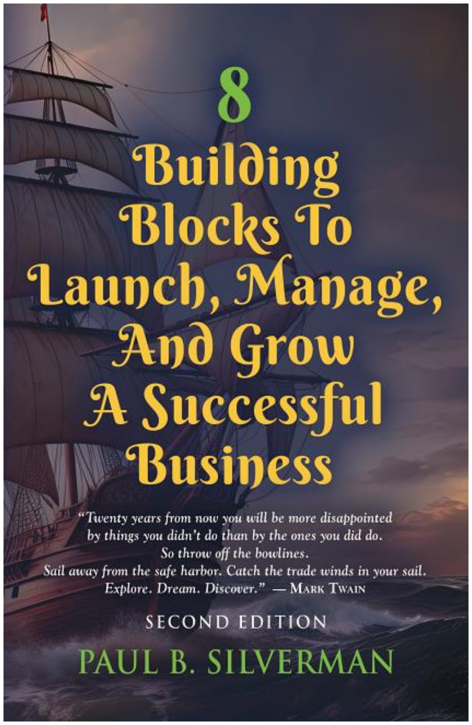


*By day, execs hire Jacqui Barrett-Poindexter to cultivate personal brands. Out of this rigor emerged poetic expression: from soliloquies of the pelican to wafting warm waves of the ocean arise soul-steadying verses of confidence and joy.*

**8 Building Blocks To Launch, Manage, And Grow A Successful Business - Second Edition**

By Paul B. Silverman

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# 8 Building Blocks To Launch, Manage, And Grow A Successful Business

*"Twenty years from now you will be more disappointed by things you didn't do than by the ones you did do. So throw off the bowlines. Sail away from the safe harbor. Catch the trade winds in your sail. Explore. Dream. Discover."* — Mark Twain

SECOND EDITION

PAUL B. SILVERMAN

Print ISBN: 978-1-958891-82-7
Ebook ISBN: 979-8-88531-660-6



Library of Congress Cataloguing in Publication Data
Silverman, Paul B.
8 Building Blocks To Launch, Manage, And Grow A Successful Business by Paul B. Silverman
Library of Congress Control Number: 2024903348

Published by BookLocker.com, Inc., Trenton, Georgia.

BookLocker.com, Inc.
2024

Second Edition

## Other Books by the Author

***Worm on a Chopstick: Understanding Today's Entrepreneurial Age: Directions, Strategies, Management Perspectives*** *- August 2011*

*Selected as one of eight recommended books to read by Boards and Directors Magazine http://paulbsilverman.com/2011/12/13/boards-directors-35th-anniversary-edition-features-worm-on-a-chopstick/*

***8 Building Blocks to Launch, Manage, and Grow A Successful Business (First Edition)*** *- June 2015*

***8 Building Blocks to Launch, Manage, and Grow A Successful Business (Second Edition)*** *– Release April 2024*

*Revised edition includes new sections on internet marketing, updated SEC investment options and regulations and other updates*

***The Doc Larsen Business Adventure Series for Young Adult Entrepreneurs:***

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*Perspectives on opportunities, challenges, outlook and strategies for addressing today's 'smart' entrepreneurial revolution*

# What (First Edition) Readers Are Saying

"Being an entrepreneur can be a brutal experience, especially with brimming optimism and no guidelines. Paul Silverman has written a 'Tough Love' book that both confronts one with serious doses of reality, and the model that success follows. His experience and observation flow through the text to the great benefit of the reader. This is one reference book for winners in the marketplace of ideas."

**Michael W. Wynne** Former Air Force Secretary, and Undersecretary of Defense for Acquisition, Technology and Logistics. Entrepreneur and Chairman, Hackproof Technologies

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"To be a great athlete or entrepreneur, you must master the fundamentals of the game. If you want to score big as an entrepreneur, Paul Silverman has provided the path--all the basics plus compelling real-life stories. A must read for the next Steve Jobs, Mark Zuckerberg, or Jeff Bezos."

**Tom McMillen** Former Congressman, Olympian, NBA star, and businessman

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"Paul does a great job of taking the broad premise and promise of a new business idea and breaks it down into concrete "walk before you run" steps that are critical to creating a successful company. By explaining the essential business principles at the foundation of every great enterprise in manageable "bites" …and citing an array of notable marketplace examples to illustrate each, he makes it easy for entrepreneurs to relate to the challenges they must overcome on the journey. This is a great tour guide for anyone embarking on the road to entrepreneurism."

**Liz Sara,** Managing Director, Best Marketing LLC

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***"8 Building Blocks To Launch, Manage, And Grow A Successful Business"*** is the ultimate source of knowledge and know-how for those who want to build a scalable business or scale the one they have. ***8 Building Blocks To Launch, Manage, And Grow A Successful Business*** carries the reader from idea all the way to capital markets and touches each base as the entrepreneur races toward home plate. It defines and demystifies the basic elements every entrepreneur should understand before he or she takes the leap into starting a business or risking the one they have in order to scale it."

**Carl Eckstein** NextGen Venture Group, CEO; NextGen Venture Capital, Former Managing Partner

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"This book is a MUST READ for anyone who is even thinking about planning on starting a business. It's a step by step walk through the critical processes of getting an idea from thought to paper to funding and into action."

**Chuck Nash** Founder and CEO Emerging Technology Inc. (ETII); retired U.S. Navy Captain and Fox News military analyst

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"Paul Silverman has done it - again. His latest book, "***8 Building Blocks To Launch, Manage, And Grow A Successful Business***" packs decades of business wisdom into a very concise and readable guide. Every chapter includes cogent insights to help an entrepreneur sidestep pitfalls, achieve success and avoid becoming a 'Maybe next time' entrepreneur."

**Jay Wright** President, Bayberry Capital and co-author of *"Finance and Accounting for Nonfinancial Managers, 7th edition."*

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"***8 Building Blocks To Launch, Manage, And Grow A Successful Business*** is a great guide for anyone considering starting a business. It gives the reader a basic structure to evaluate, implement and manage your new venture. It guides you through the foundational components that need to be thoroughly considered as you build a solid base for your business. Paul gently introduces some more advanced analytic tools that must be used in today's tech heavy environment. Regardless of the type of business you are considering, this book will help you avoid many of the pitfalls that doom many start-up ventures."

**Mike McCloud** Owner, Uptown Bakers

# Contents

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# Chapter 1:
# Why Business As Usual Doesn't Work for New Entrepreneurial Ventures

*What Are The Challenges And What New Skills Are Needed?*

## The Need to Embrace Change and Acquire New Skills

What this really means is "business as usual" doesn't work in today's explosive entrepreneurial age. Markets, technologies, and business processes are changing, and these changes are occurring at lightning speed. If you have an established market position, be prepared to change, adapt your perspective, and embrace change. That's very difficult for many established company managers who prefer "business as usual," investment commitments based on well-defined business plans. This is "traditional thinking" which, in today's world, creates challenges. The winning formula, enabling companies to achieve sustained revenue and earnings growth, capture market share in new markets, and be defined as a leader, is to blend both entrepreneurial and traditional management thinking to create a balanced corporate strategy and management team. And that is also a winning formula for successful entrepreneurs.

In business schools, we often review Harvard Business School and other case studies to teach students why some companies fail, why some companies succeed, and what we can learn about business strategies and all facets of business management. This is a powerful tool to reinforce assumptions and management perspectives. Consider 3M, a company I always use as an excellent example of a company that embraces change and corporate innovation, but couples that with a strong, proven, traditional thinking management style. We can see the results in highlights from 3M's mission statement, such as targeting thirty percent of annual earnings to be derived from products that did not exist more than three years ago. They embrace change, mandating that managers at all levels get "uncomfortable," look for new markets, and new business to meet this aggressive target.

Now let's go back to our Borders example and see my thinking here. The e-book market exploded with Amazon's introduction of the Kindle in 2007. At that time, Borders viewed Barnes & Noble as its competition, which was in the *"brick and mortar"* bookstore sector, but Amazon's growing market presence was changing the landscape and creating new challenges. So how did the major market players respond to these challenges?

Barnes & Noble, clearly seeing where the market was heading, launched the Nook, a competitive e-book reader, to establish a "branded" position in the *e-book* market. Borders was reluctant to commit the resources needed, and as reported by the business press, was not even keeping up with the rapidly changing Internet marketing channels. In 2007, for example, only a limited number of Borders bookstores had internet access, requiring bookstores to "go through headquarters" for searches.

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## The "Sticking To Your Knitting" Problem

So Borders' response to the *e-book* revolution was to "stick to their knitting," make no significant investment in an unproven, undefined new e-book market, but instead establish a resale agreement to offer Amazon's *e-book*s. At the same time, Borders also embarked on a major international expansion of their traditional "bricks and mortar" bookstore business. The result? Amazon grew stronger, helped in part by Borders' support for their products; Borders' international business expansion program failed and was written off; and Borders filed for bankruptcy in 2012. And we can cite other major players such as Kodak, the world leader in the photography sector, missing the market shift from film to digital photography, and seeing its market value reduced to about $200 million in 2012.

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## The Lesson for Entrepreneurs

So what does this have to do with entrepreneurship and starting your own venture: what is the message here? Actually there are many messages which I believe provide an excellent foundation for our journey.

First, whether you are starting a new venture in your garage, or you are launching a new venture working within a major corporation, many of the challenges, strategic decisions, business plan development, financing, and structural issues are similar, more so than many realize.

Secondly, the skills needed to develop, launch, and manage new ventures can indeed be learned. As discussed earlier, we hear about “born entrepreneurs” who achieve great success, maybe breaking every traditional rule of business. For most however - those that invest time, effort, energy, and funds - the necessary entrepreneurial skills, just like playing the piano, can be learned.

Finally, and most importantly, starting a business demands entrepreneurial management skills; and managing and growing a business also demands traditional management skills. Understanding all the skills needed to launch, manage, and grow new ventures is the objective of Entrepreneurial Management 2.0.

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## Summary: The 8 Building Blocks

The eight Building Blocks discussed in this book, what I call Entrepreneurial Management 2.0, provide entrepreneurs with the insights, skills, and tools to improve their odds of being a *Survivor* rather than a *Maybe Next Time* entrepreneur. Working through the eight Building Blocks will help you develop and manage new ventures and expand your entrepreneurial management skills.

Here is a summary of the eight Building Blocks that provide a solid foundation to help you launch, manage, and grow a successful new venture. Each of the Building Blocks is discussed in the following chapters in Part II.

The eight Building Blocks are:

- *Building Block 1*: Idea vs. Opportunity: Do you have a Business Idea or a Real Business Opportunity?
- *Building Block 2*: Business Model: How Will You Create Value for You and Your Investors?
- *Building Block 3*: Marketing Plan: What Will You Sell To Whom, For How Much - How Will You “Cross The Chasm?”
- *Building Block 4*: Financials: What are Your Financial Projections?

- *Building Block 5*: Competition: Current, Future, Market Evolution, and Outlook?
- *Building Block 6*: Business Plan: What is Your Strategy to Create a Sustainable, High Growth Company?
- *Building Block 7*: Capital Formulation Strategy: What Are Your Funding Needs, Structure, and Timing?
- *Building Block 8*: Growth Management: How Do You Manage Your Company to Demonstrate Credibility and Scalable Growth Opportunities?

The next eight chapters will review each new venture building block in detail. Let's get to work, starting with Building Block No. 1: Idea vs. Opportunity: Do you have a Business Idea or a Real Business Opportunity?

# Part II:
# Creating a New Venture: The 8 Building Blocks You Must Address to Manage and Grow a Successful New Venture

# Chapter 2:
# Building Block 1: Idea vs. Opportunity

*Do You Have a Business Idea or a Real Business Opportunity?*

## "I Have This Great Idea for a New Business That Will Make Millions"

*"I have a great business idea to create a new smart home thermostat that will link to smartphones to improve energy cost management. The new thermostat pays for itself and will make millions…"*

I hear statements like this all the time: how would you respond?

While some of these may be a million (or even a billion) dollar idea, and may have what I call a high "gee whiz" factor, my approach is to do an initial validation of the proposed idea to see if further work makes sense. There are many analytical tools to evaluate potential new business ideas. My approach is to use what I call the *Four Spoke Bicycle Wheel Idea vs. Opportunity Model* which can be done quickly to frame the proposed venture for further analysis. *The Four Spoke Bicycle Wheel Idea vs. Opportunity Model* is described in the next section.

## The Four Spoke Bicycle Wheel Idea vs. Opportunity Model

I continuously look for tools to screen and evaluate the merits of potential new business concepts. There are many formal, rigorous analytic tools to vet and value ventures. Before you spend time, resources, and energy pursuing a new business concept, you want to answer one simple question:

*Does the new business concept represent a new idea, maybe a really good one, or does it represent an opportunity?*

You pursue and secure funding for ideas. You further develop and refine ideas to move them to opportunities, or place them in your *someday* bucket. Clearly understanding whether you are dealing with an idea vs. an opportunity is a *Survivor* entrepreneur skill and like many others, can be learned.

In my earlier book in the *Worm on a Chopstick* series, I reviewed what I called the *Three-Legged Stool Analysis Model.* Successful ventures must have the proper balance between three elements: opportunity, resources, and management. Using the model to examine the balance between these elements helps gauge whether you have an idea or a potential opportunity.

I have now evolved the new venture analysis model based on several factors. First, the entry cost to create a large scalable business is much lower than in the past. Secondly, we see new business models emerging, which we will review shortly, that drive value creation using new metrics, rather than number of products sold or other traditional metrics. Finally, marketing, the ability to leverage social media, define a highly visible market brand, develop a coherent, focused market message, and get the message out to capture customers, is a critical success factor to successfully develop an opportunity given today's social media revolution.

Based on these factors, I created and now use what I call the *Four Spoke Bicycle Wheel Venture Analysis Model* to initially gauge whether a proposed business concept, as presented, is an idea or an opportunity.

The *Four Spoke Bicycle Wheel Venture Analysis Model* includes four spokes and, if balanced, the bicycle wheel rolls smoothly and represents an opportunity. But if any spoke is out of alignment, your wheel does not roll smoothly or not at all; this represents an idea that needs some more work.

Here is a summary of the four spokes:

***Market Attractiveness*** - measured by market scale and profitability. Large, high-growth markets will demand higher levels of investment and experienced management.

***Management*** - measured by management team experience to support the business.

***Marketing*** - measured by the ability to leverage social media and other techniques to capture customers and develop a scalable, profitable business.

***Scale of Investment*** - measured by size of investment.

## How the Four Spoke Bicycle Wheel Venture Analysis Model Works: Chicken Broilers and Muffin Stores

For most ventures, your initial challenge is to gauge whether what you are proposing is a major opportunity, a niche business, or an idea. Does your venture offer a scalable, defensible business model to drive high future earnings, or is this really a “lifestyle” niche business? Nothing wrong with creating a smaller lifestyle business — you only get in trouble when you think it is more than this. That is why we go through this initial analysis process.

To understand how this process works, let’s review several examples.

Suppose you have an idea to create a revolutionary new chicken broiler, unlike anything on the market today. Maybe you have developed a business plan and are seeking funding. Let's go through the analysis here to gauge whether this business, as presented, is an idea or a real business opportunity.

The length of each spoke in the model is based on how well your venture addresses what’s needed in each functional area. The following discussion should make this clear.

First, the *Market Attractiveness* Spoke. You defined a major market opportunity; you believe this is a not a niche market, but calculate you have an addressable market of maybe ten million households, after some assumptions about income and the number of people who eat broiled chicken. Pricing pressure and profitability will be an issue as low cost "knock-off" competitors enter the market in Year 2. Ensuring differentiation may also be a challenge in the commoditized chicken broiler market. This is a Large Spoke: strong scalable market, with some caveats about competition and future margin erosion.

Next, the *Management* spoke. Your team has completed the chicken broiler design, has found a manufacturer, and is ready to go, excited about the high potential opportunity here. Sounds good. Looking at the business, the critical management team skills needed are in areas of marketing, branding, promotion, advertising, production, and operations, which go well beyond the skills needed to design a chicken broiler. Note that the need for these skills is driven by the scale of the venture you proposed. Your management plan, however, shows engineering and technical staff, but does not show the level of management resources or related costs to address the many marketing and promotion activities needed to ensure success. This is a Medium spoke: management resources are not sufficient given market scale.

Next, the *Marketing* Spoke. Given the market scale and competition, securing first-mover advantage with strong brand visibility and reinforcement will be a critical success factor, particularly with competition from well-known chicken broiler manufacturers. To what extent can you leverage social media and other techniques to capture customers and develop a scalable, profitable business? Think about blogs, user groups, and so on, all used to reinforce global brands, attract new users, and spur sales. Developing strategic alliances with retailers and distributors worldwide will also be needed. The current plan also does not address nor show funding needed for branding, develop a branded product family, or show how social media will be used to drive business growth in an evolving commoditized market. This is a Low to Medium Spoke: social media, marketing and promotion strategies and costs are not in sync with the Large Spoke opportunity.

Finally, the *Investment* Spoke. Your plan identifies a highly scalable market opportunity requiring a first-mover market strategy to capture early market share. Your plan however, does not identify the additional costs of management and marketing, and projects only $900,000 will be needed to launch the business and reach cash flow breakeven. As proposed, this venture requires a Large Spoke investment of $1.5 to $2.0 million at a minimum. But the current plan has a Medium Spoke, given the proposed investment shortfall.

Summarizing, our new chicken broiler business concept appears to be a highly scalable Large Spoke opportunity, but will require significant investment, and further work is needed to tighten the Marketing and Management plans and develop a revised financial plan, to move this from idea to opportunity.

Most importantly, keep in mind this is an initial, high-level analysis which provides insights on whether you have an idea needing further work, or an opportunity. The *Four Spoke Bicycle Wheel Venture Analysis Model* provides a logical framework to support this initial evaluation and next steps.

Going through the above analysis refines new venture thinking and is helpful, based on my experience, to help you understand the boundaries of the proposed new venture and guide business plan development.

Now let's briefly look at another business concept, creating a new upscale muffin store capitalizing on what you see as an identified need for artisan baked goods in an exclusive New York City neighborhood. Nothing wrong with this business — lots of people like good muffins, even better if they are great muffins. Maybe you can position this as a significant future franchise opportunity, but on the surface, this looks like a lifestyle business. While this venture may have "shorter" Market Attractiveness, Marketing, Management, and Investment Spokes, if they are about equal, the new venture may be more manageable and perhaps more successful than a highly scalable chicken broiler business. Balance is the critical success factor in identifying ideas vs. opportunities.

Summarizing, what we have learned is that new ventures which seem to have only modest potential may provide high returns. And that goes for muffin stores or Fortune 500 new business projects. This is counterintuitive, since common wisdom is "larger is better". The reality is balance, not size, is the critical success factor.

What this means is a balanced, modest business concept like a muffin store, or a niche-focused software venture, may be an opportunity. But a large-scale business idea that has one or two shorter spokes, is off-balance, doesn't roll very well, and needs more work to move from an idea to opportunity. There are implications here for entrepreneurs and management.

So next time you say or hear the words, *"…this is a great opportunity, the next Google,"* think about whether the opportunity creates a bicycle wheel that is in balance (maybe wobbles a bit but rolls), or is totally out of balance, unable to stay upright, and really is an idea that needs a bit more work to create an opportunity.

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## Define Your Business Strategy: Walmart or Nordstrom?

To further evaluate an opportunity, the next step is developing a pro-forma business strategy. Sounds simple, but as you will see later, selecting the optimum, defensible strategy is a challenge. I like to use the *Walmart or Nordstrom* example as a starting point. I use this analogy in all strategy management courses I teach and feedback suggests it provides a good reference model to understand how strategy drives operations. We will review this again when we discuss business models and competition.

Whether you are dealing with Fortune 500 companies or entrepreneurial ventures, the objective of strategy management is to create strategies that provide companies with a sustainable, competitive advantage. For our purposes, we will use the term *"strategies."* The more rigorous definition defines integrated corporate, business, and functional-level strategies to meet business objectives which go beyond what is needed for most early stage ventures.

Companies create perceived value mainly through two distinct strategies. Either they secure position as a low-cost provider, or establish a position as a higher-cost, differentiated provider, what I call the *"Walmart vs. Nordstrom"* strategies.

Low-cost providers emphasize low cost and must ensure all primary activities are cost efficient and *"lean."* Support activities must also be streamlined to achieve minimum overhead costs. The emphasis is on commoditization, selling standard products, and lots of them. Drive costs down, create efficiencies, develop world-class logistics systems, reduce overhead costs per unit through high sales volumes - these are the objectives. Invest in innovation and technology emphasizing process improvement to drive down value chain costs, rather than creating new products. Think Walmart as the model here.

By contrast, higher-cost differentiated suppliers create value emphasizing superior quality, customer service, product breadth, innovation, and support. But to achieve differentiation, these suppliers incur higher primary and support costs and thus have lower gross margins, and their prices are higher. Think Nordstrom as the model here.

Some companies have a mix of both strategies but, for the most part, early stage companies must define one of these two strategies.

So, achieving competitive position thus really comes down to understanding a deceptively simple equation:

*Price = Perceived Customer Value minus Cost*

The following example should make this clear:

- *Walmart and Nordstrom both sell a button-down shirt, same label*
- *Walmart sells the shirt for $25; Nordstrom sells the shirt for $40*
- *Assume Walmart's shirt costs $10 and thus secures $15 profit on the sale*
- *Assume Nordstrom's shirt costs $15 and thus secures a $25 profit on the sale*

So why can Nordstrom, with higher per unit cost, sell the same shirt for $15 more than Walmart and create more profit? The perceived customer value offered by Nordstrom is higher than that of Walmart for the same item. And Nordstrom achieves this using a differentiation strategy emphasizing quality, responsiveness to customers, and customer support, rather than lowest cost. But Nordstrom must still manage costs, and without doubt their costs for inbound and outbound logistics, sales and marketing, and support activities will be higher than Walmart's.

Selling fewer items with higher profit margins and typically incurring higher costs is the differentiation strategy model. Selling more products (or services) with lower profit margins and minimizing primary and support costs is the low-cost strategy model.

You would not expect to see a personal shopper in Walmart to assist you with your purchases, but you will find one in Nordstrom to improve your shopping experience. Years ago, Sears tested offering a personal shopper in stores; it did not work out and this is reviewed in a Harvard Business School case study. Understanding how the strategy you are pursuing relates to perceived customer value is a critical success factor. Some do it better than others.

We will revisit validating ideas vs. opportunities and business strategy during our review of value chain analysis in Building Block No. 2. Now let's look at how you move from ideas to opportunities.

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## Moving From Idea to Opportunity: Car Air Fresheners and Chicken Broilers

Now let's shift gears. Suppose you work for a major auto manufacturer and are asked to evaluate the potential for a new automotive-related business opportunity, maybe a new programmable air freshener device for cars. Or suppose you work in the kitchen and get an idea for a new device to more efficiently broil chickens. Obviously the chicken broiler and auto markets are different — moving roasted chickens on a spit, at first glance, has little in common with air fresheners in vehicles moving people on streets. And these would obviously be two very different business plans, with one being a new entrepreneurial venture and the other a new venture within a major corporation.

But the initial questions and basic challenges are surprisingly similar here. The starting question for both is the same: does the idea represent a real business opportunity that can support a sustainable, competitive business? Even though these are very different markets and products, the tools and techniques to answer this question are actually quite similar.

## Developing the Mini-Business Plan to Evaluate Ideas vs. Opportunities

After initial validation of a new business idea shows that it may have potential and should be further reviewed, I recommend creating what I call a *Mini-Business Plan*, a structured short business plan that *"shows what you are thinking."* The plan is a good starting point for the follow-on Entrepreneurial Management 2.0 tools and techniques discussed in the next sections.

Creating formal, detailed business plans too early in the process short circuits the creative thinking that is needed to define the real opportunity. This is a very important point that needs repeating.

> *Creating a formal, neatly bound business plan that shows breakeven in eighteen months does not mean you have a real opportunity unless you have developed a sustainable, defensible plan addressing strategy, business model, marketing plan, competition, financials, and clearly show how you will create value for stakeholders.*

Unfortunately, business plans tend to have a life of their own once developed and printed on glossy paper with expensive binding. Business plans are often self-fulfilling prophecies — *how can a plan that is so well thought out and look so good not attract smart investors and be a great success?* Defining the business takes some critical up-front business thinking. And this is done *before* you develop the formal business plan, or maybe spend upwards of $20,000 for support to prepare this document.

The *Mini-Business Plan* is a good starting point. As you proceed to develop the *Mini-Business Plan*, there will be some information you do not have. My suggestion is show what you can: the objective is to show that you are thinking, further validate your idea, and provide a foundation to start the process.

While contents may vary, the Mini-Business Plan should include the following information (enter whatever you can):

- *Define your mission, goals, and objectives*
  There is often confusion on the definition of these terms; here is how this is taught to business schools' students. Defining your mission shows the direction you will pursue and, at a high level, what you want to accomplish. Goals are the highest level objectives you want to achieve. I find it helpful to start with your mission statement and try to quantify it to establish your venture's goal. Objectives show the milestones you want to achieve; these are numbers such as *"… capture ten percent of all smart phone users"* or "*… secure three international partners to address 80 percent of the European market.*"
- *Define Your Strategies*
  Strategies define your actions and the steps you will take to meet your objectives. Ideally these should be linked, i.e., you want to define strategies that are clearly related to meeting your objectives. Keep in mind strategies really are the roadmap showing how your business will operate and where you will spend your capital.

  Smart investors who support your goals will drill down on strategies to gauge, based on their experience, if your strategy roadmap is reasonable; this is the business plan component that should take most of your effort to ensure it is defensible. When you are done, ask yourself the question: "do the objectives and strategies fully support my mission and goals, or should some strategies be taken out, and maybe others added to complete the quantified goals and objectives I expect to achieve?"
- *Identify and quantify the market need*
  Simply put, you need to understand if this is a large or niche market; who are the target buyers; what are their needs; how many do they buy today and in the future; why are existing products not meeting

their needs; why is your product a better solution to meet their needs; what is the willingness and ability to pay; and so on.

- *Identify the market pricing metrics and how your product fits in*
  After defining product and positioning, next you need to address the pricing issues. How are competitive products priced; what are the feature/pricing tradeoffs (e.g., what is the price premium for competitive chrome chicken broiler models vs. painted models); what is your target product pricing for all models; how does your pricing for comparable "feature sets" compare to competition?
  Pricing strategy is a complex subject; what I am showing here only summarizes the highlights in the business-planning process. We will revisit some of these concepts later when we discuss market plans in Building Block 3.
- *Identify your direct and indirect costs*
  What are your direct costs to produce your product (this enables you to define your gross margin, a key metric); what are your overhead costs needed to support your operations? To develop these costs, you need to develop a sales forecast showing how many products you will sell in the initial five years after business launch. As production volumes increase, you would expect gross margins to increase due to experience and learning curve effects (i.e., the more you produce, the more you improve manufacturing processes and reduce your per unit costs). And overhead costs may increase as new resources are needed to provide corporate governance, headquarters support, customer service, R&D, and similar support services. Cost for all these functions would be included in the financial plan.
- *Identify your management and staff resources*
  Successful new businesses are really driven by people, not technology. Executing new business plans demands an experienced and talented staff, ideally with some entrepreneurial experience. You need to ensure the "fit" is right; while you may not need staff, for example, that previously manufactured chicken broilers, a sales team

with retail merchandising experience and contacts among large retail chain buyers would probably be an asset for this venture.

Keep in mind this is a *draft* mini-business plan, a starting point for review and discussion. Remember our objective: to determine whether a new business idea is a potential business opportunity. Ideas are not opportunities, and fortunes have been lost by individuals who did not understand the difference.

Creating the Mini-Business Plan provides a good foundation to further tighten the business plan when working through Building Blocks 2 through 8 in the following chapters.

Before we leave our discussion about assessing Ideas vs. Opportunities and move on to *Building Block 2: Business Models* however*,* let's briefly review the role of *Gut Feel* in developing new ventures.

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## "Fingerspitzengefühl" or Gut Feel

*"I have a gut feel this will be a great business success…,"* or how about this: *"I have a gut feel we should pursue a low cost strategy and be a cost leader…".* I expect you have heard some of these before.

I have a friend in Europe who believes in the gut feel approach or what he calls *"Fingerspitzengefühl,"* which loosely translated from German means *"feel in the fingertips."* He uses this approach to determine quickly whether an idea represents a really strong potential business opportunity. Seeing many potential projects weekly, that is his approach, and it works for him and many others I am sure.

*"Gut feel,"* or *"I think this is a great business idea"* does not work when you are spending corporate dollars to pursue new ventures. Nor does it provide comfort when you are betting a second trust on your home to create the next-generation chicken broiler.

For those with less talented fingertips, a more prescriptive approach is needed, a way to measure the merits of an idea and whether and how it should be pursued further.

My counsel is always to adopt a *"show me"* approach and try to understand the thinking behind a *gut feel*. I am fortunate to have considerable experience in many sectors and business models, and almost always have my own *gut fee*l about what may work. I found the best approach is to use my gut feel to guide new venture development, but ensure all comments are first fully fleshed out and vetted as we proceed. That seems to be a winning formula.

Now let's move on and review *Building Block 2: Business Models.*

# About the Author

Paul B. Silverman's vision is driven by more than four decades of senior global corporate management experience, management consulting working with leading global firms, and serving as CEO/founder of both public and private companies. He currently serves as Managing Partner at the Gemini Business Group, LLC, a global new venture development consultancy firm. (www.geminibusinessgroup.com) focusing primarily on new venture development and financing in analytics, renewable energy, IOT, healthcare and homeland security.

The author has held senior management positions with RCA, GTE, Xerox and IBM (SBS). He has also served in senior global management consulting positions with Coopers & Lybrand, Booz Allen and Hamilton, and James Martin Strategy, an Amsterdam-based management consulting firm, where he served as CEO for North America.

Mr. Silverman has also contributed to the education sector since 2002, serving as Adjunct Professor in the R.H. Smith School of Business at the University of Maryland, Adjunct Professor in the School of Management at

George Mason University and formerly in the Kogod School of Business at American University. He has taught undergraduate and MBA courses in entrepreneurship, strategy management, international, and other business courses since 2002.

The author's publications draw upon the author's global experience helping entrepreneurs understand how to develop, launch, manage, and successfully grow new ventures.

The author's first book, *"Worm on a Chopstick: Understanding Today's Entrepreneurial Age: Directions, Strategies, Management Perspectives,"* addressed entrepreneurial management issues and where we are heading, and received positive reviews (http://paulbsilverman.com/books/reviews/ ). In December 2011, Directors & Boards magazine selected the book as one of eight books suggested as recommended reading for company officers and directors

(*http://paulbsilverman.com/2011/12/13/boards-directors-35th-anniversary-edition-features-worm-on-a-chopstick/ ).*

The second book in the series, *"8 Building Blocks to Launch, Manage, and Grow a Successful Business (First Edition)"*, addressed what the author defines as Entrepreneurial Management 2.0, a portfolio of management tools and perspectives structured within eight Building Blocks. The new book met the requests from many readers and colleagues to develop a more prescriptive *"how-to"* book for entrepreneurs, providing tips, tools, and insights based on the author's experiences.

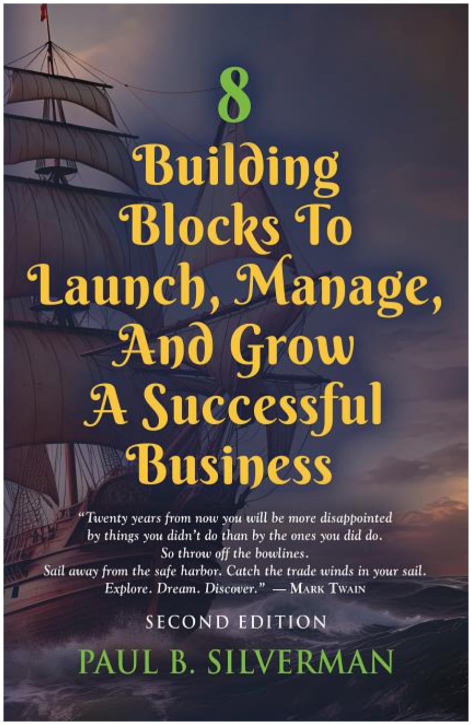
In 2020, the author created the *Doc Larsen Business Adventure Series for Young Adult Entrepreneurs* addressing the need to educate young entrepreneurs. The first book in the series, *"Freddie and Billie's New Business Adventure"* was published in March 2020.

The author has experience in and closely tracks global smart city developments. Smart cities drive innovation and entrepreneurial market growth in many countries, and the U.S. is lagging. The author will share perspectives and recommendations on how smart cities will drive entrepreneurial and U.S. economic growth in an upcoming book ***SMART: Smart Technology, Smart Cities, Smart Management*** scheduled for release in October 2024. The upcoming book will share perspectives on opportunities, challenges, outlook and strategies for addressing today's 'smart' entrepreneurial revolution.

In January 2024, the author launched a new e-maiI newsletter Global Entrepreneurship Today! with bi-weekly updates on new venture developments, interviews with entrepreneurs and Investors, blog post highlights and a review of new Entrepreneurial Management 2.0 skills.
You can sign-up for a complimentary Global Entrepreneurship Today! subscription at https://paul-b-silvermam.ck.page/0f22a6004d

The author's commitment is to offer both entrepreneurs and would-be entrepreneurs strategies and insights that will make a difference, help them succeed, and increase the number of *Survivor* entrepreneurs.

The author has also conducted hundreds of presentations worldwide and published numerous articles addressing strategy, policy, entrepreneurship, and new business development issues. A copy of the author's bio is available at www.paulbsilverman.com/bio. The author holds a BS in Physics from CCNY and an MS in Management from New York University (Polytechnic Institute), and resides in the Washington, D.C. area.




*By day, execs hire Jacqui Barrett-Poindexter to cultivate personal brands. Out of this rigor emerged poetic expression: from soliloquies of the pelican to wafting warm waves of the ocean arise soul-steadying verses of confidence and joy.*

**8 Building Blocks To Launch, Manage, And Grow A Successful Business - Second Edition**
By Paul B. Silverman

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