



"A good plan violently executed right now is far better than a perfect plan executed next week."

George S. Patton (1885 - 1945)

EVALUATING THE BUSINESS PLAN

At InSite, we see many business plans. This is great fun; it allows us to think about many markets, business models, products and teams. Obviously, our value is providing feedback to these companies about their prospects in the business world, helping them fix their weaknesses, and, if all goes well, getting them quickly up and running. By and large, we look for business plans that are reasonably strong on all points, and reject plans that have a significant weakness on any major portion of the business plan.

We are finding that many companies have similar weaknesses in their business plans, and consequently much of our feedback is repeated. We have come to see this as a bit of an opportunity: we will be providing a convenient tool on our website to allow companies to get faster feedback on many basic elements of their business plan, allowing them to address some of the initial problems before they engage with any outside firms. In addition, by pre-screening, this tool will effectively let us see more companies that are further along in their business plan development.

This series of newsletters will lay the groundwork for the kick-off of this tool early next year by discussing the different fundamental elements of a business plan, including the following: the team, the value proposition, the market, product/service differentiation, barriers to market entry, competition, business model and financials. Within this newsletter, the first two topics will be covered.



"Never doubt that a small group of thoughtful committed people can change the world. Indeed, it is the only thing that ever has."

Margaret Mead (1901-1978)

THE TEAM

The most critical part of a business plan is the people. If you spend any time at all looking into how young companies emerge and grow, the key aspect of this success is the "team". Working with companies particularly in times of significant challenges or funding, has refined our definition of what constitutes a good team.

THE CHIEF EXECUTIVE

The CEO should be smart and foster good problem solving, have demonstrated a strong work ethic, have a backbone, and enough self-confidence to recruit a staff that is intellectually strong and has complementary skills.

Intellectual capability and integrity are key. Good leaders must be able to listen well, assimilate information rapidly, question the team thoroughly, and make decisions quickly. They also need the honesty to change positions if needed-- without losing the power or authority that is required to effectively lead the company.

They understand a great deal of the details of the company, but also understand the larger strategic issues and the conceptual framework of the organization and its business processes. This ability to think, simultaneously, at many different conceptual levels is critical in a tech CEO.

Working through tough problems in a positive way is important. We recently saw this well demonstrated in an early stage company. In a recent meeting, a very successful serial entrepreneur had paired strong members of academia with a strong technical businessman for a technical discussion. Within the meeting, the outsider to the company challenged several very core ideas of the business concept. In many, perhaps most, settings such a direct challenge of the intellectual foundations of the business would have been divisive. However, the people that the entrepreneur brought to the table were all first-rate, and they had enough self-confidence to listen well and think about the ideas expressed. In addition, the entrepreneur was absolutely unflinching in his desire to find a pragmatic solution to the problem, welcomed the external challenges, embraced the debate, and expressed a very natural enthusiasm that greatly aided the discussion progress. While what ultimately happens to the business has yet to unfold, we have a deep confidence that



the entrepreneur will ultimately assemble a highly qualified team that will be cohesive and rapidly work through problems.

Experience does matter. We are heavily biased towards leaders that have run businesses in a variety of markets, economic, and global situations. In the evaluation of a CEO, we tend to heavily discount an executive that has only done well in a boom market.

We value executives that have experience in M&A, particularly working through integration issues.

A strong work ethic, to the point of almost pathologically working, is imperative in the early phase of companies.

In an ideal case, the CEO has a strong vision and is able to recruit intellectual peers that buy into that vision. Having a strong staff with diverse skill sets is a very positive sign. Quite often we see teams where the level of education and types of expertise are very similar across all members of the staff. Perhaps even more disturbing is observing a hiring trend where the CEO is surrounded by junior people. While this makes for peaceful staff meetings, it invariably leads to the situation where rigorous debate is sorely lacking, resulting in lackluster problem solving. If we must choose, we are more impressed by a quiet leader that brings incredibly strong horsepower to the staff than by an elegant visionary with junior executives.

SENIOR STAFF

The exact composition of the senior staff will depend upon the industry and the skills sets of the individuals that comprise the senior staff. As an easy example, if the CEO is a former chief financial officer (CFO), it is not necessarily required to have another extremely senior financial person on the staff initially. For the purposes of our discussion, we will talk about the general capabilities that the staff needs without addressing the exact titles that the team members may have at this early stage. The capabilities we like to see within the team include an understanding of operational and financial data, a very deep understanding of the markets, customers and competitive landscapes, strong technical capabilities, and operational experiences.

Financial and Company Data

Many, if not most, of the small businesses we see do not have a finance person as part of the core team. This is very understandable in that often times the role of finance is seen as just keeping the books and implementing simple spending controls in the company. This confuses the role of finance with that of bookkeeping. This viewpoint misses the importance of the understanding that strong financial modeling provides to a company. We are impressed with young companies that understand when they demonstrate financial sophistication in developing the business case.

Developing this financial sophistication is not an easy thing to do. It used to be considered that one of the best paths into the CFO chair was to “do your time” in just about as many



different financial functional areas as possible: general accounting, cost accounting, business units or product lines, corporate accounting, tax, corporate strategy, etc. In addition to the financial functional areas, any time spent in operational functions was great experience. In particular any experience gained in manufacturing/supply chain areas or production control areas. And, of course, any engineering/scientific background was a definite plus. This by default, meant that by the time someone got to the CFO level, they had many years of varied experiences in continually expanding roles of responsibility. This provides the ability to determine which data are relevant and derive insightful conclusions about the new venture.

One of the assumptions that we at InSite operate under is that a good CFO has responsibility for more than just “reporting” the numbers. And everyone hearing this will nod in agreement and say “of course”. However, we do not all agree on what this actually means. To us, and this is where it gets controversial, this means that the fine points of external reporting and specialized sporadic financial transactions are to be understood at a high level by the CFO, but that is not a primary focus of the role. Those specialized accounting regulations can and should be delegated or outsourced to specialists. A CFO that is spending the majority of their time understanding regulation and fine points is not providing real value to a high tech business, particularly not an early stage business. Make no mistake; we understand that activities are important. It is, however, not strategic nor a core competency of a high tech organization. It should be done competently at the lowest possible cost point, both in terms of dollars and distraction to the organization.

What is critical to helping an organization execute better than its competitors is the access to, and analysis of, good operational information, i.e., numbers of all kinds. It is quite impressive in young organization to so a strong aptitude for generating and analyzing information, particularly when it ties together the financial and business aspects of the venture. Without information, people tend to base decisions upon assumptions, quite often both unstated and untested. Without data and analysis to evaluate outcomes and adjust course, the company wastes its resources.

This means the information provided to an organization needs to be important, accurate, and timely. A staff member with mature finance experience help the company avoid two common misconceptions: mistaking complexity for relevance and mistaking precision for accuracy.

In short, while it may not make sense to immediately hire a sophisticated financial expert, a good business plan needs solid, and fairly mature, analysis of both financial and market data. In short, even young businesses need access to strategic financial thinkers.

Technology & Marketing

We blend technology and marketing because the magic of the tech business world is an interesting improvised dance that blends many disciplines to use technology to solve market problems, or even to create fundamentally new markets. We look for very deep technical understanding. We look for a very rich understanding of the applications within the market, particularly looking for an ability to understand the underlying drivers within a market: what really matters and why. Great performers in this area consistently



demonstrate a very fluid ability to find ways to meet the needs of the application, or customers, within what is technologically achievable. Red flags for us include arrogance, an unwillingness to be challenged, or an inability to link market requirements to pragmatic products. Clearly, no start-up has all the answers: so any hint of NIH (not invented here) is greatly disturbing. Hint- don't get bent out of shape when an investor asks lots and lots and lots of questions....

Great start-up teams must have a person or two that deeply understands their market and competitors. They are able to articulate how the market is segmented, where they will compete, and what market segments they will avoid. They can use this knowledge both pragmatically, such as naming the products currently serving a segment, but also in a visionary way, such as in moving beyond simply describing how a product serves an existing market to imagining how ideas could change the way that people live.

Operations

Much like the financial world creates an artificial distinction between the "CPA" and "MBA" types, the operational world has a similar, but lesser, divide between people that have come up through the technical ranks and that have operational leadership roles and people that have studied and made a career of understanding and mastering the discipline and processes of how supply chains work.

In an earlier company, a dear friend of ours, a Ph.D. in chemistry, was running the laser operations of a company. As an incredibly bright guy, he recognized his lack of understanding of the processes within an Operations group and started taking courses given by [The Association for Operations Management](#), which goes by the acronym APICS. His initial reaction to the coursework was that "the math is too easy", but over time he developed considerable capability and deep respect for the power that formal operations management can bring to an organization.

In an ideal situation, the operations person would have both strong technical and operations management skills. At an early stage, most companies will not have this depth in the operational chair, and because of this we are looking more for a staff that simply understands what is missing and how they will fill it, both in the short and long term.

As an aside, since operational people have to get the product to work and ship, the divide between "tech" and "process" operations folk is pretty small, where for reasons that sort of escape us, the divide between the CPA and MBA financial people is quite vibrant and visible, probably to the benefit of no one in particular.

SALES

Many new start-ups face the challenge of initiating an effective product distribution channel. In the initial phase of a start-up there really does not need to be a true "sales" guy, but the team does need to understand how product is typically distributed in the target market (or at least how they propose to distribute if the product is creating a new market) and have solid connections into the customer world so that the value proposition, and assumptions around the value proposition can be constantly tested and refined.



Product marketing, including collateral, branding, and placement is another aspect of the customer experience that needs to be addressed. Whether these functions are under Sales or Marketing in the organizational structure is not critical. What matters is that the areas not be ignored or minimized. They form the Company face with which customers first see and interact.

The other aspect of Sales that can easily be taken for granted is the management of the sales process, including the sales pipeline and forecasting. This is the operational side of Sales that can heavily impact the day-to-day functioning of the business creating significant repercussions on the revenue generation capabilities of the Company. Commission plan structure and implementation, sales forecast generation and tracking, sales personnel management, and customer inquiries and support are all critical to sustainable revenue generation.

Hiring people that have the maturity, customer empathy and company operational understanding to play that delicate role of the interface between customer and company is critical to expanding revenue generation. A well-balanced, practical person with these skills is a crucial hire in any company.

*“All that glitters is not gold.
Often have you heard that told.”*

William Shakespeare 1564-1616

THE VALUE PROPOSITION

Many times teams discuss value with language that is bold and grand, powerful yet ambiguous. These teams glitter but shed little light on the value that the company will truly provide. The value proposition is a simple statement of the value that a customer receives from using a product or service. An effective value proposition presentation will require some reflection, but will feel increasingly powerful as it is explored. We look for these characteristics in a strong value proposition:

Clarity

The value proposition should be the product of substantial work. This work needs to be thought through, and the essence of what actually matters distilled into the value statement, such that it can be clearly articulated in a couple of sentences. There is something magical about a short statement that succinctly describes the value of a new business, as if the statement itself opens up possibilities that did not previously exist. The flip side of that is that nothing is a more significant irritant than a rambling rhetoric of loosely linked topics without real thought or editing.



Customer Need

Good value propositions take work on the market and customer side. With few exceptions, it is very rare to understand what the customer/market wants without making mistakes and spending significant time with customers- proposing solutions, understanding needs, and testing assumptions. While the value proposition should be very concise, it must clearly identify the customer and the underlying needs that will be met. This is a place where any investor will ask many questions: the work and preparation on this point will shine through here.

Product

A concise description of the product or service, focusing upon what it does and how it meets the needs, or solves the problems, of the customer. Within the value proposition, the discussion should be customer-focused, getting into a significant technical detail here is inappropriate unless understanding the technology is absolutely required to understand the value proposition. Please note: if you feel compelled to go into great detail you will always lose the vast majority your audience. In essence, you are asking them to make an judgments based upon technical arguments that only specialists in the field can fully understand.

Value

At the heart of the value proposition is an equation that explains how you deliver product value to your customer at a cost that provides the company a handsome profit. This should be crisp and specific in the summary statement. In questioning, you should be able to produce solid support for your statements.

Concrete

Specifics add substantially to the discussion. They allow for testing an idea and provide opportunities to explore adjacent subjects such as the market, differentiation, barriers to entry and competitors. By the way, concrete means defendable numbers, not stronger adjectives for your product idea.

CONCLUSION

In this newsletter, we discuss two components of the business plan, the team and the value proposition.

A strong team is capable of working problems and executing rapidly to move forward. Because of this, we judge the CEO and senior team to be the most important piece of any new business venture.

The value proposition explains in concise language how the business makes money. In our opinion, it is the next most important element of the business plan. If a strong team comes in with a clean idea of how to make money, much of the risk of the new venture has been eased.



The remaining topics, including product differentiation, intellectual property, barriers to entry, competitive landscaping, business model and financials will be covered in the next newsletters.

We will be providing an on-line tool to give prospective businesses quantitative feedback about these aspects of their business plan, helping them avoid mistakes and pointing them to aspects of their business plans that must be strengthened to have a reasonable chance of success.

Cheers,

The InSite Team

www.insitepartners.com