

Chapter 2 Pathway to Success: Process and Instruments

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Chapter 2 Overview

This chapter is an introduction to the concepts of feasibility analysis, lean startup, business models, and business plans. The reasons for creating these documents and the recommended contents and applications are discussed.

Chapter 2 Objectives

- Learning Objective 2.1: Describe what a feasibility analysis is and choose when to create one.
- Learning Objective 2.2: Articulate the Lean Startup methodology.
- Learning Objective 2.3: Prepare a Business Model Canvas.
- Learning Objective 2.4: Identify primary business plan contents.
- Learning Objective 2.5: Summarize the various purposes for a business plan and the audiences for one.
- Learning Objective 2.6: Differentiate the components of a business plan.
- Learning Objective 2.7: Recognize and demonstrate proper development and formatting of a business plan.

Chapter 2 Outline

- I. Describe what a feasibility analysis is and choose when to create one. The feasibility analysis essentially tests a business concept for viability through:
 - A. product and/or service feasibility,
 - B. market and industry feasibility, and
 - C. financial feasibility.
- II. Articulate the lean start-up methodology.

The lean startup methodology is a hypothesis-driven approach for start-ups to validate business models using:

 - A. Hypotheses often illustrated in a business model canvas
 - B. Minimum viable products
 - C. Pivots, perseverance, and perishing
 - D. Actionable metrics
 - E. Build–measure–learn loops
- III. Prepare a Business Model Canvas and make a visual representation of the nine facets:
 - A. Key partners
 - B. Key activities
 - C. Key resources
 - D. Value propositions
 - E. Customer relationships
 - F. Channels
 - G. Customer segments
 - H. Cost structure
 - I. Revenue streams
- IV. Identify primary business plan contents.
 - A. the story of what the business is and will be,
 - B. all costs and a marketing plan,
 - C. description of how the business will be financed, and
 - D. an estimate of projected earnings.
- V. Summarize the various purposes of a business plan and the audiences for one.
 - A. A business plan is used by entrepreneurs to organize their thoughts before starting a business and to determine business viability.
 - B. It can be used to raise money from investors and lenders. Almost always, bankers and other potential investors will refuse to consider funding an entrepreneur who does not have a business plan.
 - C. It can help guide the operation of the business.
- VI. Differentiate the components of a business plan.

The parts of a business plan include a cover page; table of contents; executive summary; mission, vision, and culture; company description; opportunity analysis; marketing strategy and plan; management and operations; financial analysis and projections; funding request; and exit strategy.
- VII. Recognize and demonstrate proper development and formatting of a business plan.

A solid, viable business plan that is sloppy and filled with errors may be rejected on that basis alone. The business plan should be well organized, neatly presented, and written in correct English.

Chapter 2 Teaching Notes

Class Discussion Ideas:

1. Present this problem: The students want to go from your location to Wall Street, in New York. Ask them how they would figure out how to get there. Some may say, use MapQuest (or Google Maps or your car's GPS system)—particularly if it is within driving distance. Others may suggest getting train, subway, bus or airline schedules (depending on your location). There may be some who recommend driving east, north, or south until reaching New York City, and then finding Wall Street. Discuss how there can be many ways to achieve the same goal. Explore the estimated travel time and cost of each option. Emphasize that different financial costs and time investments can be involved to accomplish the same goal. Next, ask what happens if they simply get into a car and start driving with no particular destination in mind. Make the connection with the road map to success.
2. The chapter's opening quote, from Lewis Carroll, is: "If you don't know where you are going, any road will get you there." Ask class how this pertains to business. How does it relate to business plans?
3. Ask students to describe what they would want to know about a business before they invested in it? What would determine how much they would invest? (Should help with understanding of contents and rationale.) What would determine whether or not they would invest at all?
4. Suggest that students imagine themselves working at a bank rather than being individual investors. What is the role of the lending officer? (Looking for sales of loans and making profitable loans that are repaid on time.) What would you need to know about a business before approving a loan, or making a positive recommendation to a loan committee?
5. Give students examples of different businesses to show distinctions in what a plan could emphasize. Start with an example such as a student-run T-shirt silkscreen-printing business. Then, progress to a restaurant or retail store. Next, present a high-tech venture. Discuss commonalities and differences in what their respective business plans should include and emphasize.
6. Show examples of well-formatted and poorly formatted business plans and ask students for their reactions to each. Explore reasons why style and format matter.
7. Select an excellent business plan presentation and a poor one or develop one of each. Demonstrate approximately one minute of each. Launch a discussion regarding presentation quality.

Chapter 2 Lecture Enhancers

PPT Lecture Slides Chapter 2

Outside the Classroom:

<http://www.rmahq.org>: Risk Management Associates is an organization that provides comparative financial information for businesses.

<http://www.entrepreneurship.org>: The Kauffman Foundation site provides a broad array of resources and information for entrepreneurs, as well as significant financial resources to support entrepreneurship education.

The Art of the Start: The Time-Tested, Battle-Hardened Guide for Anyone Starting Anything, by Guy Kawasaki (Portfolio, 2004).

Business Model Generation: A Handbook for Visionaries, Game Changers, Challengers, by Alexander Osterwalder and Yves Pigneur (John Wiley & Sons, 2010).

The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses, by Eric Reis (Crown Business, 2011).

The Startup Owner's Manual: The Step-by-Step Guide to Building a Great Company, by Steve Blank and Bob Dorf (K & S Ranch, 2012).

Start Your Own Business, by Rieva Lesonsky (Entrepreneur Press, 4e, 2007).

Chapter 2 Key Terms

Actionable metrics 42
advertising 52
asset 56
balance sheet 56
breakeven point 57
business model 43
Business Model Canvas 43
business plan 46
cash flow statement 56
competitive analysis 52
culture 50
direct marketing 52
elevator pitch 60
environmental analysis 51
feasibility analysis 38
income statement 56
industry analysis 51
initial public offering (IPO) 59
Lean Startup 42

liability 56
marketing mix 52
marketing plan 52
minimum viable product 43
mission 50 mission statement 50
net worth 56
owner's equity 56
profit and loss statement (P&L) 56
proof of market 51
public relations 52
publicity 52
target market 52
vision 50

Chapter 2 Class Activity Ideas and Group Exercises

1. Pick a familiar product or service, such as computers or fast food, and list several companies for that product or service category—for example, Apple, IBM, Dell, and Asus; or Sonic, McDonald's, Wendy's, KFC, and Burger King. Break students into small groups and assign one company to each. Have each group create a list of key competitors, including direct and indirect competition, and what makes the company unique. Have them summarize this on a poster board and present it. Then, discuss how each company might incorporate the information into their business plan.
2. Form several teams to create fictitious companies in different fields. Ask them to answer the following about their company (when they have answered the questions, explain that they have essentially created an Executive Summary for a business plan):
 - a. Name
 - b. Type of business (manufacturing, retail, wholesale, or service)
 - c. Location (city and state at a minimum)
 - d. Key product or service
 - e. Who will buy/use the product or service?
 - f. What makes the company different from its competition?
 - g. Why is this a good opportunity?
 - h. How will customers know about the product and be induced to buy it?
 - i. Who will manage the company? What are their qualifications?
 - j. How long will it take before the company is profitable?
 - k. How much will it cost to start the company?
 - l. Where will the start-up funds come from? If they are borrowed or invested, how will investors or lenders be paid back or realize gains?
 - m. How will the owners exit from the company?
3. Divide the students into pairs. Distribute examples of excellent and poor executive summaries from business plans to each pair. Ask the students to identify the differences in the summaries and comment on them to the class. Depending upon class size, the number of plans may range from 2 to 6.

4. How does voice inflection affect how an elevator pitch is received? Have the students do some research on psychological studies of voice inflection. What things can you do to be more convincing?
5. Give students a simple business plan or one from the text and have them write elevator pitches to present in front of the class.

Chapter 2 Critical Thinking Exercises

- 2-1. Shawn is creating a business that provides advertising on public restroom stall doors. He is funding the project from his personal savings of \$5,000 and does not expect to use any outside financing. Should he utilize the Lean Startup process? Create Business Model Canvases? Develop a business plan? Why or why not?

L.O. 2.5 Summarize the various purposes for a business plan and the audiences for one.

AACSB Application of knowledge

Shawn should first put his hypotheses into the Business Model Canvas format and use the Lean Startup process to complete customer discovery and test the viability of the concept. Once he has found a sustainable, profitable model, he should develop a business plan for funding and to guide his operations. He may find that he needs outside funding or that what he had in mind is not practical.

- 2-2. Charity and Devon are planning to license technology from NASA that would make it impossible to accidentally lock a child in a car. The technology is complex, and the market analysis and financial assumptions take up a lot of pages. The two women have written a 63-page business plan. Explain your concerns about the plan considering the chapter text.

L.O. 2.7 Recognize and demonstrate proper development and formatting of a business plan.

AACSB Application of knowledge & Analytical thinking

The plan is just too long. Investors and lenders will not want to sift through that much information. Charity and Devon need to revise the plan to make it more concise. They need to explain the complex technology in terms that non-technical people can understand, but not so simplistically that technical reviewers are put off.

- 2-3. What factors make the difference between a good business plan and an excellent one?

L.O. 2.4 Identify the primary business plan contents.

AACSB Analytical thinking

A good plan contains all the required information but may not be interesting or engaging. It may look functional but not attractive. Or, it may be too elaborate. An excellent plan includes all the requisite information, is visually appealing, is clear and concise, and draws the reader into the concept. An excellent business plan “sells” the business.

- 2-4. Visit an Internet shopping site such as the Home Shopping Network (<http://www.HSN.com>) or QVC (<http://www.QVC.com>). Select five products for sale that you find interesting or unusual. Make a list of the products and your explanation of the market opportunities they reflect.

L.O. 2.4 Identify the primary business plan contents.
AACSB Information technology and analytical thinking

Answers will vary.

- 2-5. Explain how this statement applies to business plans: *Errors of omission can sometimes be greater than errors of commission.*

L.O. 2.7 Recognize and demonstrate proper development and formatting of a business plan.
AACSB Reflective thinking and ethical understanding and reasoning

Leaving out parts of a business plan is worse than putting in too much information. For example, an investor or lender cannot evaluate a plan without a complete set of financial statements and may reject the entire concept due to a lack of a cash flow statement, or other crucial item. Also, there are ethical implications of excluding information that may represent a substantial, known or expected, risk for the business.

Chapter 2 Key Concept Questions:

- 2-6. Explain why a prospective business founder might want to create a feasibility study or Business Model Canvas before developing a complete business plan.

L.O. 2.1 Describe what a feasibility analysis is and choose when to create one.
AACSB Reflective thinking

A prospective business owner can save time and money by discovering early in the process that an idea or strategy is not viable and that a pivot is in order. He or she can avoid prolonged product development efforts that are based upon “hunches” or hypotheses by testing the hypotheses and creating products and services that are more viable.

- 2-7. How can investing time in the Lean Startup process save an entrepreneur time and money in the short and long term?

L.O. 2.2 Articulate the Lean Startup methodology.
AACSB Reflective thinking

Answers should include:

- a. Potential loss of investment and personal assets may be avoided by determining viability up front.**
- b. The process of lean startup involves answering many questions about business strategy, tactics, and operations before “opening the doors.” This can save both time and money.**
- c. Preparation in general is a time saver because of the focus it brings.**

- 2-8. What are the parts of a Business Model Canvas? How can the entire canvas assist an entrepreneur?

L.O. 2.3 Prepare a Business Model Canvas.
AACSB Reflective thinking

The components of a Business Model Canvas are:

- A. Key partners**
- B. Key activities**
- C. Key resources**
- D. Value propositions**
- E. Customer relationships**
- F. Channels**
- G. Customer segments**
- H. Cost structure**
- I. Revenue streams**

It provides a visual representation of the business model that clarifies the organizations thinking and compels customer inquiry and development. It can assist in shortening the time to market and make the development process more efficient.

- 2-9. Explain why the executive summary is the most important section of any business plan.

L.O. 2.6 Differentiate the components of a business plan.
AACSB Application of knowledge

The executive summary is the most important section because it usually is the first part of the plan that an investor or lender will read. It needs to capture their attention and entice them to read more, or they will go no further.

- 2-10. One mistake entrepreneurs make in their business plans is that of only including an

income statement. What other financial statements should be incorporated and why?

L.O. 2.6 Differentiate the components of a business plan.

AACSB Application of knowledge

The balance sheet and cash flow statements should also be included. Although not strictly financial statements, the financial ratios should also appear. The balance sheet shows what the business owns and owes, as well as its liquidity and debt structure. The cash flow statement shows the inflows and outflows of cash from the business. Both documents help readers understand the whole picture of company finances. For example, a business can be profitable but temporarily in a poor cash flow situation.

2-11. Print an assignment or any body of text, with 1-inch margins, double-spaced, using 12-point Times New Roman font. Then, print the same document with 0.8-inch margins, single-spaced, using a 10-point Arial typeface. Which is easier to read? Why? How would this relate to a business plan?

L.O. 2.7 Recognize and demonstrate proper development and formatting of a business plan.

AACSB Application of knowledge

The former is easier to read than the latter. The document has space around the text and the font size is more legible. The same is true for business plans.

2-12. Name three categories of investors/lenders that might have an interest in your business plan.

L.O. 2.5 Summarize the various purposes for a business plan and the audiences for one.
AACSB Analytical thinking

Answers will vary depending upon the business interests of the student. They typically include bankers, venture capitalists, angel investors, friends, family, and crowd funders.

2-13. Why is it important to identify a business's culture from the beginning?

L.O. 2.6 Differentiate the components of a business plan.

AACSB Reflective thinking

Identifying an organization's culture from the beginning is important because it impacts all aspects of the business going forward, from hiring to product development to customer service.

Chapter 2 Application Exercises

2-14. Prepare a Business Model Canvas for Honest Tea based on the business plan included at the end of this chapter.

L.O. 2.3 Prepare a Business Model Canvas.
AACSB Application of Knowledge

| | | | | |
|---|--|---|---|---|
| <p><u>Key Partners</u> <i>Tea growers (access to markets)</i> <i>Retail stores (new, novel products)</i></p> | <p><u>Key Activities</u> <i>Bottling</i> <i>Marketing</i></p> | <p><u>Value Propositions</u> <i>Less sweet tea</i> <i>Organic product</i> <i>Quenching thirst without the calories</i> <i>Performance</i></p> | <p><u>Customer Relationships</u> <i>Consumers build relationships through blogs and correspondence</i> <i>Retailers have direct contact with sales force</i></p> | <p><u>Customer Segments</u> <i>Niche markets</i> <i>Athletes</i> <i>Health conscious consumers</i> <i>Consumers of organic foods</i></p> |
| <p><u>Key Resources</u> <i>Production capacity</i> <i>Marketing expertise</i> <i>Funding for startup - \$1.1 million</i></p> | | <p><u>Channels</u> <i>Retail health food stores</i> <i>Independent sales representatives (Really not addressed well in plan)</i></p> | | |
| <p><u>Cost Structure</u> <i>Bottling by outside vendor</i> <i>Tea and sweetener</i></p> | | <p><u>Revenue Streams</u> <i>Paying for a less sweet alternative to energy drinks and/or a more flavorful alternative to water</i> <i>Revenue type: sale of product (bottled iced tea)</i></p> | | |

- 2-15. Call or visit an entrepreneur in your community to discuss business plans.
- Ask whether he or she wrote a business plan before starting the business. Since then?
 - If the owner did write a plan, for what has it been used?
 - If the owner did not write a plan, why not?
 - Did the owner have any assistance in writing or reviewing the plan?
 - If so, what was the source of assistance?

L.O. 2.5 Summarize the various purposes for a business plan and the audiences for one.
AACSB Application of knowledge

The answers will vary but should respond to each part of the exercise.

Chapter 2 Exploring Online

- 2-16. Find and provide the URL for a business plan on the Internet. Examine it to see whether it follows the guidelines provided in this text. Use a highlighter to mark the sections of the plan that are present. Then, make a list of missing or incomplete sections. Indicate how it does/does not follow the “rules” for formatting and content. Is the plan viable? Why or why not? Would you invest in it? Why or why not?

L.O. 2.6 Differentiate the components of a business plan
AACSB Application of knowledge and reflective thinking

The student should cite the URL and include a business plan from the Internet that has each part of the plan highlighted. Often, there are missing, or incomplete sections and the students should list them. Then, there should be formatting and content comments/critiques. The student should evaluate viability and the rationale for the answer. He/she should do the same with the question of whether or not to invest.

- 2-17. Find a Business Model Canvas example online (can be a video). Compare its hypotheses to the types identified in the Business Model Canvas section of the chapter. What has been added? What is missing?

L.O. 2.3 Prepare a Business Model Canvas
AACSB Application of knowledge and reflective thinking

Students will find a variety of BMCs on the web. Some will be full of description and information, while others will have barely any hypotheses. Clearly, the specifics will vary. Some students may find mission model or lean canvases as well.

Chapter 2 In Your Opinion

- 2-18. If an entrepreneur presents a business plan that an investor believes is deliberately vague and has provided inflated financial statements, what should that investor do?

L.O. 2.7 Recognize and demonstrate proper development and formatting of a business plan.
AACSB Ethical understanding and reasoning.

Recommendations will vary but should note the importance of clarity and realistic projections. One answer will probably be that the investor should decline the opportunity. Another may be to probe for better, more realistic information.

- 2-19. What, if any, value do you see in the hypothesis-driven approach of the lean start-up, with its iterative processes? How does this compare to the value in the traditional linear process of creating a business plan? How do they conflict, if at all? How do they complement one another?

L.O. 2.2 Articulate the Lean Startup methodology.
AACSB Analytical thinking

Students may see that the lean startup lends itself to opportunities to fail early and often but minimize the risk of fully scaling without a good model. It may lead to a higher business success rate. They may comment on the intuitive nature of generating hypotheses and the scientific process of testing the hypotheses. The lean startup process is more iterative or even circular than the linear business plan development process. While a business plan may be of value for financing or operations, it does not explore the customer discovery and validation of lean startup. They don't conflict as much as they take different perspectives. They complement one another because the resources for one support the other.

Suggested Answers for Chapter 2 Case Studies

Short Case Study Analysis: Frankie's Challenge: Customer Discovery

- 2-20. What specific steps of customer discovery are described above? What, if anything, is missing?

L.O. 2.2 Articulate the Lean Startup methodology.
AACSB Application of knowledge

Frankie conducted several steps of customer discovery including: observation of problems for specific target customers, identification of value propositions, brainstorming, hypothesis generation, creation of evolving Business Model Canvases, pivots, and customer interviews. Business interviews are missing.

- 2-21. How might Frankie improve her chances of success? Identify a minimum of five ways.

L.O. 2.2 Articulate the Lean Startup methodology.
AACSB Analytical thinking

Frankie could improve her chances of success by incorporating more entities into the process and increasing her understanding of the entire pictures. Some specifics include:

-) **Complete customer interviews with independent funeral homes**
-) **Create and test an MVP**
-) **Partner with a website developer**
-) **Worth with an industry association**
-) **Plan to attend a professional association meeting and/or tradeshow**
-) **Understand the competition better**

2-22. What customer segments and value propositions would you suggest apply for this business? How would you test them?

L.O. 2.2 Articulate the Lean Startup methodology.

AACSB Analytical thinking

| Customer Segment | Value Propositions | Tests |
|-----------------------------------|---|--|
| Consumers – immediate need | Convenience, comfort, ease-of-use, speed | Provide partial online options to current customers. Interview prior customers. |
| Consumers – pre-planning | Convenience, comfort, ease-of-use, privacy | Use wireframe MVP to gather emails and contact. Provide partial online options for inquiries at present locations. Interview new customers. |
| Independent funeral homes | Cost savings, efficiency | Conduct customer discovery interviews with specific pass/fail criteria. |

Honest Tea Business Plan

The Honest Tea Business Plan is included in Chapter 2 to illustrate what a real company did as an early plan. This can be discussed in class or given as an assignment. The “Exploring Online” questions from the chapter are a good starting point.