

Teaching & Business Plan Software

Tim Berry, AOM Philadelphia, 2007



What's Planned

Time	Activity	Comments
15	Introductions	Presenter, Group
15	Discussion	Plan, Planning, Teaching, Tools
90	Bearing Down	Business Plan Pro structure, core, flexibility, financial model, customization, tips & traps
30	One Class in Detail	Coverage, components, results.
15	Variations	Curriculae, venture contests, etc.
15	Discussion, Q&A, etc.	

Logistics

- www.timberry.com
- Notes are downloadable
- Contact info and blog.timberry.com
- Business Plan Pro is complimentary
- kristen@paloalto.com
- Business plan website: bplans.com
- Software website: paloalto.com



Background



UNIVERSITY OF OREGON

Foreign Correspondent in the 70s



Tim Berry bio:

President, Palo Alto Software

Principle author, Business Plan Pro

Former VP, Creative Strategies International

Co-founder, Borland International

Planning consultant to Apple Computer, 82-94

Stanford MBA ('81)

Mexico City '71-79

Published books include

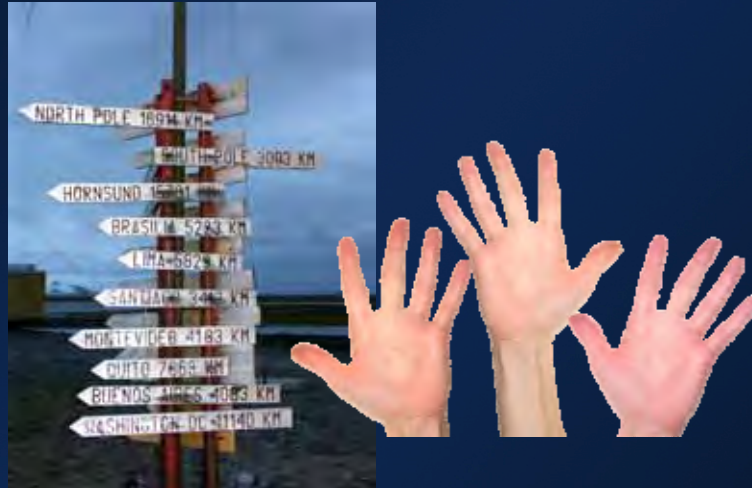
Hurdle: the book on Business Planning

CPA's Guide to Developing Effective Business Plans

On Target: the Book on Marketing Plans

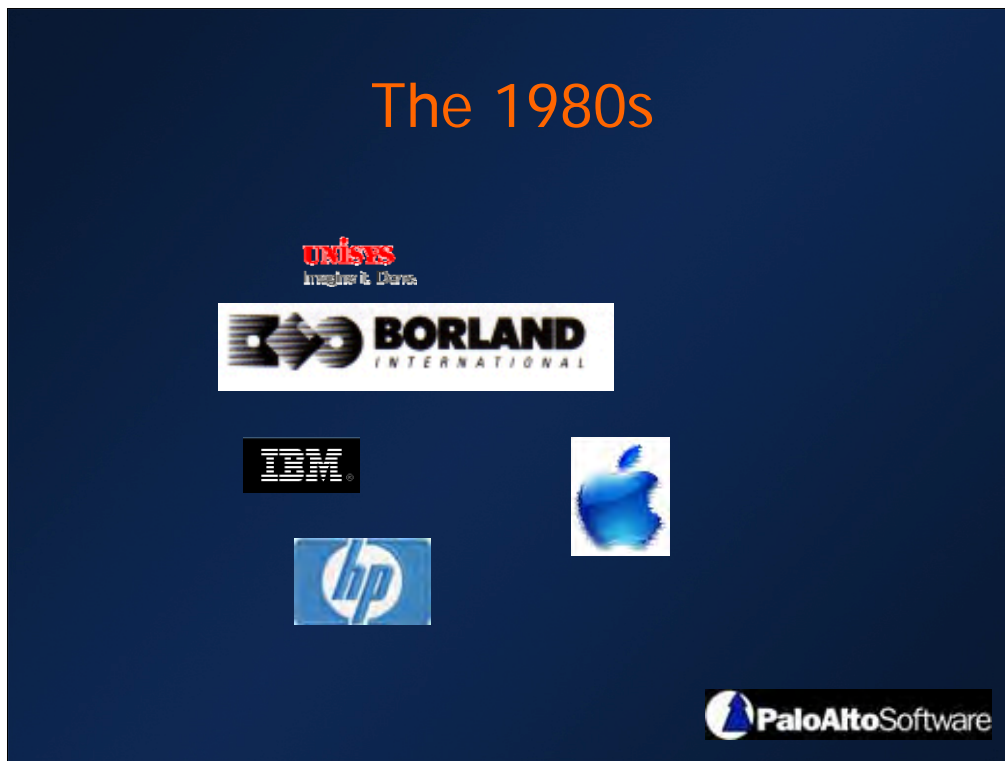
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Ground Rules for Today



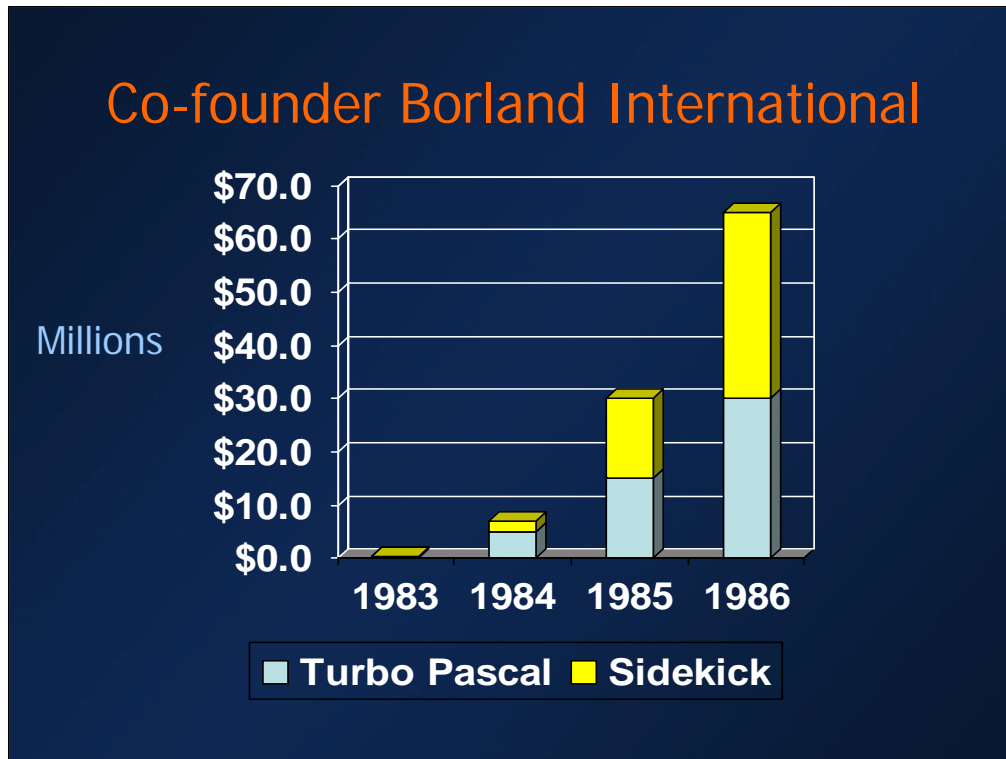
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1. Please interrupt
 - It's your time, your discussion
 - I invite comments and discussions
 - Don't wait for the end, ask me questions as they come up
2. I may change the order midstream
3. I may skip or add to the presentation
4. I may give some small prizes



My Books Published





The main point is demand, need for the product

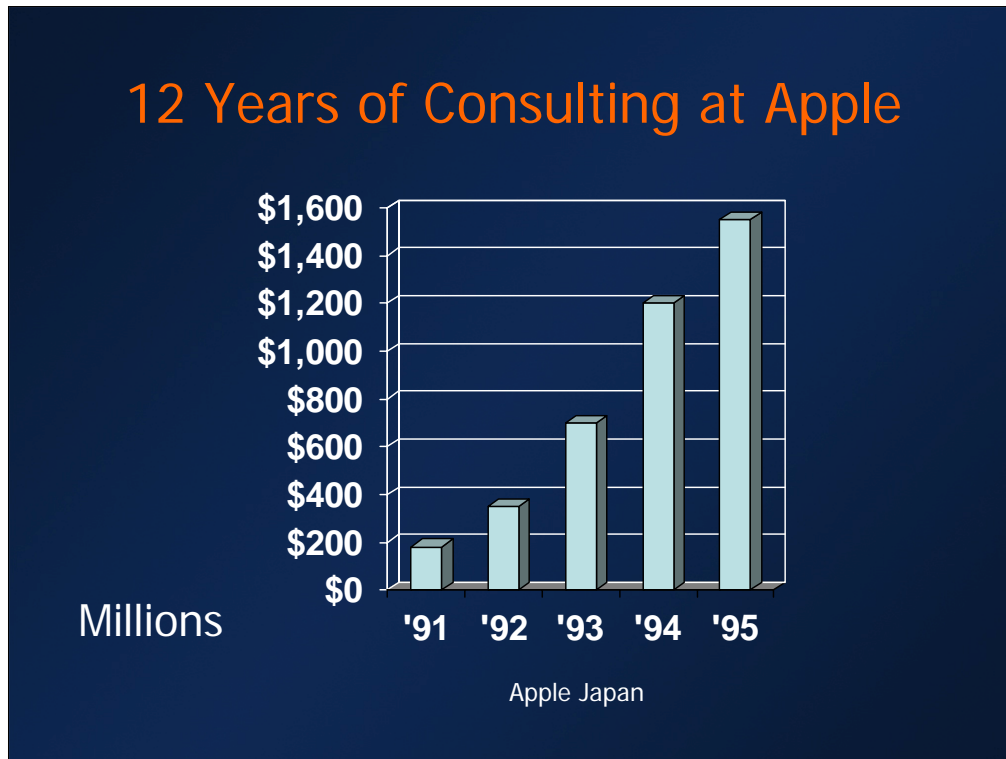
Pascal was needed by lots of people

Market was new, mostly hackers

Demand-driven business is rare

Channels decision in 84: Good example of situation-driven strategy

Should be 9:30-9:40-ish



Latin America 1980s

Market-driven Strategy

Blue Sky problem

Strategy Pyramid

\$2-\$40 million '83-'87

Japan 1990-94

User-need Strategy

Alliance strategy

Unit share 0 to 20%

Sales \$180M to \$1.5B Note different scale

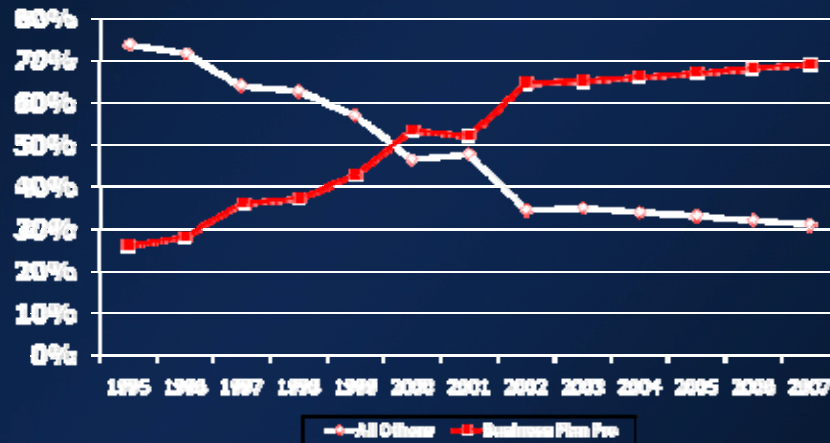
Role as a consultant: observations

Explain blue sky strategy

Strategy pyramid comes later

The point in Apple Japan: Simple. Effective. They stuck to it.

Background: Palo Alto Software



Source: NPD Intellect, formerly PC Data

Point: long-term, consistency

Strategy

Root canal theory

We can't hunt where the ducks are. We lure them to us.

Sell benefits, deliver value

Stick to contiguous markets (product and market)

That comes later ...

Just set the scene now

Paradoxically...

- “The Plan is Useless. Planning is Essential.”
- Teach Planning or Plans, but not Both?
- Developing a Plan as Learning Exercise:
 - Entrepreneurship
 - Marketing
 - Finance
 - Forecasting
 - Market Analysis

I Teach Planning





Your Situation

- The problem and your solution
- Understand market needs, quantifying, reality checks
- Practical Market Research
- Break markets into groups called segments
- Know your competition
- Understand your strengths and weaknesses

Your Strategy

- Ideas vs. Opportunities
- Focus on priorities
- Develop positioning strategy

Your Plan

- Make everything concrete and measurable
- Cover the bases as required
- Make the projections
- Customize for your needs

Follow up



Your Situation

- The problem and your solution
- Understand market needs, quantifying, reality checks
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- Break markets into groups called segments
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- Make everything concrete and measurable
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Follow up

I Teach Developing a Plan



Pick Your Plan

- The classic
- Management
- Investors
- Lenders
- Class
- Competition
- Partners



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The Classic



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The Plan for Management & Growth

- Milestones
- Assumptions
- Tasks
- Ownership
- Follow-up
- Measurability



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The Plan For Investment

- Classic Plan Plus!
- Management team
- Exit Strategy
- Investor ROI
- Market growth
- De



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The Plan For a Bank Loan

- Financial history
- Collateral
- Interest Coverage
- Personal Financials
- Commitment



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Business Plan for Class/Competition

- Respect the classic
- High-risk high profile does better
- Hypothetically seek investment
- Get free software



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Mix and Match Business Plan Contents

	Classic	VC	Bank	Manage	Class
History	Maybe	Team	Financial		
Growth	Maybe	Yes!!	Some	Usually	Yes!!
Exit \$\$\$	Maybe	Yes!!			Yes!!
Market	Yes	Yes	Some	Yes	Yes!!
Team	Yes	Yes	Some		Some
Barriers	Maybe	Yes!!			Yes
Cash Flow	Yes!!	Yes!!	Yes!!	Yes!!	Yes!!
Strategy	Yes	Yes!!		Yes	Yes!!

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Plans, Planning, Teaching, Tools

Discussion



Teaching via Planning Software

- Broad Picture
 - [Market Research](#)
 - [Marketing Strategies](#)
 - [Core Ideas](#)
 - [Forecasting](#)
 - [Start-up Financing](#)
 - [Growing a Business](#)
- Financials
 - [Three Statements](#)
 - [Assets vs. Expenses](#)
 - [Cogs](#)
 - [Gross Margin](#)
 - [Cash Flow](#)

Cons, Worries, Issues

- The cookie-cutter rehash plan
 - Software's plan, not the student's
 - Confining and constrained
 - Elementary
- Standardized, formulaic output
- Should students "suffer" MS Office?

Advantages

- Focus on content instead of methods
- Establish baseline content
- Productized, documented financials
- Instructions, examples, tech support
- Devil in Detail

Three Fundamentals

Fight the fear

Explain cash flow

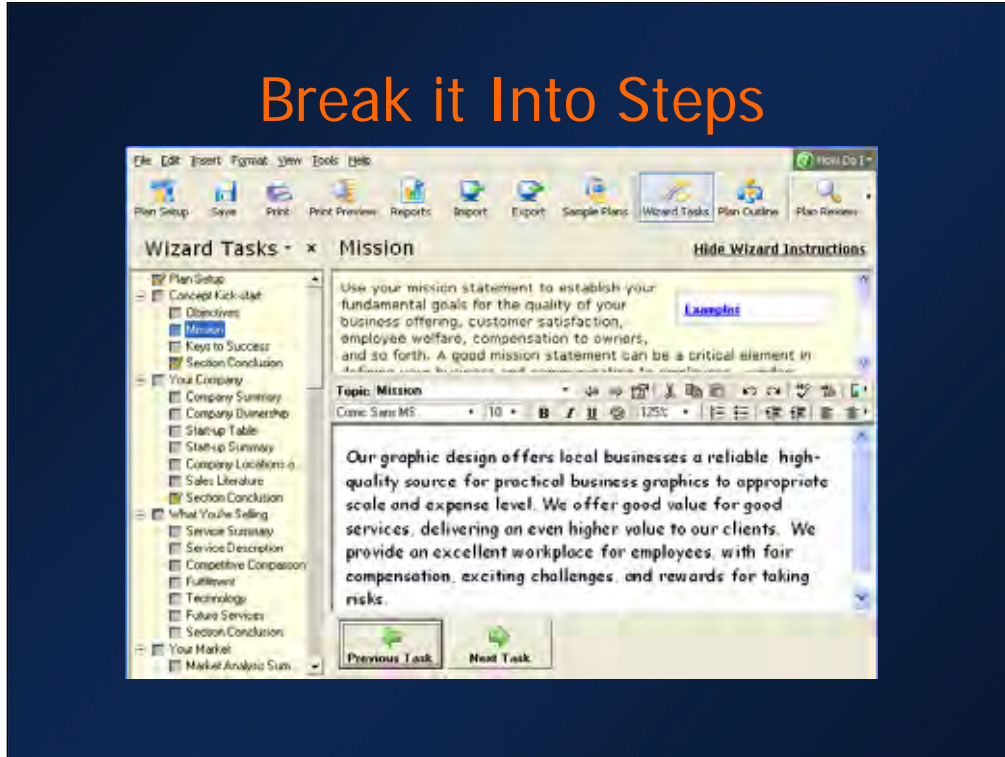
Build numbers slowly

Break it Into Steps



Fundamental: Break it into Tasks
Reduce the fear factor
Give quick, early successes
Start Slow. Roll downhill. Downstream.
What's the Destination
SWOT
Concept kick-start
Why? What's the problem?
What's the market?
Break-even analysis
Business basics
Gross Margin, profitability
Competition

Break it Into Steps



The EasyPlan Wizard is designed to break the entire plan development project into a few dozen specific component tasks.

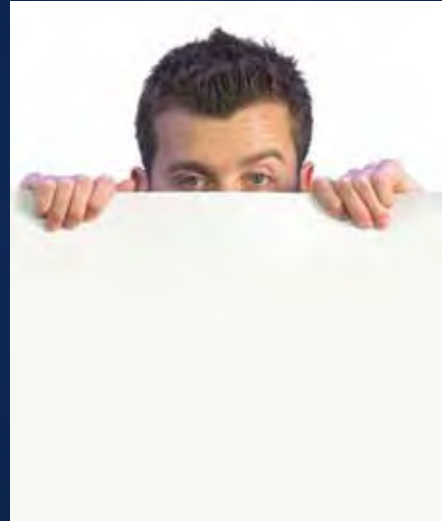
Click the “Wizard Tasks” tool in the toolbar to make sure your navigation is showing the task-by-task wizard.

Then follow the tasks, using the “next task” button, from start to finish in the plan.

Every task has task-specific instructions and examples.

This is all about breaking the project down into its steps.

Defeat Writer's Block



- Easy to jump from topic to topic

Business Plan Pro naturally reduces the writer's block problem with its flexible navigation

One of the main causes of writer's block is trying to make things perfect the first time through. There is no need for that.

Another great writer's block remedy is jumping from one topic to another, or from topic to table and back. Business Plan Pro makes that easy.

The sample plans and examples built into instructions reduce writer's block. Get a draft to start with, and then edit it.

Don't Sweat the Text Format



More reinforcement of the you-can-do it theme and empowering the user. People get fixated in the formatting, as if it made a difference. Business plans aren't really exercises in page layout or business documents. It's about the content. Business Plan Pro has built-in formatting that will take care of this for your students/clients, as long as they're reasonable. Details on next slide.

Free the Outline



This emphasizes the you-can-do it theme. It's empowering. User/student understands that the outline is not a disciplinarian teacher demanding work, but a guide and a helper, suggesting, not demanding. User research supports the importance of teaching the flexibility of the outline. People respect the default outline too much. They think they have to fill in everything. They don't feel empowered to modify.

Ease into the Financials



Business Plan Pro can help your students/clients break through the problem of fear of financials

Financials are broken into separate tables, but linked up so that changes in one affect all others.

Mathematics and finance are correct. Projections are as good as the underlying assumptions.

Your students/clients don't have to be experts, they just have to make reasonable estimates.

Teaching involves giving people confidence to estimate.

Following slides contain a recommended sequence.

- Break-even

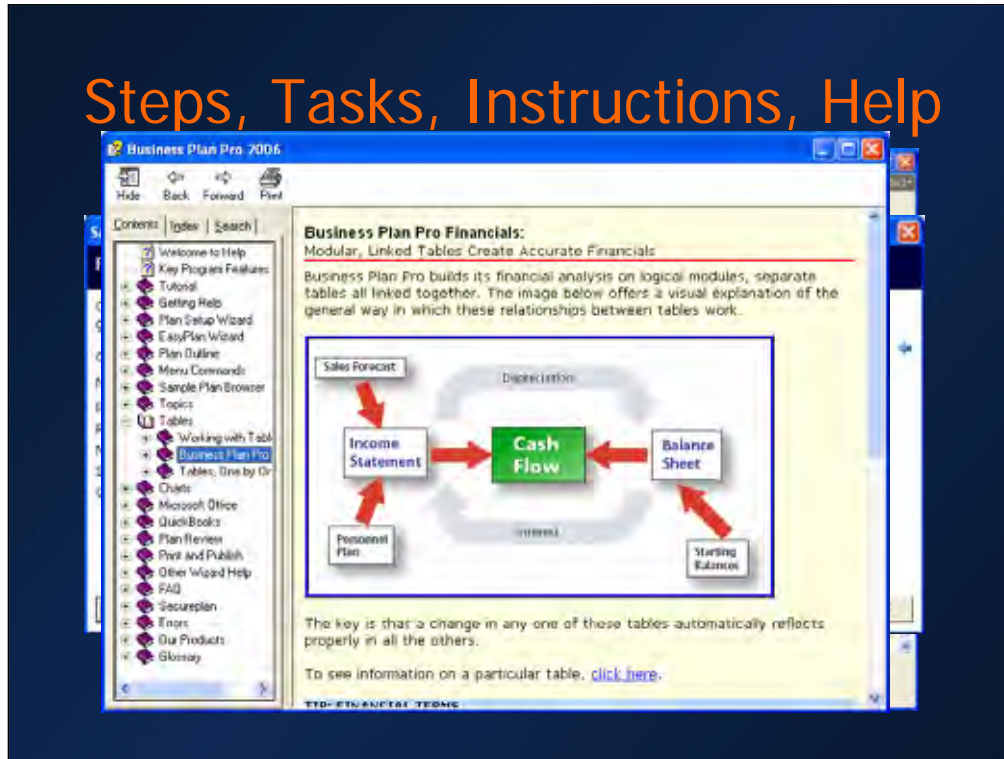
- Starting costs (Past Performance for Ongoing)

- Sales forecast

- Personnel plan

- Profit or loss

Steps, Tasks, Instructions, Help



This is about empowering your student/client to find help within the software. The table wizard helps with data entry. It isn't necessary – you can turn it off if it gets in the way – but it helps when people are unsure of themselves getting through tables.

Every table has row-by-row help for every row in the table

The online help facility is extensive ... 597 pages if you download and print it out.

It includes a lot of help on the financial principles, financial model, tables, etc.

Develop a SWOT Analysis

Strengths

Personnel Passion
Product
Brand Innovative

Weaknesses

Lack of capital
reputation
poor service
Greed

Opportunities

Baby boomers
location - Hillsboro
Technology Product
Demographics

Threats

Legislation
Technology
Investment climate
Competition

It's Planning, *not* Accounting



Accounting: today backwards into the past

Objective is reporting to IRS, SEC, etc.

Details are essential

- Depreciation in detail

- Assets in detail

- Loan payments and interest

- Graduated tax rates

Reporting responsibility for infinite details

Planning: today forwards into the future

Objective is decision making

Powerful simplifying assumptions:

- Depreciation

- Assets

- Taxes

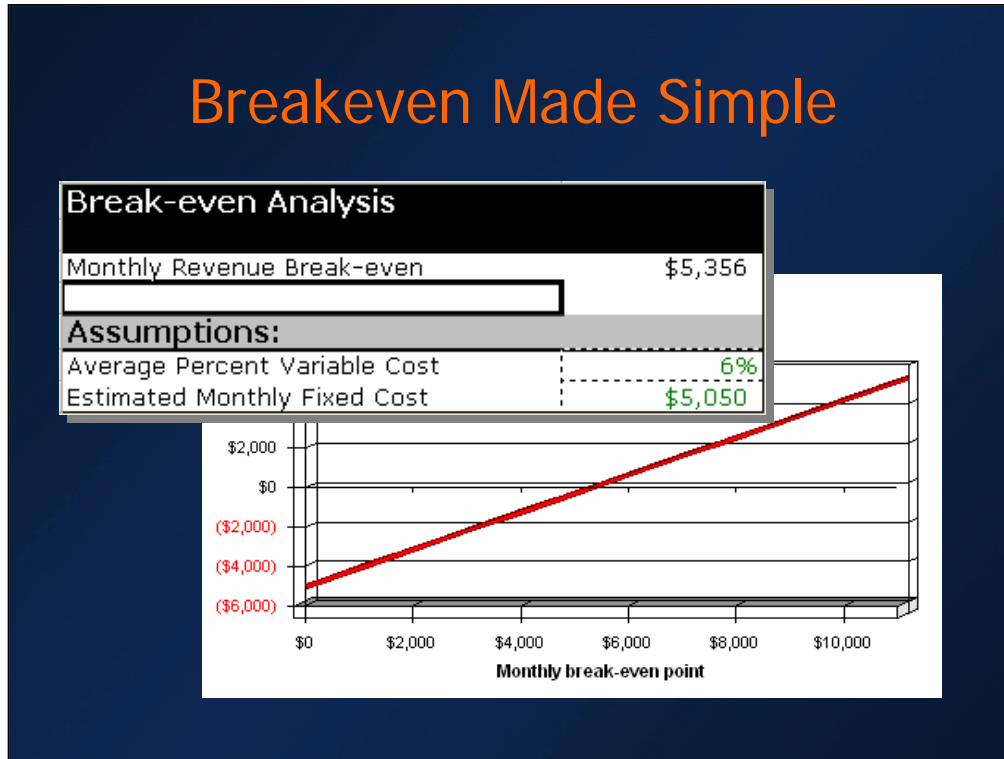
- Loans and interest

Where is the uncertainty:

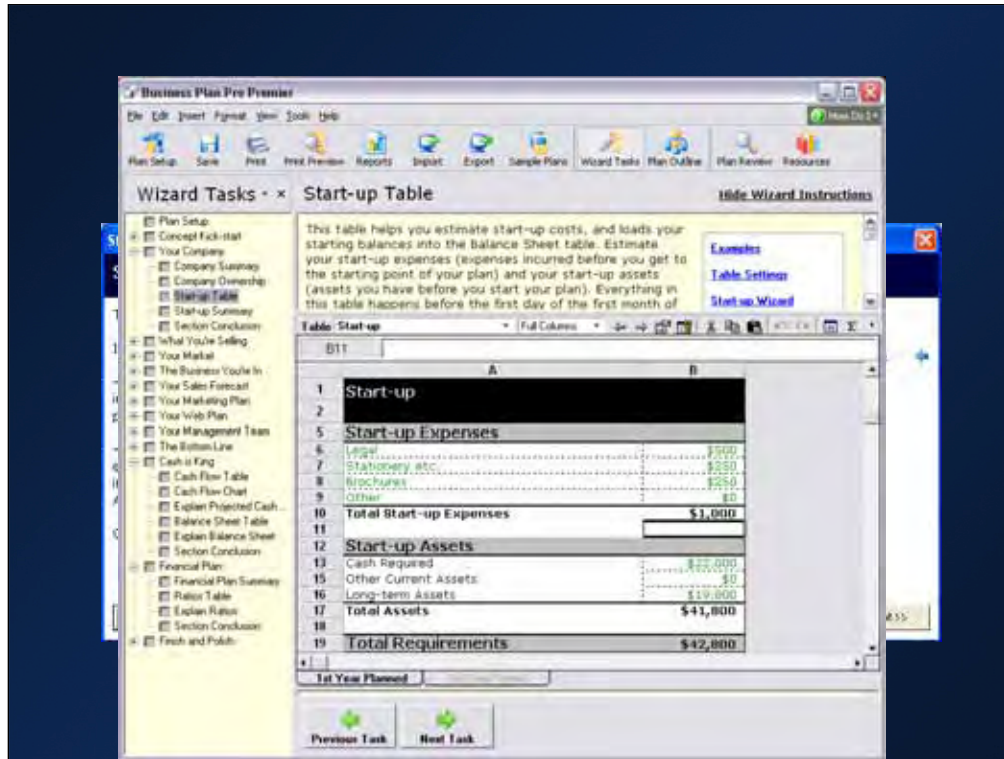
- Sales forecast vs.

- Detailed depreciation

- Detailed taxes



1. Start a plan with BPW. Use the wizard to do the setup. Set the starting dates. Set whether you want to forecast sales by units or just dollars.
2. Go to the Sales Forecast table. You can use the plan wizard, outline view, or views menu to get there.
3. Pick a month about midway through the year, a month that would seem to be an average run-rate month.
4. Do the sales forecast, with sales and cost of sales, for at least that one supposedly typical month.
5. Go to the Personnel plan and fill in at least that one supposedly typical month of payroll.
6. Go to the Profit and Loss and fill in estimated running expenses (rent, utilities, marketing, etc.) for that same one month. Find the total operating expenses number for that month, and copy it.
7. Go to the break-even table. Paste the single month total operating expenses into the "estimated monthly fixed cost" cell
8. You have a break-even analysis done. Discuss it. Make sure your students understand it.



1. Demystify starting costs
2. Start with expenses. Explain them. Estimate them. It's a simple list
3. The wizard can help with this
4. Sample plans can help with this
5. Go on to start-up assets. Explain how furniture, signage, vehicles, etc., may be required.
6. Finish with starting cash. This is an estimate at first, then becomes a better estimate later after filling in sales, personnel, profit and loss, and cash flow.
7. Important: show how start-up funding relates to starting costs. Make sure your students/clients understand the way the "Additional funds required" cell in start-up funding makes your cash balances balance.

Sales Forecast

Sales Forecast															
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	2006	2007	2008
Unit Sales															
Coffee	600	650	700	750	800	850	900	950	1,000	1,150	1,300	1,450	10,500	12,500	14,000
Tea	200	250	275	300	325	350	375	400	425	500	575	650	4,325	6,000	7,000
Juice	150	300	335	370	405	440	475	510	545	650	755	860	5,375	6,500	8,000
Total Unit Sales	950	1,200	1,310	1,420	1,530	1,650	1,775	1,900	2,025	2,300	2,630	2,960	20,200	25,000	29,000
Unit Prices															
Coffee	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
Tea	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Juice	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00	\$3.00
Sales															
Coffee	\$1,200	\$1,300	\$1,400	\$1,500	\$1,600	\$1,700	\$1,800	\$1,900	\$2,000	\$2,200	\$2,300	\$2,400	\$21,000	\$25,000	\$28,000
Tea	\$200	\$250	\$275	\$300	\$325	\$350	\$375	\$400	\$425	\$500	\$575	\$650	\$4,325	\$6,000	\$7,000
Juice	\$450	\$900	\$1,005	\$1,110	\$1,215	\$1,320	\$1,425	\$1,530	\$1,635	\$1,950	\$2,265	\$2,580	\$16,125	\$19,500	\$24,000
Total Sales	\$1,850	\$2,450	\$2,680	\$2,910	\$3,140	\$3,375	\$3,600	\$3,825	\$4,050	\$4,750	\$5,175	\$5,600	\$41,450	\$50,500	\$59,000
Direct Unit Costs															
Coffee	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60
Tea	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20
Juice	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90
Direct Cost of Sales															
Coffee	\$360	\$390	\$420	\$450	\$480	\$510	\$540	\$570	\$600	\$690	\$780	\$870	\$6,300	\$7,500	\$8,400
Tea	\$40	\$50	\$55	\$60	\$65	\$70	\$75	\$80	\$85	\$100	\$115	\$130	\$865	\$1,200	\$1,400
Juice	\$135	\$270	\$302	\$333	\$365	\$396	\$427	\$458	\$489	\$585	\$675	\$765	\$4,838	\$5,850	\$7,200
Subtotal	\$535	\$710	\$777	\$843	\$910	\$975	\$1,040	\$1,105	\$1,170	\$1,309	\$1,375	\$1,435	\$12,003	\$14,550	\$17,000

The most frightening part of the sales forecast is the “I’m not qualified” problem. Emphasize for students/clients how this is educated guessing. It’s the future. Nobody knows. And it’s going to change anyhow.

Explain the steps: start with units, go to prices, then costs. Break it down to make it easier.

Explain how to look at past sales where you have data.

Explain how to find some logic in your business: sales per square foot, sales per table, sales per day, something that can help.

The view here might look complicated. Better in practice to break it into units, then prices, then costs.

Personnel Plan

	Jan	Dec	2006	2007	2008
Manager	\$5,000	\$5,000	\$60,000	\$65,000	\$70,000
Hostess	\$3,500	\$3,500	\$42,000	\$45,000	\$50,000
Chef	\$4,500	\$4,500	\$54,000	\$60,000	\$65,000
Cleaning	\$2,500	\$2,500	\$30,000	\$35,000	\$40,000
Waiters	\$6,000	\$6,000	\$72,000	\$100,000	\$130,000
Other	\$2,000	\$2,000	\$24,000	\$52,000	\$55,000
Total Payroll	\$23,500	\$23,500	\$282,000	\$357,000	\$410,000

The personnel plan is easy to understand
 It's educated guessing
 It is a simple list
 Special note:

Business Plan Pro has a number of options on structure of this table. It can divide by categories, calculate according to headcount by department, etc.
 However, to get people started we usually show the simple and most understandable option.

Profit & Loss

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	2007	2008	2009
Sales	\$9,000	\$10,188	\$10,188	\$10,188	\$10,188	\$10,188	\$10,188	\$10,188	\$10,188	\$10,188	\$10,188	\$8,550	\$100,798	\$110,877	\$121,965
Cost of Sales	\$50	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$75	\$800	\$880	\$968
Gross Margin	\$8,950	\$10,113	\$10,113	\$10,113	\$10,113	\$10,113	\$10,113	\$10,113	\$10,113	\$10,113	\$10,113	\$8,475	\$99,998	\$191,045	\$371,978
Operating Expenses															
Rent	\$2,200	\$2,200	\$2,200	\$2,200	\$2,200	\$2,200	\$2,200	\$2,200	\$2,200	\$2,200	\$2,200	\$2,200	\$26,400	\$29,040	\$31,944
Triple Net Expenses	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$350	\$4,200	\$4,620	\$5,082
Utilities	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$3,000	\$3,300	\$3,630
Salaries	\$2,800	\$2,800	\$2,800	\$2,800	\$2,800	\$2,800	\$2,800	\$2,800	\$2,800	\$2,800	\$2,800	\$2,800	\$33,600	\$36,960	\$40,656
Depreciation												\$1,500	\$1,500	\$1,650	\$1,815
Insurance	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$3,600	\$3,960	\$4,356
Technology Upkeep	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$300	\$3,600	\$3,960	\$4,356
Other	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$2,400	\$2,640	\$2,904
Total Expenses	\$6,400	\$6,400	\$6,400	\$6,400	\$6,400	\$6,400	\$6,400	\$6,400	\$6,400	\$6,400	\$6,400	\$7,900	\$78,300	\$86,130	\$94,743
EBIT	\$2,550	\$3,713	\$3,713	\$3,713	\$3,713	\$3,713	\$3,713	\$3,713	\$3,713	\$3,713	\$3,713	\$575	\$21,698	\$2,850	\$2,850
Interest	\$113	\$114	\$114	\$114	\$114	\$114	\$114	\$114	\$114	\$114	\$114	\$129	\$1,452	\$1,841	\$1,988
Taxes	\$609	\$900	\$900	\$900	\$900	\$900	\$900	\$900	\$900	\$900	\$900	\$6	\$111	\$5,061	\$252
Net Profit	\$1,828	\$2,699	\$2,699	\$2,699	\$2,699	\$2,699	\$2,699	\$2,699	\$2,699	\$2,699	\$2,699	\$334	\$15,184	\$28,541	\$54,383

After sales forecast and personnel are done, the profit and loss follows
 Sales, cost of sales, and personnel come in from the previous tables
 Black is protected because it comes from somewhere else or is a formula
 Green is for data entry
 Your student/client fills in the operating expenses, and has a P&L done.

Concrete and Specific



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It's human nature. Plans are worthless without implementation. What makes implementation likely?

- Measurable objectives
- Specific start dates
- Specific end dates
- Specific responsibilities
- Specific spending budgets
- Specific business activities, with specific people responsible for carrying them out, and for results.

For more information on this topic:

<http://www.hurdlebook.com/index.cfm?p=150>

Plans Must Be Measurable



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You find ways to build measurement– accountability – into the plan.

- Dollars
- Units
- Percentage
- Calls
- Presentations
- Complaints
- Transactions
- Contacts
- Messages
- Volume

Objectives Must be Measurable

- Is it just a document or a plan?
- What about defining new business and growth?
 - Market Need -- Logistics
 - Business strategy -- Team
- Identifying a market
 - Market size -- Market needs
 - Market growth -- Competition
- Setting targets
 - Sales -- Expenses
 - Cash flow -- Market Share

Bearing Down

Business Plan Pro structure, core, flexibility,
financial model, customization, tips & traps



One Class in Detail

Coverage, Components, Results



Variations

Curriculae, venture contests, etc.



Conclusion

More discussion, Q&A, etc.





<http://www.hurdlebook.com/index.cfm?p=142>

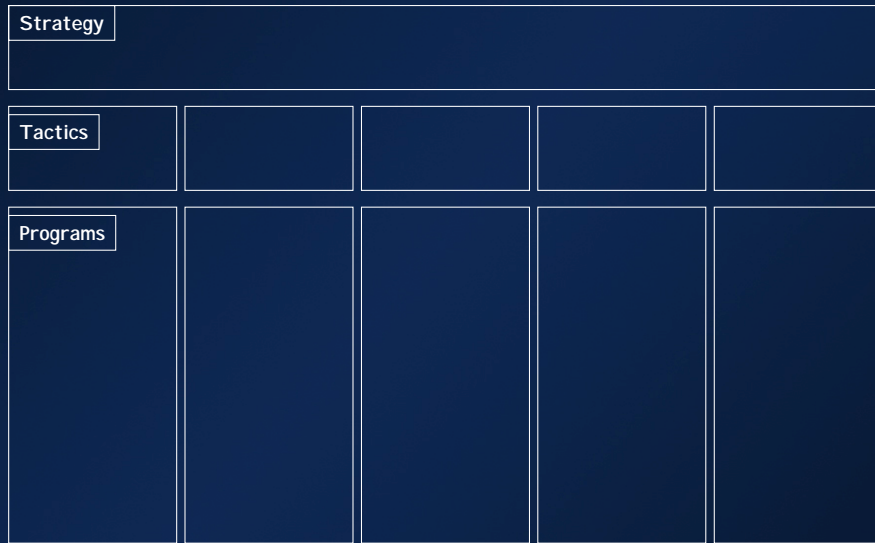


Story Behind It
Blue Sky Strategy vs. Real Planning
Strategic Alignment

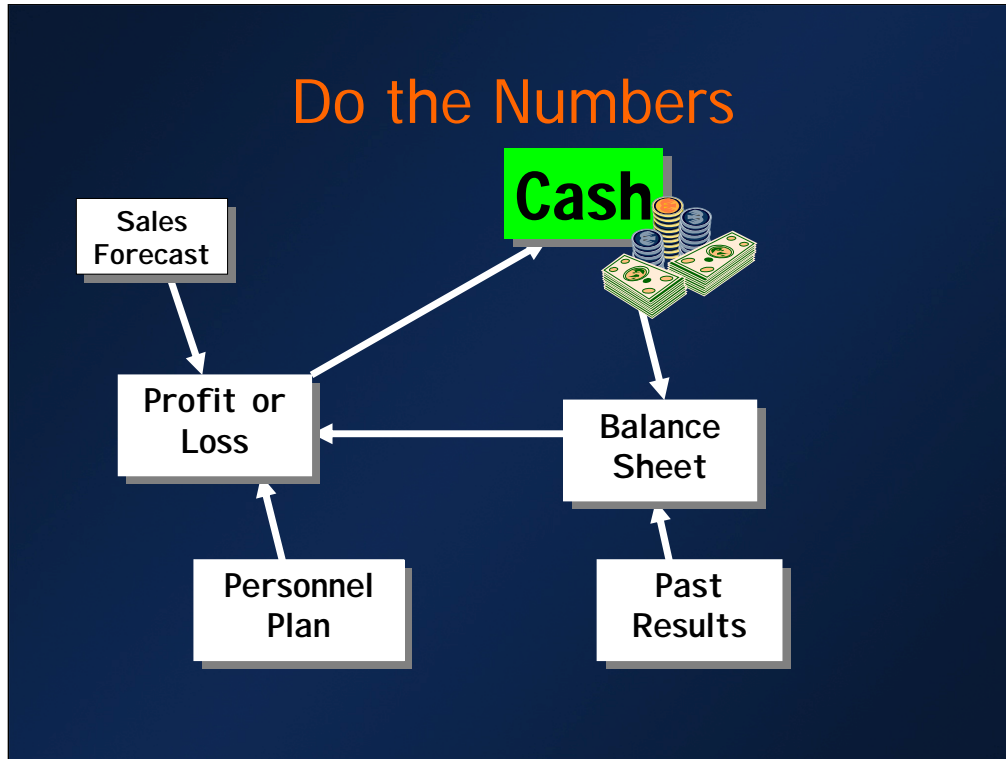
Online book reference:

<http://www.hurdlebook.com/index.cfm?p=142>

Strategy Pyramid Example



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Critical:

Profits are not cash

This matters because it can hurt so badly

Examples

I learned the hard way with channels

You don't need to do it – but know it!

For more information:

<http://www.timberry.com/fm/>