

## Advice to MBA Students from an HBS Business Plan Judge

Paul A. Baier MBA '94

As an HBS business plan judge, I have been able to compare how students approach business plans with my professional experience. My career since HBS has allowed me to work in high tech start-ups for 8 years with some very good entrepreneurs and venture capitalists. My 4 years at Open Market (Greylock founded, Goldman IPO) as part of the team that built it from 50 to 500 people taught me the joys and challenges of rapid and then stagnant growth. During the dot-com mania, I took my swing at the fences as CEO of PurchasingCenter.com, raising \$34mm from Charles River Ventures, Bessemer, and Sigma Partners, and hiring VPs considerably more experienced than I. While I have not yet “caught the wave” of a smashing success and retired to Hawaii, I have learned much.

As a judge, my frustration grew while watching dozens of student teams approach the problems of business plan articulation and opportunity evaluation in a way that was inconsistent with my work experience. This note provides some basic foundations with which students can improve their business plans. These observations were echoed by other judges and would have served me well 12 years ago.

1. Sell “aspirin” not “vitamins.”
  - a. Entirely too many of the business plans clearly did not identify and succinctly explain the **\*\*pain\*\*** the target customer is feeling. How bad is this pain? What is it costing in terms of dollars or time? What are the implications of not solving this problem?
  - b. Too many of the plans address “vitamin” or nice-to-solve problems (e.g. my garage is dirty) and not “aspirin” or must-solve-today problems (e.g. my roof has a hole). Yes, it would be nice to have my garage cleaned, but garage cleaning is not a big enough problem for which people would pay, and, hence, it is not a real business. Fixing roofs, in contrast, is a viable business, as the pain of a leaky roof must be alleviated.
2. Clearly identify the target customer.
  - a. Who specifically is the target customer (e.g. VP of Marketing at consumer product companies in the United States with sales over \$100mm)? What size company? Which geography? Who is not in the target audience?
  - b. For corporate sales, the buying decision is often multi-person. Who are all the people involved (VP of Marketing, CIO, end user) and what is the title-specific value proposition for each?
3. State the compelling value proposition for one customer.
  - a. Value proposition is an extremely important concept, yet students consistently are unable to articulate one.
  - b. A correct value propositions is a single sentence that identifies the target customer, her benefits, and the price of the offering. Students rarely had thought enough the benefits to the target customer. Here is a good value proposition:
    - i. For safety-conscious consumers, Volvo cars are the safest (as rated by Consumer Reports) for adults and children, at a price that is 10% higher than the standard GM family sedan.

- c. A value proposition is also expressed in a VITO (Very Important Top Officer) letter or as a “customer elevator pitch” (different than the “investor elevator pitch”). Here, the value proposition is expressed in 30 seconds, in a voice mail message or in a single sentence in a letter. An excellent book of sales tactics on this subject is Selling to VITO by Anthony Parinello.
  - d. Successful firms must uniquely provide something that is highly valued by the target customer. The value proposition reflects this uniqueness and value.
    - i. This proposition is not unique: “For business travelers, airline NewCo. flies safely to major cities for \$400.” Safety, in this case, is assumed by the customer and all airlines must have it -- hardly a unique benefit.
    - ii. A better proposition is: “For business travelers, airline Y gets you on and off the plane in 5 minutes with its Priority Seating Plan, for a 5% surcharge”. Airline Y is uniquely offering something (speed and convenience) that is highly valued by the target market (hurried business travelers).
  - e. A common rule of thumb for start-ups is that the value proposition must be 10 times cheaper, faster or better in measurable metrics than the current solutions to the problem and must offer “immediate and obvious benefit” to the prospect.
  - f. Demonstrating why one customer will buy is one of the most important parts of your presentation. If you are raising money from venture capitalists, you are typically only raising enough money for the initial round that is a “bet” on the market, team and estimated adoption rates. While the VC is concerned with the overall success of the company, the VC is really only funding the initial set of milestones (typically successful completion of management team, initial product development, and acquisition of initial set of customers).
4. Start market analysis with a single customer and then move to market sizing
- a. Students consistently get this backwards, and start with a macro-industry view (this is large market for which we hope to get 10%). This approach naïve and dangerous, and leads to erroneous conclusions. First convince investors that a single prospect will buy, and then extrapolate from this to the total number of prospects in a given time period, say, 3 years. This “bottoms-up” approach enables the investor to understand the essence of your business.
    - i. Who is this target customer and pain?
    - ii. What are the current alternatives and why are inadequate?
    - iii. What is your proposed solution (only the key benefits, not features) and proposed average selling price and sales channel?
    - iv. Why would one target customer buy your proposed widget or service?
    - v. How many prospects have this problem? What is the sales channel to reach them?

5. Stay OUT of the library. Interview prospects instead.
  - a. Entirely too much time and energy are spent with secondary market research. SIC codes and industry reports (e.g. Forrester) are of limited value, often best used for determining the number of firms of a certain size (e.g. <\$250mm) in a given geographical area.
  - b. While significantly harder, talking to prospects is 100 times more fruitful. This is an impressive introduction: “We interviewed 50 customers, kept detailed notes, prioritized their pain and developed an initial product requirements document. 5 prospects have expressed interest to work on a pilot with us.”
  - c. Look for trends that confirm increasing pain across customers. A single customer clearly doesn’t make a market. But, in general, if 3-5 customers have the same pain and you can begin to accurately guess responses to open-ended questions, then you are getting close to a true generalized problem. Use open-ended questions and separate the interview into questions about their Problem/Pain and your Proposed Solution (which includes open-ended questions about willingness to pay, from which budget funding would come, who would approve and use the offering, and the desired sales channel).
  - d. If possible, use a cassette tape recorder to record the interviews (PurchasingCenter.com had 30 tapes which were excellent for employee and investor education down the road).
  
6. Be clear about competitive positioning and alternatives.
  - a. Be sure to think – A LOT – about competitive positioning when you think you may have a viable business. Customers have many problems that are easily solved by an addition to an existing product or product line. Work hard to understand if the proposed solution is a incremental feature, a new product or a new market. Focus only on the new market opportunities.
  - b. The number one competitor is the old traditional ways of doing things, or in another word, adoption. Other start-ups are your second competitor.
  - c. What is the source of your long term competitive advantage (this generally can not be on price)?
  - d. Literally writing the answers to the Geoffrey Moore position formula is extremely useful. Write answers for your solution and for each major competitor (including the pesty “do nothing” competitor).

Positioning Formula

For [target market]

Who [detailed pain and need]

The [startup solution]

Is a [price, software or solution]

That [more detail on offering, include key features and 2-3 sizzle features which are of high value to target customer]

Unlike [competitor or category of competitor]

Our solution [detail key differences that are of value to customer. Differences should clearly show a customer how they save money, time, etc. or reduce risk with the start up solution]

7. Understand and address issues of sales channel.
  - a. “Sales channel” is a consistent top 3 issue for start-up CEOs, and sales permeate the entire company culture at start-ups.
  - b. Plan business: Target Market  $\leq$  Desired Sales Channel  $\leq$  Product
  - c. Run business: Product  $\Rightarrow$  Sales Channel  $\Rightarrow$  Target Market
  - d. Do competitors have sales channels locked up?
  - e. In most corporate sales, a new company typically sells a complex product to a very hard problem with a direct sales force. Here, the relevant questions are typically complementary partners (in high tech, system integrators, etc.) and the ability to command high prices.
  - f. In retail sales and some corporate sales, the sales distribution channel is indirect resellers or distribution. In these cases, the greatest value-add of the new company is product innovation. While you may have to use a direct sales force during the proof of concept phase, the ultimate success of the company hinges upon adoption by the existing sales channels.
    - i. Indirect sales channels are good for lower margin, higher volume, and “simpler” products.
    - ii. Indirect channels satisfy **existing** unmet demand, and do not “create” new demand.
    - iii. The value proposition to the indirect channel (e.g. Star Market) is as important than the value proposition to the end user of the product and must be communicated in business plans. Again, an analysis for one indirect channel partner is an important place to start. Be sure to discuss how margins are shared.
  - g. Another sales model is the OEM model, in which the new company builds a super widget that is imbedded into another company’s product (e.g. brakes for a car, Intel chip in computers, easy to open bottle caps for soda bottles, etc.). Here, the universe of target customers is often small (less than 20 or even 5) and the analysis needs to be specific to the individual major OEMs.

Start-ups are all about selling and not marketing. Start-ups fulfill existing or emerging demand, and do not create demand. The “art” of opportunity evaluation and communication is determining an unique and highly valued way to fix a solvable problem for a customer who has the ability to pay.

Your presentation to judges will improve with these basics. The trick is to be extremely literally about why and where the initial sales will come from. This note suggests a very simple and unembellished pitch: describe the unbearable pain, the woefully inadequate alternatives, your competitively differentiated solution, the thousands of customers, and how your management team is uniquely qualified to exploit this opportunity.

Start-ups are really hard work. Start-ups are not a situation of “if you build it, they’ll come.” In a recession, you need to be particularly scrappy and persistent about obtaining jobs, internships and projects. Start-ups demand the same approach. Be enterprising, aggressive, and motivated. Score high ‘perspiration’ and not just ‘inspiration.’ The rewards are well worth it.