

IDEA COMPETITION BUSINESS PLAN GUIDE 2011-2012

Welcome to the IDEA Competition! IDEA (which stands for Ingenuity Drives Entrepreneur Acceleration) is a project of Ingenuity Frontier, a collaboration of partners joined by a common purpose — *to grow the economy of Northwest Minnesota by outfitting the next generation of homegrown innovators for success in the global marketplace.*

IDEA is managed by several partners: 360° Manufacturing and Applied Engineering Center of Excellence, Agricultural Utilization Research Institute, Bemidji State University, Enterprise Minnesota, Headwaters Regional Development Commission, Minnesota Department of Employment and Economic Development, Northland Community and Technical College, Northwest Minnesota Foundation, Northwest Regional Small Business Development Center, Northwest Regional Development Commission, and University of Minnesota Crookston.

Your success is our success. This plan is a guide that we have developed through years of experience in assisting individuals (such as you) in bringing promising ideas to market. Launching a new business is complicated, but we hope that this guide will help you to organize your ideas in such a way that your application will get the attention of the IDEA judges, and ultimately, help you to successfully launch your idea.

Launching a new product, service or idea is a challenging process. Statistically, less than 1% of all new products or services developed go on to become a commercial success. The question you need to answer is “how will I beat the odds and stand among those who succeed in introducing a new product or service?” Although there are many reasons that businesses fail, there is one thing that successful innovations share—a comprehensive plan for execution of the idea.

Don't underestimate the importance of due diligence.¹ Doing your homework will pay off in more ways than one. Although you want to write a competitive IDEA Business Plan, more importantly, you need to determine for yourself if your idea is really going to work. Can you actually make money with your idea? As much as possible, verify and confirm your assumptions. You'll need to gather lots of information. How long do companies in your industry take to pay their suppliers? Will you need to buy in bulk to reduce your costs? How long will it take to get your supplies? Will it be more feasible to do all the work in-house or to contract some of it out? The more information you can gather now, the more solid your plan will be, and ultimately, the chance of successfully commercializing your idea will be much better.

A word of caution: as you develop your plan, *be real*. Don't overestimate your revenues or the potential of your idea. By all means, you have to believe in what you are doing and that passion and excitement should be evident in your written plan (and if you advance to the finals, in your oral

presentation). However, you won't do yourself any favors by being anything less than honest and as realistic as possible. Our judging panel is comprised of business professionals, financiers, and angel investors. Anything less than a sincere, realistic approach will be evident to their practiced eyes.

Finally, as an IDEA participant, you are encouraged to take advantage of all the resources provided to participants—podcasts, sample business plans, templates, and personalized consulting available through the Small Business Development Center. If you have questions at any time during the competition you may contact IDEA Competition Project Coordinator, Michelle Landsverk, by emailing info@ideacompetition.org or by phoning 218-435-2834.

JUDGING CRITERIA

As you develop your plan, be mindful of the following IDEA Competition judging criteria. Winning ideas are those that receive the highest scores, based on the following criteria:

- **Your Innovation:** Can your idea be considered innovative? Whether it is an idea for a new technology, product or service; whether it would be considered high-tech, low-tech or no-tech; your idea should be unique and different, and provide a competitive advantage. Ideas that show the greatest innovation will be viewed more favorably.
- **Your Commercial Potential:** Can your idea be commercialized within two years? Can your idea create or serve a market need? What benefits will you provide your customer? What is your strategy for turning your idea into a high-growth business? Judges will be evaluating your idea on its potential to generate revenue, profits and employment.
- **Your Financial Potential:** Can your idea become profitable? Is it reasonable to expect that a lender would borrow you money for startup costs based on the evidence shown in your written plan? Have you invested money in your own idea? If not, will you? How much?
- **Your Team:** What role will you play in launching your business idea? Tell us about the key strengths and life experiences that make you ideally suited for the role you have identified for yourself. Who else is on your team? Who will you need to fill key positions?

IDEA PLAN STRUCTURE

The outline on the following pages includes nine sections. These sections will help you to organize your ideas. The sub-points in each section are suggestions, but are not strictly required. You have the

freedom to add sections, expand, or even omit sections as you see appropriate, keeping in mind that you will be scored on how well you meet each of the above judging criteria.

You must not exceed 15 pages for your idea plan. Supporting drawings, pictures, schematics or financial tables, may be included in the Appendices, which should not exceed 10 additional pages.

I. The Title Page (cover)

- A. Name of Company
- B. Logo (if developed)
- C. One Line Pitch
- D. Team Members: individuals who are either co-owners or partners with you in the business
- E. Disclaimer Warrant: “This business plan is intended solely for informational purposes to assist you with a due-diligence investigation of this project. The information contained herein is believed to be reliable, but the management team makes no representations or warranties with respect to this information. The financial projections that are part of this plan represent estimates based on extensive research and on assumptions considered reasonable, but they are of course not guaranteed. The contents of this plan are confidential and are not to be reproduced without express written consent.”

II. Executive Summary

Although no more than 2-3 pages, your Executive Summary is the most important part of your IDEA Business Plan. It needs to capture the reader’s attention and make them want to keep reading. It should provide a brief, succinct, yet powerful overview of the highlights of your IDEA Business Plan.

Your Executive Summary should contain the following:

- A. The Opportunity
 - 1. Problem or Need Your Idea Addresses: before you tell us about your idea, tell us about the problem or need that led to the development of your concept. What is the customer problem or need you are solving? What is the market inefficiency you are capturing? How do you know the opportunity is real? Can you give a supporting fact or two in your favor?
 - 2. Your Innovative Solution: introduce us to your concept and how you will address the problem or need identified in point A above. Give a *brief* overview of what your idea is and what makes it innovative.
- B. The Market

1. **Your Target Customer:** who will be your first, your best, your primary customer? Who is in greatest need of the solution you are providing?
 2. **Your Competition:** tell us who your competitors are and why your idea gives you an advantage.
- C. **Development Timeline**
1. How long will it take to bring your idea to market? Identify your most critical milestones and when you expect to reach them.
- D. **Management**
1. Tell us what role you will play in launching your business idea. Tell us about the key strengths and life experiences that make you ideally suited for the role you have identified for yourself. Who else is on your team? Who will you need to fill key positions?
- E. **Financial Highlights: (*final round only*)**
1. **Startup costs:** How much money will it take to get you started and where will that money come from—yourself, family, friends, debt financing, or equity investment?
 2. **Projected cash flow:** What is your best estimate of monthly operating expenses and revenue?

III. The Opportunity

- A. **Problem or Need Your Idea Addresses:** you have already introduced us to the problem or need in the Executive Summary. Now, give us more of the details. How widespread is the problem? How big is the need? The problem or need you are describing becomes your business opportunity. It is the unique space that your idea can fill, if successful. The answer to that question will tell you (and your readers) just how large your opportunity is.
- B. **Your Solution:** briefly tell us your story. Why is your venture necessary? What inspired you? What is it that makes this a *breakthrough* idea? Why is it *innovative*?

IV. The IDEA: Your Innovative Solution

- A. **Stage of Development:** how far have you taken your idea? Is it still just a concept? Do you have a prototype? Are you in the seed,ⁱⁱ startupⁱⁱⁱ or growth^{iv} stage?
- B. **Intellectual Property:** is this idea uniquely yours? Have you taken steps to protect it? Make sure you clearly state the status of any intellectual property upon which your idea rests.
- C. **Features to Benefits:**^v features are the specific characteristics of your product (red, metal, 25 lbs., etc.) Benefits are what the customer gains from your product. Ask yourself what's in it for your customer, or why a customer would purchase the product. Turn your product features into customer benefits.

D. Market Comparison: are there similar products out there? Other solutions to the identified problem or need? They are your competition and each of them has a slice of the pie. Where do you fit in? What is your unique position in the marketplace? What advantage does your product provide in comparison to the other choices currently available?

V. Your Marketing Plan

A. Market Research: the best marketing plans are those based on good information. In conducting your marketing research, you will probably want to utilize both primary and secondary^{vi} sources of information. The information you find should bring you to some conclusions that you share in the IDEA Business Plan. Make sure to include information on **industry** trends, **customer** trends and on your **competitors**.

B. Target Customer: Who will you sell your product to? How many customers will you have? Think of a bullseye; if you were going to aim your product at one specific customer, who would that be? Launching a brand new product is very expensive. Focusing your efforts on the early adopter will bring the best return on your money. An early adopter is the first customer type or group to purchase your product. Provide demographic and psychographic information on your target customer. Keep in mind the fact that a customer-focused plan rarely fails.

C. Target Market Strategy: your target market strategy should be developed in response to your target customer and the best method of reaching that customer. Think about where and how you can make a meaningful and effective connection with the customer. Products do not sell themselves. Tell us how you will sell your product.

D. Product Strategy: how will you *position* your product to achieve the desired level of sales? Product positioning is all about identifying your market niche—that distinct place that only you can fill. It is based on a thorough understanding of your competition.

E. Pricing Strategy: pricing is both an art and a science. Your pricing strategy will need to be developed with a thorough understanding of your competition, your costs of production, your fixed costs (overhead), and what your customer will pay for your product.

F. Distribution Strategy: distribution strategy is not about how you will ship your product to your customer—it is about the path your product takes to get to its final destination. Are you selling to a wholesaler? To a distributor? Directly to the end user? Have you already established a relationship with the entity you will be purchasing your product directly from you?

G. Advertising and Promotional Strategy: you've already identified your target customer. How will you get their attention? How and where are your competitors advertising?

H. Sales Strategy: who will be doing the selling? How will they (sales-people) be interfacing with customers? How many sales will you make and when?

VI. Development Timeline

- A. Development Strategy: what needs to be done to get your idea off the ground? Is there a sequential order? Who will be responsible for each step?
- B. Development Timeline: when will you have each step completed?
- C. Development Expense Estimates: what will it cost you to complete each step?
- D. Break-even Timeline: how long until you reach your break-even^{vii} point?

VII. Your Management Plan

- A. Legal entity: what is the legal entity of your business? Will you be a sole proprietor, a partnership, a corporation, an LLC, or an LLP? What makes the most sense for you and your business?
- B. Location: where will your business be located initially? Out of a home office or shop? In the industrial or technology park? In a business incubator facility?
- C. Current Management Team: Give bios for each team member. What role will each of them fill? What responsibilities will each of them have? How will they be compensated and at what level?
- D. Management Team Needed: Whom will you be hiring and what are the unique characteristics of the ideal individuals you will need?
- E. Other Employees: will you be hiring others? How many will you be hiring and how much will you be paying them?
- F. Corporate Board of Directors: What is the size and structure that will be developed as this venture develops?
- G. Advisory Boards: Every company needs knowledgeable contributors to help the company develop, grow, and ultimately become successful. Who are they currently and whom would you ideally target if you could get them?
- H. Strategic Consultants: There are always extra people you may need to count on for specific content knowledge or skill level. Who might these people be?
- I. Growth Plans: It is important to be aware of how your company will grow. What will be your employee needs as this venture grows? Can you estimate a timeline for employee acquisition and for which corporate functions they will be needed? Can you estimate their salary requirements? Can you identify major limitations in available pools of employees or finding those employees that will need specialized skill sets?

VIII. Your Financial Plan (you may skip this section for Round Two)

A. Summary: the summary should give a narrative account of the highlights of your spreadsheets. Focus on the key points, rather than on the detail. Although the summary should be placed before your assumptions in your written document, you should develop your assumptions and complete your spreadsheets prior to writing your summary. The assumptions and the spreadsheets give you the information that is included in your summary. Your financial plan should demonstrate the feasibility^{viii} of your idea.

B. Assumptions: writing your assumptions is the first step in creating your financial plan. Begin by itemizing your underlying financial assumptions. For example, if you state that you will generate sales of \$100,000 in year one of your financial projections, you will need to explain how you have arrived at that exact number. Is that selling 1,000 widgets at \$100 each or is it selling 10,000 widgets at \$10 each? If you state in your financial projections that you will spend \$50,000 in wages in year one, you will need to explain how many workers you have, how many hours they will work, what rate they will be paid, and how much the accompanying payroll taxes will be. If you state that it will cost you \$10 to manufacture each widget, you will need to detail if that is based on a quote, and if so from which manufacturer. In short, you will be expected to explain in detail the underlying rationale behind the revenues and expenses that form the backbone of your financial plan. It will be critical to the judges who review your financial plan to thoroughly understand ALL of your underlying financial assumptions.

C. Spreadsheets: you will need to use the provided templates to create cash flow projections for the first two years of operations and tabulate your startup costs. The spreadsheets can be placed in the Appendix and do not count toward your 15-page limit.

IX. Critical Risks, Problems, and Assumptions

What are the market forces that play against you? What are the risks to the business (take market and/or tactical risks and monetize them). When is the window of market opportunity likely to close? What are the operations risks? What are the risks of competitors responding to your entry into the market? What financial damage can competitors cause you? What are the liabilities should this venture not live up to its potential? What are the critical milestones that must be met and their consequence if missed? How can you manage or minimize your risk?

OTHER RESOURCES

Sample Business Plans

In the registered user's area of the ideacompetition.org website, you will find sample business plans. No two businesses are alike—no two business plans are alike, either. Use these plans as an example and as a reference, not as templates. Your own idea will determine which style is correct for your plan. These are not provided as copy templates. Other examples may be found online by Googling “Business Plans,” or by going to sampleplans.com.

Small Business Development Center

We encourage all IDEA Competition participants to tap into the resources available through the Northwest Regional Small Business Development Center. Their consultants are available to assist you at no cost. You may call 218-755-4255 to set up an appointment.

Additional Resources

Additional resources are available on the IDEA Competition website. The members section is where we will post resources that are only available to participants. You will also want to check the Resources tab on the website. A wide variety of resources are listed there.

ENDNOTES

i Due diligence

The due diligence process requires objectivity. The process of due diligence is used by lenders and bankers to verify and validate the assumptions of a business plan. The outcomes of due diligence are the verification and validation of feasibility, viability, and desirability.

ii Seed Stage

Seed money provides startup companies with the money they need to fuel their initial development and growth. The investment can be in the form of a loan, an investment in preferred stock or convertible bonds, or an investment in common stock. Angel investors are often involved in seed stage funding rounds.

iii Startup Stage

At the startup stage, a business is born and exists legally. Products or services have been defined, and the first few customers are on board.

iv Growth Stage

Companies in the growth stage have established a certain level of market presence and are experiencing any combination of the following: increasing revenues, increasing customers, new

product or service offerings, additional employees.

v Features and Benefits

Features are product characteristics; benefits are customer needs served by those features. Some examples of features are size, color, horsepower, functionality, design, hours of business, and fabric content. Benefits are less tangible but always answer the customer's question: What's in it for me?

vi Primary and Secondary Research

Primary research is information that you gather directly from the marketplace. It can be gathered through conducting surveys, interviews, focus groups, test marketing, or any other method in which you gather information directly from the marketplace. If you have a consultant or professional firm gather the information for you, it is still considered primary research. Secondary research uses already published sources of information—articles, reports, trade association publications, the Internet, etc.

vii Break-Even Point

The break-even point for a product is the point where total revenue received equals the total costs associated with the sale of the product ($TR = TC$). A break-even point is typically calculated in order for businesses to determine if it would be profitable to sell a proposed product.

- break even point (for output) = fixed cost / contribution per unit
- contribution (p.u) = selling price (p.u.) - variable cost (p.u)
- break even point (for sales) = fixed cost / contribution (pu) * selling price (pu)

viii Feasibility

A feasible plan is one that is capable of being done, practicable, possible, likely, reasonable, probable, suitable. It demonstrates that there is a market for the product or service, the plan presents a structure adequate for entering and serving the market, and the resources (money, marketing, and management) exist or are accessible for entering and serving the market.