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*"One becomes an entrepreneur  
not by birth but by education  
as well as by experience"*

*Volkmann 2004*



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# MODULE 6: FROM BUSINESS MODEL CANVAS TO LEAN BUSINESS PLAN

## A GUIDE FOR INNOVATIVE STARTUPS



4. START THE  
PLANNING  
PROCESS

# PRESENTATION OVERVIEW



## THE CONVENTIONAL BUSINESS PLAN

- The conventional BP approach
- The usual content of a conventional BP
- The weaknesses of conventional BP (that made it obsolete)

## THE LEAN BUSINESS PLAN

- The lean startup approach
- The Lean Business Plan
- Lean Business Planning in practice
- A good Lean Business Plan: Vital Ingredients
- What if external stakeholders want more information?



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# THE CONVENTIONAL BUSINESS PLAN



# THE CONVENTIONAL BUSINESS PLAN



- It reigned throughout the 20<sup>th</sup> century (and in some cases even today).
- In order for start ups to receive funding from banks or venture capital firms, the conventional business plan was **a MUST-HAVE.**
- Rarely used by businesses for internal/planning or management purposes.
- Still taught at most universities/business schools globally.

# CONVENTIONAL BP CONTENT



Aiming to show why the start-up would be a safe and promising investment for venture capitalists/other financiers-stakeholders.



**Figure 1:** Conventional Business Plan

# CONVENTIONAL BP WEAKNESSES



- Static. Single event, never revisited or revised.
- Too lengthy. For investors time is money: remained unread
- Overoptimistic assumptions of sales, profits and returns.
- Downgraded risks.
- Done in isolation from customers. Not frequent feedback from them.
- As a result of all the above: The conventional BP was not a hands-on and practical tool to be utilized by start-ups.

# CONVENTIONAL BP WEAKNESSES



**Lengthy  
Document**

**Static**

**Lack of  
customer  
feedback**

**Risk ignorance**

**Overoptimistic**

**Non-realistic**





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# THE LEAN BUSINESS PLAN FOR INNOVATIVE STARTUPS

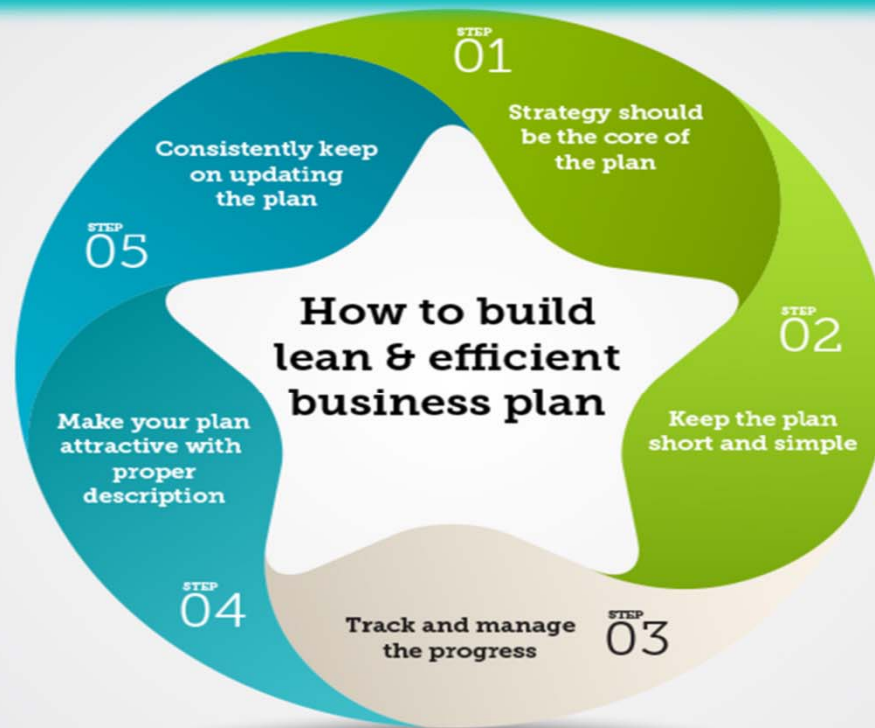


# THE LEAN BUSINESS PLAN



- Above weaknesses led to the recent development of Lean Business Plan
- Based on the philosophy of lean start-up approach and the business model canvas.
- “Once the business model is known, new ventures benefit from creating a business plan to determine and communicate how the business will be executed”. Steve Blank.
- Lean start-up approach is complete only after writing an execution plan: the LEAN BUSINESS PLAN.

# THE LEAN BUSINESS PLAN



# MAIN CHARACTERISTICS OF LEAN BUSINESS PLAN



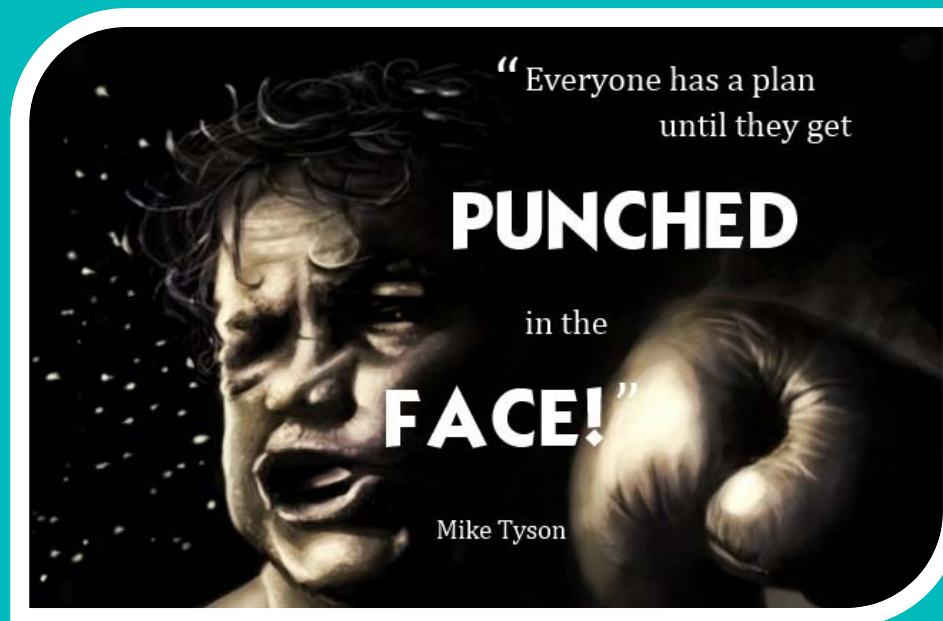
- Contrary to the conventional plan, the lean plan:
  - ✓ is very short. Shows only actions requiring attention/action (in bullet form). No other details
  - ✓ is mainly for internal planning purposes.
  - ✓ is regularly being revised/monitored. Short length of the plan facilitates its regular revision.
  - ✓ A lean business plan steers the company towards its goals, tracking and managing progress, expectations and accountability.

## NEED FOR REGULAR REVISION OF PLANS: MARKET IS ALWAYS CHANGING!



Lean plan regularly revised because  
as the boxer Mike Tyson once said:

*"Everybody has a plan until they get punched in the face."*



# DEFINITION OF LEAN BUSINESS PLAN



- According to Tim Berry, architect of lean planning:

*“A lean business plan does what every business owner and aspiring startup needs to manage strategy, tactics, execution and essential business numbers”.*

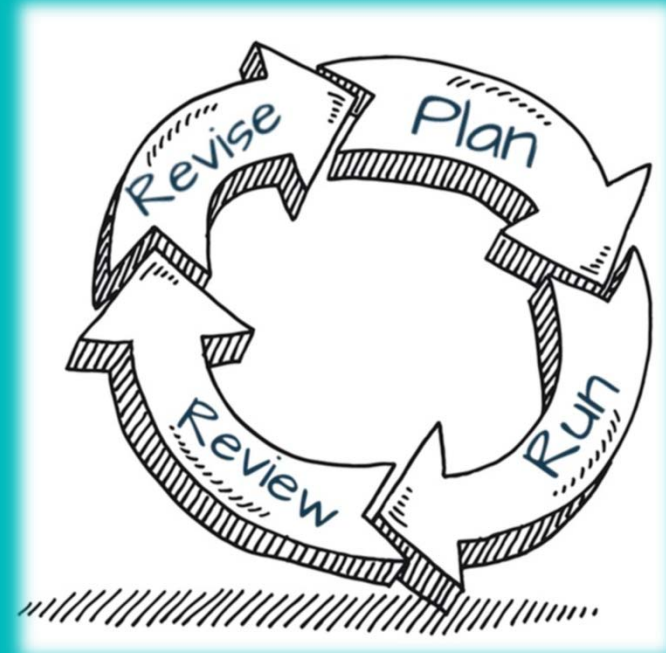
*It exists for **internal management**, not for outsiders. It stays **lean short** and **simple** with just bullet points for essentials and a collection of lists and tables. It should be reviewed frequently so it stays **fresh**.*

*It steers the company toward its goals and to tracking and managing progress, expectations, and accountability.*

# PROCESS OF LEAN BUSINESS PLAN



- the lean business plan stays lean/short and should be reviewed and revised regularly (ideally at least once a month according to Tim Berry).
- This revising process, based on customers' feedback, is vital.



**Figure 2:** Lean Business Planning

# COMPONENTS OF A GOOD LEAN BUSINESS PLAN

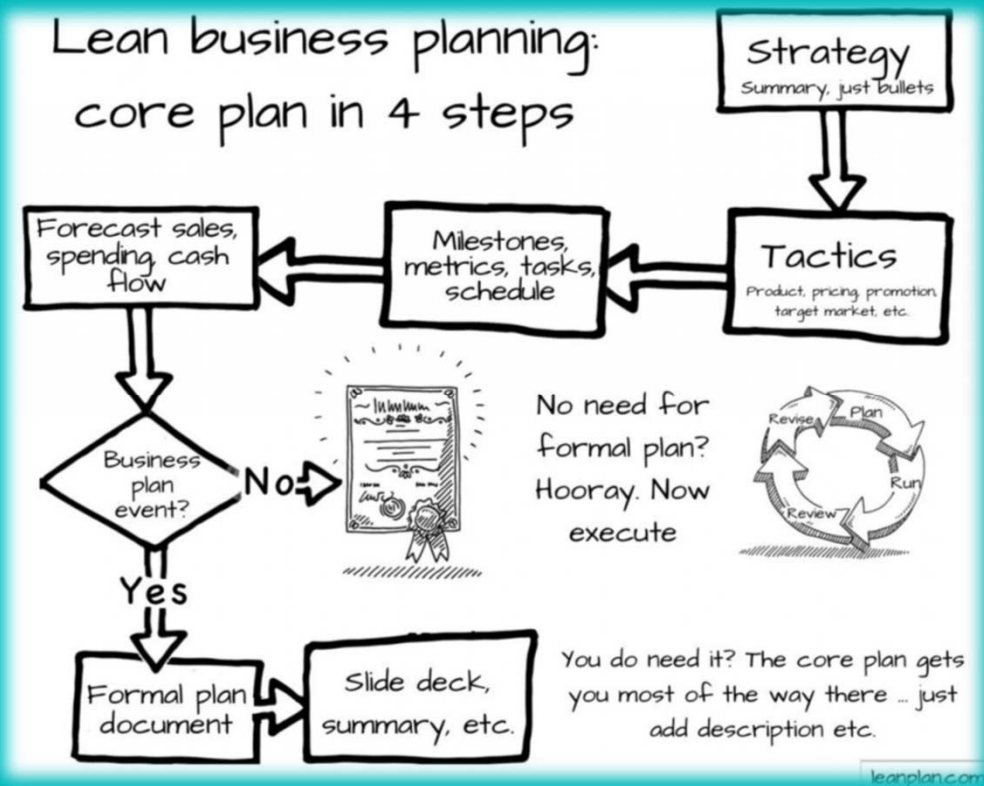
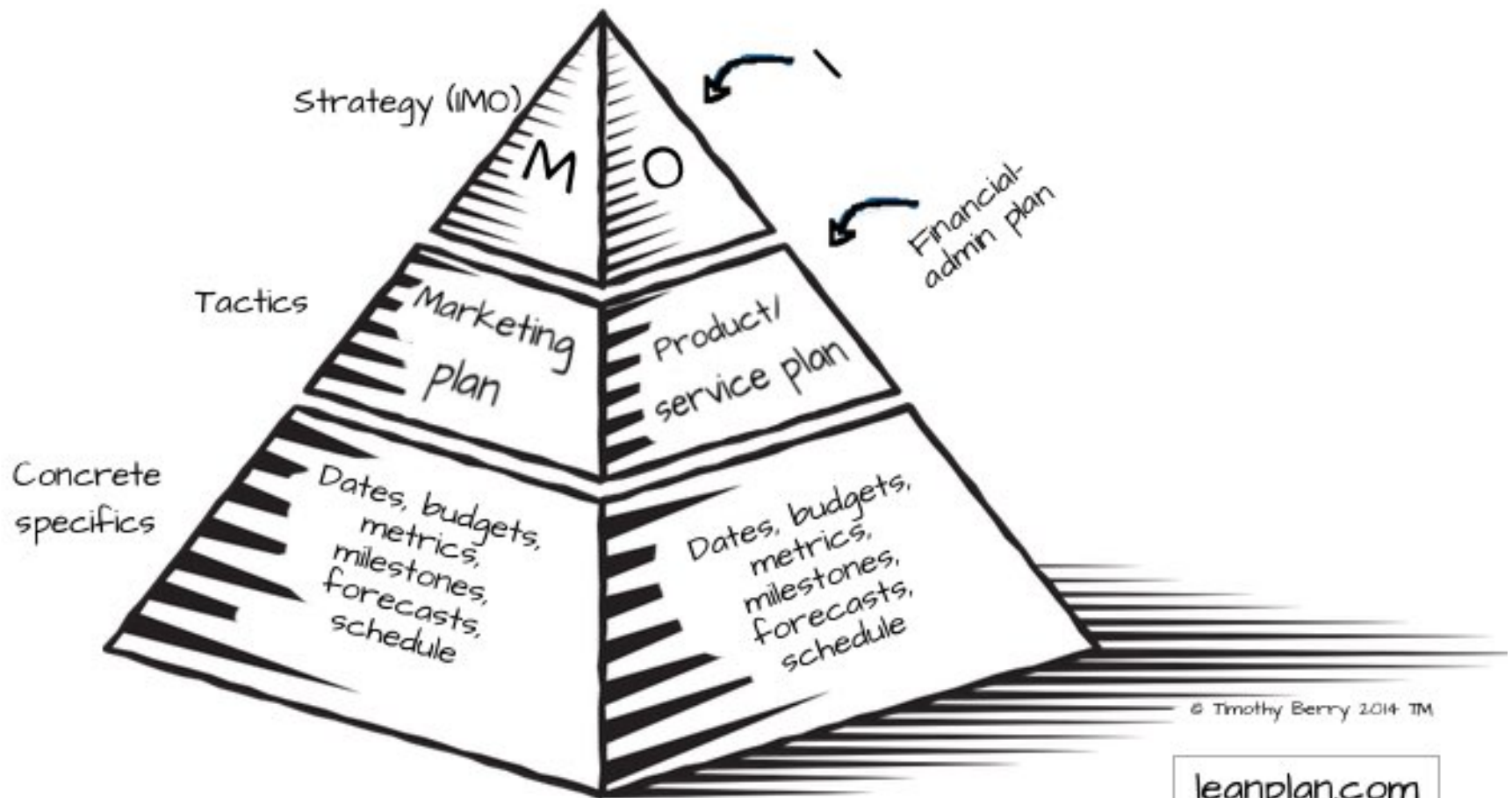


Figure 3: Lean Business Planning (as described by TIM BERRY)



# IMO Strategy Pyramid



© Timothy Berry 2014 TM

[leanplan.com](http://leanplan.com)

I = identity, M = market, O = product/service (business offering).

# COMPONENTS OF WRITING A LEAN BUSINESS PLAN



**1. Your Strategy** is crucial for the viability of the business Write down your strategy:

- problem/needs of specific target market you are aiming
- proposed solution through offering a product/service.
- what exactly makes your product/service different and better from available alternatives/competition.
- outline your business identity based on strengths, core competence, and ultimate goals. Possible weaknesses which still need to be addressed.

# COMPONENTS OF WRITING A LEAN BUSINESS PLAN



**2.Tactics:** Strategy without tactics is the slowest route to victory, and tactics without strategy is the noise before defeat."

-Strategy needs tactics for execution. In practical terms, this is your marketing plan, your product or service plan, and other tactical plans.

**3.Milestones/Metrics/KPIs:** Main assumptions important milestones, task responsibilities, and performance expectations in objective numbers like sales value, units sold, market share, marketing costs (CAC/LTV), special offers, new selling points, break-even point, payback period, etc.

# COMPONENTS OF WRITING A LEAN BUSINESS PLAN



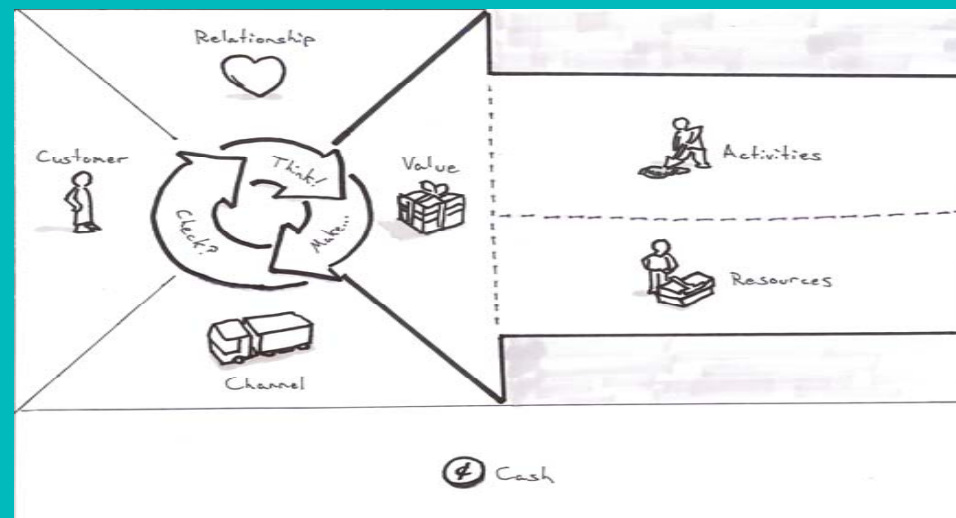
**4.Projections** showing your profits, liquidity, financial position together with Key financial ratios:

- Projected profit and loss accounts
- Projected cash-flows
- Projected balance sheets
- For the first 12 months, detailed month by month for all above forecasts. Then another two years beyond that, for 3 years total, as annual projections
- These forecasts should not be over-optimistic. Realistic.
- Regular Sensitivity analysis.

# COMPONENTS OF WRITING A LEAN BUSINESS PLAN



- Forecasts to be closely monitored and corrective action taken swiftly when negative variances arise.
- Liquidity (cash available) can make or break any business: many profitable firms fail due to lack of sufficient liquidity.
- Therefore watch your liquidity/cash-flow position constantly and take early action to restore it, if need be, before it is too late.



## WHAT IF INVESTORS/BANKERS WANT MORE DETAILS ON SPECIFICS?

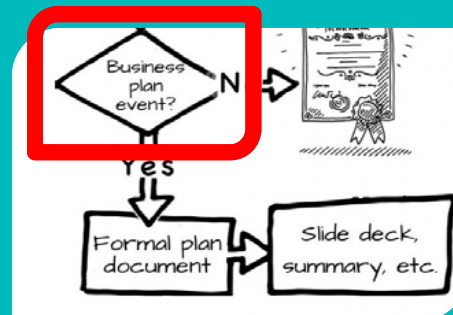


- ✓ In such case we have what Figure 3 calls business plan event, when a longer than lean is needed.
- ✓ The lean plan is a good first draft. Add to that what you are specifically asked:
  - either a market analysis/market plan, or
  - an exit strategy, or
  - a detailed description of product or
  - any other information needed by externals
- ✓ Do them as summaries, presentations, or appendices

# WHAT IF EXTERNAL STAKEHOLDERS WANT MORE INFORMATION?



- The **business plan event** takes place when there is a real reason for a business to submit a business plan document to outsiders.
- Usually, the common business plan events are seeking a commercial business loan or investment from outsiders.
- The idea of the lean plan is that you don't add the required bulk to your lean business plan until the business plan event makes it worth the trouble.



# PITCHING: HOW DO INVESTORS/FINANCIERS MAKE UP THEIR MINDS IN PRACTICE?



- We should not confuse the role of any plan in raising money.
- **Investors don't invest in business plans; they invest in businesses.**
- They invest in business models with satisfactory prospects, sound founder teams, markets, and product-market fits.
- They look for a relationship between the risk and the potential return.



# PITCHING: HOW DO INVESTORS/FINANCIERS MAKE UP THEIR MINDS IN PRACTICE?



■ Factors like the business model, scalability, intellectual property protection and exits to liquidity are very important to investors and are examined by them in depth before they invest in any start-up.



# PITCHING: HOW DO INVESTORS/FINANCIERS MAKE UP THEIR MINDS IN PRACTICE?



Here's how investors actually decide to invest or not to invest in any start-up:

## 1. Investors mainly depend on summaries.

- They put aside all summaries that fail to convince them to invest in new business ideas.
- They then ask other founders to provide summaries.
- Summaries may be verbal, or in electronic format, or in ready-made templates provided by investors.

# PITCHING: HOW DO INVESTORS/FINANCIERS MAKE UP THEIR MINDS IN PRACTICE?



In the case of the conventional business plan, investors spend time reading **only the executive summary** (see Fig. 1), which ideally should not be longer than **1-page!**

## **2. Only innovative startups with interesting summaries are invited to pitch.**

- Investors want to meet in person the founders, understand the business model, the product-market fit, evaluate the potential, and then and only then they decide whether they are interested in pursuing it further.

# PITCHING: HOW DO INVESTORS/FINANCIERS MAKE UP THEIR MINDS IN PRACTICE?



## 3. If pitch investors are interested, they proceed to Due Diligence before they disburse any funds.

- This means checking founders' backgrounds, track record, customers, intellectual property, legal aspects, etc. and of course the business model, the kind of key strategy, tactics, major milestones, metrics, and projections that are part of a normal lean business plan.
- Potential investors/financiers don't need to see all the summaries and descriptions written out in painstaking detail as was the practice in conventional business plans.

## PITCHING: HOW DO INVESTORS/FINANCIERS MAKE UP THEIR MINDS IN PRACTICE?



- They do need to learn however a lot about the fundamentals of the core business, its market prospects, the risks involved and whether the expected returns compensate for those risks.
- As already explained, this can be accomplished by enriching the lean business plan with additional key information that would be considered satisfactory for due diligence purposes required by investors.

# PITCHING: HOW DO INVESTORS/FINANCIERS MAKE UP THEIR MINDS IN PRACTICE?



Remember that:

- VCs/Business Angels stress that the founders of innovative start-ups that eventually get funded don't rely on written business plans for pitching but have a plan at their fingertips. They know all aspects of their business **inside out**.
- However, interested investors need written business plans for due diligence purposes. These documents should be kept **lean** and be enriched with key additional information as already explained and not lengthy/based on overoptimistic assumptions, as was the case with the conventional business plans.

# THE KEY MESSAGES OF LEAN BUSINESS PLAN



- Make sure you review and revise your lean business plan regularly:
  - ✓ Track your progress against the plan.
  - ✓ Satisfy the changing customers needs with the lowest possible fixed and variable cost, ASAP.
  - ✓ Take note of what wasn't expected and
  - ✓ Make decisions quickly to improve things based on the differences between planned and actuals.
  
- Finally don't forget that: "It is not the strongest of the species that survive, nor the most intelligent, but the ones responsive to change". – CHARLES DARWIN.

## EXERCISE 1: CASE STUDY ON A THEME BAR IN BERLIN



■ Please read the real lean business plan presented to you (Berlin Theme Bar) and give us your comments/feedback, based on the following questions:

- Is the target group of this new business clearly explained?
- Is sound evidence presented on the reasons behind this new business idea?
- Is the business model clearly explained?

The case study can be found here:

[https://www.google.com.cy/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0ahUKEwj5xIy98bfKAhWDVxQKHxp4Ah8QFggbMAA&url=https%3A%2F%2Fopus4.kobv.de%2Fopus4-hwr%2Ffiles%2F79%2FSaydam%2CSirin\\_288767.pdf&usg=AFQjCNF6XMHZdcNiXIJLJluU4xzfDxbUVw&bvm=bv.112064104,d.ZWU](https://www.google.com.cy/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0ahUKEwj5xIy98bfKAhWDVxQKHxp4Ah8QFggbMAA&url=https%3A%2F%2Fopus4.kobv.de%2Fopus4-hwr%2Ffiles%2F79%2FSaydam%2CSirin_288767.pdf&usg=AFQjCNF6XMHZdcNiXIJLJluU4xzfDxbUVw&bvm=bv.112064104,d.ZWU)



## EXERCISE 2



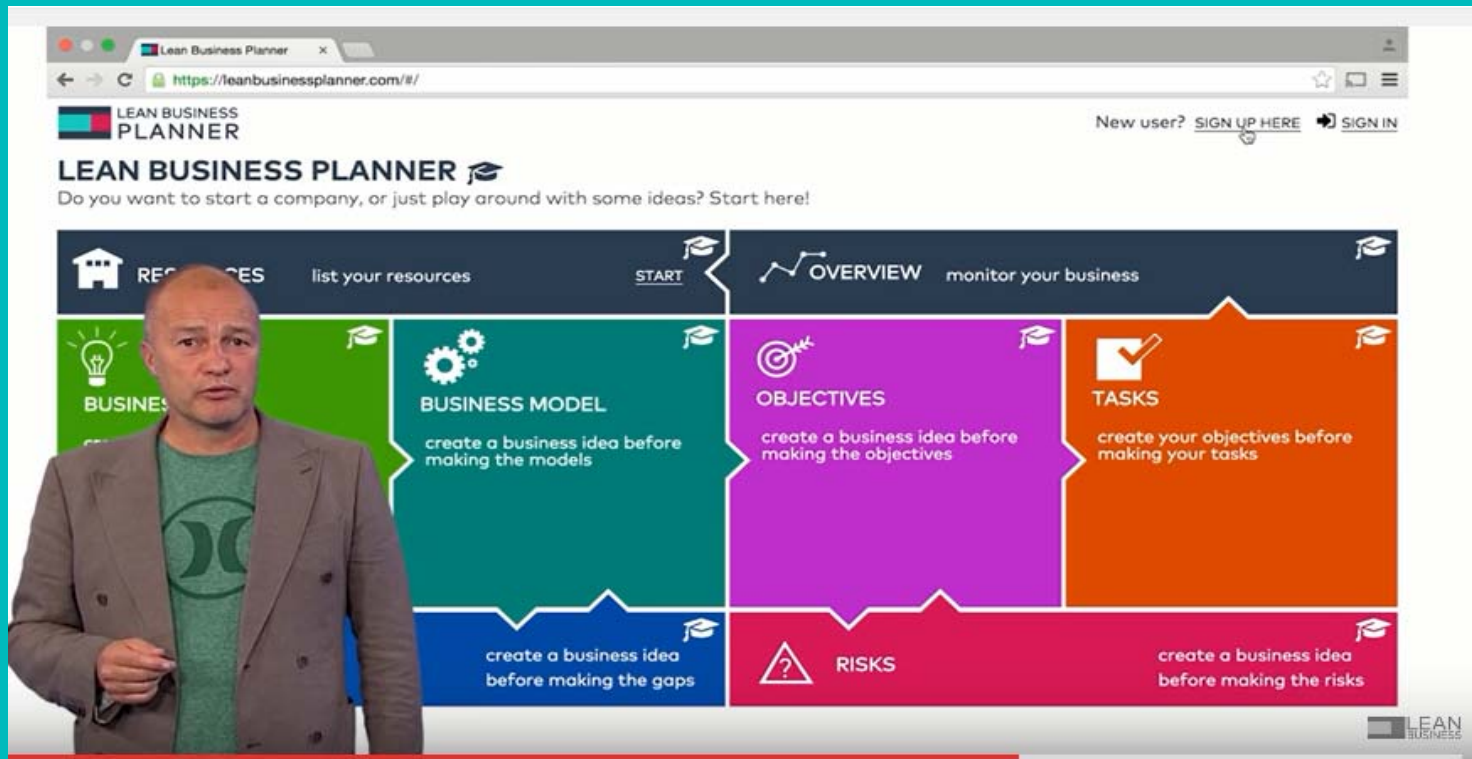
- All participating organisations should invite at least one start-up founder who has developed a lean business plan to present this to the participants, showing how this has changed/developed over a specific period of time.
- Particular emphasis needs to be given by this speaker on the challenges he/she had to face when developing his/her business plan, which sections need to be given specific attention, what do investors asked to see, any tips on how to prepare this correctly and efficiently, how it has helped him/her in their follow-up steps.
- Estimated time of presentation by guest speaker: 20-25'
- Time for questions and answers: 20-25'.
- Overall time: 50'.

# RELEVANT VIDEO



## Lean Business Planning

[https://www.youtube.com/watch?v=k\\_q\\_ifSFP3Q](https://www.youtube.com/watch?v=k_q_ifSFP3Q)



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