Writing A Business Plan

A Template and Handbook

Glyn Davies

Second Edition, November 2020

DTC Don't Think, Check!® Ltd.

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Resources

For corrections, clarifications, and additional material, please use this link[1].

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[1] https://www.dontthinkcheck.co.nz/blog/business-plan-template-and-handbook-resources/

Dedication

To Caroline, Danielle, and Dominique.

“Strive not to be a success, but rather to be of value.”

Albert Einstein

Table of Contents

The Purpose of a Business Plan

There are two main reasons for creating a Business Plan:

1. To find out what's involved in creating and then managing a business around a Business Model[2].
2. To solicit support, in the form of financial backing, for a Business Model.

In this document, our focus is mainly on the second, getting support for a Business Model.

For a start, a Business Model is "how a company creates value for itself while delivering products and services for customers," Steve Blank. Stated another way, a Business Model is a money-making or value-exchanging machine; it is how value is going to be made and by whom. The point to note is that the Business Model *is the product*, not what you think you are selling.

Another way of thinking about a Business Plan is that it is making a case for an investment, where the Business Model is the investment. Even non-profit organisations have to collect slightly more than they spend, and they achieve this with a Business Model.

So, if we spend a dollar on a Business Model, how much will we get in return, when will the return materialise, and what is the risk that we will not receive the return we expect?

When is a Business Plan Needed?

It is common practice, bordering on default practice to suggest to aspiring entrepreneurs that they create a Business Plan as one of their first activities. Although a common practice, since every entrepreneur and their ideas, opportunities, customer segments, and markets etc. are different, this near-universal practice can't be an exemplar of good practice.

Steve Blank in *The Startup Owner's Manual* discusses the history of Business Plans with their origin in large corporates where "customers, their problems, and necessary product features are all "knowns"." In contrast, just like children are not simply tiny adults, small businesses are not tiny versions of large corporates, and in small businesses and particularly with start-ups, there are many "unknowns." Which begs the question, what are you going to write about in your Business Plan? Furthermore, the dirty little secret that few seem to admit is that almost no one, and in particular entrepreneurs, executes the Business Plan verbatim - no plan survives intact when it comes in contact with reality.

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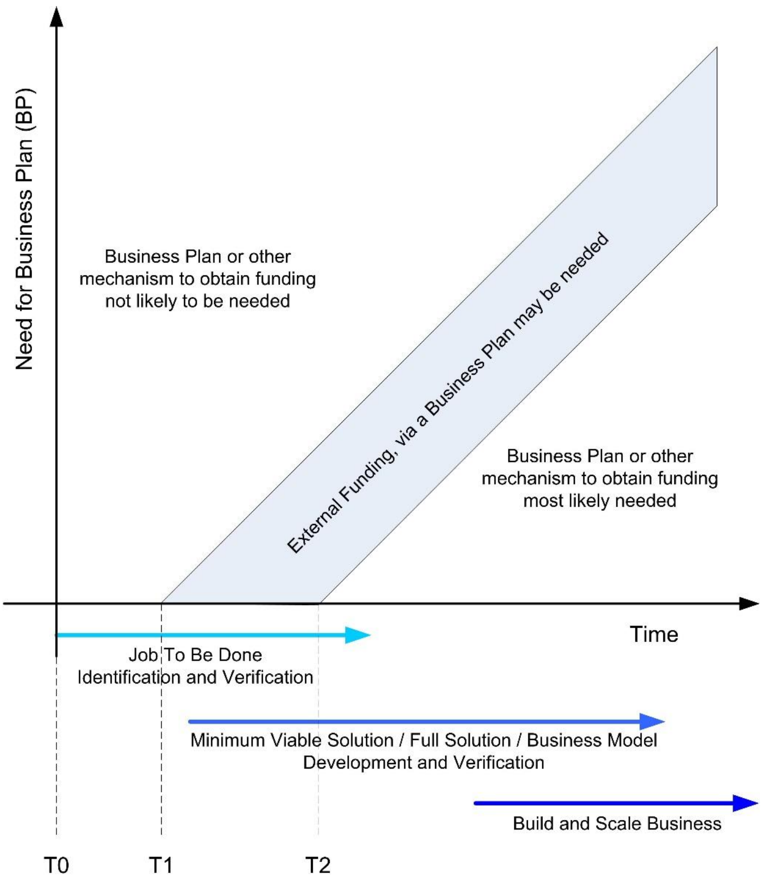
[2] https://www.dontthinkcheck.co.nz/glossary/business-model/

The diagram and discussion below are excerpts from the post Business Plans – When Are They Needed?[3] Please refer to the post for a fuller discussion.



DISCUSSION

1. At time T0, the entrepreneurial journey is started. No ideas have arisen yet, so no money or Business Plan for that matter is required.
2. Between times T0 and T1, something has stirred, and following the eBook titled *Starting a Business - With Facts, Not Faith* (2020), Glyn Davies, a Job To Be Done[4] (JTBD) has been identified, and work has started on developing and verifying the hypotheses on which the supposed JTBD stands. The

[3] https://www.dontthinkcheck.co.nz/blog/business-plans-when-are-they-needed/
[4] https://www.dontthinkcheck.co.nz/glossary/jobs-to-be-done/

entrepreneur is unlikely to need a Business Plan during this period as it doesn't cost a lot to have, and perhaps, explore ideas, and a Business Plan isn't yet required to help structure the non-existent business.

3. Between times T1 and T2 a Business Plan *may* be required to raise financial backing, but this depends on the specific factors of the JTBD. Factors such as, what it will cost to explore the nature, scope, and scale of the JTBD, what it will cost to verify the JTBD hypotheses, and what it will cost to develop the Minimum Viable Solution[5] (MVS).
4. In the phase beyond T2, the entrepreneur is building and scaling the business. During this phase, the entrepreneur will likely need a Business Plan to obtain financial backing, for understanding the required business structure and resources, as well as for implementation planning, to list a few.

[5] https://www.dontthinkcheck.co.nz/glossary/minimum-viable-solution-mvs/

Using This Book

This book is a handbook, not an encyclopaedia on how to create a Business Plan. Many other resources fulfil or come close to fulfilling that role, such as *Writing a Business Plan*, Vaughan Evans.

As such, this handbook may be incomplete, inadequate, or otherwise wrong for you in your context. Furthermore, this handbook may have some sections that, in the end, are not used. Instead of deleting unused sections, consider leaving them in the final Business Plan, adding a sentence or two to indicate to the reader that you have analysed the section topic and that in your specific case, the subject is not applicable or relevant for the reasons you have stated.

This handbook and the models and frameworks that it presents are by their nature a simplification for how to deal with, create, and manage reality. Reality can often be inconvenient, multi-dimensional, and complex and not fit neatly into our generic concepts, models, and wishful thinking. Instead, this handbook and the models it contains should be thought of as thinking aids for factors and options to consider, not as a substitute for thinking and the development of appropriate context-specific actions.

If this book is your first step on your journey to starting a business, then consider reading the book *Starting a Business - With Facts, Not Faith*[6] (2020), Glyn Davies, as it goes into more detail about starting a business than allowed for in this handbook.

A template for a Business Plan could be thought of as a model, however, as George Box asserted in 1978, “all models are wrong, but some are useful.” With this in mind, it is conceptually possible to create a Business Plan template, and with some skill and a dollop of luck, the template may even be useful. But the template will likely be incomplete or simply wrong in some contexts. This means that the editor of the template must exercise judgment by firstly determining what *exactly* has to be achieved by the Business Plan, and then evaluating the differences between what is required and what is provided by a template, and then managing the gaps and inconsistencies.

Audience

A Business Plan is written for an audience. Who is the audience, that is the backer, for your Business Plan? Is the audience yourself because you are investigating what is involved in creating a business for your Business Model, or is the audience a business

[6] https://www.dontthinkcheck.co.nz/product/free-starting-a-business-with-facts-not-faith-copy/

partner, a boss, an investor who doesn't know you, or a bank manager with whom you already have a relationship?

Have you enquired as to what is expected and what your audience wants to see in a *Business Plan*? Beware that different audiences may have different views as to what a business plan looks like and contains. As an example, a previous client asked their bank manager with whom they had a relationship with what he wanted to see regarding financing for my client's business expansion. In this case, since there was a healthy existing business relationship, all the bank manager wanted to see was a Cash Flow Forecast.

The Business Plan should be tailored to the requirements of the Backer, that is, the audience, not the specifics of the business. Typical concerns of a Backer include:

- **Market demand risk** - is demand resilient?
- **Competition risk** - what is the nature of the competition?
- **Strategic risk** - will the strategy make the best use of resources?
- **Financial risk** - are the financial reports and forecasts consistent with the market, competitive, and strategic context?

Writing a Business Plan, Vaughan Evans.

When creating the Business Plan, remember the 7Cs: be Clear, Crisp, Concise, Consistent, Coherent, Credible, and Convincing.

This Template

Whether ventures are entrepreneurial or intrapreneurial, they must all pass the same tests - the marketplace does not judge the value of a Business Model by the source of its funding.

Beware of over-optimistic projections that stretch out for years. Astute readers of Business Plans will be expecting this tendency. They will instinctively discount such wishful thinking, as the future is notoriously difficult to predict, especially when there are so many variables involved.

This template is based in part on the paper and book titled *How to Write a Great Business Plan*, William A. Salhman. Salhman asserts that seasoned investors of all forms will discount the wild-eyed over-optimistic projections typical of Business Plan authors. They will even under-value the business idea itself, at a "dime a dozen". What is *more* important to investors, according to Salhman is *the people*, *the opportunity*, *the context*, and *the risks and rewards*. The financial *numbers* are also important, but they should appear near the end of the Business Plan:

- Financial numbers should appear mainly in the form of a Business Model that shows that the entrepreneurial team has thought through the critical factors for success and failure.

- Financial numbers should show Break-even Analysis,[7] and when the cash-flow is expected to turn positive.

[7] https://www.dontthinkcheck.co.nz/glossary/break-even/

Structure of the Template

The structure outlined below, and much of the contents of this template is based on a synthesis of the following:

- *How to Write a Great Business Plan*, William A. Salhman.
- *Writing a Business Plan*, Vaughan Evans.
- *Your Business Plan Template*, [8] New Zealand Trade and Enterprise (NZTE).
- *Planning For Success Workbook*, [9] New Zealand Trade and Enterprise (NZTE).

A note about the Section Headings in the table below - I have included typical section headings, but in some instances, to cater for the general cases, this template has absorbed specific sections into others as is indicated.

Section Headings	Outline of Section Contents
Executive Summary: • The Opportunity. • Business Goals. • Strategy. • Resources. • Basic Financials.	Briefly, what is the opportunity, and why should anyone care? What is it that should pique anyone's interest to invest?
Glossary of Terms:	Consider including a glossary in your Business Plan - you don't want to put backers off or cause confusion over a simple misunderstanding of terms.

[8] https://www.dontthinkcheck.co.nz/wp-content/uploads/NZTE-business-plan-template_planning-for-success.docx
[9] http://www.dontthinkcheck.co.nz/wp-content/uploads/NZTE-planning-for-success-guide.pdf

Section Headings	Outline of Section Contents
The Critical Success Factors: • The People. • The Opportunity (The Business Model in Brief). • The Context. • Assumptions, Constraints, Dependencies, Risks, and Rewards.	Investors are well aware that Business Plan *financials* are likely to be over-optimistic projections, and they will discount them as such. The financials are important, but they should appear towards the back of the Business Plan. What is more important to investors, and what can be relied on more than simply the numbers, are the critical factors to the left. *How to Write a Great Business Plan*, William A. Salhman.
The Business Model: • The Job To Be Done. • A Complete Solution. • Prospective Customers Agree. • Prospective Customers are Prepared to Pay. • Prospective Customers Exist. • Customers Advocate. • Enduring Transient Competitive Advantage. • Business Model Structure. • Business Model Risks and Opportunities.	A Business Model is "how a company creates value for itself while delivering [solutions[10]] for customers." Steve Blank. What is the Business Model that the Business Plan is being written for? The first seven factors to the left are the core of the Business Model.
Market Demand	See The Business Model above.

[10] https://www.dontthinkcheck.co.nz/glossary/solution/

Section Headings	Outline of Section Contents
The Ten Forces - Industry Structural Analysis: • Rivals. • Suppliers. • Substitutes. • Buyers and Consumers. • New Entrants. • Government (Political/Legal shifts). • Technology Shifts. • International/Economic Shifts. • Social/Consumer Shifts. • Environmental Ecology.	Bearing in mind the caveat presented earlier about some models possibly being useful, The Ten Forces Framework is helpful to analyse industry structure, and therefore likely Business Model profitability at a point in time.
Competition	See The Ten Forces - Industry Structural Analysis above.
Strategy: • Strategic Risks and Opportunities.	A Business Strategy[11] describes how the Business Model will be achieved with the resources.
Resources: • Management. • Marketing. • Operations and Capital Expenditures. • Resource Risks and Opportunities.	What resources are required to achieve the purpose - the creation of a successful Business Model?

[11] https://www.dontthinkcheck.co.nz/glossary/business-strategy/

Section Headings	**Outline of Section Contents**
Financials - Forecasts and Reports: • Break-even Analysis. • Cash Flow Forecast. • Cash Flow Statement. • Funding the Plan. • Forecast Profit and Loss Statement. • Forecast Balance Sheet. • Financial Risks and Opportunities.	As *they* say, the *proof of the pudding is in the eating*, and so it is with the financials. The numbers have to *stack up*, or at least have a chance of stacking up if the other parts of the Business Plan are executed well.
Risks, Opportunity, and Sensitivity	See The Critical Success Factors above.
Conclusion.	What is the conclusion of this Business plan, what is the call to action?
Appendices: • Job To Be Done. • Value Proposition Canvas. • Business Model Structure.	All of the essential and relevant supporting information that does not have to appear in the body of the Business Plan.

Typical Business Plan Headings

From this point onwards, up to and not including this book's Appendices, the headings, sections, and sub-sections are the basis for your Business Plan, where you are expected to tailor your Business Plan's structure and contents to suit your specific requirements:

Cover Page

Contact Information

Table of Contents

…

This Template's Sections

…

Your Appendices

For a copy of a Business Plan Template, essentially this ebook with only the section headings, download the template:

https://www.dontthinkcheck.co.nz/dtc-business-plan-template-nov-2020/

Executive Summary

Briefly, what is the opportunity, and why should anyone care? What is it that should pique anyone's interest and then investment?

The Opportunity

Summarise the opportunity, covering off at least the following topics:

- The customer Job To Be Done (JTBD), and therefore the customer segment(s) and the size(s).
- The solution, or possible solution if it is yet to be developed (the purpose of this Business Plan?) and its name or codename if it is secret or confidential. And, if you have already developed it, summarise the Distinctive Value Proposition[12] (DVP) that the solution is a part of.
- Research results, progress, successes, and failures to date.
- Your background and that of your Team and where you are or will be located. Is there more than one location? Are you already in business? If so, what is the anticipated impact of this venture?

Business Goals

Summarise the business goals, to be achieved via the Business Model, and how success, as in the achievement of those goals, will be measured - think of the SMART criteria:

- **S**pecific - the goal(s) is specific and clearly defined.
- **M**easurable - achievement of the goal can be confirmed with measurement.
- **A**chievable - the goal is realistically possible, even at a stretch, as opposed to being impossible.
- **R**elevant - the goal is in line with the bigger picture and vision[13].
- **T**ime-bound - when the result(s) can be achieved or expected.

Strategy

Summarise the strategy to achieve the Business Model's goals, including your DVP and how you will build, grow, and sustain it.

Provide the required details in the later section Strategy page 53.

[12] https://www.dontthinkcheck.co.nz/glossary/distinctive-value-proposition/
[13] https://www.dontthinkcheck.co.nz/blog/what-comes-first-mission-or-vision/

Resources

Summarise the resources required - what exists, what has to be acquired and when, and their respective locations.

Provide the required details in the later section Resources page 55.

Basic financials

Summarise the financials by merely providing the *headline* or high-level information.

Provide the required details in the later section Financials - Forecasts and Reports page 59.

If yours is a start-up, you could summarise how much has already been invested by you and your partners.

Glossary of Terms

This glossary is essential in this handbook, but also consider including a glossary in your Business Plan - you don't want to put backers off or cause confusion over a simple misunderstanding of terms.

Term	Definitions
Break-even Analysis[14]	An analysis to determine the sales revenue that completely covers all costs, both fixed and operational.
Business Model[15]	There are different ways of defining what a Business Model is, with the customer's perspective being, a "Business Model consists of the value a business creates for me, what it charges me in exchange for that value, and what value it erodes for me." *Unlocking the Customer Value Chain*, Thales, S. Teixeira.
Category Basics Category Benefits	*Generic Category Benefits* – those benefits most customers expect [from a solution] most of the time and for which, in practice, performance [and delivery] can vary. You have found the real category benefits sought by customers when you are clear about the category's boundaries. These boundaries define the upper limit of the customers' *consideration set* – the set of competing brands they actively consider when making a category purchase. *Simply Better: Winning and Keeping Customers by Delivering What Matters Most*, Patrick Barwise and Seán Meehan.
Challenge, Problem	This document consistently refers instead to *Job To Be Done* (see term defined below), whereas some authors write about a *challenge* or *problem* to be solved.
Consumer	A person (or organisation) who might pay for your DVP.

[14] https://www.dontthinkcheck.co.nz/glossary/break-even/
[15] https://www.dontthinkcheck.co.nz/glossary/business-model/

Term	Definitions
Customer[16]	A person (or organisation) who pays for your DVP. A customer may or may not use the solution in your DVP, for example, when a caregiver buys something for their child (the user). The context in which the term *customer* is used will make clear whether simply the buyer is being referred to or the customer is both the buyer and the user. The distinction between customer and user is important as they both likely have different needs.
Differentiate Differentiation	Working towards being perceived by many or most buyers as different in some meaningful (non-trivial) way from other brands in the category. *Marketing: Theory, Evidence, Practice 2nd Edition,* Byron Sharp.
Distinctive Distinctive assets	Non-brand-name elements that are unique to the brand and can evoke the brand in the memory of many consumers, for example, Louie The Fly for Mortein insecticide spray. *Marketing: Theory, Evidence, Practice 2nd Edition,* Byron Sharp.
Distinctive Value Proposition[17] (DVP)	The set of benefits that customers value that makes your *complete* solution distinctive, and therefore in the eyes of the customer, better than the competitions'. See also section 2 Distinctive Value Proposition on page 77 for a more detailed explanation.
Enduring Transient Competitive Advantage[18]	The result of continually searching for and exploiting new *waves* of Competitive Advantage, because in the long-term, Competitive Advantage is transient, and new competitive advantage must be deliberately and incessantly sought out.

[16] http://www.dontthinkcheck.co.nz/glossary/customer/
[17] https://www.dontthinkcheck.co.nz/glossary/distinctive-value-proposition/
[18] https://www.dontthinkcheck.co.nz/blog/enduring-transient-competitive-advantage/

Glossary of Terms

Term	**Definitions**
Experience	"An event or occurrence which leaves an impression on someone." *en.oxforddictionaries.com*.
Freemium	"A business model, especially on the internet, whereby basic services are provided free of charge while more advanced features must be paid for." *en.oxforddictionaries.com*.
Industry	"Economic activity concerned with the processing of raw materials and manufacture of goods in factories." *en.oxforddictionaries.com*. "a group of firms that offer a product or class of products that are close substitutes for one another." *Marketing Management*, 15th edition, Phillip Kotler and Kevin Lane Keller. An industry is created by producers.
Jobs To Be Done[19] (JTBD)	The need a customer or prospective customer has, whether they are aware of that need or not. For a fuller explanation, see Appendix A - Job To Be Done page 67, or follow the link.
Market	"various groups of customers." *Marketing Management*, 15th edition, Phillip Kotler and Kevin Lane Keller. A market is created between consumers and sellers when they connect to exchange items of value, typically money, for DVPs. Hence it can be said that a market is created by demand.

[19] https://www.dontthinkcheck.co.nz/glossary/jobs-to-be-done/

Term	Definitions
Minimum Viable Solution[20] (MVS)	Also known as a Minimum Viable Product (MVP), but see term *solution* defined below. The minimum you can invest in revealing and demonstrating what a solution is and is capable of. The smallest solution-benefit-set (a subset of the DVP) that customers value and will pay for.
Product Products	Tangible results such as *things made for you*. The generic term for "the result of an action or process." *en.OxfordDictionaries.com* Some authors use the term *product*; I have chosen to use the collective term *solution*. Please also refer to *services* below.
Risk	"The possibility that something unpleasant or unwelcome will happen." *en.oxforddictionaries.com*.
Service Services	Intangible results such as *things done for you*. Some authors use the term *service*; I have chosen to use the collective term *solution*. Please also refer to *products* above.
Solution[21]	A solution is a bundle of ((Products and or Services) and Experiences). An essential component of a DVP.
User	A person (or organisation) who uses your solution without paying. For example, freemium users, or a child where the customer is a caregiver. The distinction between customer and user is important as they both likely have different needs.

[20] https://www.dontthinkcheck.co.nz/glossary/minimum-viable-solution-mvs/
[21] https://www.dontthinkcheck.co.nz/glossary/solution/

Glossary of Terms

Notes:

- Throughout this handbook, selected terms are hyperlinks to more detailed definitions or explanations.
- On the website DontThinkCheck.co.nz, you can search for terms. Glossary items and posts will provide more detail.

The Critical Success Factors

Factors critical to the success of the Business Plan are The People, The Opportunity, The Context, and The Assumptions, Constraints, Dependencies, Risks, and Rewards.

The People

Without the right team, nothing else matters! Who are the key people, both internal and external, that the new venture will depend on? Are these people known as individuals, or are they merely identified as required skillsets at present? If they are known, have they worked together successfully before? What do they know, for example, education and experiences? What have they accomplished as opposed to merely being bystanders? Who do they know, where have they worked and for whom? How well are they known, and what is their reputation? How good is their grasp of reality and what is necessary or possible? How did they cope with and overcome setbacks, such as finding that their original ideas and plans were infeasible? What are their values and motivations, what drives them? Do they have the demonstrated commitment to see projects through to their conclusion both through the good and the bad?

Who are both the inside and outside key service providers that the venture will depend on? For example, a key internal service provider could be the engineering design department; will they have sufficient capacity and incentive to take on potentially extra responsibility? An example of external service providers could be accountants, lawyers, banks and finance companies, as well as specialist suppliers.

No plan survives intact during exposure to reality; how is *the whole Team* likely to cope with reality and ultimately succeed?

The Opportunity (The Business Model in Brief)

What is the opportunity? Is it a start-up or a new solution in an existing company? Or, is the solution a line-extension of an existing solution?

Note:

- This section is a brief outline summary of the Business Model, which is addressed in detail in section The Business Model on page 41.
- This section should also be read in conjunction with The Ten Forces - Industry Structural Analysis on page 47.

In this section, you summarise the Business Model with respect to:

- What is the Job To Be Done (JTBD)? Essentially, what is the need, and who is the customer?

- What does the solution look like if that is known at this time?
- Does the prospective customer segment agree that they have a JTBD and that the solution (if known), completely satisfies their needs? What is your DVP for your solution?
- Are the target customers prepared to pay the price you require? How will the DVP be priced?
- Do the target customers exist in the numbers required to build and sustain the business? Is the market shrinking, stagnant, or growing?
- What is the strategy to retain customers and ensure that they become advocates?
- What is the strategy to achieve Enduring Transient Competitive Advantage?

Have you performed a Break-even Analysis yet? Do you have enough information at this time to be able to do this? Although a Break-even Analysis is asked for in section Financials - Forecasts and Reports page 59, the sooner one is performed, the better to gauge the likely feasibility of the proposal.

What are the characteristics of the market? Is the market large, growing, or both? Is it structurally attractive, meaning, "is there a reasonable balance of power between the five forces of rivals, potential entrants, buyers, suppliers, and substitutes[?]" *Strategic Management*, Gerald A. Cole. In other words, what is the likelihood that you will make a profit and that the business will grow? And, what is the likely position of the business in the industry and market?

Integral to the previous paragraph is, what is the Business Model? Where a Business Model is "how a company creates value for itself while delivering [DVPs] for customers." Steve Blank. Another way of restating what a Business Model is is to call it a money-making or value-exchanging machine; how is value going to be made and by whom.

What position will the venture occupy in the industry - number one?

What will the distinctive benefits of the DVP be - low cost, niche, distinctive brand, excellence in delivering all category benefits?

What is the exit strategy for the opportunity? Is there one or is this a build and hold?

The Context

Everything we do, including starting and running a business, occurs within a regulatory, economic, macroeconomic, geopolitical, demographic, financial (say interest rates), and cultural context to list a few.

What is it about the context that the new venture is dependent on? For example, if the venture is dependent on cheap labour and or cheap imports from overseas, what is the risk to the venture if those labour rates increase or there is a coup or a worldwide pandemic? What happens if interest rates rise? What happens if government policy changes, such as deregulation of the airline industry or the imposition of tariffs on essential items? Beware, the government is a fickle and therefore, a risky business *partner*.

Examples of context changes:

- Local and National Government (political/legal changes).
- Technological Shifts.
- International/Economic Shifts.
- Social/Consumer Shifts.
- Environmental Shifts.

Changes in the context are inevitable; how would changes affect the Business Model and the venture? Is there anything that can be done to positively influence the context, such as lobbying the local government representative or hedging foreign currency?

Assumptions, Constraints, Dependencies, Risks, and Rewards

Under each of the following headings - Assumptions, Constraints, Dependencies, Risks, and Rewards, identify and list relevant factors and how they will be managed, that is, how the Business Plan benefits will be increased and amplified, and the risks and their impacts mitigated.

ASSUMPTIONS

Assumptions may be hard to identify as they may have become tacit or not readily available to conscious thought. Nonetheless, a serious attempt must be made to identify and document all assumptions as well as the impacts of each assumption, turning out to be untrue in whole or in part. For example, an assumption could be that the current or proposed supplier can provide all foreseeable materials at the current price; what happens if the supplier shuts down?

CONSTRAINTS

What constraints have been identified regarding the development, building, testing, and growth of both the Business Model and the business? For example, a constraint could be a contractual provision to use a particular supplier, and that constraint could become a risk if the supplier does not fulfil its obligations. Factors typically presenting as constraints are scope, quality, time or schedule, budget costs, resources, and risks.

Constraints typically refer to upper limits, say the maximum draw-off of 100,000 litres per day from a groundwater supply. But constraints could also refer to minimum performance criteria, such as being able to process a minimum of 500,000 kg of waste per day at a municipal waste management centre. Both will have an impact on the business's ability to achieve profit expectations (section - A Break-even Analysis page 60) and the efficient utilisation of resources (section - Resources page 55).

As an example, I had a client who owned a pet crematorium. As a condition of their resource and operating consent, they had an upper limit (for example) of 5,000 kg of product permitted to be cremated per week. Operating hours were also restricted to between 08:00 to 18:00 - Monday to Saturday, with no operations permitted on Sundays. These constraints could have been a *show-stopper* if their analysis had revealed the break-even point to be greater than 5,000 kg and or that a profitable throughput could only have been achieved with a wider range of operating hours.

DEPENDENCIES

Dependencies can either be mandatory or discretionary. With both of these, they can be either internal to the organisation or external. The following examples are based on *Writing a Business Plan*, Vaughan Evans:

- **Mandatory Internal** - organisational policies or testing cannot commence until specific components of the solution have been built.
- **Mandatory External** - local or national regulations and laws, contractual requirements, or physical such as foundations must be laid before building can be erected.
- **Discretionary Internal** - organisational best practices, preferred sequences.
- **Discretionary External** - optional industry standards or guidelines such as the use of recyclable materials.

For example, free rent is excellent if you can get it, but if the Business Model is *depending* on free rent (or not paying the entrepreneur) as part of its lower-cost Business Model, then this should be stated as a dependency. Rent increases are also a risk if there is a requirement to move to different premises.

RISKS

This section contains a summary of the main risks from other sections as well as general risks that don't neatly fit into other categories in this Business Plan.

Risk can be defined as "a state of uncertainty where some of the possibilities involve a loss, …" *How To Measure Anything*, Douglas W. Hubbard, or as an "uncertain event or condition that, if it occurs, has a positive or negative effect on one or more [business] objectives." *PMBOK*, 5th. Edition, PMI.

Risk is usually associated with negative effects and consequences, but risks may have positive outcomes, and we probably call these opportunities to take advantage of should they occur.

What are the risks that the venture faces, what are the impacts if any of the risks eventuate, and how can you mitigate the negative effects and take advantage of the positive effects?

One risk is depending on *currently fortuitous* government regulations. What is the risk that those regulations will change, and how dependent is the Business Model on them?

What happens if a key employee leaves?

REWARDS

Rewards are the benefits that the backers will derive from the venture. Quantify the benefits and the timeline when those benefits will be realised. What is the potential upside if the Business Model implementation strategy is executed well?

This sub-section is essentially a summary of section Financials - Forecasts and Reports page 59.

The Business Model

This section can be addressed in two main ways:

1. As a start-up venture where the topics have yet to be addressed substantially, or
2. As an in-flight venture where the topics have been substantially addressed, and now you are merely providing confirming details.

A point to note here is that the Business Model *is the product*, not what you think you are selling.

This section is a summary of and should be read in conjunction with The 1-Page Business Model[22].

The Job To Be Done

Describe the Job To Be Done (JTBD), thinking, "see a need, fill a need,".[23] An explanation of what a JTBD is provided in Appendix A - Job To Be Done page 67.

For this section and the following, please refer to Appendix B - Value Proposition Canvas page 69.

If you have not already proved that the JTBD exists, how are you going to go about verifying its existence? What resources will you require? Complete a Value Proposition Canvas, providing a diagram here leaving the details in an appendix, and also provide high-level figures here, leaving the details to section Financials - Forecasts and Reports page 59.

Whatever the genesis of the job that has to be done, whether the job is implicit or explicit, and whether people are consciously aware of the job's existence or not, a job (a need) must first exist.

Again, my often-repeated quote:

"Build it and they will buy is not a strategy, it is a prayer," "you cannot create a market or customer demand where there isn't customer interest."[24]

A Complete Solution

The 4Cs Customer Marketing-Mix model is useful throughout this section (and handbook). The Cs represent Customers, Costs, Communications, and Convenience:

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[22] https://www.dontthinkcheck.co.nz/blog/the-1-page-business-model/

[23] by the character Bigweld in the movie Robots, 20th Century Fox.

[24] *The Four Steps to the Epiphany*, Steve Blank.

- **Customers** - find what customers want and need. Then create the solution and provide it via a DVP.
- **Costs** - consider all costs in satisfying the customer, including the costs that customers themselves will incur to find, purchase, use, and potentially dispose of your solution.
- **Communication** - what are all the communications and touchpoints between the business and the customer. For instance, how is a prospective customer going to learn of your DVP's existence?
- **Convenience** - how and where does the customer want to purchase?

Have you made or do you have to make a Minimum Viable Solution (MVS), or have you defined or developed a complete solution for the JTBD? If so, then describe the MVS and or DVP here.

If not, then describe what is required to develop that solution and the resources that will be required. If there is a lot of detail, summarise here and create and then refer to an appendix.

Do you have copyrightable or patentable intellectual property?

Do you have trademarks that you should protect?

With intellectual property and trademarks, these should be seen as assets that require protection, much like you would buy insurance for risk events such as fire and theft.

Provide high-level figures here as appropriate, leaving the details to section Financials - Forecasts and Reports page 59.

Prospective Customers Agree

What have you done to find out if prospective customers recognise that they have an important JTBD and if so, do they agree that your solution and DVP are the best alternatives that they are aware of? What percentage of the total customer segment agree?

If you haven't started, what are you going to do? How much is it going to cost?

If you have started, what remains to be done? How much is it going to cost to increase the confidence in your findings to the required level?

Provide high-level figures here as appropriate, leaving the details to section Financials - Forecasts and Reports page 59.

Prospective Customers Are Prepared to Pay

Prospective customers must be prepared to pay the price that you require to both ensure your business's success and to achieve your goals (sale price = cost of making

DVP + gross profit). You have a Business Model viability issue if you get to this point having satisfied all the above only to find that prospective customers don't value your DVP enough to want to pay for it.

Have you created an MVS? If so, how many customers have bought it?

What have you done to prove that customers are prepared to pay?

What remains to be done to confirm beyond doubt that customers are prepared to pay?

Provide high-level figures here as appropriate, leaving the details to section Financials - Forecasts and Reports page 59.

Prospective Customers Exist

Prospective Customers must exist in enough numbers; if you require 100 customers per week but in all likelihood will only ever have 50 during a good week, you have a Business Model sustainability issue.

Details to address:

- **Market size** - determine or estimate the size of the market.
- **Market share** - if you are an existing business, what is your market share? If yours is a start-up, what market share are you aiming for?
- **Market growth:**
    - Historic growth - how has demand grown in the past?
    - Drivers past - what have been the drivers of past growth?
    - Drivers future - what is likely to drive future growth?
    - Forecast growth - what is the forecast growth?
- **Market share change** - for an existing business, are you able to estimate the changes to your market share?
- **Market demand** - the above may be difficult to answer if your DVP is genuinely new. However, you're only going to be able to sell your DVP to satisfy a need, whether that need is pre-existing or newly realised. Get out of the office and perform test marketing in whatever manner is appropriate for your DVP. Find out what is real and extrapolate with up to date demographic information from there.
- **Market demand risks and opportunities** - what are factors that could make the market demand better or worse than estimated? For example, the

coming winter is colder or hotter than forecast. For each risk and opportunity assess:

- How likely are they to eventuate, low, medium, or high?
- If they occur, what will their impact be, low, medium, or high?
- For each risk and opportunity, which ones have medium or high likelihood of occurrence and medium or high impact? How are you going to mitigate the effects from these risks, or exploit the opportunities?

Provide high-level figures here as appropriate, leaving the details to section Financials - Forecasts and Reports page 59.

Customers Advocate

Customers must be so pleased with your DVP, that they are prepared to advocate on your behalf, to in effect, sell your DVP for you – satisfied customers are not necessarily loyal and nor are they sufficient, you require advocates. This is all about once having made initial sales (gained traction), you maintain and grow that traction with word-of-mouth evangelism.

This is a longer-term goal, but the foundations for achieving it must be laid when developing the solution, the DVP, the Business Model, and the Business Plan.

What is it about your DVP that will turn customers into advocates?

What remains to be done with the DVP to ensure customers become advocates?

Enduring Transient Competitive Advantage

Enduring Transient Competitive Advantage is probably the ultimate goal for a business, as a sustainable competitive advantage is difficult to achieve and then sustain long-term – it is strongly advised that you develop your next Business Model *before* your current one becomes obsolete, or someone will obsolete it for you.

But, how can something be both enduring and transient? What if however, your business operations were enduring by perpetually taking advantage of endless waves of transient advantage? For a fuller discussion, see Enduring Transient Competitive Advantage[25].

As the world is in perpetual change, it is a trap to achieve and then rely on *Sustainable Competitive Advantage*. Instead, you should be thinking and working towards

[25] https://www.dontthinkcheck.co.nz/blog/enduring-transient-competitive-advantage/

enduring transient competitive advantage and building your ability to be agile and perpetually able to recognise, catch, and then ride successive waves of innovation.

Describe how seeking Enduring Transient Competitive Advantage will be baked-in to the business. What specific resources and skills are required?

Do you already have a solution or DVP pipeline in mind with waves of transient advantage?

This activity is likely to put a damper on the maximum rate of growth achievable and limit the amount of profit that can be extracted from the business. Discuss the likely costs and benefits.

Business Model Structure

The previous subsections are essentially high-level or aggregated information. To enhance the credibility of this Business Plan, more details should be developed and presented in the form of a diagram such as *The Business Model Canvas*, by Strategyzer, a version of which is provided in Appendix C - Business Model Structure page 75.

Summarise the Business Model Structure, such as providing the Business Model Canvas here and then provide the details in an appendix.

Business Model Risks and Opportunities

What are the leading Business Model specific risks and opportunities that could affect the success of this Business Plan? Describe how these risks will be mitigated, and the opportunities exploited?

The Ten Forces - Industry Structural Analysis

A business does not exist in a vacuum - its existence and activities affect and are affected by its industry environment.

The Five Forces Model, introduced by Michael Porter in his book *Competitive Advantage*, is a useful tool to analyse an industry and whether it is or can be structurally attractive. Structural attractiveness refers to "a reasonable balance of power between the five forces of rivals, potential entrants, buyers, suppliers, and substitutes," *Strategic Management*, Gerald A. Cole. In other words, what is the likelihood that you will make a profit and that the business will grow? And, what is the likely position of the business in the industry?

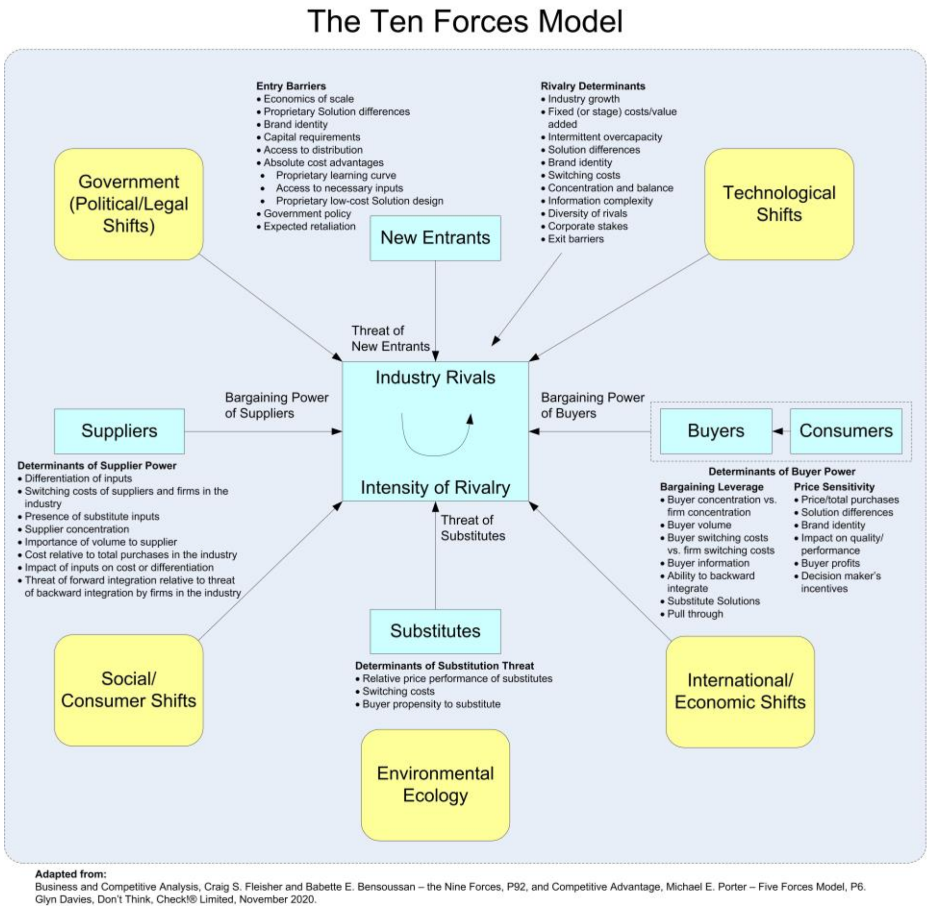
Over time the Five Forces Model has been adapted into *The Ten Forces Model*, with a version presented below.

The material in this section is adapted from:

- *Competitive Advantage*, Michael E. Porter – Five Forces Model, P6.
- *Business and Competitive Analysis*, Craig S. Fleisher and Babette E. Bensoussan – the Nine Forces, P92.

Extra information is also provided here[26].

[26] https://www.dontthinkcheck.co.nz/blog/the-ten-forces-model/



For each section that follows, determine what is relevant and how you will manage the force.

Rivals

The following is a non-exhaustive list of factors to consider seriously. How will each of the factors affect this venture? Are there other factors to consider?

Rivalry Determinants:

- Industry growth.
- Fixed (or stage) costs/value added.
- Intermittent overcapacity.
- Solution/DVP differences.
- Brand identity.
- Switching costs.

- Concentration and balance.
- Information complexity.
- Diversity of competitors.
- Corporate stakes.
- Exit barriers.

Michael Porter has another model, the *Four Corners Model*, and this can be useful for predicting a competitor's course of action: The model is comprised of (from Wikipedia[27]):

- **Motivation (drivers)** - This helps in determining competitor's actions by understanding their goals (both strategic[28] and tactical[29]) and their current position vis-à-vis their goals. A wide gap between the two could mean the competitor is highly likely to react to any external threat that comes in its way, whereas a narrower gap is likely to produce a defensive strategy. The question to be answered here is: What is it that drives the competitor? These drivers can be at various levels and dimensions and can provide insights into future goals.
- **Motivation (management assumptions)** - The perceptions and assumptions the competitor has about itself and its industry would shape strategy. This corner includes determining the competitor's perception of its strengths and weaknesses, organisation culture and beliefs about competitor's goals. If the competitor thinks highly of its competition and has a fair sense of industry forces, it is likely to be ready with plans to counter any threats to its position. On the other hand, a competitor who has a misplaced understanding of industry forces is not very likely to respond to a potential attack. The question to be answered here is: What are the competitor's assumptions about the industry, the competition, and its capabilities?
- **Actions (strategy)** - A competitor's strategy determines how it competes in the market. However, there could be a difference between the company's intended strategy (as stated in the annual report and interviews) and its realised strategy (as is evident in its acquisitions, new solution development, etc.). It is, therefore, important here to determine the competitor's realised strategy and how they are performing. If the current strategy is yielding satisfactory results, it is safe to assume that the competitor is likely to continue to operate in the same way. The questions to be answered here are: What is the competitor doing and how successful is it in implementing its current strategy?
- **Actions (capabilities)** - This looks at a competitor's inherent ability to initiate or respond to external forces. Though it might have the motivation

[27] https://en.wikipedia.org/wiki/Porter%27s_four_corners_model
[28] https://en.wikipedia.org/wiki/Strategic
[29] https://en.wikipedia.org/wiki/Tactic_(method)

and the drive to initiate a strategic action, its effectiveness is dependent on its capabilities. Its strengths will also determine how the competitor is likely to respond to an external threat. An organisation with an extensive distribution network is likely to initiate an attack through its channel, whereas a company with strong financials is likely to counter-attack through price drops. The questions to be answered here are: What are the strengths and weaknesses of the competitor? Which areas is the competitor strong in?

Suppliers

The following is a non-exhaustive list of factors to consider seriously. How will each of the factors affect this venture? Are there other factors to consider?

Determinants of Supplier Power:

- Differentiation of inputs.
- Switching costs of suppliers and firms in the industry.
- Presence of substitute inputs.
- Supplier concentration.
- Importance of volume to the supplier.
- Cost relative to total purchases in the industry.
- Impact of inputs on cost or differentiation[30].
- The threat of forward-integration relative to the threat of backwards-integration by firms in the industry.

Substitutes

The following is a non-exhaustive list of factors to consider seriously. How will each of the factors affect this venture? Are there other factors to consider?

Determinants of Substitution Threat:

- The relative price performance of substitutes.
- Switching costs.
- Buyer propensity to substitute.

[30] When reading the term *differentiation* with respect to solutions and DVPs, think of being perceived as different in some meaningful (non-trivial) way from competitors; in ways that are valuable to customers and users. Differentiation is valuable if you can achieve it and sustain it, but more generally, a business should be trying to be *distinctive* – also refer to section 2 Distinctive Value Proposition on page 73.

Buyers and Consumers

The following is a non-exhaustive list of factors to consider seriously. How will each of the factors affect this venture? Are there other factors to consider?

Bargaining Leverage:

- Buyer concentration versus firm concentration.
- Buyer volume.
- Buyer switching costs versus firm switching costs.
- Buyer information.
- Ability to backwards integrate.
- Substitute solutions/DVPs.
- Pull through.

Price Sensitivity:

- Price/total purchases.
- Solution/DVP differences.
- Brand identity.
- Impact on quality/performance.
- Buyer profits.
- Decision maker's incentives.

New Entrants

The following is a non-exhaustive list of factors to consider seriously. How will each of the factors affect this venture? Are there other factors to consider?

Entry Barriers:

- Economics of scale.
- Proprietary solution/DVP differences.
- Brand identity.
- Capital requirements.
- Access to distribution.
- Absolute cost advantages.
- Proprietary learning curve.
- Access to necessary inputs.
- Proprietary low-cost solution/DVP design.
- Government policy.
- Expected retaliation.

Government (Political/Legal shifts)

Are there any signs of local or national governmental changes or shifts in policy or laws that would affect this venture? For example, are there any signs that current subsidies may change or be removed?

Technological Shifts

Are there any signs of technological improvements or changes that would affect this venture? For example, an accelerating uptake of mobile phones compared to fixed-line services.

International/Economic Shifts

Are there any signs of international or economic changes that would affect this venture? For example, are there signs of changes to international labour rules and will these lead to increased labour costs?

Social/Consumer Shifts

Are there any signs of changes in social behaviours or consumer preferences that would affect this venture? For example, a shift from cars with internal combustion engines to electric vehicles.

Environmental Ecology

All the above nine forces happen here on planet Earth, at least for the foreseeable future, and therefore occur within our local, national, and global environmental ecology.

Are there any signs of changes to the environment or management of the environment that would affect this venture? For example, more stringent water use and wastewater disposal standards or carbon dioxide emissions.

Strategy

There are many definitions of [business] strategy, and you will find some here[31]. The key aspects of a business strategy are how you are going to use scarce resources under conditions of uncertainty to achieve your business goals (via the Business Model) and build an Enduring Transient Competitive Advantage over the competition.

According to Michael Porter's 1985 book *Competitive Advantage*, the principle factors for competitive advantage, and the basis for a competitive strategy are:

- **Low cost** - low cost of manufacture as distinct from the selling price.
- **Differentiation** - what is your DVP? This is the "why you and your DVP?" question.
- **Focus** - providing a DVP to a niche market.

Other authors such as Roger Best, in *Marketing-Based Management*, 6th edition, propose a similar but different model:

- **Cost Advantage** - a lower cost basis from which lower prices can be offered while still achieving the desired profit margins:
    - Variable Costs.
    - Marketing Expenses.
    - Operating Expenses.
- **Differentiation Advantage**[32] - differentiation that is meaningful and valuable to customers and that is superior to those of the competitors (or substitutes for that matter):
    - Product (DVP) Differentiation.
    - Service (DVP) Quality.
    - Brand Reputation.
- **Marketing Advantage** - the marketing efforts that create a dominant market position in brand recognition, product line, and channels of distribution:
    - Market Leader.
    - Product Line Advantage.
    - Channel Advantage.

Whereas Porter in his 1985 book asserted that you had to choose between one of the three (Low cost, Differentiation, or Focus), other authors such as Best have suggested and provided examples of companies that have excelled using more than one dimension. It is even possible to tailor and combine aspects of generic strategies that

[31] https://www.dontthinkcheck.co.nz/glossary/business-strategy/

[32] Both product and service can be differentiated and of high quality. A notable absence in this category is *Experience*, refer to *solution*, and *DVP*. Customers will have experiences whether we design them into our DVP or not; it's better that we do not leave their experiences to chance.

progress along a continuum as the relationship between the customer, and the business develops and strengthens over time.

It is important to realise that no business in any industry can be all things to all people, so decisions on where efforts will be *focused* have to be made. Furthermore, for competitive advantage to be real, it must endure and be sustainable over time. And to be sustainable, the relative advantage and therefore positioning in the minds of potential and current customers, must be based on the value that is meaningful to those customers.

With reference to the Business Model, demonstrate your knowledge of what is important to the customer and how your strategy will make use of and exploit that information. Does your strategy have short-term, as in achievable now, and long-term components, as in achievable following certain milestones?

What are the milestones and success factors for the implementation of the strategy?

Competitive position relates to how competitive your company is in a particular market segment. Where will you or do you now fit into the competitive landscape? What are your competitive advantages in each key segment?

Strategic Risks and Opportunities

What are the primary strategy specific risks and opportunities that could affect the success of this Business Plan? How will these risks be mitigated, and the opportunities exploited?

Resources

How will scarce resources be deployed via the Business Strategy to build, grow, and sustain the business to achieve the full potential of the Business Model?

Management

What skillsets and experiences are required by management and staff, and when will they be required?

A start-up will require different skillsets at the outset compared to an existing business or to when the start-up matures.

Marketing

"The purpose of marketing is to acquire and retain loyal customers, that is advocates, at a profit." Paraphrased from *The 4A's of Marketing: Creating Value for Customer, Company and Society*, Jagdish N. Sheth and Rajendra Sisodia.

"Because the purpose of business is to create a customer, the business enterprise has two—and only these two—basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are costs. Marketing is the distinguishing, unique function of the business." *Management: Tasks, Responsibilities, Practices*, Peter F. Drucker, p. 61.

Marketers talk about the *Marketing Mix*. The Marketing Mix includes all the variables (and resources) a business combines to satisfy its target customer segment and includes tactics and programmes that support DVP, pricing, distribution, and marketing communications strategy.

There are many models to assist with understanding the marketing requirements and then developing and then executing a Marketing Strategy. Below the customer-centric 4As model is presented, followed by the 4-8Ps. Whatever models you use, they will have limits to their applicability and therefore, usefulness in your context. The key is to recognise when any limits have been reached and adapt the model to suit or find one that better suits your context.

According to Sheth and Sisodia, poor consumer knowledge and poor consumer knowledge management are behind most marketing failures. The authors base their model on the different and distinct roles that consumers play in the marketplace - seeker, buyer, payer, user, and then hopefully evangeliser.

Without customers, a business is nothing - it is not *in business*. Sheth and Sisodia assert that knowing what drives consumers is at the core of a successful marketing campaign, that is, that there is a Return on Investment (ROI), and therefore that marketing is an investment by business, not merely a cost.

Sheth and Sisodia maintain that there are four fundamental consumer values in their 4As model - Acceptability, Affordability, Accessibility, and Awareness:

- **Acceptability** - the dominant value, is the extent to which the DVP meets or exceeds a consumer's expectations. At the core of acceptability is the design, which is the "right solution system with an attendant set of experiences, that satisfies the customers' functional, social, and emotional requirements, that is, that solves the customers' jobs well, every time." *Jobs To Be Done*, Clayton Christensen.
- **Affordability** - the extent to which consumers are able and prepared to pay for the DVP. Affordability has two dimensions: economic, the ability to pay, and psychological, the willingness to pay.
- **Accessibility** - the extent to which consumers are readily able to acquire the DVP. Accessibility has two components, availability and convenience.
- **Awareness** - the extent to which consumers are aware of and informed about the DVP. Awareness has two components, brand awareness and solution knowledge.

Staying with the knowledge that a model may not cover everything you require it to, to complement the customer-centric 4As model is the business- or seller-centric 4Ps model.

The 4Ps marketing model was proposed by E. Jerome McCarthy in 1960 (Wikipedia, accessed 2020) and has been popularised by Phillip Kotler and Kevin Lane Keller, for example, in *Marketing Management*, 15th edition.

The 4Ps marketing[33] model is a tool "to help develop a package that will not only satisfy the needs of the customers within the target markets[34], but simultaneously maximise your organisation's performance." *Key Management Models*, Steven ten Have et al.

The Ps stand for Product, Place, Price, and Promotion, and is often modified to Product (or service), Place (distribution), Price, and Promotion (marketing).

The model can be used to not only look outward to the customer but also inward towards the business. With the prompts below, there may be repetition with other sections in this document. Since readers of this document are likely familiar with and looking for something like *The 4Ps Marketing* model, don't simply delete sections, instead leave them in, but acknowledge that the topic has been covered elsewhere.

- **Product** (, service, and experiences, or as I prefer, solution) – are you producing a solution as part of a DVP that anybody wants? Is it solving a

[33] http://www.dontthinkcheck.co.nz/glossary/marketing/
[34] http://www.dontthinkcheck.co.nz/glossary/market/

problem or satisfying a need that anyone cares about? Factors to consider are:
    - Solution variety, quality, design, features, brand name, packaging, sizes, warranties, and returns; in short, the DVP.
- **Place** (distribution) – is your DVP available in the right place at the right time and in the right quantities? Can you manage production, inventory, and transport costs effectively and efficiently? Factors to consider are:
    - Channels, coverage, assortments, locations, inventory, and transport.
- **Price** – are your customers willing to pay what you are asking for? How does this price compare to the competitor's prices? Is the price that customers are willing to pay sufficient to cover all your costs and provide your target profit? Factors to consider are:
    - List price, discounts, allowances, payment period, and credit terms.
- **Promotion (marketing)** – what is the most effective and efficient way to attract, educate, entice, and then transform prospects into customers? Factors to consider are:
    - Sales promotion, advertising, sales force, public relations, and direct marketing.

Marketing Management, 15th edition, Phillip Kotler and Kevin Lane Keller.

Users of the 4Ps model tend to add to the Ps, adding, for example, Purpose, People, Process, Programmes, Performance, and Physical environment:

- **Purpose** – what is the purpose of your organisation, what do you stand for? What is the authentic and credible reason beyond profit that your organisation exists? Is your purpose something that your whole organisation can rally behind, and that will attract like-minded customers? Does your purpose resonate with anyone?
- **People** – are people, both inside and outside your organisation aligned with and passionate about the purpose? Are there sufficient customers in your market? Is there open and honest communication between customers, frontline staff, and management?
- **Process** – in whatever manner your DVP is delivered, are the processes appropriate to your purpose, culture, the context, and are they effective in attracting, converting, and retaining customers?
- **Programmes** - the integration of the original 4Ps as well as all of the business's consumer-direct activities.
- **Performance** - the holistic aspects of marketing's impact that have both financial (profitability, brand, and customer equity) and non-financial (social responsibility, legal, ethical, and environmental) implications.

- **Physical environment** – is there tangible evidence that your DVP was delivered? How is your organisation through your brand[35] perceived in the market, does it have a presence, is it known and well regarded? How are your facilities, clean, tidy, comfortable, attractive, etc.?

With an emphasis on the customer-centric 4As model, use what is relevant from the above, add what is missing, and delete what is irrelevant to your context. Beware of repetition in this section and with other parts of this Business Plan; remember this section is specifically about marketing.

Operations and Capital Expenditure

How will the resources be deployed as a seamless and integrated whole to achieve the Business Plan?

- Supplies.
- Purchasing.
- Manufacture or service provision.
- Research and development.
- Distribution, storage, and logistics.
- Sales.
- Customer service and technical support.
- Systems and Information Technology (IT).
- Quality and financial control.
- Regulatory compliance.

Writing a Business Plan, Vaughan Evans.

Resource Risks and Opportunities

What are the main resource-specific risks and opportunities that could affect the success of this Business Plan? How will these risks be mitigated, and the opportunities exploited?

[35] http://www.dontthinkcheck.co.nz/glossary/brand/

Financials - Forecasts and Reports

Until now, you have discussed how your Business Model is going to work from the conceptual and physical perspective, but how does the Business Model work from a financial standpoint?

In this section, you get to explain how a dollar input is going to be *invested* and converted into more than a dollar in output. If you can't explain or demonstrate with a high degree of plausibility how your money-multiplying Business Model will work, then you by definition do not have a Business Model or Business Plan that works either for you or your investors.

How does all the prior analysis fit together into a rational and coherent financial narrative?

In this section, from the perspective of the financials, you will show how from your starting position and following your strategy, how you will achieve your goals.

If you require assistance with the financials and the financial statements, consider this link, [How to Read Financial Statements](https://www.business.govt.nz/business-performance/strategic-finance/how-to-read-financial-statements/)[36].

If your Business Plan is for a new Business Model (at least from your perspective), then you will likely have no to little historical financial information. In this case, you can use the following to project or predict your Business Model's financial performance:

- Break-even Analysis.
- Cash Flow Forecast.

If your Business Plan is for an extension to an existing Business Model, then in addition to the above to predict future performance, you can use the following to report on past performance for the last three years, or more if you have it and there are significant events to explain and understand:

- Cash Flow Statement.
- Sales and profits by segment.
- Profit and Loss Statement.
- Balance Sheet.

In either case, provide a narrative to explain the results to date, the highlights, the lowlights, as well as the anomalies.

[36] https://www.business.govt.nz/business-performance/strategic-finance/how-to-read-financial-statements/

A Break-even Analysis

With a *Break-even Analysis,* you determine the point where your sales revenue completely covers all costs; this is the point where further sales result in profit being created.

Break-Even Point ($0.00) = Total sales revenue – All costs

Where:

- **Total sales revenue** = per unit price × the number of units sold.
- **All costs** = both fixed and operational.

The value in this calculation is knowing where the break-even point is, as there is little to be gained by going into production for *the most brilliant DVP* if you cannot sell enough at a price that covers both *all* of your costs and makes a profit.

Further Information and templates:

- DTC Break-even Calculator[37] - A fuller explanation and a worked example.
- DTC Accounting Templates[38] - A Break-even Calculator template is included.
- NZTE Break-even Calculator[39] - NZTE's graphical version.

Cash Flow Forecast[40]

What are the forecast cash flows, costs, and revenues, and when will a profit be realised?

A Cash Flow Forecast (CFF) is a forecast, prediction, or projection of future cash performance over a period such as six or twelve months.

A CFF can help to answer the questions, "where will my money come from, where will it go, and how much, if any, will I have left?"

Further Information and templates:

- DTC Cash Flow Forecasts and Statements - A Brief Explanation[41].
- DTC Accounting Templates - A CFF template is included.

[37] https://www.dontthinkcheck.co.nz/blog/break-even-calculator/
[38] https://www.dontthinkcheck.co.nz/accounting-templates/
[39] https://www.dontthinkcheck.co.nz/nzte-breakeven-calculator/
[40] A CFF and CFS can be formatted and organised to display whatever is most important, be that level of detail, period, or periods of time. Some CFS formats are similar to CFFs, in that their focus is on the *direction* of cash flow, in or out of a business, and they can report on detailed transactions, such as sales, materials, and interest. Another form of CFS wraps or rolls up income and expenditures for a period into generalised aggregate categories, such as *cash flow from operations, investing, and financing*, where within each of those categories are cash inflows and outflows. The structure of the CFF or CFS adopted depends on the purpose - what you're trying to reveal, the amount of detail you need to or want to display, personal preference, as well as on Accounting Practices.
[41] https://www.dontthinkcheck.co.nz/product/cash-flow-forecasts-and-statements-a-brief-explanation/

- NZTE - Cash Flow Forecast Template[42] - NZTE's version.

Cash Flow Statement

A Cash Flow Statement (CFS) or the statement of cash flows, is a financial statement that summarises the historical amount of cash and cash equivalents[43] entering and leaving a company.

A CFS can help to answer the questions, "where did my money come from, where did it go, and how much, if any, have I got left?"

A Cash Flow Statement can be used as a report for various purposes, and for each purpose, the CFS will have a column of numbers for each period of interest:

- As a high-level summary for a period of (say) 12-months (1 column of numbers).
- A lower-level summary per month over 12-months say (12 columns of numbers, one for each month).
- A comparison between periods, say the previous financial year with that of the year before (1 column for each fiscal period being compared).

Further Information and templates:

- DTC Cash Flow Forecasts and Statements - A Brief Explanation.
- DTC Accounting Templates - A CFS template is included.
- Cash Flow Statement[44] - From business.gov.au (Australian Government).
- Cash Flow Statement Explained[45] - From business.govt.nz.

Funding the Plan

Funding, also known as financing, can come in the form of debt or equity or a combination of both.

Debt financing is what most of us are familiar with, getting a loan from the likes of a bank.

Equity financing is where someone or an organisation provides finance in exchange for a share in the business.

Both debt and equity financing have advantages and disadvantages:

[42] https://www.dontthinkcheck.co.nz/nzte-monthly-cash-flow-forecast/
[43] https://www.investopedia.com/terms/c/cashandcashequivalents.asp
[44] https://www.business.gov.au/Finance/Accounting/How-to-set-up-a-cash-flow-statement
[45] https://www.business.govt.nz/assets/Uploads/Documents/cash-flow-statement.pdf

Financing	Advantages	Disadvantages
Debt	• Won't dilute business ownership.	• Interest must be paid whether the business is able to or not. • Less flexibility via covenants.
Equity	• Interest does not have to be paid. • Investors are repaid with dividends when the business is able, and or by the sale of the business.	• Diluted ownership of business and control. • Is expensive in terms of loss of ownership, control, and the effective interest rate.

Debt financing is more onerous and less flexible than equity financing and is a worst-case scenario on cash flows in the business. But, if you are confident in your Business Plan, you should start out assuming debt financing as a basis for discussion and negotiation.

Create a Loan Budget with as much detail as possible. Make it clear whether costs are fixed-price quotes or estimates. Provide a confidence range for estimates, for example, minimum $10,000 - likely $12,500 - maximum $14,000. Explain your assumptions and the conditions under which the various amounts will be realised. If you require more room than that provided on the template, consider providing an Appendix.

Be as accurate as is possible - it is not in your long-term interest to make guesses, mistakes, or be over-optimistic - your life-time credibility is at stake.

Further Information and templates:

- DTC Accounting Templates - A financing template is included.

Forecast Profit and Loss Statement

A profit and loss statement reveals how much your business is making or losing.

Further Information and templates:

- DTC Accounting Templates - A Profit and Loss Statement template is included.

- How to set up a Profit and Loss Statement[46] - From business.gov.au (Australian Government).
- Profit and Loss Explained[47] - From business.govt.nz.

Forecast Balance Sheet

A balance sheet reveals what you own (business assets) and what you owe (business liabilities).

Such information is not only valuable for your benefit, but it is also of deep interest to those who would provide you with finance.

If you require one, use the following resources to help you create your Balance Sheet.

Further Information and templates:

- DTC Accounting Templates - A Balance Sheet template is included.
- How to set up a Balance Sheet[48] - From business.gov.au (Australian Government).
- Balance Sheet Explained[49] - From business.govt.nz.

Financial Risks and Opportunities

What are the main financial specific risks and opportunities that could affect the success of this Business Plan? How will these risks be mitigated, and the opportunities exploited?

[46] https://www.business.gov.au/Finance/Accounting/How-to-set-up-a-profit-and-loss-statement
[47] https://www.business.govt.nz/assets/Uploads/Documents/profit-and-loss-statement.pdf
[48] https://www.business.gov.au/Finance/Accounting/How-to-set-up-a-balance-sheet
[49] https://www.business.govt.nz/assets/Uploads/Documents/balance-sheet.pdf

Conclusion

So what is your conclusion regarding your Business Model and this Business Plan and on what basis have you arrived at this?

Appendix A - Job To Be Done

The customer Job To Be Done (JTBD) describes in the customers' words what they are trying to accomplish. Identifying and satisfying customers' JTBD can be summarised as "see a need, fill a need," Bigweld in the movie Robots, 20th Century Fox.

The theory of JTBD recognises that jobs are stable and exist independent of there being a market for solutions for those JTBD. For example, humans have needed to be mobile before the development of shoes, the domestication of horses, and well before the invention of the automobile.

At the start, we are looking for any jobs that prospective customers are trying to accomplish, but ultimately, since we have to focus our limited resources, we will have to select the most important jobs.

Clayton Christensen explains JTBD in a video[50] and provides this definition:

> A job is defined as *the progress that a customer desires to make in a particular circumstance.*
>
> The Theory of Jobs to Be Done requires that we:
>
> - Focus on deeply understanding the customers' *struggle for progress, in specific contexts*.
> - Understand the trade-offs the customers' are willing to make, the set of competing solutions that must be beaten, and the anxieties that must be overcome.
> - Create the right solution system with an attendant set of experiences that satisfies the customers' functional, social, and emotional requirements, that solves the customers' jobs well, every time.
>
> It is not about products [or services] as such. *Competing Against Luck*, Clayton Christensen.

Click on the link for trigger questions from Strategyzer - Customer Jobs To Be Done Trigger Questions[51].

[50] https://www.dontthinkcheck.co.nz/blog/sab-wfnf-2nd-edition-resources/
[51] https://assets.strategyzer.com/assets/resources/customer-jobs-trigger-questions.pdf

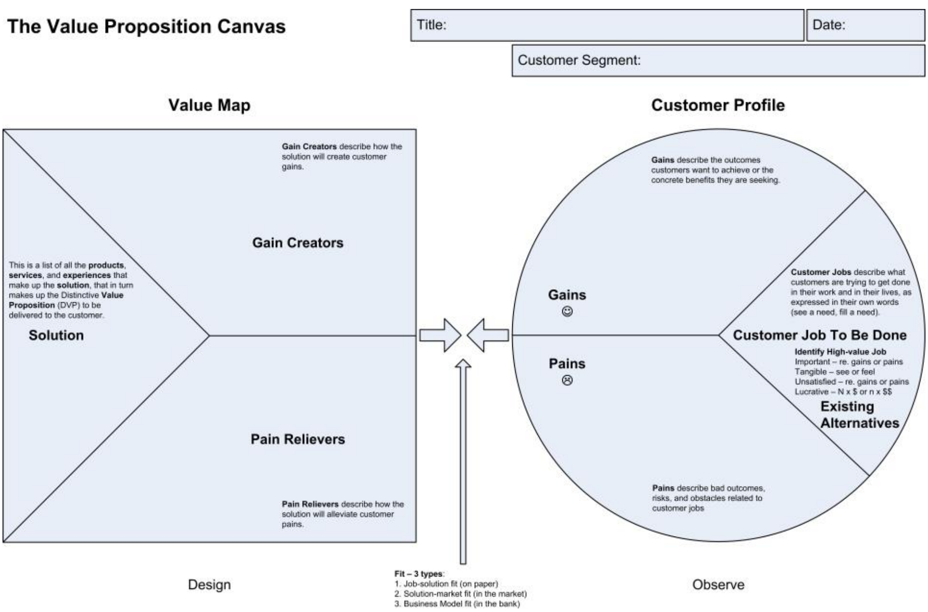
Appendix B - Value Proposition Canvas

The material for this section was taken from the book *Starting a Business - With Facts, Not Faith* (2020), Glyn Davies. If you are contemplating starting a business, then that book may be helpful for you, as it goes into more detail than allowed for in this handbook.

The Value Proposition Canvas (VPC) template is a structured method to look at (analyse) potential customers' Job To Be Done (JTBD) and the value, through a solution and DVP, that could be provided to get that job done.

If you haven't made up your mind which is the most important JTBD, then create a VPC for each JTBD and work through this section for each. When you have done this, then choose the most important JTBD based on a balance of minimising risk and maximising opportunities.

Below is an adaptation of The Value Proposition Canvas template created by Strategyzer.



From: *Starting a Business – With Facts, Not Faith*, Glyn Davies, Don't Think, Check!® Limited, Third edition, 2020.
Adapted from https://www.strategyzer.com/, used by permission, Copyright: Strategyzer AG

In the diagram, there are three main sections to complete.

Title and Customer Segment

Title – The name that you give your Value Proposition, with one canvas per Customer Segment.

Customer Segment – The name of the customer segment, for example, 20-25-year-old women, for which your solution and DVP will be developed.

Customer Profile

Consists of a description of the prospective customer in three categories:

Customer Job To Be Done – describes the most important job the customers want to get done.

Gains – describes the outcomes customers want to achieve or concrete category benefits they are seeking.

Pains – describes unwelcome outcomes, risks, and obstacles related to the job.

Value Map

Describes the value, in three categories, to be delivered to customers:

Gain Creators – describes how your solution and DVP creates customer gains.

Pain Relievers – describes how your solution and DVP alleviates customer pains.

Solution – describes the bundle of products, services, and experiences that the DVP delivers to customers.

Customer Job To Be Done

To avoid repetition, please refer to Appendix A - Job To Be Done page 67.

Gains

Gains describe the positive outcomes customers want to achieve or the concrete category benefits that customers want to enhance, encourage, and experience.

Click on the link for trigger questions from Strategyzer - Customer Gains Trigger Questions[52].

Use what you know about the Customer Segment to inform this section.

[52] https://assets.strategyzer.com/assets/resources/customer-gains-trigger-questions.pdf

Appendix B - Value Proposition Canvas

Gains are not merely the opposites of Pains; from Strategyzer.com:

Paying for a meal:

- My credit card works – meets expectations, neither a gain nor a pain.
- My credit card doesn't work – a definite pain.

Gains are not merely the opposite of pains.

Meeting expectations may have a neutral effect.

Buying a coffee at a café:

- Received in two minutes – a gain of time.
- Received in five minutes – neutral, meets broad expectation, neither a gain nor a pain.
- Received in ten minutes – a pain of lost time.

Gains and pains can sometimes exist on a continuum.

Having the coffee spilt on your trousers:

- When they're your old and dirty trousers – a gain by adding to the camouflage look.
- When they're your clean trousers, and you have an interview soon - a definite pain.

Whether a result is a gain or a pain can depend on the context.

Summary:

1. Establish what the customers' expectations are by asking them. Meeting or failing to meet expectations may not have unambiguous true/false clarity and may vary with context; therefore, judgment may be required. If it's a close call, then it's safer to err on the side of caution and call it a *failure to meet expectations*.
2. Gains and pains could exist on a continuum, and there may be multiple interacting continuums where a range of gains and pains may be acceptable individually, but they may not be acceptable when combined. For example, you may find that an ambient temperature of 22°C is comfortable. But if the airspeed is higher than 5km/hr, the ambient temperature that you find comfortable may have to be higher due to the cooling effects of the air. Now add into the mix humidity, activity performed (for example sitting or walking), the clothing worn, and rain, then comfort may be possible via multiple intersecting continuums.
3. Gain and or Pain Combinations and examples:
    a. Neutral (neither gain nor pain, expectations are met, or customer does not care).
    b. Gain or Pain (True or false, your favourite barista is there or not).
    c. Gain – Neutral – Pain (coffee in 2min << 5min >> 10min).
    d. Gain – Neutral – Gain (coffee in 2min << 5min >> coffee is free).

e. Pain – Neutral – Pain (coffee too cold << neither cold nor hot >> too hot).
f. Pain – Gain – Pain (coffee too cold << optimum coffee temperature >> too hot).
g. Gain – Pain – Gain (coffee spilt on floor << on you >> on someone else).

Pains

Pains are adverse outcomes, obstacles, and risks related to customers' JTBD that they want to reduce or avoid.

Click on the link for trigger questions from Strategyzer - Customer Pains Trigger Questions[53].

Use what you know about the Customer Segment to inform this section.

To avoid duplication, please refer to the above explanation in Gains.

Coffee Example:

- Coffee preparation takes longer than expected.
- Coffee too hot to drink from a sipper cup.
- Staff not friendly and engaging.

Gain Creators

Gain Creators describe how your DVP creates customer gains.

Click on the link for trigger questions from Strategyzer - Gain Creators Trigger Questions[54].

Use what you know about the JTBD and existing alternatives to describe how your proposed solution and DVP will create customer gains.

Coffee Example:

- Recruit and retain expert baristas to provide high quality, friendly, and prompt service.
- Open during optimum demand hours.
- Source own Fair-Trade coffee beans.
- Roast beans for consistency.
- Roast experimental bean varieties and blends to provide novelty and variety to those who want it.

[53] https://assets.strategyzer.com/assets/resources/customer-pains-trigger-questions.pdf
[54] https://assets.strategyzer.com/assets/resources/gain-creators-trigger-questions.pdf

Pain Relievers

Pain Relievers describe how the DVP will alleviate customer pains.

Click on the link for trigger questions from Strategyzer - Pain Relievers Trigger Questions[55].

Use what you know about the JTBD and existing alternatives to describe how your proposed solution and DVP will alleviate customer pains.

Coffee Example:

- Have the capability to cope with peak customer volume.
- Provide no questions asked solution guarantee.
- Provide free samples of new coffee blends (lower the risk, remove the purchasing friction).
- Provide a familiar and friendly face in a sea of stress and mediocrity.
- Provide coffee on the go in an Eco-sustainable manner.

Solution

A solution is an aggregate of all the products, services, and experiences that make up the DVP that is the bundle of benefits that customers will value and pay for to solve or achieve their job to be done.

Use what you know about the JTBD, existing alternatives, and your proposed DVP to synthesise the products, services, and experiences into a coherent and complete DVP bundle.

Coffee Example Solution Consists Of:

- Products:
    - Coffee made with freshly roasted Fair-Trade beans.
    - Eco-friendly recyclable cups and stirrers.
    - Choice of kinds of milk and nut-juice milk substitutes.
- Services:
    - Pop-up Café.
    - Fast and effective service - Coffee in two minutes or it’s free.
    - Knowledgeable staff able to provide beverage recommendations, journey directions, and entertainment advice.
- Experiences:
    - Mood-boost.
    - Meeting point.
    - Community.

[55] https://assets.strategyzer.com/assets/resources/pain-relievers-trigger-questions.pdf

Appendix C - Business Model Structure

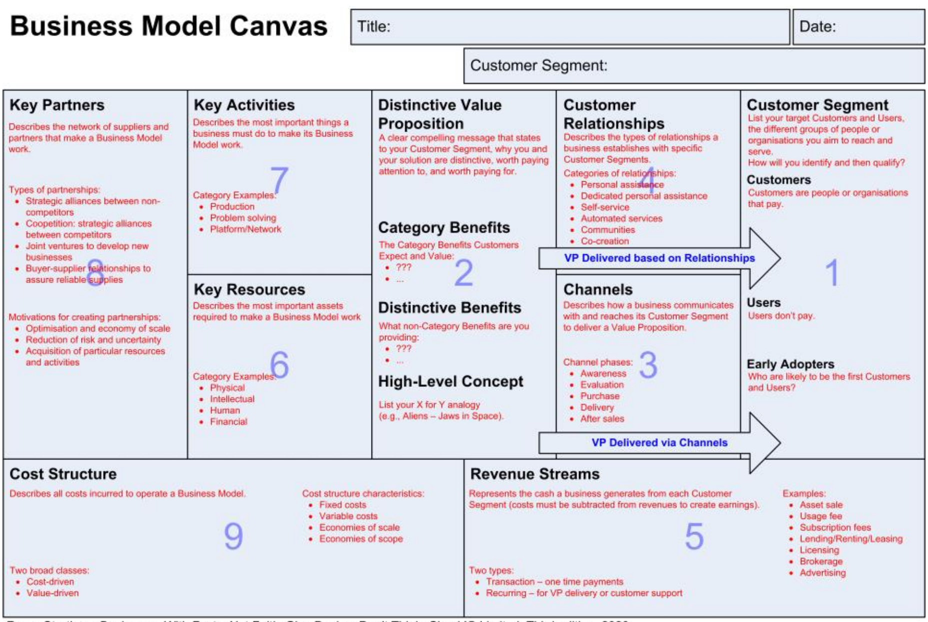
The material for this section was adapted from the book *Starting a Business - With Facts, Not Faith* (2020), Glyn Davies. If you need fuller explanations and or you are contemplating starting a business, then that book may be helpful for you, as it goes into more detail than allowed for in this handbook.

The Business Model Canvas was presented in the book *Business Model Generation*, by Alexander Osterwalder and Yves Pigneur.

I have adapted the Business Model Canvas to suit the approach adopted in this handbook, and that is, you are dealing with a single job to be done, a single solution (within a DVP), and one Value Proposition for a single target customer segment.

The notes in red below have been derived from the book *Business Model Generation* to serve as memory joggers, and the numbers indicate the order in which the sections will be addressed.

Replace the notes in red with information applicable to your Business Model.



From: *Starting a Business – With Facts, Not Faith*, Glyn Davies, Don't Think, Check!® Limited, Third edition, 2020.

Adopted from The Business Model Canvas by Strategyzer, https://www.strategyzer.com/, and is licensed under the Creative Commons Attribution-Share Alike 3.0 Un-ported License. Notes in small font adapted from *Business Model Generation*, Alexander Osterwalder and Yves Pigneur.

1 Customer Segment

From the pool of all possible customers, it is essential that we identify the most likely group, called the *target Customer Segment*, that will buy our DVP. It is the category needs of the target Customer Segment that is of most concern to us.

We focus on a target Customer Segment to both reduce waste, as there is little point in making things for people who don't want our DVP, and because of limited resources, we have to concentrate our limited resources where they will be most effective. Let's consider an analogy to make the point; imagine that you have five plant pots filled with fertile soil and that in each pot, there is one fertile seed (a potential DVP). Now further imagine that the only thing preventing all the seeds from germinating and growing into high-yielding tomato plants is water (your resources), but you only have enough for one pot. What do you do? Do you water all the seeds equally *causing* all to fail, or do you concentrate on one seed to *increase the probability* that one will succeed (no pun intended)?

Customer Segments can be distinguished by such things as their different category needs, their profitability, the channel by which they are reached, and the relationships they are after.

CUSTOMERS

Customers are people or organisations that pay for your DVP. Depending on the nature of the DVP, customers might not use the solution, such as when a caregiver buys a toy for their child.

The needs of the customer may not be the same as those of a user, for example, when a caregiver seeks some respite from their boisterous and noisy child, the caregiver may select a Lego® set and not a drum kit.

USERS

Users are people or organisations that use your solution, but they may not have paid for it, such as when a child receives a new toy from their caregiver.

See the note in the previous subsection about customers and users possibly being different as well as possibly having different needs.

EARLY ADOPTERS

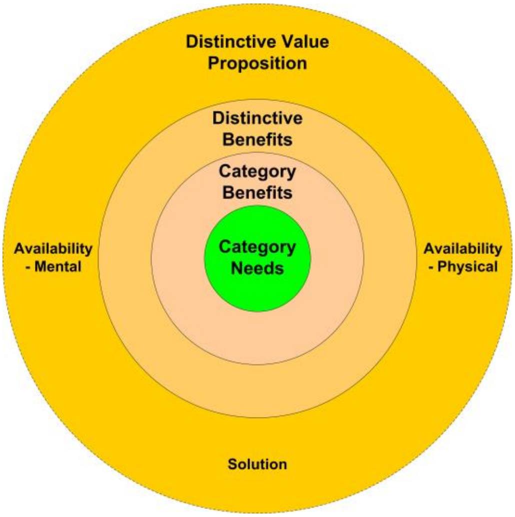
Early adopters are a distinct class of customers and users within a category. Early adopters are prepared to take a risk with a new, unproven, and perhaps incomplete solution in the form of an MVS or early release of the full DVP.

Who are these people, and what are their needs?

2 Distinctive Value Proposition

A Distinctive Value Proposition (DVP) is the bundle of benefits, based on the solution, that the Customer Segment will receive.

The diagram below is a simplified model of what a DVP is made of.



Model of the Distinctive Value Proposition.

At the core of the DVP model are the *Category Needs*, that is, the needs of the customers within the category. To satisfy the category needs, in the first ring, a business provides *Category Benefits*. In the second ring, businesses have the option of also providing additional value, that customers care about, by providing *Distinctive Benefits*. Finally, the outer ring represents, from the business's perspective, everything that goes into making a distinctive proposition of value for customers, and from the customers' perspective, the outer ring represents the value expected from the fulfilment of a promise.

The term and concept *Distinctive Value Proposition* has two interrelated components:

1. The proposition is distinctive by being *available* as a result of the marketing strategy, where availability refers to both:
   - **Mental availability** – the number of associations a buyer has about the branded DVP, the strength of those associations, and the relevance of the associations to the buying context.
   - **Physical availability** – making the branded DVP as easy to find and buy as possible.

   How Brands Grow: What Marketers Don't Know, Byron Sharp.

2. The distinction in the customers' perception that the branded DVP will reliably deliver the generic category benefits.

A DVP is critical in these days of hyper-competition. A Unique Value Proposition (UVP) is similar to but a subset of a DVP. With a UVP, you attempt to make your solution as unique (differentiated from the competition) as possible. However, meaningful uniqueness is hard to achieve, and if ever achieved, may not last for long.

Instead of focusing on the probably futile quest of trying to achieve and then maintain uniqueness, the principles behind a DVP are aimed at ensuring that a branded solution, is distinctive. To be distinctive, a DVP must be easy to remember, find, buy, and provide at least all the benefits customers expect (value) from a solution in your category (the category benefits).

Adding extra features to a DVP for the sake of being different but missing some category benefits or delivering the category benefits poorly will not make customers or users happy. The book Business Model Generation, by Alexander Osterwalder and Yves Pigneur, did not use the word distinctive to qualify their term and concept Value Proposition. However, it is implied, as “The Value Proposition is the reason why customers turn to one company over another.”

CATEGORY BENEFITS

Category benefits are the benefits (value) that most customers expect from a DVP most of the time. Another way to describe category benefits is to call them *the minimum requirements* that a DVP must satisfy. For example, most users of cars expect their car to have air conditioning. Car air conditioning is not something that a car ordinarily needs for it to function properly as transport. Still, air conditioning is certainly a benefit and therefore of value, a category benefit, to a large number of users.

DISTINCTIVE BENEFITS

Distinctive benefits are benefits in addition to the category benefits that contribute to the *distinctive* in *DVP*.

Care must be taken to ensure that distinctive benefits are truly of value to customers and users and are not simply something to make the solution and value proposition *different* for the sake of being different.

HIGH-LEVEL CONCEPT

A high-level concept is a short statement that tersely creates an easily remembered mental image of your DVP to capture the imagination and to spur the enthusiasm of supporters, customers, and advocates. For example:

Aliens (the movie): "Jaws in space" Running Lean, Ash Maurya.

3 Channels

Channels are the different paths to reach, communicate with, and sell to customers, and each path will have a Customer Response Hierarchy[56]. Different solutions and DVPs lend themselves to some channels but not others, for example, a freemium channel for bulldozer sales is most likely a non-starter, whereas freemium channels seem to work well for mobile phone applications.

What are all the channels by which the customer segment will be reached?

4 Customer Relationships

As with Customer Experiences[57], relationships are formed with customers, whether we plan them or not. Instead of leaving it to chance, what types of relationship do you want to build with customers? Are relationships going to be more impersonal and transactional, such as at a motorway fuel station where repeat customers are rare, or will they be intimate and personal such as at a café where repeat customers are the norm?

Example categories of relationships:

- Impersonal and transactional.
- Personal and friendly.
- Intimate.
- Professionally empathetic but uninvolved.
- Automated self-service.
- Mass-customisation.

5 Revenue Streams

Revenue streams are avenues from which money flows into the business.

Cost Structure and Revenue Streams, along with Break-Even Analysis, are used to assess the financial viability of the business.

What types of sales will you have?

- One-off transactions - one sale per customer.
- Recurrent sales - usage/subscription/license fees.

Where or how will the DVP be sold?

[56] https://www.dontthinkcheck.co.nz/glossary/customer-response-hierarchy/
[57] https://www.dontthinkcheck.co.nz/blog/customer-experience/

- Internet sales.
- Internet sales and drop-shipping.
- Physical store.
- Door-to-door sales.
- Patent licences.

Other revenue streams:

- License fees.
- Sub-lease of building.
- Dividends.

If you have a website, that for example hosts an auction, do you charge people to advertise their wares as well as charging a fee to the purchaser? If so, you have what is called a multi-sided sales-solution and have two streams of revenue. If you also allow adverts not linked to direct sales, you then have a third revenue stream as well.

Revenue streams will likely have different revenues and costs associated with them, for example, having something drop-shipped does not incur warehousing costs for you so you may be able to reduce the sale price.

PRICING THE DVP

An MVS is the minimum subset of category benefits, from the DVP, worth paying for. As the price is one of the riskiest parts of the Business Model, it is not a good idea to defer putting a value (a price), on the DVP for the sake of getting prospects to try your MVS in order for you to learn. Getting paid is part of the MVS and therefore, part of the solution and DVP validation. “You don’t need a lot of users to support learning, just a few good customers,” *Running Lean*, Ash Maurya.

6 Key Resources

Key Resources are the assets on which the Business Model is dependent.

Put another way, would there be a Business Model if access to a specific asset was restricted or removed?

For a water bottling Business Model, a key resource would be access to either free spring water or access to it at very favourable rates.

Resource categories include:

- **Physical** - prime location, access to physical resources, access to distribution networks.
- **Intellectual** - brands, patents, and secrets.
- **Human** - access to low-cost labour, access to highly skilled people.

- **Financial** - access to money at favourable rates.

7 Key Activities

Key Activities describe the activities that the business must perform, such as creating a solution, making the solution available via a DVP, and building and maintaining relationships, for the Business Model to work.

For example, for a water bottling business, advertising might be an essential activity, but for a water utility company, advertising is likely to be unnecessary.

Category Examples:

- **Production** - turning inputs into outputs (solutions) in the right quantities, to the desired quality, and making the solutions available via DVPs is a preoccupation for manufacturing firms.
- **Problem-solving** - service organisations such as consultancies and medical services are dominated by the requirement to solve problems continuously. These organisations will, therefore, have necessary secondary activities such as continuous learning and information and knowledge management.
- **Platforms and Networks** - where organisations are dependent on software platforms and networks, maintenance and upgrading of these will be key activities.

8 Key Partners

Key Partners describes the network of suppliers and partners that enable the Business Model to work.

In this context, partners are not necessarily formal and legal partnerships, although they could be.

The motivations for creating partnerships include:

- Access to resources without having to acquire them.
- Sharing and reduction of risks.

Examples of partnerships:

- Between non-competitors.
- Between competitors.
- Between buyers and suppliers.
- Between the company and its customers.
- Between the company and government - risky as government policies can rapidly change to the detriment of the company.

9 Cost Structure

Cost Structure identifies and describes all the costs incurred to operate the Business Model.

Cost Structure and Revenue Streams, along with Break-Even Analysis, are used to assess the financial viability of the business.

Costs are always essential to understand, with the cost structure acceptability and viability depending on whether a business is *cost-driven* or *value-driven*. In a cost-driven organisation, such as a budget airline, having a low-cost structure is essential. In a value-driven organisation, such as a luxury hotel, the cost-structure may not be directly or proportionately connected to the prices that can be charged.

Types of costs:

- Fixed – don't vary with changes in sales volume.
- Variable – usually increase with increases in sales.
- Economies of scale – large scale can enable bulk purchases and lower unit costs.
- Economies of scope – fixed costs can be spread over several DVPs.

You have to have an accurate understanding of all costs, both fixed and variable. At this point, you might only be able to make estimates, but that's fine because as more is learnt, you can return to review and revise your costs.

I'm not an accountant, so I'm not going to pretend to be able to categorise costs correctly in every case, but I think of it like this:

- What are *all the costs* that you are going to incur?
- Which are fixed, over (say) the next 12 months?
- Which costs are variable, weekly, monthly and based on what sort of usage? For example, power, gas, and water.
- Which costs vary, usually increase, with increasing sales - direct inputs.
- Are there minimum order quantities, say 100 units when at the beginning you only require 10?

Example Fixed Costs:

- Rent.
- Rates.
- Long-term loans.
- Mortgage repayments.
- License fees.
- Website hosting.
- Email.

Example Variable Costs:

- Bad debts.

- Theft.
- Short-term loans.
- Labour.
- Direct materials.
- Interviewing early adopters.
- Cost of customer acquisition.
- Interest.

MINIMUM VIABLE SOLUTION

Have you made or do you have to make a Minimum Viable Solution (MVS) as a subset of the DVP?

How much money, time, and other resources will it cost to make your MVS?

What will your ongoing operational costs be, known as (money) burn rate, while you're creating and proving your MVS?