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TIPS ON WRITING A BUSINESS PLAN: PERSUADE, DO NOT SELL

> *…different genius is not the foundation of this disposition to barter which is the cause of the division of labour. The real foundation of it is that principle to perswade which so much prevails in human nature… We ought then to mainly cultivate the power to perswasion…*
>
> Adam Smith, 1766. "Lectures in jurisprudence"

Legend goes that entrepreneurs are great salespersons. But what makes them "great" in sales is that they understand the difference between being "salesy" and persuasive. Salesiness is associated with getting people to buy what they do not want or need. Persuasiveness is about convincing them to go on a journey of joint discovery of what works for both parties and to design terms of a deal through which each leaves the table with *more* than she bargained for. Persuasiveness is what Jack Roseman, a serial entrepreneur from Pittsburgh, calls 50% and then some.

A good negotiator ensures a fair deal – 50-50. A bad one either gyps the other party or leaves too much on the table. A great negotiator, particularly an entrepreneurial one, understands exactly what would be a fair deal – i.e., has plenty of street smarts – and yet makes sure he leaves something more for the other party, just that extra that is sweet precisely because it is unnecessary and unexpected.

Entrepreneurial salesmanship and entrepreneurial negotiation are all about finding and at times *making* self-selected stakeholders. Remember the notion of the crazy quilt – working with whoever wants to work with you, and patching these relationships together into a network that creates value for so many people that it ends up creating new markets. At the heart of all this is the art of persuasion.

Psychologists, marketers and communicators of all kinds have endlessly studied this art. For a good reference with really good scientific data to back it up, read the book *Influence* by

Robert Cialdini. For the purposes of writing a business plan[1], however, here are a few rules of thumb[2]:

Quantify and justify

Whenever and wherever possibly, quantify your claims and justify them by providing sources of data as well as a coherent chain of reasoning as to how you arrived at the numbers.

Compare the following two presentations of the same argument and see for yourself which one you find more persuasive – they are both extracts from Lumen's business plan:

Extract #1

The ethical pharmaceutical industry spends in excess of $2.4 billion annually in managing executing speaker programs to promote therapeutics to prescribing physicians. This massive marketing expenditure is distributed among thousands of consulting physicians and outside service providers. Speaker programs are unique among the marketing initiatives used by pharmaceutical companies because such programs employ direct peer to peer education knowledge transfer rather than promotion through traditional means such as advertising sampling. Control over speaker program spending is highly fragmented between brand-marketing organizations and the more than 90,000 sales representatives in the field.

Extract #2

The size of these programs is astonishing. British pharmaceutical company GlaxoSmithKline (GSK) alone has 10,000 contracts with outside faculty and Indianapolis-based Eli Lilly has 7,500 contracts. A recent study conducted by Best Practices LLC concluded that 92% of pharmaceuticals currently have a speaker program ranging from a few dozen to thousands of members. It is not uncommon for a thought leader to receive $250,000 a year in honorarium from a pharmaceutical company for his/her services.

In addition to direct costs such as honoraria, travel expenses and medical communication service fees, pharmaceutical companies incur indirect costs

[1] In case you are wondering about the role of a business plan in an effectual logic: The expert entrepreneur would say that while the causal venture may need two or three business plans, the effectual one may need 59! The business plan is a tool of communication, not a forecast to follow faithfully or a blueprint for action. But it is an important tool for communicating with stakeholders and an effectual venture has to keep writing new ones as each new stakeholder comes on board. You have to get really good at making the numbers work for you, but God forbid, as the experts say, if you start believing them!

[2] Please also see the powerpoint file that outlines key elements of a typical business plan and a summary of results from a survey of 36 experienced venture capitalists in which they stated what they looked for and what turned them off in a business plan

> *including expenses related to managing the programs and extracting useful data related to their effectiveness. Large pharmaceutical companies, such as New York-based Pfizer, conduct 40,000 speaker engagements a year. In total, pharmaceutical companies direct spend for speaking and events in 2003 was $2.4 billion, according to the research and consulting firm IMS Health. IMS Health collects data from various healthcare sources such as drug manufacturers, retail outlets, and hospitals, and receives additional information from TNS Media Intelligence/CMR and tracking firms Verispan and PERQ/HCI IMS. Speaker programs' budgets are expected to experience double digit growth for 2004.*

The first one has several qualitative descriptors – *massive, thousands of, unique, highly fragmented,* jargon -- *ethical pharmaceutical industry, promote therapeutics, peer to peer education knowledge transfer, advertising sampling etc.* The one number it offers is 2.4 billion and no source is mentioned for it.

In contrast, extract two begins with a single qualitative descriptor – "astonishing." This packs a punch only because it is backed up with data that is carefully sourced and then thoughtfully built up into a compelling logical structure. Even if you did not know what the business was about, you would begin to see for yourself an opportunity coming to life here. Notice that not only is the source of the data specified, but the source itself is described well enough so even a reader unfamiliar with the industry begins to feel that the qualitative claim "the size of these programs is astonishing" may be credible and justified.

In general, if you do use secondary market research (i.e., research conducted and published by someone else), make sure you use data as *tightly* relevant to what you are doing as possible. For example, if your venture is an educational product of some kind that targets India, stating that the Indian economy has been growing at 8% over the past ten years is less relevant than mentioning that 300 new business schools were started in the past ten years.

Geek speak versus story

Technology ventures are always in danger of sliding into technical jargon that makes the key value proposition inaccessible to most intelligent stakeholders, often even those from within the industry. In the case of a technical venture, it is often good to begin with what Terry Heckler, creator of brands like Starbucks, calls "the quintessential moment of use." Try and paint a picture of the user at the point of use in such a way that the value of the product or service become clear. *Thereafter*, you can describe key features of the technology and its benefits. For example, instead of saying something like:

> *A geographically customizable GPS system that provides localized information on demand.*

Instead, say something like:

Imagine you are driving up Route 29 to DC. You are bored to death. Your foot is off the pedal and the car is on cruise control as you wait to clear Madison county. Suddenly, the sexy voice on your GPS comes alive with the announcement, "You are entering the unique Town of Culpeper -- as alive and charming as ever. A drive down Main Street is like a drive through history, where everything from Victorian mansions to a 1950's style drive-in diner still has their place in the town's 21st century life. Would you like to hear more about its history or the four interesting events happening here today?"

The XYZ technology that makes this experience possible is the funding focus for the current venture. A detailed analysis of the benefits of this technology (presented in Section X) suggests a series of market segments and opportunities such as…..

Bottom line first

The use of a story such as the above is appropriate when you are starting a complex venture that is not easy for the lay person to understand. But even in this case, it is good to keep in mind that in business plans, presenting the bottom line first and then building up the case for it creates a larger impact. Again Extract #2 from Lumen provides a very good example.

It is normal human impulse to tell the story from the beginning to the end, namely, to build up a case, build suspense and then resolve the tension at the very end. Very exciting, very effective, great fun – if you are writing fiction. But when dealing with the one truly scarce resource in the world – your potential stakeholder's time (and you do NOT want stakeholders who have the time to read business plans at leisure) – you want to state the bottom line up front and then work hard to ensure you make a compelling case for it.

Stating the bottom line up front also provides the context *you* want the reader to have in evaluating your claims and arguments. Otherwise, the reader is free to imagine his or her own interpretation of what the story is about and by the time you come to the bottom line, the reader might have formed a very different vision of your venture than your own.

By bottom line, I do not necessarily mean ROI or some other monetary benefit for the potential stakeholder. It could instead be the cost effectiveness of a new technology, or a problem so large that it overflows with opportunities for its solver, or a solid value proposition that is eminently viable, and so on. In fact, thinking through the bottom line is in itself the most important exercise in crafting a business plan. In general, it is good to craft the elevator pitch – the pitch you would make to one of your most valued potential stakeholders when you catch them in an elevator, knowing this was your one shot to make your case with them. The entire business plan should make the case for and reinforce that one to three minute elevator pitch.

Think stakeholders and value propositions – not just product features/benefits

Again, remember the crazy quilt. It takes a variety of stakeholders to make a new venture and even more to make a new market – the customer is only one of them. When you visualize value delivered and obtained from each specific type of stakeholder, you will see creative ways to stitch together new markets or at least the value chain for your particular venture. This also opens up new ways of building the venture – for you are no longer limited to the single path of "raising resources" from investors. Instead, every one you meet may bring value to the venture and you have multiple ways of connecting multiple dots.

Expert entrepreneurs suggest that you go after "Faces, not just wallets – for wallets come with faces anyway. Moreover, if you stop and think about it, faces come with wallets too." Their argument for this is that when you chase money, the "wallets" come with faces anyway. In other words, if you merely seek to raise money, you still have to deal with investors, who may or may not be quite a pain. Instead, if you bring people on board that want to work with you (your *self-selected* stakeholders), they almost always come not only with resources, but are more likely to actively bring more stakeholders on board.

The key to visualizing and coming up with persuasive value propositions is to write down your overall key value proposition from a variety of different perspectives. A simple exercise will clarify what I mean. Imagine you are making window blinds. What are you making and selling? Window blinds, of course. But what is the customer buying? Well, the answers might range from cheap window coverings and décor to privacy or even light control. So what business are you in? A venture that simply assumes it is making window blinds is unlikely to grow into a Verisign or into Industrial Light and Magic. Starting with a radio station, J B Fuqua sold sporting goods, agricultural equipment, marine products, lawn-mowers, and snowmobiles; Also starting with a radio station, Ted Turner started a 24 hour TV news channel, built the world's largest bison herd and a chain of restaurants, not to mention setting aside millions of acres for conservation.

Expert entrepreneurs suggest there are broadly two ways to grow – create more value for the stakeholders you already have (think Starbucks offering music CDs), or get more stakeholders for the value you already offer (new Starbucks locations). The latter is easier to predict, analyze and visualize – the former requires creative thinking and risk management. The latter, however, is constrained by things outside your control such as the maximum size of the market. The former is wide open – if you can find enough commitments from enough self-selected stakeholders to make it happen. Both are necessary for a venture to grow and endure.

Better product at cheaper price is NOT a good value proposition

One of the favorite value propositions that most novice entrepreneurs want to offer is "Better product at cheaper price." It usually sounds too good to be true. And almost always is. This is where working out individual value propositions for each type of stakeholder and visualizing how they fit together comes in handy. By seeing who gains value at which link in the chain, you can devise price and other types of exchange mechanisms to extract that value in full. Even in the case of a lower cost-type of business, by thinking stakeholders and value propositions, you might find sources of value that you might otherwise overlook. A supplier, for example, might stand to gain steady business because you are a lower cost provider, hence capable of achieving higher volumes – and you might want to leverage that to gain favorable terms that will reduce overall capital requirement. Or you might simply want to price the product at the level of value it provides the customer and then offer a rebate to get them to try it. You can always reduce the price if you find that is all the market is willing to bear. But since in a new venture setting you cannot really predict what the market *will* bear, it may be useful to slightly err on the upside rather than commit yourself to a lower price. Moreover, never forget that surprises can be positive as well as negative – and the market might indeed bear more than what you expect it to!

Financial projections in a new venture business plan, a.k.a comedy of errors

Projecting a hockey stick, namely, a little loss at the beginning followed by steep linear gains, is always a great temptation to novice entrepreneurs. RESIST it! It is much better to carefully visualize how to get to a small critical mass of customers or how exactly you will land the one big fish – this kind of detailed visualization is worth more than the fanciest of spreadsheets. Of course, best of all is to actually bring a key stakeholder on board who can pitch for you how you will land the big ones or at least endorse that you are capable of it.

Speaking of spreadsheets, please do NOT simply reproduce them as an unreadable jumble of small text in your appendices. Clearly state assumptions, and highlight and emphasize and graphicize (I know that is not a word, but it should be), and REALLY work on your visual display of data. Cash flow, breakeven, burn rate, and sensitivity (best case/worst case) analyses are more persuasive than the standard proformas of income statements and balance sheets.

Finally, one could argue that the business plan itself is nothing. But the *writing* of it is an extremely valuable exercise that can spark your creativity, make you a better negotiator and of course actually open up communication channels with a wide variety of stakeholders. And to the extent that the big hits in new venture creation come from the unpredictable, i.e., from positive surprises, the writing of business plans and all the other ways you present and pitch your visualization of your venture will make you aware of all the things you do not know and cannot predict – thereby focusing your attention on exactly the lines of tearing along with you need to patch and re-patch together your crazy quilt.

Note: This technical note is much broader than what you need for completing your final assignment in this class. Therefore, please do not confuse guidelines with expectations – do try and complete a second read and re-write of your final project report with a view to incorporating the precepts here, but spend a *reasonable*, nor an inordinate amount of time on the actual write up. What you actually *did*, especially your primary market research and the value added during the course is what you really need to spend most of your time on.