

# Chapter 3

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## Developing Business Plan and Business Models

# Traditional Business Plan

- ◆ A business plan is mostly done as a research work in isolation in an office before the founder even begun to build a product or design a service.
- ◆ The assumption is that it's possible to calculate most of the unknowns of a business in advance, before you contact a bank or investors and actually execute the business idea.
- ◆ Typically the plan includes a 5 year plan on
  - expected incomes,
  - profits and cash flow

# Lean start-up Principles

- ◆ Founders summarize a series of untested hypotheses in a framework called **business model canvas**.
- ◆ Use **customer development** to test their hypotheses.
- ◆ Practice **agile development** (developing a product iteratively and incrementally)

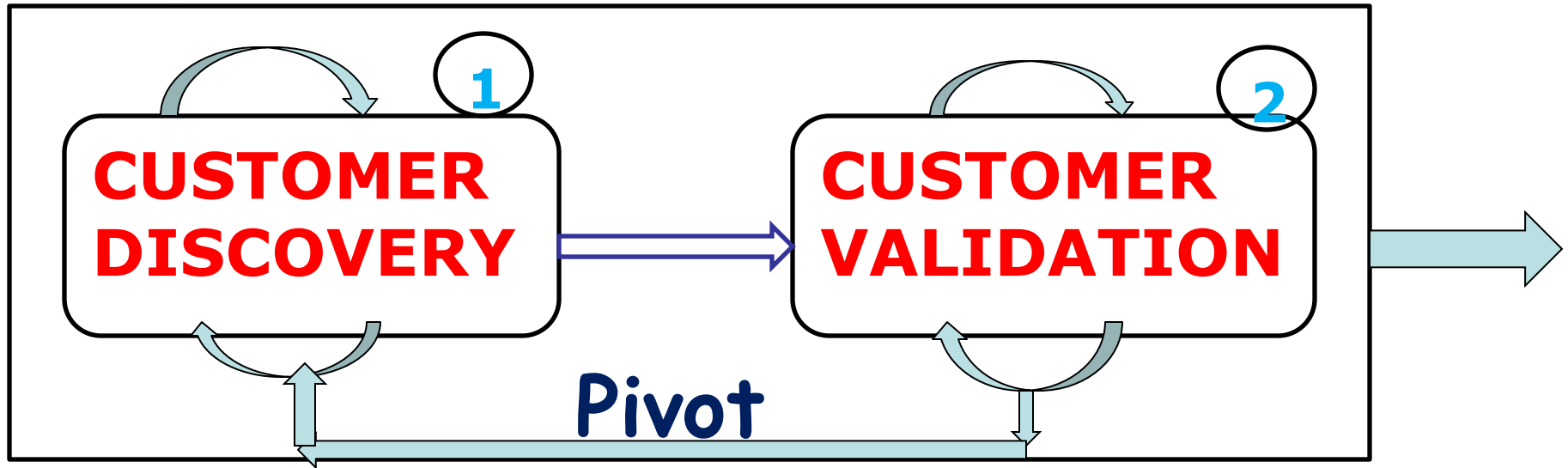
# Lean start-up

## Listen to Customers

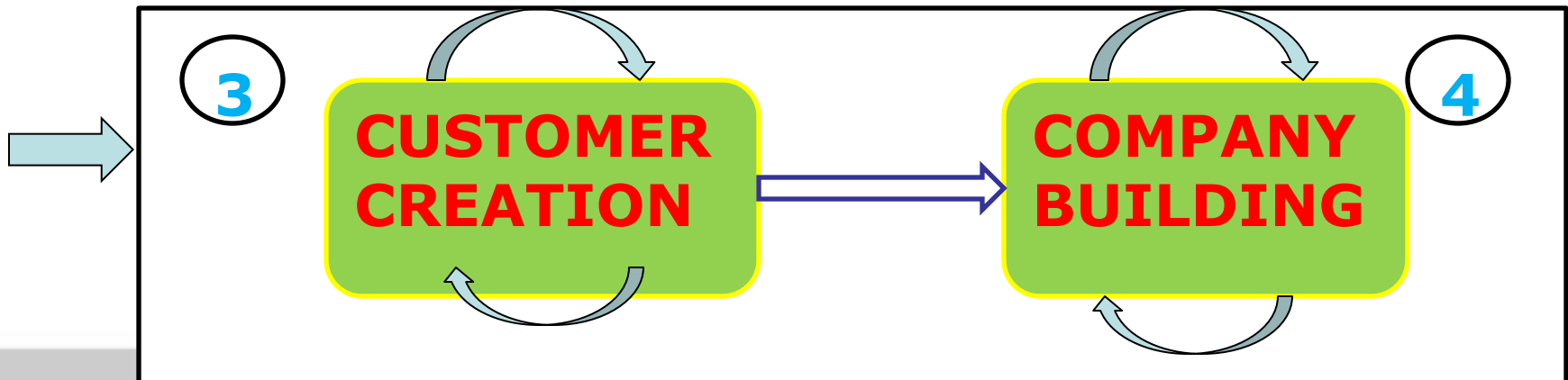
- During customer development, a startup searches for a business model that works.
- If a customer feedback reveals that its business hypotheses are wrong, it either revises them or “**pivots**” to new hypotheses.
- Once a model is proven, the start-up starts executing, building a formal organization.
- Each stage of customer development is **iterative**: A start-up will probably fail several times before finding the right approach.

# Lean start-up: CUSTOMER DEVELOPMENT

## Search



## Execution



# ...Lean start-up: CUSTOMER DEVELOPMENT

## ◆ CUSTOMER DISCOVERY:

- Founders translate company ideas into business model hypotheses, test assumptions about customers' needs, then creates 'minimum viable' product to tryout their proposed solutions on customers

## ◆ CUSTOMER VALIDATION

- Start-up continuous to test all other hypotheses and tries to validate customers' interest through early orders or product usage. If there's no interest, the start-up can 'pivot' by changing one or more hypothesis

## □ CUSTOMER CREATION :

- The product is refined enough to sell. Using its proven hypothesis, the start-up builds demand by rapidly ramping up marketing and sells spending, and **scales up the business.**

## ◆ COMPANY BUILDING:

- Business translations from start-up mode, with a customer development team searching for answers, to functional departments executing its model

# Pivoting

- ◆ Test new hypothesis about the product, business model

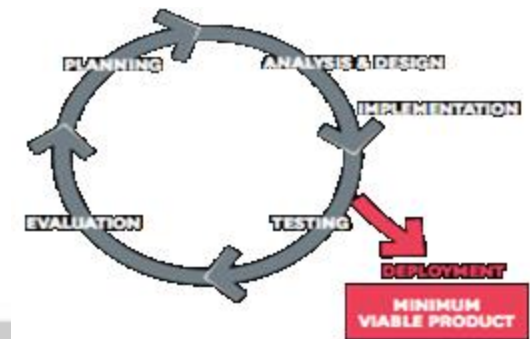
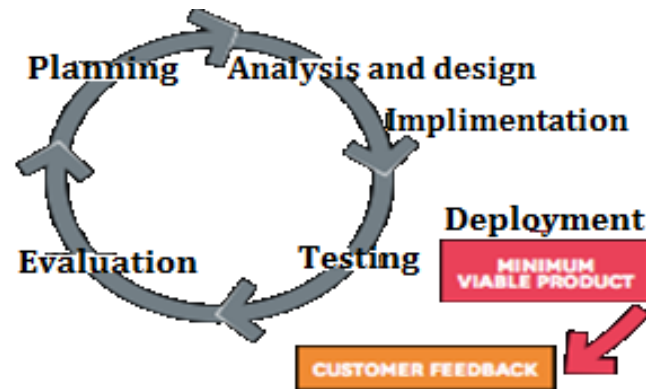
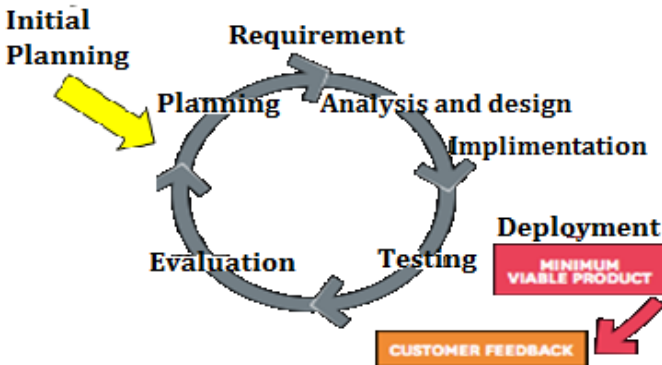


**"I'm not leaving you, I'm pivoting to another man"**

*DONNELLY*

# Lean start-up: agile development

Agile : Quick, Responsive Development



**'Minimum viable' product**

"Before I invest tons of money in developing this product, how can I test if there is enough demand to make the investment worthwhile?"

# What Lean Start-ups Do differently

## Lean

### Strategy

- Business Model
- Hypothesis-driven

### New-Product Process

- Customer development

### Engineering

- Agile development
- Build the product iteratively and incrementally

### Organization

- Customer and agile dev't teams
- Hire for learning, nimbleness, & speed

### Financial Reporting

- Metrics that matter
- Customer acquisition cost, lifetime
- Customer value

### Failure

- Expected
- Fix by iterating on ideas and pivoting away

### Speed

- Rapid
- Operates on good-enough data

## Traditional

### Strategy

- Business Plan
- Implementation-driven

### New-Product Process

- Product Management
- Prepare offering for market following a linear, step-by-step plan

### Engineering

- Agile or waterfall development
- Build the product iteratively, or fully specify the product before building it

### Organization

- Departments by function
- Hire for experience and ability to execute

### Accounting

- Income statement, Balance Sheet, Cashflow statement

### Failure

Exception, Fix by firing executives

### Speed

Operates on complete data

# Business Model

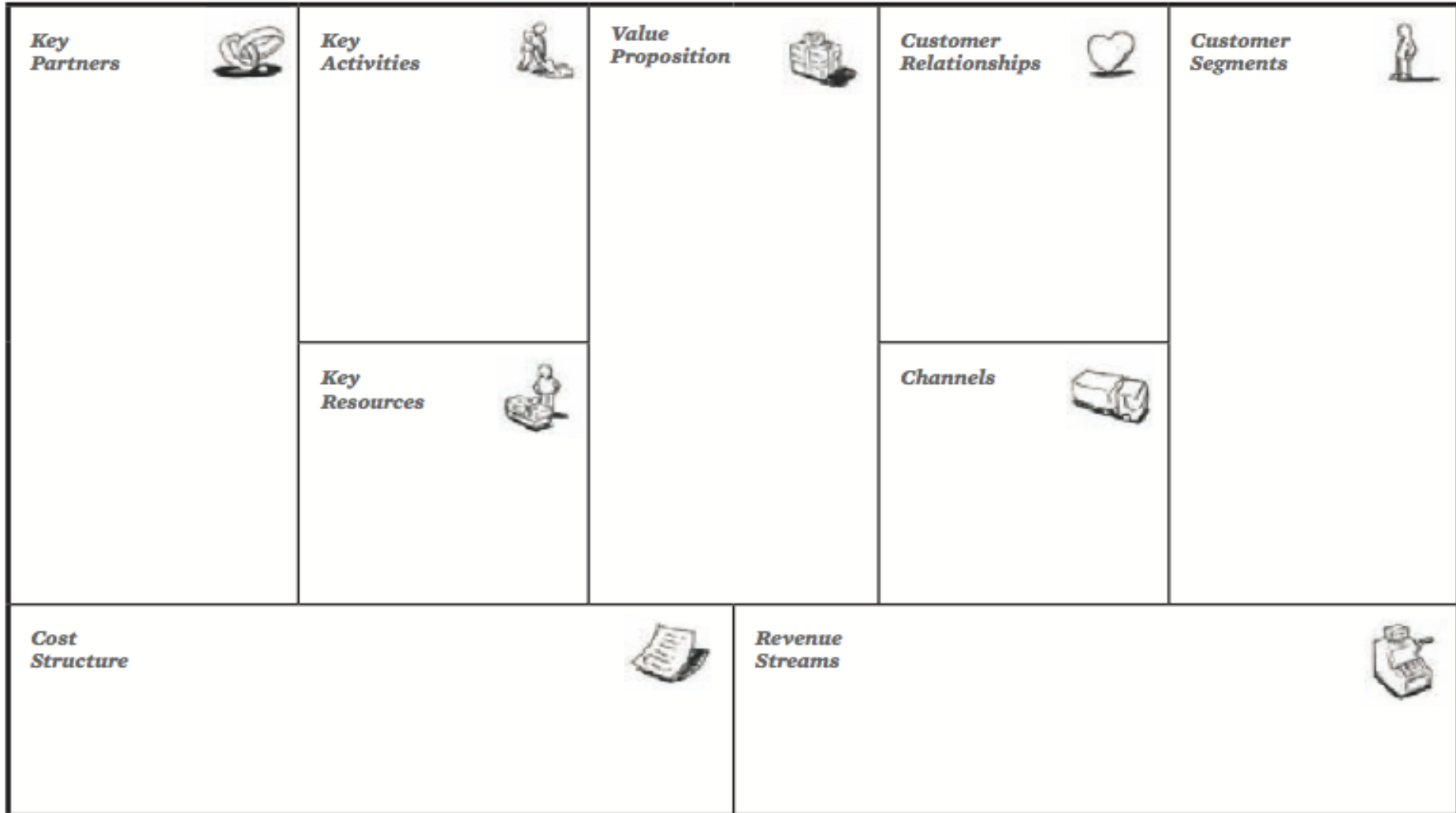
- ◆ Business model describes how a company creates value for itself while delivering products and services for customers.

# Business Model Canvas

- ◆ A language that describe, challenge, design and invent business models more **systematically**
- ◆ Business Model canvas is a tool to organize startup hypotheses and has **NINE Building Blocks.**

# Business Model Canvas

## The Business Model Canvas



# Building blocks 1 to 4



CS

## 1 Customer Segments

*An organization serves one or several Customer Segments.*



VP

## 2 Value Propositions

*It seeks to solve customer problems and satisfy customer needs with value propositions.*



CH

## 3 Channels

*Value propositions are delivered to customers through communication, distribution, and sales Channels.*



CR

## 4 Customer Relationships

*Customer relationships are established and maintained with each Customer Segment.*

# Building blocks 5 to 9



**R\$**

## **5 Revenue Streams**

*Revenue streams result from value propositions successfully offered to customers.*



**KR**

## **6 Key Resources**

*Key resources are the assets required to offer and deliver the previously described elements ...*



**KA**

## **7 Key Activities**

*... by performing a number of Key Activities.*



**KP**

## **8 Key Partnerships**

*Some activities are outsourced and some resources are acquired outside the enterprise.*



**C\$**

## **9 Cost Structure**

*The business model elements result in the cost structure.*

# 1. Customer Segments

- ◆ **ID & define the different groups of people or organizations an enterprise your business aims to reach and serve**
- ◆ **Make a conscious decision about which segments to serve and which segments to ignore**
- ◆ **SEPARATE CUSTOMER SEGMENTS IF:**
  - their needs require and justify a distinct offer;
  - they are reached through different distribution channels;
  - they require different types of relationships;
  - they have substantially different profitability's;
  - they are willing to pay for different aspects of the offer

## 2. Value Proposition

### FOR EACH CUSTOMER SEGMENT

- ◆ Describe the bundle of products and services that create value for each specific customer segment
- ◆ Identify the reason why customers will turn to your company over its competitors. It solves a customer problem or satisfies a customer need

# 3. Distribution Channels

- ◆ Describes how your company communicates with and reaches its customer segments to deliver the value proposition
- ◆ Define the:
  - Communication channels
  - Distribution channels
  - Sales channels

# 4. Customer Relations

- ◆ Describes the types of relationships your company needs to establish and nurture with specific customer segments
- ◆ Focused on:
  - Customer acquisition
  - Customer retention

# 5. Revenue streams

- ◆ **Identify for what value is each customer segment truly willing to pay?**
- ◆ **Identify and quantify the cash your company can generate from each customer segment through one or more revenue streams (sales pipelines)**
- ◆ **Consider two different types of revenue streams:**
  - **Transaction revenues (resulting from one-time customer payments)**
  - **Recurring revenues (resulting from ongoing payments)**

# 6. Key Resources

**Identify, Describe and quantify the assets, e.G.**

- **Land**
- **Buildings**
- **Equipment**
- **Facilities**
- **Platforms**
- **Systems**
- **Technology**

**Required to deliver on the value proposition to each of the identified customer segments**

# 7. Key Activities

**Identify, define and describe the most important things (actions) your company must do to:**

- ◆ **To create and offer a value proposition**
- ◆ **Reach markets**
- ◆ **Maintain customer relationships**
- ◆ **Earn revenues**
- ◆ **To make its business model work**
- ◆ **To operate successfully**

# 8. Key Partnerships

- ◆ **Identify and describes the network of suppliers and partners that make the business model work, e.g:**
  - **Strategic alliances between non-competitors;**
  - **Co-operation: strategic partnerships between competitors;**
  - **Joint ventures to develop new businesses;**
  - **Buyer-supplier relationships to assure reliable supplies**

# 9. Cost Structure

- ◆ **Identify and quantify all costs incurred to successfully operate the business model**
  - **Manufacturing costs (variable)**
  - **Operating costs (fixed)**

- ◆ **Determine viability:**

**Average sales price per unit**

**less average manufacturing cost per unit**

**Equals the average contribution per unit**

**Number of units manufactured and sold x  
contribution per unit = gross margin**

**Gross margin – overheads = net margin**

# Failures of a Startups

- ◆ Startups fail because they confuse **search** with **execute**.

# Startups Search and Pivot

## The Search for Business Model



### Search

- Business Model found  
i.e Product/Market fit
- Repeatable Sales Model
- Managers hired

# Small Project #1

- **Select your own future start-up business**
- **DEVELOP A BUSINESS MODEL for *your start-up by utilizing the Business Model Canvas***

# Business plan



Preparing a **business plan** is one of the most useful things that you as an entrepreneur or potential entrepreneur, can do.

# The importance BP for start-ups

## 1. As a means of focusing ideas

- The deeper you move into the plan, the more questions arise which must be answered

## 2. As a yardstick to measure progress and achievement

- Forecast of income and expenditures on a month by month basis, against which actual income and expenditure
- The effects of specific sales or promotional activities on sales revenues or profit margins.
- Cash flow forecasts, and the effects of giving or taking credit

## 3. Raising finance for start-up or expansion

# Business Plan Outline

- ◆ **Business Plan Cover**
- ◆ **Executive Summary**
- ◆ **Company overview**
- ◆ **Products/Services**
- ◆ **Market Analysis**
- ◆ **Management Summary**
- ◆ **Operational Plan**
- ◆ **Financial Requirements**
- ◆ **Financial Projections**
- ◆ **Appendices**

# Business Plan Cover

- ◆ NAME OF BUSINESS:
- ◆ BUSINESS PLAN
- ◆ DATE AND PLACE

# 1. Executive Summary

- ◆ Resume of your business
- ◆ 1-2 page summary of your business plan
- ◆ Sums everything that a business plan details
  - Start with brief and concise explanation of what your company does
  - Why your company is uniquely qualified to succeed. (e.g Team composition)
  - How much fund your business is seeking and key uses of these funds.
  - Financial projections: expected revenue, expenses and profits for the next one years.

## 2. Company Overview

- ◆ Type of legal entity your company is
- ◆ Location of the company & where you do your business
- ◆ Explanation of what your company does
- ◆ Your company's vision
- ◆ When your company is founded
- ◆ Owners (s)
- ◆ Your recent sales (if any) and growth trajectory

### 3. Products/Services

- ◆ List and describe the products /services you sell
- ◆ Emphasise on the value you are providing to your customers.
- ◆ Why does my ideal client want this product/service?
- ◆ Specific features of your product/service
- ◆ Comparisons to similar products/services



# 4. MARKET ANALYSIS

## 4.1 Market Segmentation

- ◆ Who your target customers are?
- ◆ Describe your customers based on:
  - Personality type
  - Geographical locations
  - Gender
  - Age
  - etc

## 4.2 Industry Analysis

### □ Industry Description

- Brief descriptions of the industry you are entering

### □ Industry Trends

- How well the industry is doing
- E.g significantly declining ( red flag to reconsider)

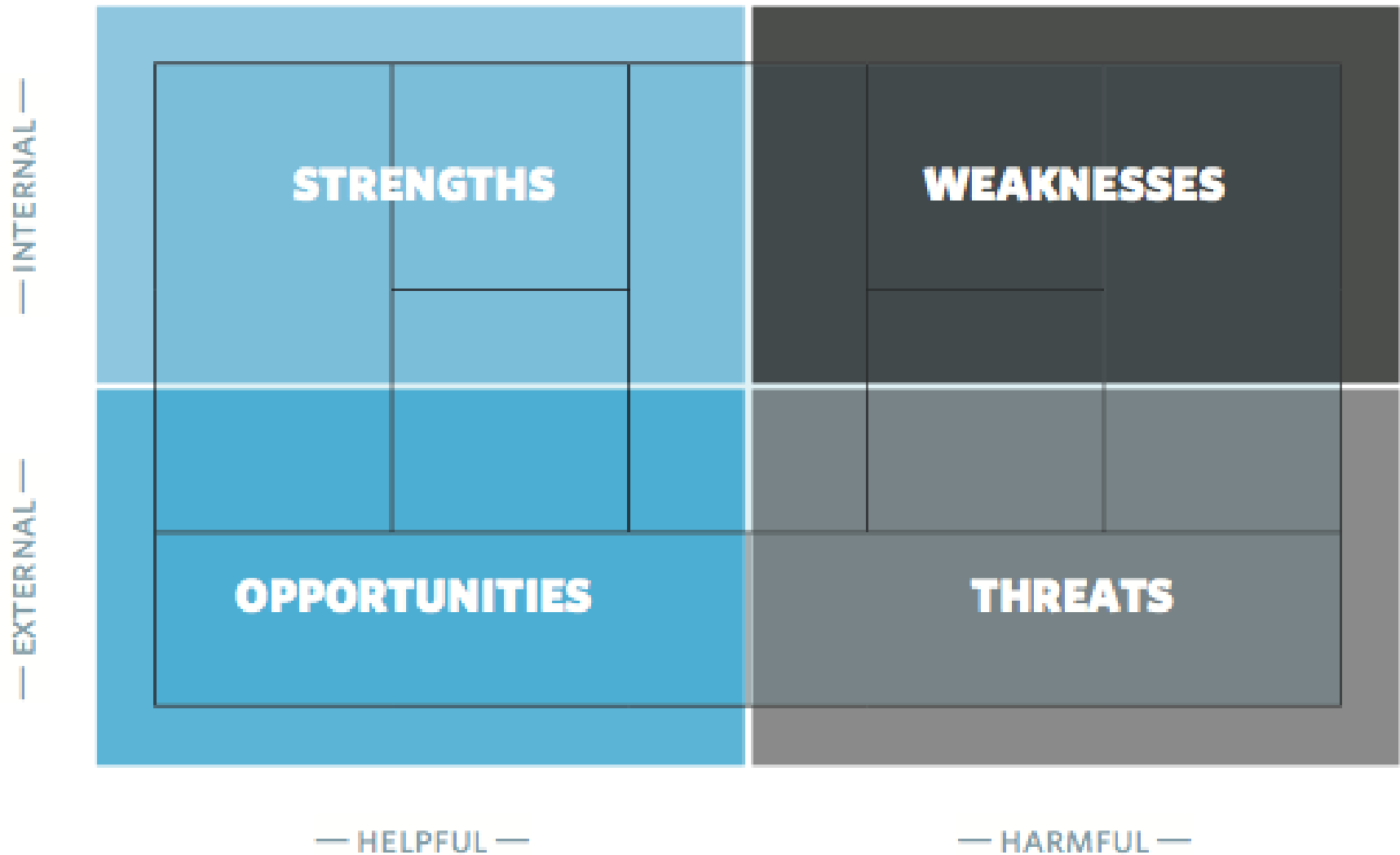
### □ Industry size and attractiveness

#### □ State the benefits that exist for your business

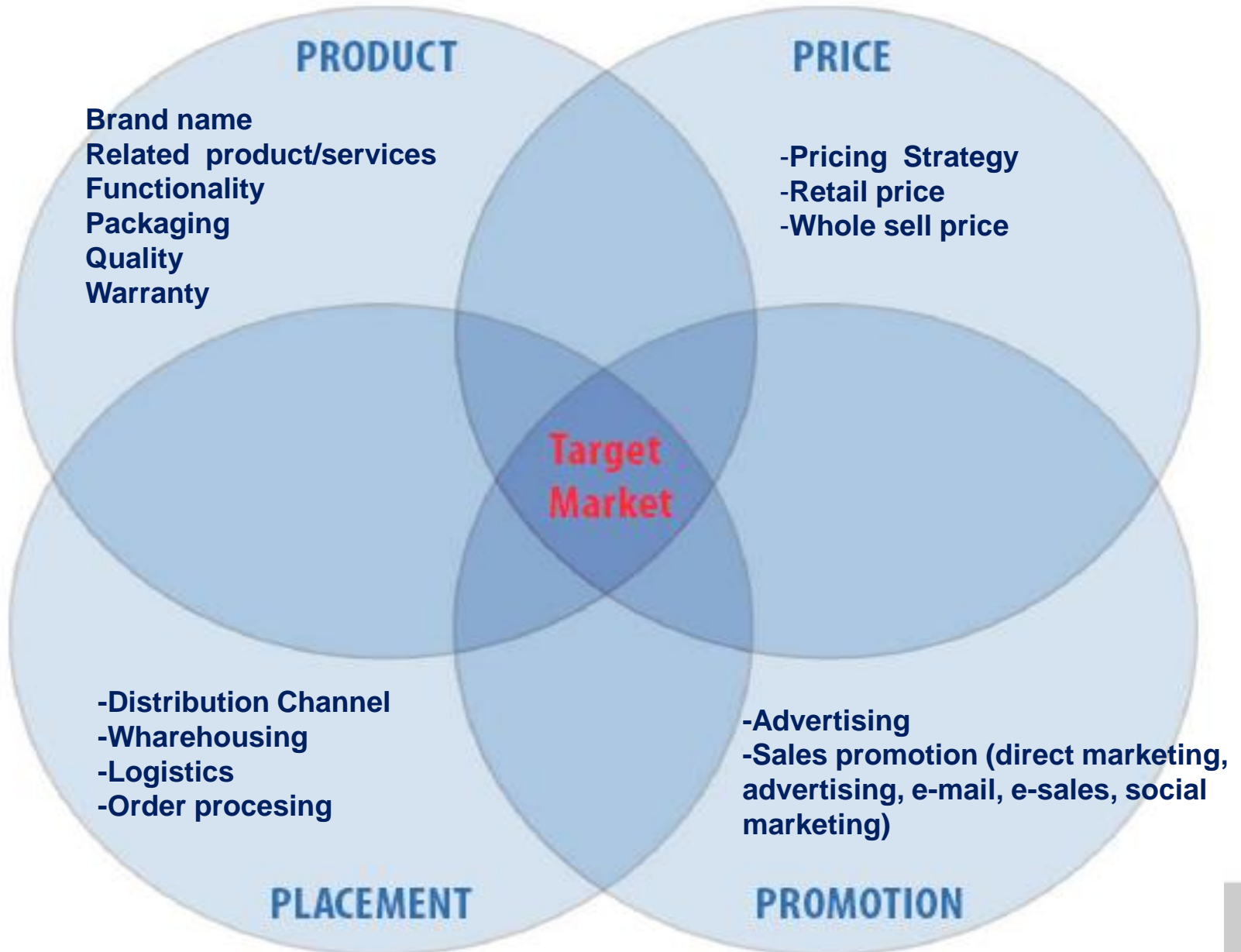
- e.g subsidies, are you a first mover , offering a compliment

### □ Analysis of competitors [**SWOT\***]

# \*SWOT analysis



## 4.3 Marketing Strategy



## 5. Operational Plan

- ◆ Show pros and cons of the location
- ◆ Indicate the facilities you'll need to start
  - Machineries and tools
  - Furniture
  - Raw materials
  - Consumables
  - Power, water and other utilities
- Provide list of employee roles you need to fill and the skill requirements
- Show how you selected your suppliers and retailers(wholesellers)
  - How often will you able to sell and how much?

## 6. Financial Requirements

- ◆ How much finance you will want, when and in what forms
- ◆ State what the finance is used for
- ◆ Confirm that you will afford it

# 7. Financial Projections

- ◆ Projections on monthly revenues and expenses would be and how those grow overtime
  - **Breakven Analysis\***
  - Profit /Loss
  - Cashflow
  - Expense forecast
- ◆ Focus on the next 12 months
- ◆ Important to be realistic

## 8. Management Summary

- ◆ How your business is structured and managed
  - PLC, Partnership, Sole proprietor hip, Share company etc
- ◆ Who is involved
- ◆ Who is on your team ?
- ◆ Who is responsible for what ?

# 9. Appendices

- ◆ Supporting Information
  - Resumes of principals
  - Market research data and survey results
  - Price lists from suppliers
  - Facility layout
  - Draft marketing brochure with or without pricing

# \*Break even analysis

The calculation is as follows:

◆ Break- Even in unit =

$$\frac{\textit{Fixed costs}}{(\text{Sales} - \text{Variable costs})}$$

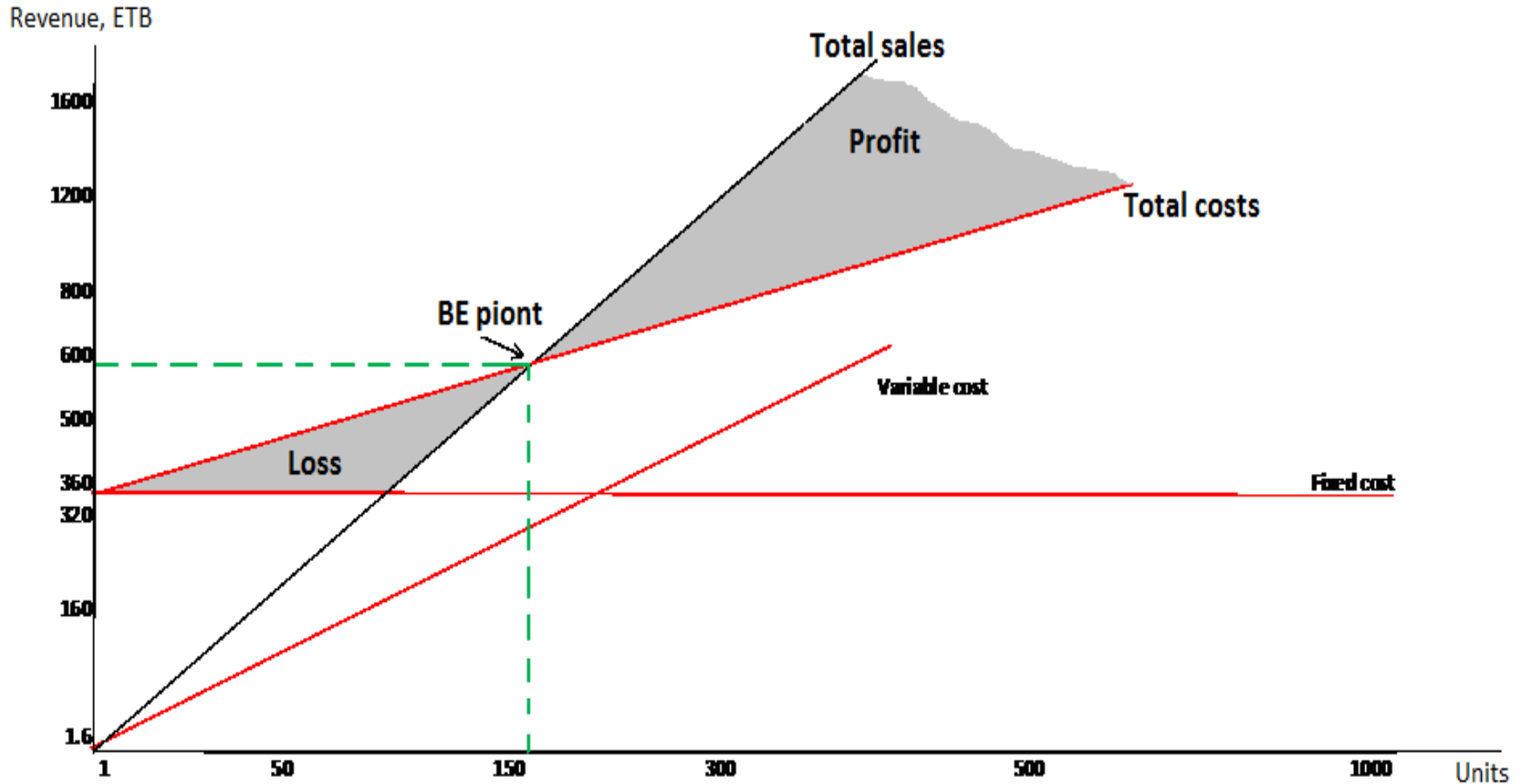
◆ Break-Even in Birr =

$$\frac{\textit{Fixed costs}}{(\text{Sales} - \text{Variable costs}) / \text{Sales}}$$

## Example [BE Analysis]

- A small street side cafe offers fresh traditional coffee to the general public.
- Total variable costs per coffee (including coffee beans, water, firewood, sugar) amount to ETB 1.60 per cup.
- The cafe has fixed costs per week of ETB 360.00, being the rental of the place.
- The selling price is ETB 4.00

# DIAGRAMMATIC PRESENTATION



## Small Project #2

### ◆ Objectives:

- To develop a business plan for the selected business in project#1 using the given outline

### ◆ Make reasonable assumptions where necessary

### ◆ Warning:

**Identical and plagiarized works will be given zero values.**