The Nuts and Bolts of New Ventures
MIT Course 15.393 (30th Year)

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Teaching Assistants:
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nutsandbolts.mit.edu

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Why This Course?

• How many of you have NEVER taken an entrepreneurship course before?
• For those of you who HAVE taken an entrepreneurship course before: why are you taking this course?
Why This Course?

• Not About Theory -- It’s About DOING
• Planning and Executing New Ventures
  • Not Just Business
• Goal – Infect you with Entrepreneurial Thinking/Action Virus
What Will You Get?

• You invest 6 evenings in this course
• You Get new or enhanced skills:
  ➢ How to Evaluate a venture idea from an impact and economic viewpoint
  ➢ How to figure out Who is My Customer?
  ➢ Where and How do I get the financial resources to launch and grow my venture?
  ➢ How do I scale my venture and make it sustainable?
  ➢ How do I build and retain a top notch team - employees and advisers?
  ➢ How do I negotiate deals and resolve team conflicts?
  ➢ What are the legal pitfalls I need to know about?
  ➢ How do I pitch my venture idea?
Let’s Hear Some Pitches

- Pitch – No more than 1 minute
- Feedback – lead by Bob Jones (2 minutes max)
About the Course

• **Starting = Lesson in Entrepreneurial Action**
• **Two Themes**
  • Create Value
  • Capture Some of the Value Created
Tonight’s Plan

• Who are You?
• Introduce our Teaching Team
• Introduce our Case Study
• Venture Planning Basics - Overview
• Break – Team Building
• Bob Jones – “Finding Your Customer”
Who Are You?

• Students:
  – Engineering
  – Science
  – Architecture/Planning
  – Management/Economics
  – Other

• Non-Student Participants:
  – Alums
  – Staff
  – Others

H = R
E
Who Are We?

- Joe Hadzima
- Joost Bonsen
- Riana Shah, Harry Kainen and Cy Schroeder
- Yonald Chery
- Highly UnPaid Volunteer Speakers
Who Are We?

Joe Hadzima
- Involved in launching 120+ new ventures
- Senior Lecturer at MIT Sloan School
- Former Law Partner at Sullivan & Worcester LLP
- Founding Judge of MIT $100K Competition
- Global Chairman Emeritus of MIT Enterprise Forum, Inc.
- Managing Director, Main Street Partners, LLC
- Co-Founder and President of IPVision, Inc.
- jgh@mit.edu
Who Are We?

• Joost Bonsen
  • Lecturer, MIT Media Arts & Sciences
  • Former Lead Organizer, MIT $100K Competition
  • MIT Founders Study
  • MIT Enterprise Forum
    • Cambridge Chapter
    • Global Board
  • Co-Founder, Howtoons
  • Maximizing Progress Blog www.maximizingprogress.org/
  • jpbonsen@alum.mit.edu
Who Are We?
nutsandbolts-ta@mit.edu

• **Riana Shah**
  • 2020 MIT Sloan MBA Candidate
  • Legatum Fellow
  • Co-Founder/CEO of Independent Thought and Social Action International (ITSA)
  • Innovation Strategy Consultant – Brightidea
  • Venture Vignettes podcast host
Who Are We?
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• **Harry Kainen**
  • 2020 MIT Sloan MBA Candidate
  • co-Managing Director of the MIT $100K Competition
  • Healthcare Consulting startup
  • Sloan Sports Analytics Conference
  • Breaking the Mold Hackathon
  • Agricultural Technology startup
Who Are We?
nutsandbolts-ta@mit.edu

- **Cy Schroeder**
  - 2020 MIT Sloan MBA Candidate
  - co-Managing Director of the MIT $100K Competition
  - Prior to attending MIT, debt and equity investing for an asset management company
  - Sloan Venture Capital & Private Equity Club leadership team
  - Entrepreneurship & Innovation club
  - Renewable Energy startup
Tonight’s Plan

• Introduce our Teaching Team
• Introduce our Case Study
• Business Planning Basics - Overview
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• Bob Jones – Finding Your Customer
Virtual Ink Corporation is a computer peripherals company whose lead product automatically transcribes what users write on existing chalk or whiteboards, thus enabling, inexpensive, error-free, real-time transcription of handwriting and sketching.

**e*pen** is a labor-saving, productivity and communications enhancement tool that could enable automatic capture of valuable shared thoughts communicated daily between millions of office and academic user.

[Video Link]
Why Virtual Ink?

• **Why We Include It**
  • Concept Easy to Understand
  • $100K Entrant ($50K at the time – this was his 3rd attempt)
  • Interesting Story of the Times and Company
  • Entrepreneur Yonald Chery provides unusually candid insight. He will be here for the last class.

• **References to Virtual Ink from time to time**

• **Full Plan in Course Reader** (available on MIT Learning Modules – see link on home page of nutsandbolts.mit.edu)
Tonight’s Plan

• Introduce our Teaching Team
• Introduce our Case Study
• **Venture Planning Basics - Overview**
• Break – Team Building
• Bob Jones – Finding Your Customer
SESSION 1: VENTURE PLANNING BASICS

• What We Will Discuss Today:
  – Why Make a Venture/Business Plan?
  – What Should Be In a Plan?
  – The Plan as a Financing Document
SESSION 1: VENTURE PLANNING BASICS

World War II  D-Day
Largest seaborne invasion in history. 2,200 aircraft, 7,000 ships, 195,000 naval and 150,000 army personnel.

Why Make a Plan?
“Plans are Worthless but Planning is Everything”

Dwight D. Eisenhower
Supreme Commander, Allied Forces Europe
34th President of the United States
SESSION 1: VENTURE PLANNING BASICS

• Why Make a Plan (Pitch Deck)?
  – Because I have to...
    – Needed for financing
    – Strategic partnering
    – To explain ventures to customers/suppliers
    – To attract key people
SESSION 1: VENTURE PLANNING BASICS

• Why Make a Plan?
  – Because I Need to Understand My Business/Venture
  • The Plan is a result of a PLANNING PROCESS
  • People don’t Plan to Fail; they Fail to Plan
    – Who are your customers/users?
    – Will they buy or use your service or product?
    – What will they pay?
      » Or how will you capture value for your efforts
    – How will you make and deliver the service/product
    – What resources (people, money, technology) will you need?
SESSION 1: VENTURE PLANNING BASICS

- It is a Really Simple Concept ..... (whether you are doing a Web 2.0 company, a biotech company or a non-profit social developmental company):
  - Create Value
  - Capture/Harvest some of the Value Created (so you can do it again)
**The Concept is Simple – the Answers are NOT**

Scene from The Social Network:

Eduardo: It's time to monetize the site
Mark: What does that mean?
Eduardo: It means it's time for the website to generate revenue
Mark: No, I know what the word means. I'm asking how you want to do it.
Eduardo: Advertising
Mark: No
Eduardo: We've got 4000 members
Mark: 'Cause the Facebook is cool. If we start installing pop-ups for Mountain Dew it's not gonna --
Eduardo: Well I wasn't thinking Mountain Dew but at some point -- and I'm talking as the business end of the company -- the site --
Mark: We don't even know what it is yet. We don't know what it is, we don't know what it can be, we don't know what it will be. We know that it's cool, that is a priceless asset I'm not giving it up.
Eduardo: When will it be finished?
Mark: It won't be finished, that's the point. The way fashion's never finished.
The Concept is Simple – the Answers are NOT

Facebook Annual Report on Form 10-K 12/31/2012

Part I - Item 1. Business Overview:

— Our mission is to make the world more open and connected
  — How We Create Value for Users
  — How We Create Value for Developers Through the Facebook Platform
  — How We Create Value for Marketers
SESSION 1: VENTURE PLANNING BASICS

The Plan - **A SUPPORTED VISION**

- Mission/Vision Statement 1 sentence/paragraph
- Elevator Pitch 30 seconds
- Executive Summary 2-5 pages
- PowerPoint Presentation 10 slides/20 minutes/30 pt

**Full Plan**
20-30 pages

**Detailed Support/Foundation**

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Financial Projections  
Technology  
Intellectual Property  
Market Analysis  
Competitive Analysis  
Sales and Distribution  
Team
Who should Develop the Plan?

- Founder alone?
- The team?
- A hired writer/consultant?

You need to OWN the Plan
SESSION 1: VENTURE PLANNING BASICS
What Should Be In The Plan?

The Plan is a SELLING DOCUMENT
- Don't lose sight of the vision
- The excitement must come through
- The Plan should project your image

BUT: The Plan Must Be Defensible
SESSION 1: VENTURE PLANNING BASICS
What Should Be In The Plan?

Elements of a Plan

– Executive Summary
– The Opportunity and the Company and its Services/Products
– Market Research/Analysis
– Economics of the Venture
– Marketing Plan
– Design and Development Plan
– Manufacturing and Operations Plan
– Management Team
– Schedule
– Critical Risks, Problems and Assumptions
– The Financial Plan
– Appendices

Notice That “Technology” Is NOT Automatically a Section
SESSION 1: VENTURE PLANNING BASICS

What Should Be In The Plan?

Cover Page / First Slide

• Name of Venture
• Contact Info: Address/email/website/telephone
• Confidentiality legend
• Securities law legend
  – Control numbering of copies
Business Plan

Virtual Ink Corporation
Kendall Square
Post Office Box #369
Cambridge, MA 02142-0003

617 225 9806 (24 hr. messages)

http://www.virtual-ink.com
e-pen@virtual-ink.com
This confidential Business Plan is the property of Virtual Ink Corporation and contains proprietary information belonging to Virtual Ink. It is submitted for the sole and confidential use of the person named below. No part hereof may be reproduced, distributed or used for any other purpose. This copy must be returned to Virtual Ink upon request. This confidential Business Plan does not constitute an offer of securities for any purpose.

Copy No. ___________ For: ___________________
This Business Plan has been prepared by Virtual Ink, a Delaware Corporation. It is being delivered, subject to prior execution of a Confidential Disclosure Agreement, to a limited number of parties who may be interested in investing in Virtual Ink Corporation. The sole purpose of this Business Plan is to assist the recipient in deciding whether to proceed with a further investigation of Virtual Ink Corporation.

While Virtual Ink Corporation believes that the financial and other information contained herein is accurate, Virtual Ink Corporation expressly disclaims any and all liability for express or implied representations or warranties contained in, or for omission from, this Business Plan, or any other written or oral representations and warranties which may be made to the investor in a Stock Purchase Agreement when, as and if one is executed, and subject to such limitations and restrictions as may be specified in such Stock Purchase Agreement, shall have any legal effect.

This Business Plan shall not be photocopied, reproduced or distributed to others at any time without prior consent of Virtual Ink Corporation. It has been prepared for informational purposes related to this investment opportunity only and upon the express understanding that it will be used only for the purposes set forth above. Upon request, this recipient will promptly return all material received from Virtual Ink Corporation (including this Business Plan) without retaining any copies thereof. In furnishing this Business Plan, Virtual Ink Corporation undertakes no obligation to provide the recipient with access to any additional.
SESSION 1: VENTURE PLANNING BASICS
What Should Be In The Plan?

Table of Contents (Topics in Pitch Deck)
- Put one in
- Include page numbers

Q: What Do Investors Read First?
Q: What Do Investors Read Second?
What is an Executive Summary?

It is the First Thing Investors Read
It is a “Resume” for your Full Plan
  • Goal is to get the “Interview” to Give the Pitch

What Do Investors Really Look For?

  • The “3 Whys”
    • Why This?
    • Why Now?
    • Why This Team?

  • The 4th Why:
    • Why Won’t This Work/Succeed?
EXECUTIVE SUMMARY (continued)

• Size
  – Two pages (preferable) to five pages (max)

• The Executive Summary must be
  – Logical
  – Clear
  – Interesting/Exciting

• The Executive Summary is like a RESUME
  – If it gets the reader’s attention, the rest gets read
  – The Elevator Pitch is to the Exec Summary as the Exec Summary is to the Full Plan
    » Think of the Pyramid...
SESSION 1: VENTURE PLANNING BASICS
What Should Be In The Plan?

Executive Summary (continued)

• The Executive Summary tells
  – Who you are
  – What your strategy/vision is
  – What you are doing and/or propose to do
  – What is the market or impact potential
  – How many $$$$ do you need and what will you do with them
    (NO TERMS HOWEVER)
  – What your SUSTAINABLE COMPETITIVE ADVANTAGE is

• When the reader is finished he or she should be able to tell
  someone what you are up to.
SESSION 1: VENTURE PLANNING BASICS

What Should Be In The Plan?

• Executive Summary (continued)

• The Executive Summary Should Contain:
  – Description of the Business Concept and the Business
  – The Opportunity and Strategy
  – The Target Market and Projections
  – The Competitive Advantages
  – The Economics, Profitability and Harvest Potential
  – The Team
EXECUTIVE SUMMARY: PEOPLE EXPRESS

The Eastern seaboard of the United States is ripe for the entry of a new, superefficient, low-cost air carrier to provide quick, reliable inter-city air transportation. Such an entity would bring to the Northeast the same benefits that have accrued to other areas of the United States. Chief among these are:

- Frequent jet commuter service between major cities
- Prices competitive with private automobiles
- Fulfillment of the congressional goals in enacting the Airline Deregulation Act of 1978 to have better service at lower fares.

The new company will be able to achieve these goals for the following reasons:

- Aggressive, innovative management that has been tested in the field and been on the leading edge of innovation in air transportation marketing and systems
- Equipment and facilities designed specifically for the low-cost production of air transportation
- Manpower selected, trained, and motivated to be efficient and profit oriented
- New systems to be applied to the entire business of air transportation to minimize investment in manpower and machines

All of these, when applied to the new entity, will result in considerable economies vis-à-vis existing air carriers.

- 40 years of regulation have created an industry heavily unionized with tremendous inefficiencies
- The economics of a new entity should be at least 30%-40% better per seat mile than the current trunks.
- Other new carriers such as Southwest or Air Florida have shown a consistent ability to compete on a price basis and earn extraordinary returns
- The current political, economic, and regulatory climate is ideal for the proposal herein envisioned.
- The Northeast is waiting for someone to bring it what the rest of the nation already has: low air fares.


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EXECUTIVE SUMMARY: ELECTRONIC COMPONENTS, INC.

Electronic Components, Inc. is a start up company that will make a variety of electronic components, beginning with a new type of aluminum-based capacitor. This unique product, coupled with excessive demand for capacitor devices, will provide us with an ample share of the capacitor market and numerous opportunities for expansion into related electronic components.

The founders are dedicated and determined to make the venture a successful and profitable entity. Technical expertise is provided by James F. Lynch, who has been involved in designing capacitors for 11 years. He obtained a Bachelor of Science degree in electronic engineering from the Massachusetts Institute of Technology.

Technology for capacitors is changing rapidly. Electronic Components, Inc. has an opportunity to capitalize on a major technological change by getting off to a quick start and expanding quickly.

This proposal pertains to two additional phases of required financing. The first phase, consisting of about $150,000 for pilot plant start-up, has been completed from the personal funds of the principals. The remaining financing is for the following:

Phase Two: Obtain $750,000 capital for:
- Hiring and training production personnel;
- Purchasing additional equipment necessary for appropriate productivity;
- Develop the market;
- Complete the sales rep network;
- Explore new markets.

Phase Three: Increase Production and Sales
- Computerize manufacturing to triple output with minimal increase in labor;
- Begin exporting;
- Expand new marketing activity.

Financing will be used to purchase manufacturing equipment, hire the necessary employees, and develop new markets. In addition, management intends to spend between 10% and 20% of revenues on research and development of new products.

The electronic component field offers attractive opportunities for fast sales and profit growth. Already, demand exceeds supply in the capacitor area as well in other related areas.
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Virtual Ink Corporation is a computer peripherals company whose lead product automatically transcribes what users write on existing chalk or whiteboards, thus enabling automatic, inexpensive, error-free, real-time transcription of handwriting and sketching. Virtual Ink was the first place runner-up in the 1997 MIT Entrepreneurship and Business Plan Competition for its primary product, the e•pen™. e•pen™ is a labor-saving, productivity and communication enhancement tool that could enable the automatic capture of valuable shared thoughts communicated daily between millions of office and academic users.

EXECUTIVE SUMMARY

“What is the product?”

e•pen™ is a patentable human-computer interface tool that converts any common writing surface as large as 10 meters x 16 meters into an electronic transcription device. e•pen™ links the writing instrument wirelessly to a personal computer replacing the need for subsequent manual transcription. Hand sketches and notes can be captured accurately, rapidly, and automatically during brainstorming sessions and incorporated directly into documents.

“What is the market size?”

The estimated 50 million white-collar offices world-wide with both a personal computer and either a chalk or whiteboard are potential e•pen™ sales candidates. We anticipate initial adoption by several hundred thousand team-oriented professionals such as management consultants, design engineers, academics, and industrial designers. Over time, the direct electronic capture of written group meeting notes will be as indispensable as a common conference call or document photocopying.

“What are the startup costs?”

Virtual Ink anticipates initially requiring $320,000 to complete the beta prototype of the e•pen™, provide for legal and infrastructure expenses related to startup and to cultivate potential customers. To finance start-up we intend to seek initial capital from venture capitalists and corporate partners. Further investment of $2.0 million is needed for finalizing the product, further setting up company infrastructure, lining up lead vendor-channel relationships, landing significant corporate accounts, and accelerating global marketing efforts.

“What is the payoff?”

Virtual Ink anticipates break-even within 2 years. In addition to our product sales, we expect royalty revenue from licensing our position sensing and software technology. Within 3 to 5 years, Virtual Ink anticipates an IPO or sale of the company to fuel further growth and to offer liquidity to investors.

“Management Team”

The technology component of the management team consists of MIT-trained engineers: Yonald Chery (product conceiver and Chief Technology Officer), William Moyne (Software Development Lead), Andrew Kelley (Manufacturing Development Lead), and Matthew Verminski (Hardware Development Lead). The business component of the management team currently consists of MIT Sloan-trained finance and marketing members: Michael Dixon (Chief Financial Officer) and Rosaline Gulati (Marketing Director). We are currently recruiting a chief executive officer and directors for our corporate board.
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*What is the payoff?
SESSION 1: VENTURE PLANNING BASICS
What Should Be In The Plan?

- The Body of the Plan:
  - The Opportunity
    - What is the Market / Opportunity?
      » How big is it now?
      » What are the trends- how fast is it growing or will it grow?
    - Why Is This Time The Right Time For Your Product/Service?
      » Convergence of Opportunity and Solution
SESSION 1: VENURE PLANNING BASICS
What Should Be In The Plan?

– The Body of the Plan:
  • Market Analysis
    – Existing and planned products in marketplace
    – Market segments
    – Market players/competition
      » Competitive Advantages
    – Estimated Market Shares
      » Current Players
      » You
      » “Who Loses If You Win and What Will Be Their Response?”
SESSION 1: VENTURE PLANNING BASICS

What Should Be In The Plan?

– The Body of the Plan:
  • Marketing Plan – “Go To Market”
    – What is your Marketing Strategy?
    – Pricing and Distribution
      » Pricing and margin erosion
      » Distribution must match strategy/pricing
    – Sales Tactics
      » Who will be the first customer, second customer etc.? 
      » How will you reach the customer?
      » “Will the Dogs Eat the Dog Food?”
  – Advertising and Promotion
The Body of the Plan:

• Development Plan
  – Where is development today- product status
  – What development is needed?
    » Time and resources needed for development
    » Do you have to produce a complete product to get going? Avoid “Nuclear Fusion”
  – Difficulty and Risks
  – Product Pipeline Plans
SESSION 1: VENTURE PLANNING BASICS
What Should Be In The Plan?

– The Body of the Plan:
  • Action Plan
    – What Will You Do and When?
      » Identification of “Credibility Testers”
      » Sequencing to build VALUE
      » Eliminate or Reduce Dependencies
      » Coordination of Schedule, Value Recognition Events and Financing Requirements
SESSION 1: VENTURE PLANNING BASICS
What Should Be In The Plan?

– Appendices
  – Separately Bound Volume
  – Resumes of Principals
  – Product Literature
  – Trade Press/Business Press
  – Patents (front page)
  – Testimonials Letters
  – Technical Information
  – Confidentiality
  – Technical person to technical person discussion
SESSION 1: VENTURE PLANNING BASICS

• Fine Tuning/Targeting the Plan
  • Have an Independent Reader Review the Plan
    – One or more independent readers for feedback:
      » Retired industry pro?
      » Customer(?)
      » Consultant?
      » Professor?
      » Accountant / Finance Person - yes definitely
      » Lawyer - yes definitely
SESSION 1: VENTURE PLANNING BASICS
The Plan As A Financing Document

• **A. First Reading: Like a Resume**
  – Make The Cut, So That You Get An Opportunity To Tell Your Story

• **B. Second Reading: Justify The Investment**

• **C. Third Reading: Commit To a Plan**
  – That You And The Investors Can Live With.

• **REMEMBER:** If you don’t make the FIRST CUT, B and C never happen.

(Excerpts From Materials Prepared By Lita Nelsen, Former Director of MIT Technology Licensing Office)
SESSION 1: VENTURE PLANNING BASICS
The Plan As A Financing Document

– **MAKING THE FIRST CUT**
  – An Idea Too Good To Ignore
  – A Financial Promise Too Good To Turn Down
  – A Team Good Enough To Believe In
  – An Action Plan That’s
    » Credible
    » Focused
  – Details That Give Assurance of Insight, Commitment and Follow Through
  – Format and Style That Show
    » Passion
    » Sanity
SESSION 1: VENTURE PLANNING BASICS
The Plan As A Financing Document

• WHY PLANS FAIL THE FIRST CUT
  – Insufficient Market
  – Non-Credible Technology
    » Too Wild
    » Too Blue-Sky (Unproven)
    » Not Protectable
    » Too Mundane
  – Investment Too Large For The Promise
  – Failure to Understand The Market *

  * Culture/Environment
SESSION 1: VENTURE PLANNING BASICS
The Plan As A Financing Document

• WHY PLANS FAIL THE FIRST CUT (cont.)
  – Action Plan Not Credible
    » Too Optimistic
    » Naïve About The Hurdles
    » Runs Off In All Directions
    » Not Ambitious Enough
    » Regulatory Barriers Insufficiently Addressed
    » Gaps Filled By Handwaving
    » No Promises At All
  – Team Not Credible
SESSION 1: VENTURE PLANNING BASICS
The Plan As A Financing Document

- “COSMETIC” REASONS FOR FAILING THE FIRST CUT
  - I Can’t Understand It.
  - Filled With Market Or Technology-Specific Jargon
    » i.e., WHAT IS THE BUSINESS/OPPORTUNITY?
  - Naïve Projections
  - Sloppy: Misspellings, Poor Grammar, Poor Quality Printing
  - Too Damn Long
  - Ignores The Basics
  - “Forget Marketing, My Technology Is Best”
  - Naïve (or Terrible) Writing
SESSION 1: VENTURE PLANNING BASICS

• SUMMARY
  – We Have Covered
    • Why Develop A Venture Plan?
    • What Should Be In The Plan?
    • The Plan As A Financing Document
SESSION 1: VENTURE PLANNING BASICS
The Plan - A SUPPORTED VISION

Mission/Vision Statement 1 sentence/paragraph
Elevator Pitch 30 seconds
Executive Summary 2-5 pages
PowerPoint Presentation 10 slides/20 minutes/30 pt
Full Plan 20-30 pages
Detailed Support/Foundation
Tonight’s Plan

• Introduce our Teaching Team
• Introduce our Case Study
• Venture Planning Basics - Overview
• Break – Team Building
• Bob Jones – “Finding Your Customer”
BREAK Time

• 10 Minute Break
  • Introduce Yourself to the People Around You

• When We Come Back
  • Course Logistics
  • Bob Jones – “Finding Your Customer”
The Nuts and Bolts of New Ventures
Course Information

- MIT Course 15.393
- [http://nutsandbolts.mit.edu](http://nutsandbolts.mit.edu) (link to Stellar/Learning Modules on bottom of main page)
- 3 Credits Pass/Fail
- **Class Attendance** Required – Please Fill Out Form *
- **Written Requirement**
  - Executive Summary or Pitch Deck
    - Of an Idea you are thinking about
  - **Team Efforts Encouraged**
    - Email by Saturday with Team/Idea to: nutsandbolts-ta@mit.edu
Tonight’s Plan

• Introduce our Teaching Team
• Introduce our Case Study
• Venture Planning Basics - Overview
• Break – Team Building
• Bob Jones – “Finding Your Customer”
Tonight’s Plan

• Bob Jones – Founder of the “Consumption Function”
Next Time

• “Business Models” with Joe Hadzima
• “Organizational and People Issues” with Joost Bonsen

• Check nutsandbolts.mit.edu for details and readings – also see the MIT Learning Modules website for the Course Reader

• The MIT Learning Modules link is on the bottom of the nutsandbolts.mit.edu home page.