

**Introduction to Writing a Business Plan**  
**Version 2.03**



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CENTER FOR STUDENT  
**ENTREPRENEURSHIP**

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University of Washington - Bothell

Alan Leong  
David Miller  
Richard Jacroux   George Fletcher   Diane Branson  
&  
Numerous Entrepreneurial Students and Alums

Version 2.03 first published in 2009

Published by the Center for Student Entrepreneurship  
University of Washington, Bothell  
18115 Campus Way NE  
Bothell, WA 98011-8246

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Leong, Alan  
Introduction to Writing a Business Plan  
Includes references  
1. Entrepreneurship 2. Startup 3. Workshop I. Title

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The Center for Student Entrepreneurship (CSE) has an important mission: to increase the odds of student success. It also recognizes the necessity of supporting entrepreneurial alums and affiliated professionals. It offers an array of classes and professional seminars, as well as advising and referral services for student entrepreneurs.

The CSE is loosely affiliated with its alumni entrepreneurs and their friends. More than 2/3 of the network membership is comprised of UWB students and alums. The students and alums have launched over 50 companies, and many are still operating.

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Julie Eastland, CFO, VLST Corporation

George Fletcher, co-Founder, Parity Software Corporation

Gabe Frost, Architect, Microsoft

Tom Goos, Executive VP, Image Source

Richard Jacroux, CFO, CW United

John Rasmussen, University of Washington, Bothell

Curtis Stevens, aQuantive

### **Industry Fellows**

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Dwayne Northrup, Founder & CEO, Garlic Jim's Pizza

Thomas Clement, Founder & CEO, Pathway Medical

Robert Peck, Attorney, Lee & Hayes

Elizabeth Rusnak, VP & Senior Loan Officer, Northwest Business Development Association

Mike Gold, Founder, CNI Corporation

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David Miller, President, Biotech Stock Research

Ben Hodson, President, Soundcrank

Jennifer Jolley, Attorney, JolleyIP LP

Kyle Flindt, Attorney, Inventive Spark LP

Rodger Kohn, Attorney, Kohn Law Group

Dan Voetmann, Founder & President, Destination Marketing

## **2<sup>nd</sup> Edition Preface**

Last winter, I lectured that very few jobs are secure. The old contract between employer and employee has become a fairy tale. I underscored that “ordinary finance majors” could be hard up even if they took positions as ordinary loan officers at a large bank like Washington Mutual. Some students were upset, others were in frank disbelief.

It's 2009, one year later.

We have entered into unsettling times. The economic crisis has hit and numerous finance positions have fallen into the pavement.

The risk between starting your own venture versus working for the man has narrowed. With the fall of long-term employment, the successful survivors have the skills and spirit of an entrepreneur. This entrepreneurial spirit has to become part of the DNA of the new American professional – not just for business and computing professionals, but for all professionals.

More than ever, our local communities need entrepreneurs. Entrepreneurs create jobs and dreams. Small business entrepreneurship has flourished and is “hidden” from national statistics. It is the reason why this crisis isn't far worse.

Why do I love being around entrepreneurial minded people?

Startups and scale-ups need great entrepreneurial minded employees. Larger businesses should crave these employees. There's no turnaround for our country without startups and scale-ups. There's also no turnaround if larger businesses don't reward their entrepreneurial minded employees.

Our country, our world needs you.

Lastly, you've got the secret. Entrepreneurs are women and men of value. The typical entrepreneur is not a money grubbing Ebenezer Scrooge. At this campus, our entrepreneurial alums are a generous group.

If you're pursuing your dreams, then you're among people who have a strong sense of values. That's the secret to a satisfying life and changing the world – at the same time.

## **Original Preface**

What? Another “how-to” for writing business plans?! What makes this different?

This document has a specific audience. It was written especially for *entrepreneurial-minded* students and friends of the Center for Student Entrepreneurship at the University of Washington, Bothell (UWB).

It’s not meant to be a complete guide, but is a companion to the wonderful book, Art of the Start, by Guy Kawasaki. It tells them what we expect as instructors.

Who is included as an entrepreneurial-minded professionals? Our apologies to Kawasaki, but we define them as:

*Guys and gals...creating the next company;  
Brave souls that are birthing new products and services to market;  
Saints starting schools, churches, and not-for-profits.  
And Passionate Spirits who want to work for them.*

### **Why even create a business plan?**

You can run a successful business without a business plan, but you will increase your odds of success with a good plan. It’s a living breathing thing, never static, always changing.

Your plan will morph, you can bet on it. As they say in the military, *a plan is good until the first boot hits the ground and then all bets are off*. You’ll need to be quick or die.

We nevertheless maintain that it’s important to do the “planful things”. It’s like getting ready for a huge wedding reception. It never turns out according to plan, but it is absolute suicide to “wing it”.

As Dwight Eisenhower once said: *Plans are useless, but planning is indispensable.*

### **Idea or Team?**

A crappy team can destroy a good idea. A great team can improve or find a great concept. There’s plenty of technology and great science. There’s money floating around, but the scarce resource is “great team”. This is your biggest challenge.

Don’t choose mates just because they’re your friends. As John Doerr, a noted Venture Capitalist, says: *"Are these the people I want to be in trouble with for the next 5, 10, 15 years of my life?" Because as you build a new business, one thing's for sure: You will get into trouble.*

## **Co-Authors**

Numerous people have helped in the construction of this document. Over the years, David Miller has acted as a co-instructor and adviser to many student groups. His approach to the “magic number” was incorporated in the document. I will begin incorporating material from Richard Jacroux, George Fletcher, and Diane Branson. The Center Advisers have been a great help to the students of UW Bothell.

Numerous students and alums have contributed, only a few are explicitly mentioned in the text.

Nevertheless, I controlled the content. Any shortcomings are wholly mine.

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# Introduction to Writing a Business Plan

V2.03

This condensed guide was originally written for our special workshop for Entrepreneurs – to assist with business plan creation.

## **Introduction**

Your business plan should be a persuasive story about the value of your proposed venture. Moreover, it should be easy to read. Your reader may have a Ph.D. in physics, but that’s still no excuse. It’s a story that must combine graphics, tables, and prose so that complex ideas are understood by the village idiot.

## **About Business Plans**

I’m often asked: what should go into a business plan?

*You’re trying to persuade your readers that you are proposing an excellent business - worthy of endorsement and/or investment. You aren’t just creating a fast-talking sales job. “To persuade” refers to a “courtroom setting”. You are providing a story that presents the facts for proving your case. Like a good attorney, you will tailor the plan to your specific audience.*

You should distinguish between a brief versus a detailed business plan. The brief business plan states the case for why the business should be pursued. It can be under 10 pages. The detailed business plan should contain detailed operational and contingency planning; it’s your company playbook. An excellent brief plan is often harder to write. *I could have created a report that was under 5 pages, but I didn’t have the time to write it!*

	<b>Brief</b>	<b>Detailed</b>
Executive Summary	Half a page	1-2 pages
Purpose	Persuade investors and decision-makers	Internal company roadmap
Market Description	Primary customer, <i>Addressable</i> market	Detailed description of customer segments
Operational Plans	Sketchy, Key parts	Detailed
Financials	Income, Cash Flow, Key metrics	Income, Cash Flow, Balance Sheet
Overall page length of main body	8 – 15	40-250

## **Business Plan Style**

### **Tip 1: Don't blindly follow a template.**

Over the last five years, our group reviewed over 50 business plans. We knew which plans followed a template. The clues were obvious and these plans were obviously terrible.

For example, a template will contain a section devoted to competitive analyses. The very next section will contain a SWOT. This is boring repetition. You're writing a STORY: the three bears didn't eat little red riding hood TWICE.

We have *student examples at the course website*; each is different. This is because each plan tells its own story. A plan for a espresso stand should look different from a Web-based business. *You master the story; don't let a template master you!*

### **Tip 2: Copy the best parts of another plan.**

If you examine the executive summary for Echospace (at our blog), the graphical display of information is excellent. You may want to adapt the graphics, but you should still tell your own story. By the way, the Echospace document is really an extended executive summary, and not a business plan. Sometimes that's enough.

### **Tip 3: Your plan should reflect the 3 Cs: Clear, Concise, and Compelling!**

Guy Kawasaki had a great way to organize your plan. Executive Summary, Problem, Solution, Business Model, Underlying Magic, Marketing and Sales, Competition, Team, Projections, Status and Timeline, and Conclusion. These are the topics that can also be used for a Power Point pitch.<sup>1</sup>

### **Tip 4: Diet!**

Get your executive summary into a page or less. If you can't, there's a problem. Can you condense each section to a single page? You can build from there as necessary.

### **Tip 4a: Compel! (Charm!)**

You are a storyteller, not an envelope stuffer! You must stoke interest with your very first paragraph. How do you choose among different books in the bookstore? A weak executive summary means that most will *toss the plan into the can*. The Art of the Start is *seduction*: yours and theirs.

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<sup>1</sup> You'll see these sections on p. 51f, but you'll see a slightly different grouping in Kawasaki's blog. Use whatever makes sense – remember Tips 1 & 2!

## **The Style Checklist**

\_\_\_ Does it have a compelling pitch? Do you want to keep reading after the first paragraph?

\_\_\_ Do you want to keep reading after the executive summary?

\_\_\_ Does it tell a good story?

\_\_\_ Can an idiot understand it?

\_\_\_ Is it free of glaring stupidities that make you question the intelligence of the authors?

\_\_\_ Does it pitch a clear value to the primary customers?

\_\_\_ Does it have a compelling case for success?

## **Business Models**

*“There is a power in simple models... great explanatory power”*

Jay Forrester & Others

A business model represents a quick way to describe the essence of a business. It's the whole, and not just the parts.

When Kawasaki says *business model*, he usually means *financials* – *how you make money*.<sup>2</sup> Others also use this definition. We think that's wrong. That's like staring at someone's butt and saying you've seen the whole person. When we say “Business Model”, *it's the whole thing*.

There are different methods, each trying to capture it all in a simple formula. Of course, we have our own: the five sacred elements. These five sacred elements should be addressed in any 30 second pitch or detailed plan.

### **The Five Sacred Elements**

#### **\_\_\_ Unique Product or Service**

What is thy product? What is unique?

If you're an exact duplicate of an already existing competitor in your niche, you're doomed. Your offering should be different. The “unique” element(s) might seem small - e.g. beer batter pizza crust instead of plain crust - but it may be a winning distinction.

Venture Capitalists and other professional investors like to hear about an *absolutely* unique and *blazing* product, but they're looking for “almost crazy” short-term 30x returns on their investments. On the other hand, you may have performed a small tweak for your target neighborhood or niche. You simply may be content with a paltry goal of becoming a millionaire.

#### **\_\_\_ Target Customer(s)**

Who are they? What is their size? Why them? Segments? Who is competing for their money and attention? You must know thy customer. Don't talk only to your friends.

#### **\_\_\_ How will you reach your customer?**

How will your customers know about your product or service? Where will they purchase it? How will you distribute it? Can you truly reach enough of them to sustain your

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<sup>2</sup> On p. 14-15, Kawasaki seems to align his concept of a *business model* closer to the 5 sacred elements.

business? You should be wise about what moves your customer to purchase. Is it a pain? Or is it a sought-after luxury?

\_\_\_ **How will you make money?**

Subscription model? One-time purchase? Pay per use?

You should show us when you expect to be profitable and how you won't run out of cash. We expect at least income and cash flow information. In most cases, you should deftly show the key financial driver(s). For example, for Jimmy's Weekly Newsletter, you should relate the # of subscribers to your approximate profit margin and net income.

If you're a non-profit, you still need to be financially sustainable; in addition you'll need to show that you're efficient and unique at solving a problem.

\_\_\_ **Who the hell are you?**

What qualifies your team to pull this off? Are there missing holes? How will you fill it? *Don't try to impress us by overdoing it.* Be sensible. For example, your instructors don't employ *full-time* bookkeepers or accountants. That's financial stupidity.

## ***Refining the Initial Idea: Be Holy***

*Never lose a holy curiosity*  
- Albert Einstein

When you receive the glimmer of a promising idea, it's time to punch holes. You perhaps did some preliminary research and excited your friends over beer. The next thing is to get a pencil and write a crude pitch.

Your journey is to look for holes. How?

### **Talk to Potential Customers**

If you and your team can't do this, it's time to get a new team or a new leader. You and your team should talk to people about the idea. There are rare cases in which you should keep quiet. Even in THOSE cases, you can still talk about large parts.

\_\_\_ **Talk.** Talk to the right person on the plane, at the counter, on the bus, or talk in line. Master the art of simple conversation. If you're next to a friendly person, why not? It's amazing what you might get from a random person. Ask them if they'd buy it (or not). Get a price point. Find out what makes your product great or terrible.

\_\_\_ **Don't just talk to your friends.** We've seen some really unfortunate feedback that arose from surveying friends. For a variety of reasons, many friends will lie. Guy Kawasaki also said that you should consider getting a wide range of female input. We agree, especially with consumer products or services. We've unfortunately seen many groups opt for totally male input.

\_\_\_ **"I hate your idea".** You know you're in trouble if "everyone loves the idea and everything about it". Almost nothing is liked by everyone. If you believe this, then I say BULL-SHITAKE! Your search wasn't wide enough. You need to find your anti-customers!

\_\_\_ **"I hate your idea, part II".** As long as someone else loves your product, this could actually be a good thing. If you're starting a cool alternative band, then you don't want a bunch of old geezers (like myself) running around with your band's sweatshirts. Understand who hates it and why.

### **Assemble Your Brainiacs**

You can't know everything and you must learn fast. Find experts, smarter than you in key ways. These people will often be your friends and colleagues. These can be industry experts, scientists and engineers, competitors, sales folks, other entrepreneurs, accountants and lawyers. Get a cross-section. Use them efficiently. Some of these people can someday

join your advisory board or even your team. If you have very few friends, then consider getting a partner who has a personality.

## ***The Executive Summary and Pitch***

Your executive summary must contain all 5 sacred elements of the business model. If you work it, you can get all five elements into a single paragraph. If the summary doesn't make the readers salivate nor hyperventilate, then they'll never read about your great model, great product, and great team.

End of story.

It may also help to think of a catchy sentence that describes the heart of your business. For example: "We aim to create the Nordstroms of used clothing: upscale clothing, attractive prices."

You may evoke familiar images, or tell a story. In other cases, one key piece may say it all: "85% of our target customers want to adopt the product and are willing to pay *more than our suggested retail pricing*".

## **What is an Elevator Pitch?**

*Think drinking fountain, not fire hose*  
- Chris O'Leary

An elevator pitch is exactly that: if you got into an elevator, could you provide a compelling summary of the business before you hit the destination floor? You should have a 30 second version and a 2 minute version.

It gives you the mighty power to learn fast. Almost no one will read an entire plan, almost everyone will listen to your 30 second pitch.

This is an exquisite art that should be part of every business professional's toolkit, but this isn't easy. Which is harder? Explaining a business within 15 minutes or within 30 seconds?

## **The Advanced Pitch**

The pitch should explain the essential elements (see the section "5 Sacred Elements") while hooking listeners with a compelling story. You can start off with an appeal to experience ("Wouldn't it be cool if...?" or "Do you remember when...?"). You could also sound poetic, like Bill Clinton or Jesse Jackson.

## **Your Personal Mantra**

Guy Kawasaki, we love you. You must revise your pitch until it's compelling *even to you*.

If you can't find a way to be compelling then you must consult your two bull-shitake detectors: the inner detector and the outer detector. Your outer detector comprises your trusted group of stakeholders and experts (see section on "Board of Advisors").

On the other hand, if you continually come out emotionally flat, then perhaps you really don't feel your idea is compelling. You need to take a hard look at your inner bull-shitake detector. Don't worry. Most successful entrepreneurs have questioned his or her insanity. This should be motivation to improve or morph.

## ***How do I Start Writing the Plan?***

If you haven't written the pitch, then you haven't passed goal. We think the first thing is to get a pencil and write a paragraph. It should answer the five sacred elements.

Trick One: Get a stopwatch and you get 3 minutes to type out items about your business concept. *What you drain will reflect what is in your brain.* More often than not, it contains enough inherent structure to clue you to the plan, your previous story.

You should then get some quick feedback before proceeding (see last section) to writing your pitch then creating a plan.

### **Pitch First then Plan**

*“Write this down: A good business plan is an elaboration of a good pitch; a good pitch is not the distillation of good business plan. Why? Because it's much easier to revise a pitch than to revise a plan.”*

*Think of your pitch as your outline, and your plan as the full text. How many people write the full text and then write the outline? (Guy Kawasaki, Tom Vu)*

We like this approach because you'll acquire a mighty power: the ability to learn fast. You need to get feedback from others. Sometimes it's someone you meet at an espresso stand. You can't recite the entire plan.

### **Finish the Plan, then the Pitch, NOT!**

Some writers say you shouldn't construct the executive summary until the entire plan has been completed, especially detailed financials. BULL-SHITAKE! We agree with their intent, but not their stinky advice. You should indeed write a pitch and summary *after* you finish writing your plan BUT you should also write several versions *before* you finish.

There are exceptions. When the customer demand is well known and fairly constant (e.g. new espresso stand at the airport), you should first tinker with the financial model before the rest of the plan. This is because you're merely exploiting inefficiencies in how services are delivered to a specific (underserved) market location or niche.

### **Morph like a Butterfly, Sting like a Bee**

<b>Original Idea</b>	<b>Continuing Business</b>
Web-based adviser for Day Traders	Biotech Stock Research
San Juan Airlines	Shuttle Express
Tools for eBay power sellers	Audit tool for Fortune 500 E-transactions

One thing is almost for certain, your startup idea will change. Many ideas will be abandoned. Among our group of business owners, many changed ideas along the way. All of us made significant modifications.

Your pitch should change like a caterpillar. As it does, the pitch should become more compelling.

## **Polishing the Plan**

*Shall I compare thee to a Summer Daze?  
How do I describe thee? Let me count the ways!  
- Me*

The basic plan is like the basic pitch. You simply cover the five sacred elements but with greater detail. There's a problem. Good plans are like good stories: each is told in "an original voice". A business plan for an internet business should not look the same as for a espresso stand. You simply may not cover all 5 elements with the same detail.

How do you decide what's necessary?.

Trick Two: Look at your end game. What is the mantra or vision for your business? Is there a special goal? *Your proposed end game is justified by the beginning and middle.*

In the "Devil and Daniel Webster", attorney Webster argues for saving his client's soul from the devil. Does he win by using the same general tactic for defending OJ Simpson ("*if the glove don't fit, you must acquit*")?

If your proposed business will be among "the top 10 for our region", your plan "proves" you can do it.

Similarly, if your aim is to "create the Nordstroms of used clothing: upscale clothing, attractive prices", you have a different story.

Write the plan so that it's a story that leads to your conclusion.

## **Presentations**

*Ask yourself, "If I had only sixty seconds on the stage, what would I absolutely have to say to get my message across."*

- Jeff Dewar

In his blog, Guy Kawasaki suggested a really good way to organize your presentation:

1) Executive Summary; 2) Problem; 3) Solution; 4) Business Model; 5) Underlying Magic; 6) Marketing and Sales; 7) Competition; 8) Team; 9) Projections, Status and Timeline; and 10) Conclusion.

Ten slides for 10 topics.

You don't have to exactly follow this format, but you get the point. Be clear, concise, and compelling.

## **Alan's Hidden Slides**

*The audience only pays attention as long as you know where you are going.*

- Philip Crosby

Here's a tactic that will make your team look really prepared. To deal with possible questions, you should have hidden answer slides tucked away. You should also have a central slide that serves as a "launching pad" to all the hidden answer slides. Your answer slides should link back to the launching pad.

## **Who Presents?**

*Great presenters have presence*

- Chris King

Kawasaki also said that the CEO should do the pitch, that one person may do the entire presentation. While we agree that the CEO should take on major portions of the presentation, we don't advocate one person doing it all. *At least one or two slides should go to someone else.* This allows the major presenter to reorient themselves to the audience and make any crucial adjustments.

*It's about the presentation speech, but it's also about establishing body language. You should practice the movement as well as the speech to project "presence".*

In the early going, you should also present for the same reason you should pitch: to get better - faster.

## The Fishbowl

*Goldfish bowl: a state of affairs in which you have no privacy.  
A transparent bowl in which small fish are kept.*

- Princeton Dictionary

Your team is the fish in a bowl. You're persuading an audience that you have a compelling proposition. In return, the crowd gives feedback or raises questions. You may gather your own audience, or you can ask an intact group (e.g. Sprout Point Ventures).

Here are some quick tips:

- 1) Never say: *That's a stupid question* – You can score some serious style points if you can gracefully and intelligently answer the stupid questions. You will get them.
- 2) Engage the audience before and after the presentation – Entrepreneurship is a code word for *networking*. If you have the chance, introduce yourself, and have a ready smile and engaging personality.
- 3) Take notes during the Q&A – First, no question is truly stupid. The “stupid” question may reflect your presentation. On the other hand, you'll receive advice that hits the gamut. You should still copy down a few comments and then provide closure by repeating what was stated. It helps to defuse the attacking speaker.

## The Marketing Plan

*Strategy and timing are the Himalayas of marketing.  
Everything else is the Catskills.*

- Al Ries

Great concepts die with poor marketing or poor sales. Everyone agrees with this, but almost every student avoids it. We therefore pitch this commandment to all:

*Thou shalt talk to thy customers!*

Even before your survey, you should talk informally with your potential customers. More often than not, you'll end up morphing your idea. I *promise* that your business idea will improve. If you saw no improvement, then you haven't really talked nor listened to your customers.

	<b>Traditional</b>	<b>Magic Number</b>	<b>Wisdom</b>
Main Question Answered	Who is <u>my</u> customer?	Can I survive?	What will compel a purchase?
Research Method	Surveys, interviews, census data, location analyses, competitor analyses	Advertising & distribution costs, Dumpster diving	Observations and Interviews
Main Deliverable	Market Strategy	Advertising Strategy	Sales Pitch - Customer Value Proposition
<i>Other Interesting Deliverables</i>	Segmentation, Psychographics, Competitor analyses, Product pricing.	<i>The Magic Number</i> , Marketing budget	Customer psychology, Answering the Ultimate Question.

You can use a traditional marketing text or consult one of our excellent marketing professors for help. We'll discuss two interesting ways to focus your entrepreneurial market research: the magic number versus wisdom.

## The Magic Number

This is a way to centering your market research efforts: what will it cost to acquire customers? You can then derive your marketing budget.

You can use the magic number to help answer: can we survive? Will it be smaller than the profit per purchase? Will we create enough cash flow? What advertising strategy should be employed? What marketing budget is required?

Every good marketing plan must answer the following 5 magic questions:

- 1) How many people do you need? (# of Customers needed to make money)
- 2) How many people are there? (Market Size)
- 3) How many touches are needed? (Frequency)
- 4) What is your conversion rate?
- 5) What is the cost to acquire each customer?

If you've answered the five magic questions, you can derive your "magic number":

### The Magic Number: An Example

How many people are there? (target market) 10,000

How many touches are needed? (frequency) 3

What is your conversion (hit) rate? 2%

Cost per touch? \$1.25

**10,000 x 3 = 30,000 pieces**

**30,000 x \$1.25 = \$37,500 campaign expense**

**30,000 x 2% = 600 converted to customer**

**\$37,500/600 = \$62.50 cost per customer**

**Magic Number = \$62.50**

Your marketing budget is then easily derived from your magic number:

$$\begin{array}{r} \text{Magic Number} \\ \times \\ \text{How many customers you need} \\ = \\ \text{Marketing budget} \end{array}$$

## Wisdom

*Customers buy for their reasons, not yours.*  
- Orvel Ray Wilson

You can gather a lot of information about your customer: demographics, lifestyle, etc. That's nice, but without wisdom, it's mere information. You must answer the basic questions:

*What will drive your customer to happily make a purchase?  
What will actually close the sale?*

This is wisdom.

Eric Mattson says: *Learn to Sell, it's the most important characteristic in business.*

Marketing information is about sociology; wisdom is about anthropology and psychology. It's observing and engaging the customer, and then empathically using it to morph your business. If you're successful, you will have customers that happily hand you their money.

### Wisdom and the Ultimate Question

After you've launched the business or provided a reasonable demo, then you should ask the *ultimate question* to each customer:

*How likely are you to recommend Company or Product X to a friend or colleague?*

In 2006, Fred Reichfeld of Bain & Company (management consulting) wrote an award winning book entitled: The Ultimate Question.

Responses to the "ultimate question" above are solicited on a 0 - 10 scale, with 0 meaning the least likely to recommend and 10 meaning the most likely to recommend. The 0 - 10 scale is required for proper NPS calculation. Responses are then described as follows:

- \* Customers rating 9-10 are called promoters.
- \* Customers rating 7-8 are called neutral.
- \* Customer rating 0-6 are called detractors.

The difference between the percentage of a company's promoters and detractors is the Net Promoter(r) Score (NPS). For example, if 50% of a company's customers respond with a 9 or 10, and 30% respond 0 - 6, the company's NPS would be 20%.

On a 10,000 foot level, this makes sense. You want to make friends and lovers and avoid making enemies and marketing terrorists.

## Creating Ultimate Pleasure

This then leads to Alan's ultimate question: *What's the top reason for your score?*

This tells you why you're loved and why you're hated. This is painful, but necessary. If you're initially doing a demo on everyone, then you can expect to be hated. As Kawasaki said: It's better to be simultaneously loved and hated. If you're just "kinda liked" by everyone, then no one will buy.

You can't please everyone, but you want to incite love from your primary customers.

## Branding

*Products are made in the factory, Brands are purchased by customers.*

- Walter Landor, Stephen King, and others

Your wisdom should be reflected in your branding. We won't discuss the "how-tos" of branding. There are smart people among your instructors and in the professional network.

I will state this: many past student and alumni companies didn't think enough about branding. Most of your proposed companies are really "branding propositions", even if you're touting a special technology (e.g. vehicle tracking in 2002, wireless broadband to the rural areas in 2001).

When I took a college religion course, I learned that the role of a prophet was to bestow meaning on past or forthcoming events. Without the prophet, the audience would not arrive to a common understanding of events. This is branding. You're bestowing meaning about your product or service that will galvanize your customers. *Be a prophet or you'll lack profits.*

You must broadcast meaning onto your company and products. You must brand.

As Stephen King of the WPP Group says: *A product can be copied by a competitor; a brand is unique. A product can be quickly outdated; a successful brand is timeless.*

## Marketing Section Style Tips

### **Tip 1: Never say “*I have no competitors*”**

You have competitors and if your business makes good profits, you'll soon have copycats. If you think you have none, look at current customer behavior. Where do they currently get their needs filled? Think of potential competitors: who *should* be doing your idea? If you believe you have no competitors, that's because you didn't do your research or because no one believes in your market. Every real market has competition. The second you utter this, smart people instantly know you're really dumb.

### **Tip 2: “*I have no competitors*” Part II**

If you have no competition, the most likely reason is that there's no money to be made. There are billion of people and it's unlikely that all of them completely missed a lucrative niche. You don't want no competition, what you want is bad competition. There's plenty of that out there.

### **Tip 3: Don't overuse the stinking SWOT**

You can have a good biz plan without including a SWOT. That's because it's redundant. When you think about it, your whole plan already presents the SWOT info. If true, then if you use it, you will stink.

### **Tip 4: Never say “*All we need is 1% of the market*”**

Yeah, but does this 1% really need you? You need to answer how you're going to grab this 1%, let alone a single customer.

### **Tip 5: Seek Gurus**

The method(s) of collecting marketing information is fairly standard. You should use them. On the other hand, there are gurus who deeply understand their verticals or are truly brilliant at marketing. Some of these people are downright weird, but the nugget below the noise may morph your business. These folks may not even be traditional marketing types, but \*shudder\*, socially icky engineers.

### **Tip 6: Seek sales smarts**

A good sales director should often be compensated more than the startup CEO. *Marketing* ≠ *sales*, it's a different mentality. These people are in short supply: good salespersons and good sales managers. Pay attention to this. Keep a rolodex of sales geniuses.

## **Marketing Checklist**

\_\_\_ Does the plan/presentation clearly identify and describe the customer?

\_\_\_ Does it avoid psychotic numbers for the addressable market?

\_\_\_ Does it explain how to reach this customer?

\_\_\_ Does it express a clear, concise, and compelling value to the customer?

\_\_\_ Is it expressing wisdom, about what will motivate an actual sale?

\_\_\_ Does it distill a realistic marketing budget?

\_\_\_ Does the branding zing? Are the names, logos, customer segment, strategy all aligned?

\_\_\_ If necessary, has it presented a credible way to reward rainmakers and salespersons?

## The Financial Model

*The pen is mightier than the sword, but no match for the accountant.*

- Jonathan Glancey, Journalist

*There's no business like show business,  
but there are several businesses like accounting.*

- David Letterman

We won't talk about how to construct your basic financials. We will talk about what we want in the financials section of your business plan. For basic financials, I personally recommend John Tracy's books. The reference section includes his book for entrepreneurs, but you might prefer one of his other paperback books. Professor Tracy is the celebrated author of the Accounting for Dummies series and the Fast Forward MBA in Finance.

Your financial model should be a beautiful thing: *graphical and compelling*. Nevertheless, it requires that you "account for the details" to support your beautiful arguments.

## How Will You Make Money?

This is a central question. You'll have to make money in a way that sustains you, as well as satisfies your customer. This may define your niche. For example, you may offer a subscription model rather than force a customer to make an expensive one-time purchase. You'll be tested on whether you have a *workable* financial model. This will be true for the class, competition, and in real life.

On occasion, there will be a business which presents a unique financial model. Russ Thornton's "Cover My Mortgage" is different. Nevertheless, it's relatively simple and straightforward. *Complex schemes aren't for rookies.*

	<b>Fixed Cost</b>	<b>Cash Flow Pressure</b>	<b>Example</b>
Traditional Storefront	High	Medium to High	Nordstroms, Nado Gelato
Internet Retail	Low	Low	Amazon, AD Performance
Pay per Use	Varies	Low to Medium	Xerox, Flexcar
Subscription / Rental	Low	Low to Medium	Salesforce, Netflix
Order to Cash	Varies	Very Low	Dell
Vertical Integration	High	Varies	Zara
Tuition	High	High	Breaking Point Dance
Merchandise Broker	Low	Low to Medium	LocMont
IT Consulting	Low to Medium	Medium (Initially High)	Serriform, Designer-Web

\*Franchising changes the model

## Cash Flow is King

For the past 12 years, I've made it a habit to interview small business owners. The small startup goes through different stages than the large corporate behemoth.

What's the number one killer of unsuccessful businesses?

Answer: Cash flow.

Actually, a number of things can kill an unsuccessful startup, but cash flow is usually the final nail.

What's the number one killer of successful startups?

Answer: Cash flow!

Eh? You read this right: *success can kill a startup*.

This happens when the customer demand far exceeds expectation. More supplies need to be ordered. If it's a service, then the company may need to hire and train expensive staff. Startups are already cash strapped. Under this situation, the financial situation becomes a gamble. If something goes wrong, then the unforgiving banks and creditors may kill the startup. Murphy's Law often prevails.

Is profit unimportant? Of course not! *It's important, however, to realize that profit  $\neq$  cash flow.*

If you're already a going concern, you might consider maintaining a credit facility or some other method of providing a cash cushion. If you're a startup, you'll need to be creative.

### Examples of Cash Flow Doom

Suppose "Rudy's Wine Shop" suddenly meets success and must order 5 times its usual inventory on credit. The restaurants love his wine, but are running such thin margins that they typically pay up to 3 months late. Rudy thinks to himself: *Thank god for the in-store purchases by my retail customers*. Unfortunately, an "accident" unexpectedly requires the city to do a month of road work in front of Rudy's Wine Shop, thus killing in-store traffic.

A young IT consulting group, Saraform, has "one project team" of founders. For a variety of reasons – including increasing customer demand – the company must create another project team. The company must double its size, but is really on the hook for at least three or four times the fixed monthly burn. This is because the founders are willing to starve themselves when cash flow is down, but the new employees need steady paychecks.

## **Cash Flow Statements: Style Tips**

Guy Kawasaki says that he wants five-year financial statements. We want *monthly breakdowns* of the Cash Flow until the company is consistently cash flow positive. After that arrives, the yearly and quarterly summaries are enough.

Why?

*You can run out of money, but it's hidden within the yearly or quarterly statement.*

## Financial Drivers

Where is the primary source of your revenues? What will you drive you to profitability? Do your profit margins rise with increases in your revenue driver? Or does it actually fall?

The primary driver(s) is usually related directly to your customer. For “John’s Monthly Newsletter”, it’s related to the # of paying subscribers. For “Gina’s Internet Laundrymat”, it may be the # of monthly visitors. In Gina’s case, she may also need to portray the # of internet surfers.

We ask for two things that are neatly, even graphically, expressed.

- 1) What are your hypothesized sources of revenues?
- 2) How will increases in your revenue sources impact your cash flow and bottom line?

To get a real sense of the impact of your driver, you’ll need to take into account your expenses as well as openly state your assumptions.

## Expenses

We often find important expenses have been neglected. You can examine the sample student spreadsheet from Plastic Payments. It will list some typical expenses. In professional consultation services (e.g. pedicure, hair care), you should include the Washington State B&O tax.

Unfortunately, it’s the obscure or special expenses that are the hardest. This comes from deeply understanding your industry and your particular business.

The worst expenses to ignore are those that increase with the business. You may discover that you sustain better margins at selected levels of your primary revenue driver. This may limit the ability to scale.

For example, if you’re running a commercial carpet cleaning business, you certainly can’t serve 500 different customers out of one small office. You need several trucks along with storage for equipment and chemicals. The expenses rise with the number of customers.

## A Word about Stupid and Obscure Taxes

There are specific taxes levied on specific businesses. For example, if a caterer rents chairs, which in turn are charged to the customer, the customer must pay for two sets of sales taxes on the rental chairs. Yes, this is approximately 19.7% in sales tax! This is specifically applied to caterers and their customers.

How do these taxes get made? Answer: in a backroom.  
How do these taxes get disclosed? Answer: very quietly.

Why does our government do this? Answer: to maintain the budget.

Why does our state government do it *this way*? Answer: \*Sigh\* I can't answer this.

After enactment, these special taxes may be unknown even to your industry specific accountant! In your research, you may consult an accountant, but also a couple key business owners. You may also consult the RCW (revised code of Washington) and perform a keyword search with your browser.

### Assumptions

Kawasaki also had a nifty point: weave a MAT of milestones, assumptions, and tasks. In our case, some of these assumptions must be placed in the financial modeling, preferably in the appendix. For example:

- Payroll taxes/benefits are 30% of total payroll and paid monthly
- Bank fees are 2.5% of 50% of sales
- All sales are considered cash sales

### Milestones & Tasks

Kawasaki separated milestones from tasks. We don't think that's always the case. We clipped part of Echospace's layout and it nicely combines the two. You may wish for the layout to complement your discussion on the return on investment.

#### How Echospace Becomes a Leader

	Technology / Product	Organization / Marketing
<input checked="" type="checkbox"/>	<b>Step 1: Develop the Technology</b>	
	<input checked="" type="checkbox"/> Assemble Development Team <input checked="" type="checkbox"/> Design and Develop the Underlying Technology	<input checked="" type="checkbox"/> Assemble Advisory Board <input checked="" type="checkbox"/> Raise Seed Funding (\$525,000) <input checked="" type="checkbox"/> Build Business Team
<input type="checkbox"/>	<b>Step 2: Develop Applications and Basic API</b>	
	<input checked="" type="checkbox"/> Build Basic Component Driven API (Application Programming Interface) <input checked="" type="checkbox"/> Develop Initial Applications (for test and delivery) <input checked="" type="checkbox"/> Alpha Testing – (Dec., 1999) <input checked="" type="checkbox"/> Beta 1.0 Testing – (Jan., 2000) <input checked="" type="checkbox"/> Beta 2.0 Public Launch – (Feb., 2000) <input checked="" type="checkbox"/> Beta 2.5 External Testing – (Apr., 2000) <input type="checkbox"/> Netscape Launch	<input checked="" type="checkbox"/> Research Marketplace and Competitors <input checked="" type="checkbox"/> Develop Identity (name, logo, colors, etc.) <input checked="" type="checkbox"/> Develop Industry Contacts <input checked="" type="checkbox"/> Contact ISPs to Conduct Beta testing <input type="checkbox"/> Raise Additional Funding <input type="checkbox"/> Find, Secure, and Move into New Office Space <input type="checkbox"/> Hire Additional Staff (development, marketing, sales, organizational, etc.) <input type="checkbox"/> Expand Management Team

## Return on Investment

Whether you are using a bank loan, personal funds, or hope to raise money from angels, you should portray the return on the funds. There are two types of returns to document:

- 1) Profitable return on the investment;
- 2) Milestones and Tasks that will be achieved.

The first chunk of money may not be enough to achieve positive cash flow nor profit. You should, however, tell us what milestones or tasks should be achieved. In Echospace's case, the founders were able to tell the investors that *in exchange for X dollars, these milestones will be achieved.*

If you're asking for enough money to last to breakeven or beyond, then you should document for us:

- 3) Decrease in time to breakeven;
- 4) What happens faster (due to the cash infusion).

## Financials Checklist

\_\_\_ Does it present a clean and simple financial model?

\_\_\_ Does it provide a clear, concise, and compelling look at the financial drivers?

\_\_\_ Does it provide a sound and compelling argument for a reasonable profit?

\_\_\_ Can an idiot read the above items and understand it?

\_\_\_ Does it provide an accurate and concise view of the financial statements?

\_\_\_ Will the company run out of cash? Does a sufficient cash cushion exist?

\_\_\_ Given the customer segment, does the financial model make sense?

\_\_\_ Were major expense items missed? Or was it fairly thorough?

## ***Advisory Boards***

The Art of the Start covers this well and so we add only a couple additional thoughts:

### *1) Don't list too many professors on your advisory board*

Like it or not, the outside world frowns on too many academics on your board. It makes your plan look like a mere school project. Furthermore, professors are viewed as being removed from the real world. You can, of course, have one professor listed on your advisory board. If you must have more, you should list their non-university affiliation and not their academic title.

The exceptions to this guideline include: a) prominent scientists (related to your product); b) university inventors (of your product); c) accounting professors; d) professors who are “rock stars” in the commercial world.

### *2) If possible, get a lawyer onto your advisory board*

This can be the corporate attorney who assists you with securities issues. You basically want to scare off seedy folks who want to intentionally perform unethical and unlawful things to your company. As a high ranking Veep told one of our Entrepreneurs:

*We saw that you didn't have an attorney on your board, and so we're going to do what we want. We know that it will cost you too much to sue us.*

## ***Charity and Community***

We expect you to include a section that says something like: “If we’re successful, we plan to do X or Y”.

What do I wish for everyone? Am I a crass materialist? No. I’m a realist who is interested in the success of his students and in improving the world. Money isn’t everything, but it helps open doors. Hence, my quote:

*Earn all you can,  
Share all you can*

“Giving back” can be many different things. The usual, of course, involves donations or matching donation programs. You can also discuss employee release time, or donated service or products towards a certain cause. It should be thoughtful and be something that is personally meaningful to you.

We hope that you someday return the support you received from the alums and friends. You are not obligated to help your student successors. Nevertheless, the concept of “good work” is important.

*We hope that you will give back in some meaningful way to your community, however you define it.*

We’ll change our world in so many ways: create jobs, create local wealth, support community change, and help lift new entrepreneurs to do the same. It’s a virtuous cycle that we can do together.

## ***Hell Night***

The Center for Student Entrepreneurship is sponsoring a *showcase night* for UWB students only. It occurs on the last days of regular class. There will be prizes. The prizes are awarded only to the startup entity; we're looking to help startups get a lift.

Any UWB student may enter, although it's an activity for the entire class. We think the real prize is the advice being offered by our Center board members and volunteers. The other prize involves networking with your audience. There may be helpful people that you can meet.

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