in this Inc. Magazine article entitled: *“How to Sell Your Idea in Less Than 3 Minutes<sup>2</sup>.”* You can also view examples at: [UMass Lowell Rocket Pitch](#) –Steve Tello –a slideshow.

#### The Difference Maker Rocket Pitch

- Title Slide: Project/Team name and team member names
- Slide 1: The Problem
  - What is the specific problem that your project is going to solve?
  - What is the Customer/User pain?
  - Who is affected by the problem? Be specific!
- Slide 2: The Opportunity
  - Be sure to show your market opportunity and analysis on this slide. The judges want to see this.
  - Demonstrate your knowledge regarding the opportunity associated with solving this problem.
  - Include research, numbers, estimates, databases, articles, surveys and other data regarding the opportunity associated with your project. Utilize graphs/charts to showcase the data.
  - State the number of people affected by the problem.
  - Demonstrate data on real-life people/customers that you have talked to who could benefit from your solution.
  - Is there another business or organization doing something similar to you? If so, who are they? What are they doing that is similar? (Competitor Analysis)
  - Why is your solution/project better/different than theirs?
- Slide 3: The Solution
  - Clearly describe your proposed solution.
  - How does your specific solution solve the problem you stated in slide 1?
  - What value does your solution provide? How is it new, innovative or unique? (Value Proposition)
  - How will your solution/project be sustained over time? Provide details in this area.
- Slide 4: Resources

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<sup>2</sup> <http://www.inc.com/peter-cohan/sell-your-idea-in-under-3-minutes.html>

- If you won DifferenceMaker funding (resource), how would you use the money over time to further your project?
- Provide a 1-year budget May 2016 – May 2017 of how these funds will be used. The judges want to see this.
- Slide 5:
  - Thank you/Questions slide
- Slide 6+:
  - Feel free to have appendix slides for judge Q&A

### ***Appendix 2 Elevator Pitch References and Examples***

Some further references on Elevator Pitches:

This website has some very good points. I highly recommend that you read this for further context:

- <http://www.salisbury.edu/careerservices/students/Interviews/60secondElevator.html>

Watch the video on the following sites to see the winning pitches given at the Difference Makers contest at UMass Lowell: The master site is here:

- <http://www.uml.edu/Innovation-Entrepreneurship/DifferenceMaker/Meet-the-DifferenceMakers/default.aspx>
- Selected videos include:
  - <http://www.uml.edu/Innovation-Entrepreneurship/DifferenceMaker/Meet-the-DifferenceMakers/DM-Nonspec.aspx>
  - <http://www.uml.edu/Innovation-Entrepreneurship/DifferenceMaker/Meet-the-DifferenceMakers/DM-Robotic-Feeding-Arm.aspx>
  - <http://www.uml.edu/Innovation-Entrepreneurship/DifferenceMaker/Meet-the-DifferenceMakers/DM-Lowell-Sprouts.aspx>
  - and lastly, it may not be the most exciting product, but it had one of the best pitches that we saw –and it used only a couple of slides -but had a live demo!
  - <http://www.uml.edu/Innovation-Entrepreneurship/DifferenceMaker/Meet-the-DifferenceMakers/DM-Point-Stick.aspx>

At this link you can view pictures of students doing their pitches live and winning money in the UMass Lowell Difference Makers Contest.

- <http://www.uml.edu/Innovation-Entrepreneurship/DifferenceMaker/Meet-the-DifferenceMakers/default.aspx>

These sites are also helpful:

- <http://www.inc.com/kevin-daum/give-the-perfect-elevator-pitch.html>
- <http://sbinformation.about.com/od/marketing-sales/a/How-To-Write-An-Elevator-Pitch.htm>
- Here is an alternative formation of the elevator pitch that has most of the same points we make above but combines them a bit differently.
  - <http://www.slideshare.net/fullscreen/Bplans/the-7-key-components-of-a-perfect-elevator-pitch-4/1>

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- I like this pitch winner with no slides:
  - <https://www.youtube.com/watch?v=dqIEE-g-Uc>
  - The site below has some examples of elevator pitches that have no slides:
  - <https://www.youtube.com/watch?v=eHbpbGi7keg>
- This site has a pitch for a particular store.
  - <https://www.youtube.com/watch?v=phyU2BThK4Q>
- The following site has some ideas for how artists might pitch themselves!
  - <https://www.youtube.com/watch?v=GqsWkaR9Q6M>