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“Plan your work and work your plan”

“First comes thought; then organization of that thought, into ideas and plans; then transformation of those plans into reality. The beginning, as you will observe, is in your imagination”

Napoleon Hill (1883-1970) early self-help author: *Think and Grow Rich* (1937)

5 Key Aspects of Business Planning

(Reading time: 14 minutes)

Having evaluated numerous business opportunities, 5 key aspects of the planning process were identified that warrant special emphasis. These 5 aspects are: Thorough research, Product/service differentiation, Experimentation, Marketing efforts and Financial modelling. Failure to adequately address any one of these aspects early on, often results in opportunities being passed up by potential investors, the need for significant redesign or outright business failure.

Background

Planning out the various components of your business opportunity before embarking on it is vital to being successful. This does not imply that you need to have all the answers before starting, nor that there will not be significant changes along the way. What planning does do however, is it allows you to identify and mitigate at least some of the major issues that could arise. In order to develop a strong plan, it is also recommended that it be committed to paper¹.

To guide in the preparation of a business plan and the requisite pitch deck², the Six Tenets were developed, outlining the major components and a complementary list of

¹ For more details see <http://hexagoninnovating.weebly.com/1/post/2013/05/to-draft-a-business-plan-or-not.html>

² A set of 10 or so PowerPoint slides summarizing the business opportunity. For more details see <https://www.youtube.com/watch?v=-M13SObfog>).



questions that should be considered³. Figure 1 shows a modified version of the Six Tenets indicating those components more aligned with value creation or value capture as well as highlighting the 5 key aspects of the planning process that warrant special emphasis.

Figure 1: 5 Key Aspects of Business Planning overlaid on the Six Tenets as well as the Value Creation and Capture models.



1) Thorough Research:

Completing extensive research both secondary (existing and published) and primary (interviewing individuals and surveying groups) is a critical activity. This research supports both value creation (developing the plans, products, prototypes and service offerings) as well as value capture (marketing and selling profitably). A huge amount of information can be gleaned from Google and the rest of the internet. If you have a question, often an assumption that needs verification, formulate a specific question and then search with those keywords. Research involves both creative thinking to identify possible information sources

³ For more details see <https://www.slideshare.net/dvjones4971/enhance-strat-innov>



and critical thinking to evaluate its relevance. When information, especially supporting data from a reliable source is uncovered, be sure to reference it so it can be verified by others. In fact, all statements in a business plan whether they be facts and data, or opinions and goals need to be supported or justified. Table 1 lists some approaches and sources for your research. In considering where to search consider the W5-else: who else? how else? what else? when else? where else? and why else?

Table 1: Research Tips and Sources

- Explore the websites, news and press releases and financial filings of potential direct and lateral competition to uncover their offerings, business model(s), pricing and plans.
- Search patent databases, including <https://patents.google.com/>, for technical information, as well as potential competitors and collaborators.
- To maximize it's effectiveness, employ primary research after you have exhausted secondary sources. In doing so, your questions and the answers you receive will be of higher quality and more nuanced.
- Use LinkedIn to identify experts you'd like to speak with, and request introductions from colleagues.

2) Product or Service Differentiation; the “Magic”

Without offering something of value (perceived worth higher than the price), customers have no reason to buy. Without offering something magical, a differentiated offering, customers have no reason to switch. When introducing a new product or service, it must be of perceived value to a customer segment and different than what is currently available. Differentiation, which itself must deliver additional value, is thus the most critical aspect of any business or business opportunity, driving sales, profits and success. Unfortunately, this is also the most challenging aspect of creating a new business opportunity, whether it's for a start-up or established firm. It generally requires numerous iterations of significant creativity followed by critical analysis. Table 2 lists some tricks to building magic into your offering.⁴

Once you understand what you customers value, you need to differentiate your offering. To do this, you need a detailed understanding of the offerings of all your potential competition both direct (offering similar products i.e. Coke and Pepsi) and lateral (offering substitutes i.e. Colas versus other pop, bottled water, energy drinks, even beer possibly). You also need to consider how quickly and easily the existing competition can adapt to your offering by replicating it or even improving on it. Thorough research is the answer.

⁴ For more information see <http://hexagoninnovating.weebly.com/1/post/2015/04/no-magic-no-business-opportunity.html>



Table 2: A List of “Magic” Tricks

- Uncover customer pains. What bothers them? What is currently difficult to do?
- Look to under-served customers, as there are currently no competitors.
- Create or acquire intellectual property, especially patents as they can establish a monopoly position. Academic institutions are a good source.
- Acquire limited or unique resources. These could include: a high traffic storefront location, parking, exclusive deals with celebrities, or a supply agreement for a key component.
- Leverage the network effect (each new customer increases the value to all customers) which often goes hand-in-hand with first-mover advantage and multi-sided platforms. Examples include social media sites like Twitter, Facebook and Instagram and retailers like Amazon and Etsy.
- Evaluate whether the problem that is being solved is actually THE problem or a symptom of another problem. COVID-19's spread is less related to its virulence (ability to infect) than its transmissibility due to a lack of physical distancing. Applying the 5 Why's tool to identify the root cause can assist here⁵.
- Determine what the underlying Job-to-be-done is⁶. People join Netflix so they can watch what they want, when they want i.e. on-demand entertainment.
- Leverage computer technology to automate tasks, especially those requiring significant and frequent recalculations. Matching suppliers and buyers, accepting payment and organizing shipping as Amazon does is an example. Machine learning, artificial intelligence and natural language processing are potentially useful tools.
- Leverage the internet, connectivity and GPS. An example is the traffic app Waze.
- Look to other industries that have solved somewhat similar issues. Apple differentiates in part on their product design. Cirque de Soleil re-envisioned the circus.
- Scan through lists of different business models to determine if a new approach could be taken. Rolls-Royce's switch to a lease and service model for their jet engines from outright sales is an example.
- Identify opportunities that are easily scalable. This can result from design or automation and can generate higher sales volumes and economies of scale in manufacturing. Car manufacturing is an example.
- Collaborate with or outsource to others who can bring complementary skills, components, products or services. Using Amazon or Walmart as your retail face is an example.
- Establish an offering that has high switching costs. Bundled offerings and long-term contracts like those in the telecom/TV industry achieve this.

⁵ See https://en.wikipedia.org/wiki/Five_why

⁶ See <https://hbr.org/2016/09/know-your-customers-jobs-to-be-done>



3) Experimentation; Start Small

Starting small with a series of well-constructed experiments to validate those assumptions and ideas that cannot be adequately researched is key. By definition, launching new products and services involves risks, as you can never be sure if all your efforts will come together to generate enough value and differentiation. Prioritizing experimentation to critical issues and questions, doing so at a minimum cost and carefully analyzing the outcomes can minimize these risks⁷. Table 3 outlines some possible approaches to experimenting across the various components of the Six Tenets.

Table 3: Examples of Experimental Approaches

TECHNICAL

- Build mock-ups and then prototypes of the product or service (i.e. testing a restaurant design or theme with food that is outsourced at first).
- Outsource component manufacturing or use off-the-shelf components initially.
- Produce a short product run for sampling.

COMMERCIAL

- Survey potential customers, leveraging prototypes.
- Provide free samples or deeply discounted products to early customers in return for feedback.
- Test various advertising mediums for response rates through unique discount codes.
- List initially on Kickstarter or similar platforms to gauge interest and raise awareness.
- Provide money back guarantees.

FINANCIAL

- Do A/B type tests at different price points⁸.
- Employ a freemium (free + pay for premium) or 30-day free trial offer on digital offerings.
- Leverage customer financing by requesting 50% upfront payment.

OPERATIONAL

- Hire consultants and other staff on contract initially.
- Leverage friendships, networks and suppliers for knowledge, introductions, equipment and samples.

⁷ For more information see <http://hexagoninnovating.weebly.com/1/post/2013/05/improving-new-product-development-through-thoughtful-experimentation.html>

⁸ For more information see https://en.wikipedia.org/wiki/A/B_testing



4) Marketing Efforts

Even if you have a valuable and differentiated offering, without a strong sales and marketing effort, your customers won't know you exist. Awareness is key. Kickstarter can be a good "social" platform for this purpose. Unfortunately, traditional marketing efforts like advertising on signs, flyers and magazines as well as through online and social media tools like Google, Facebook and Instagram are far more expensive than most imagine. Early stage businesses can expect to spend in excess of \$100,000/year⁹. The term Guerilla marketing involves surprise arising from creative, unconventional and usually reasonably priced means to reach customers¹⁰. Many examples of Guerilla marketing revolve around one time events like flash mobs that generate free and widespread media coverage¹¹. You need to budget and experiment appropriately to determine what delivers the best value for your ad money on a consistent basis.

5) Financial Modeling

Finally, financial models if built on all the research, experiments and outstanding assumptions are an effective means to aggregate and validate all of the other components of the business plan. From the resulting calculations, an overall assessment of the reasonableness and feasibility can be done. These models also allow the identification of areas for further research, experimentation and validation. In order to accomplish this, the financial model must be built up from a series of individual activities that can be determined or estimated. These, of course, should be based on the assumptions detailed in the other sections of the business plan. Table 4 illustrates just such a build-up. These models are best done using a spreadsheet so that each assumption can be changed and even tested for how sensitive the final roll-up of the financial outcomes is to each of these items.

Conclusion:

Creating a valuable and differentiated product or service offering and then capturing that value by engaging customers is a complex and difficult undertaking. This process is highly iterative as entrepreneurs and intrapreneurs (in-company entrepreneurs) are frequently switching between a) researching and planning to ensure the financials remain viable, and b) executing and experimenting often on the marketing front to move the opportunity forward and validate the assumptions.

Paying attention to 5 key aspects, namely: Thorough research, Product/service differentiation, Experimentation, Marketing efforts and Financial modelling can improve the probability of success of your business opportunity.

⁹ For more details see <https://www.wordstream.com/blog/ws/2017/07/05/online-advertising-costs>

¹⁰ For more information see https://en.wikipedia.org/wiki/Guerrilla_marketing

¹¹ For some examples see <https://www.wordstream.com/blog/ws/2014/09/22/guerrilla-marketing-examples>



Table 4: Example space requirement calculations

Users = Total university population x Percent using the facility
= 14,000 x 20% = 2,400

Average percentage of time in facility = Hours used / Hours facility is open
= (2 hours/day x 5 days) / (5 days*12 hours) =17%

Average users at a given time = Users x Percentage of time in facility
= 2,400 x 17% = 410

Maximum users = Average users x Surge factor
= 410 x 1.5X = 620

Ft²/person for a desk = 3 ft x 4 ft x twice that to move between = 24 ft²

Total ft² required = Maximum number of users at a given time x ft²/person
= 620 x 24 = 15,000

Cost to rent the facility/year = Total ft² x Annual cost to rent/ft²
= 15,000 x \$25 = \$375,000

Cost/ month = \$31,250

OR

If calculated in reverse, based on a fixed 10,000 ft² facility or \$250,000 annual budget, you'd find 1,600 or 13-14% of the student population could be served under these assumptions.

