

# Business Planning for Early Stage Ventures

by

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## The Essential Ingredients

1. A geographical location where you have an “unnatural advantage” building the business”
2. An exact knowledge of how the successful ventures ( i.e. premium exit sales or clearly cash-flow positive stand alones) of the type you hope to found have been financed “from seed to success” in the past in the geography where you hope to “launch” the business...**You should “reverse engineer the path”**
3. A list of the “knowledgeable ‘A round’ investors” for those successful ventures in the geographical area where you believe that you have the greatest likelihood of “building” the business. **These investors vary by geography & industry...**professionals or “super angels”
4. One overhead with a 50 – 100 word description of the business plan ( written such that a knowledgeable investor could fully understand what is being said about a 5-year view of building the business and being asked of them to finance the business )
5. One overhead with summary resumes of the people involved or a “question mark” describing any key hires needed (written such that a knowledgeable investor might believe that the team has the right to an opinion about the business)
6. One overhead summarizing the top “what-could-go-wrongs” in first 1-2 years with the steps that can be taken to contain the downside identified or a “question mark” if you don’t know ( written such that a knowledgeable investor will believe that you have expressed your inner most concerns)
7. One overhead summarizing the top “what-could-go-rights” in the first 1-2 years with the steps that can be taken to capture the upside or a “question mark” if you don’t know ( written such that a knowledgeable investor will believe that you have expressed your inner most hopes)

## The Launching Process

1. You must get the advice of the likely “A” round investors about who they would like to see as “seed” round investors **before you commit to any investors or any advisors...I mean anyone** ... other than ownership that vests over time to your own founding team under a **Founders Shareholder Agreement** )
2. A list of “business references” that can recommend you to these investors
3. Knowledge of how these investors “expect” a business plan to “look”
4. Your “four overhead business plan summary” ... Which is an opening conversation with someone knowledgeable enough to understand what is being talked about and to see how to add-value as an inventor ( i.e. make the “real” question-marks go away)
5. A preliminary “twenty overhead full business plan with 12 month/ 5 year financials” that meets Sahlman’s criteria
6. **The courage to pick up the phone....and keep going until you get that meeting!**
7. Using the “four overhead plan” to get a meeting with a knowledgeable investor seeking their advice on who they think should finance the “seed” round of the venture, on what they think should be covered in a “full plan” and what criteria would lead to their interest in financing the A-round, the “1<sup>st</sup> professional” round
8. If appropriate, a second meeting with that same investor using a version of your full plan customized to address the investor’s issues
9. And, then you just keep talking....iterating and modifying ...**if those “question marks” go away they are a value added-investor in your mind ....and theirs...**the risk is decreased and the valuation goes up....
10. **You will get the money...Will you get enough help to warrant investing your time?...Time is the only thing that you can never, ever, ever replace** <sup>3</sup>

## Sahlman’s “How to Write a Great Business Plan”

HBR 97409

- Who is the venture’s customer?
- How does the customer make decisions about buying this product or service?
- To what degree is the product or service a **compelling** purchase for the customer?
- How will the product or service be priced?
- How will the venture reach all the identified customer segments?
- How much does it cost ( in time and resources) to acquire the customer?
- How much does it cost ( in time and resources) to produce and deliver the product or service?
- How much does it cost ( in time and resources) to support a customer?
- How easy is it to retain ( in time and resources) a customer?
- **(How can the spending be staged to answer the questions shown above?)**
- **(A short, sweet “elevator pitch” that makes investors want to listen.)** <sup>4</sup>

## 2010 Venture Funding

- Right now everything is recovering, except maybe cleantech
  - Your team needs to have an explicit process for identifying and choosing between the likely applications/segments ( particularly for new technology or new science).
  - For professional financing, your team must identify a business that has significant potential ( “\$50M in 5 years” or “\$500M in 10 years”) and control over its IP..... by speed-of-advance, by law/license, or by “exclusive/tacit know-how”. For angel financing, you need to capture their imagination....and then ask if it is just their money that you need.
  - Your team must have experience developing products for the customer and selling to the specific customers ( visionaries and pragmatists)
  - Your team must identify a way to “stage” the business starting with a Series A of \$1-2M for high tech businesses, \$3-5M for biotech/cleantech, \$.25 -\$.5 for low tech/retail, \$? For not-for-profit
  - You have to be lucky and willing to “spend a year” -- following the “path that others have taken” or “ consciously choosing to go where none has gone before”!
- OR**
- You use your Business Plan as a way to meet the players, join the best team you can and then learn until you earn the right to play the game.....usually 3-7 years with very, very high likelihood of success