

Business Plan for New Growth – ABC Inc.

Prepared by:

Harold Jarche, Principal

Jarche Consulting

78 Bridge Street

Sackville, NB

E4L 3N9

www.jarche.com

Introduction

This business plan has been developed in conjunction with ABC Inc. Its purpose is to describe the implementation of a new business model that takes into account the changes that have occurred in technology and market conditions since the company was originally formed in 1996.

This plan covers the following sections shown in the table below. It is based on the industry-proven model developed by Guy Kawasaki, marketer of the original Apple Macintosh, venture capitalist and author of *The Art of the Start*.

Section	Description
Problem	Description of the pain that ABC Source is alleviating
Solution	Explain what will be sold and the value proposition
Business Model	Explain how money is made; channels and gross margins.
Essence	Describe the technology, or special solution of the product or service.
Marketing & Sales	Explain how the company will reach customers.
Competition	Complete view of competitive landscape
Management Team	Key members, advisors, investors.
Financial Projections	Five year forecast including number of customers
Current Status & Accomplishments to date	Current status of company, near future prospects and how money will be used

The name "ABC Source" is used in relation to this new business model.

The Problem

Identified Customers for ABC Source¹

SMB: Small & medium sized business

OS: Open source

<i>Use Case</i>	<i>Type</i> <i>(See Appendix A)</i>	<i>Current Pain</i>	<i>After</i>
SMB wanting to move to the web: -without IT infrastructure -wanting more affordable IT infrastructure	Non-consumer Overshot – Low End	Limited skills No IT infrastructure Limited understanding of IT architecture Wants local service Needs reassurance – someone to talk to Needs cheap & reliable IT infrastructure Wants to use web for business, but uncertain Needs to connect with communities & individuals	SMB without IT Low cost Reliable Solution-in-a-box Customer doesn't know /care if it's OSS
Open Source Users: -OS LMS -OS CMS -Custom OS Developers	Specialist displacement	Some skills Limited resources & time Scaling up Needs to reduce OS work burden Needs OS integration	OS Converts Relieves support burden Quality programming, on budget, on time Part of OS developer community
Trusted Advisors: -Consultant for e-learning services in vertical -Community Service Aggregators	Overshot – Low End	Needs to provide reliable service to end-customer Big names have high prices Looking to increase margins	Trusted advisers Better margins for trusted advisers Reliable white label and back-end Good value custom programming

¹ See **Appendix A – Customer Identification Process** for details on how customer profiles were developed.

ABC Source is alleviating the pain that small and medium business (SMB) operators have in developing web-based customer solutions. These operators need reliable IT infrastructure and development at a very good price. They can get reliability from proprietary vendors and consultants (IBM, Microsoft, Oracle) but these come with a high price tag for services and software licenses. These customers do not care what brand is on their software, as long as it works. They want a long-term and honest relationship. IT is an enabler for them, not the end-state.

Those already using OSS need a trusted partner, who is already a member of the development community. Those without an IT infrastructure need some guidance and may be *gun-shy* from previous experiences.

Our Solution

ABC Source offers reliability in open source, as well as nine years of experience in custom software development. Firmly involved in the development and use of open source software, ABC Source contributes to a global community, but stays rooted with its own partners and customers.

This use of low cost infrastructure coupled with a history of being on-time and on-budget gives ABC Source a solid model to serve small and medium businesses (SMB).

Our main service offerings are:

1. Open source outsourcing to the OS-converted who need long-term, reliable back-office support
2. Integrated, simple, reliable "web services in a box" for SMB's
3. Customized solutions, based on the "stack²" for web solution consultants in market verticals

² The ABC stack is a suite of open source applications that have been internally tested and certified, providing a proprietary product at an open source price.

Why an Open Source Business?

There is great potential, especially for small businesses, to use open source software (OSS) in order to significantly reduce costs. It is also a way to keep costs down and focus on developing the right models before investing in any new technology. For instance, a client does not incur license fees and can even decide not to implement after a pilot project has been completed, and not worry about getting a return on the license fees. OSS is lower risk, especially for test and pilot projects, thereby encouraging innovation. OSS gives SMB's a real competitive advantage.

According to this article in the IT Managers Journal³, using open source licenses make business sense:

Indeed, an internal McKinsey Consulting study cited in 1999 suggested that enterprise solution fees are 30% license and 70% implementation. According to a 2000 U.S. Department of Commerce report, not since 1962 has packaged software investment reached 30% of total software investment. So Linux or not, software licenses are earning a smaller portion of information technology (IT) investment, while consulting and services continue to rise.

We are seeing more and more adoption of open source by government and business, therefore putting our main effort into consulting and services only makes sense.

Open source, as a business enabler, is here to stay because it makes sense.

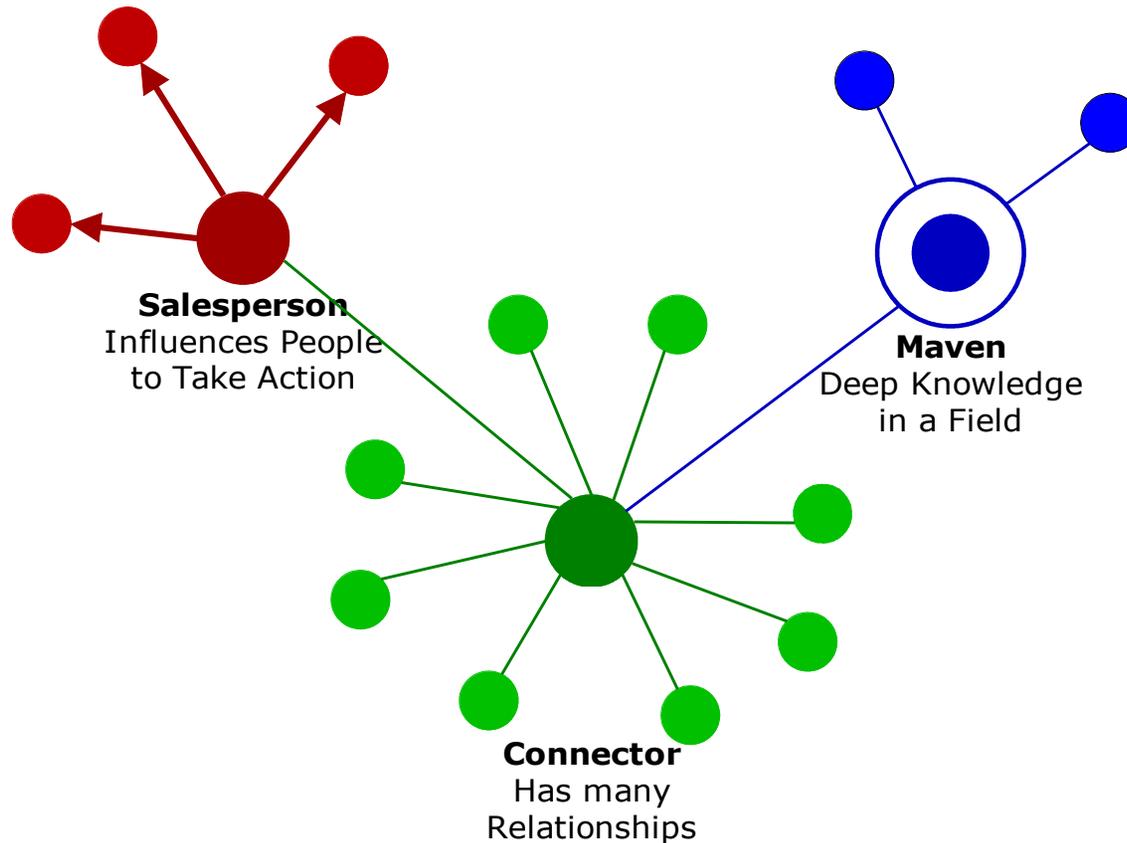
A final strength of the open source business model lies in its ability to market itself. Because open source products are typically released for free, open source companies that can produce quality products and generate a good reputation can almost immediately grab huge shares of any market based on the complex and far-reaching global referral networks generated by users. In fact, in the web technology space, almost every global standard has been based upon open source technology.⁴

³ <http://management.itmanagersjournal.com/article.pl?sid=04/05/10/2052216&tid=85&tid=4>

⁴ <http://www.extropia.com/tutorials/misc/opensourcebiz.html>

The Business Model

Choosing the Right Partners



The basic premise of the Law of the Few is that a relatively small number of individuals with certain social status (mavens, connectors, salesmen) can have a large effect on opinion formation, shown in the diagram here. Most customers make purchase decisions based on opinion and gut feel, not any objective process. In order to have the right feel with our customers, ABC Source is ensuring that it understands who are the influencers of our customers' opinions.

Mavens are data banks on a certain field of interest and they can provide the message about new ideas, products and services. Connectors are social glue and they they spread ideas and news. Salespeople have the skills to persuade us when we are unconvinced of what we are hearing and they are as critical to the tipping of word-of-mouth epidemics as the other two groups.

Currently, ABC Source has relationships with Salespeople, who are trusted advisers within their own vertical market areas. ABC Source also has some direct clients, such as ATCON. The company is now looking at who are the Mavens (deep industry knowledge and respected in their field), the Connectors (people who know everybody) as well as the Salespeople (those who will close deals for ABC Source). Some of these people will play more than one role in more than one industry.

ABC Source constantly seeks partners that it can trust and who will add value to its network. This is probably the most important aspect of business development for the company. Through trusted partners come qualified clients, without the hassle of cold-calls or blind marketing campaigns.

Partnering Action Plan

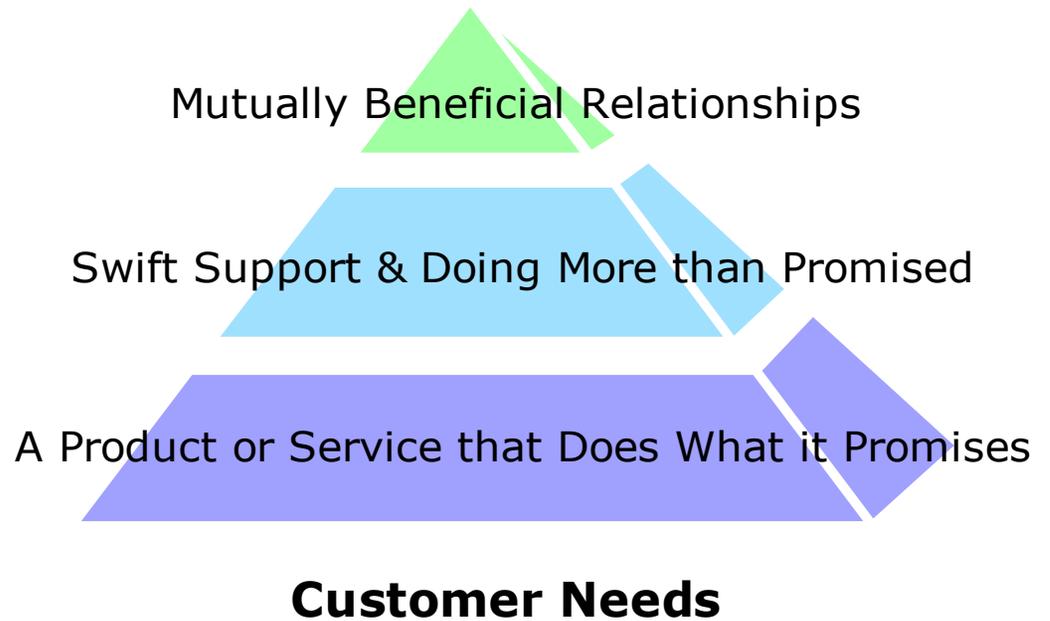
	<i>Targets</i>
Mavens: "data banks, they provide the message,"	Thinkers, writers, gurus who are pushing the messages that are consistent with ABC Source's business model. IT: Open Source: Learning: New Business:
Connectors: "social glue: they spread it."	People with many connections and social capital:
Salespeople: "with the skills to persuade us when we are unconvinced of what we are hearing... they are as critical to the tipping of word-of-mouth epidemics as the other two groups."	Those who can bring in new projects & clients for ABC Source:

A Staged Approach for Each Customer

Trusted Advisors -

OS Converts -**

SMB without IT* -



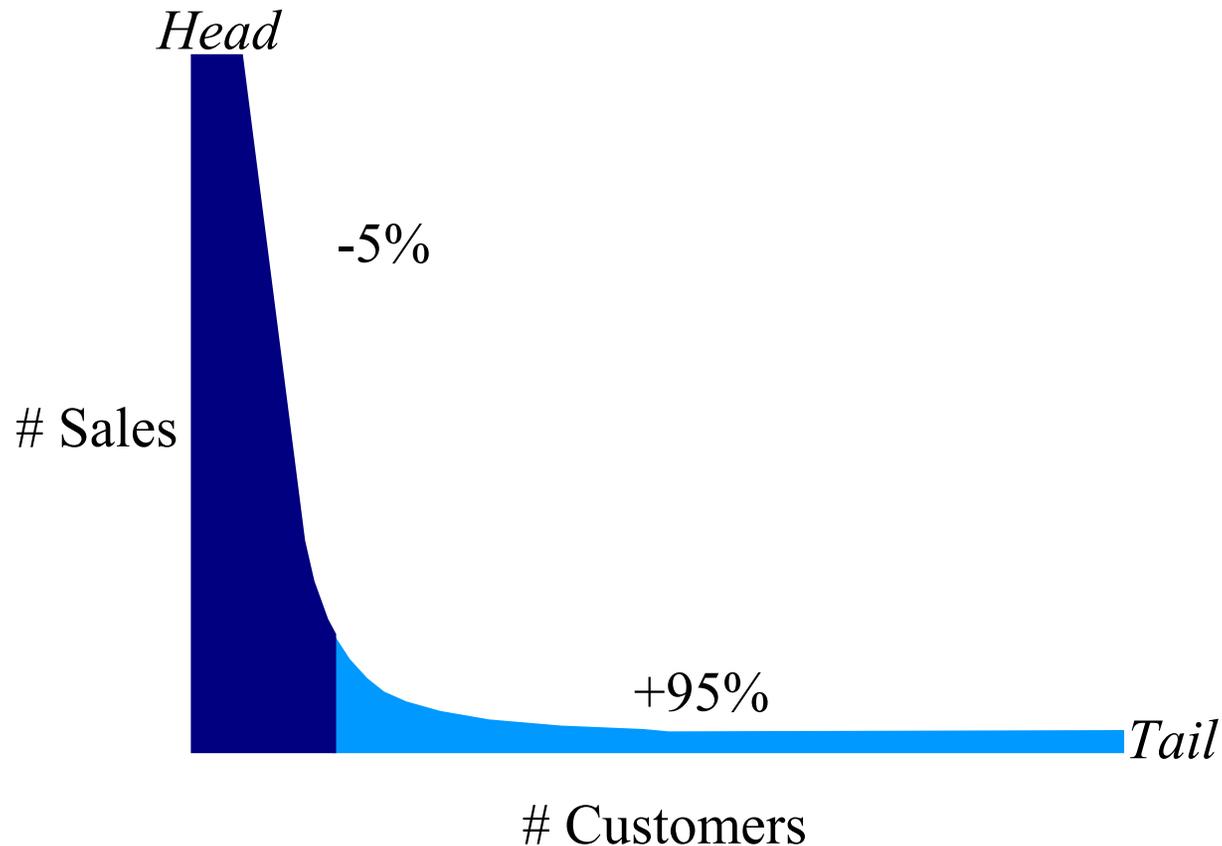
*Some SMB become OS Converts, our "bread & butter" customer

**Some OS Converts are Trusted advisors in their Sector

The ABC Source approach to customer retention is to first provide a product and service that does what it promises. Once a customer is satisfied with the service (may be through a field test or pilot project), ABC will focus on providing customer support, usually through a maintenance agreement, hosting or implementation support. Doing more than promised will include minor system upgrades and recommendations for improvement. Finally, ABC Source will work with its clients to connect them to the ABC Source network and create a mutually beneficial relationship. The aim is make all customers into partners.

The aim is to move appropriate customers up the pyramid.

The Long Tail of Software



The premise of the long tail of software is that less than 3% of potential customers buy the high volume products, leaving over 95% looking for niche applications that meet their specific needs. In a traditional manufacturing environment, these cannot be mass produced because the number of sales of each type is too low – until the advent of modular software, where even one sale can be profitable. According to one OS advocate, “the Long Tail of software is enabled and monetized by Open Source”. Open Source provides free do-it-yourself building blocks that enable the development of customized modules that can be quickly and cheaply created.

Traditional software sales have focused on the "HEAD", with these attributes:

- Fixed, stable feature set, Architected, Permanent, +100,000 users, Big pieces
- Monolithic
- Generic
- vendor Lock-in
- Most users are not builders
- Low-level tools
- Results in Complex software with feature bloat

In order to sell to the "TAIL", we will focus on these attributes:

- Software changes with requirements,
- Product is evolved and disposable,
- Focus on 1-1000 users
- Create Small pieces, Loosely joined
- Be Situated
- Be Open
- Understand that most users are builders
- Develop High-level tools
- Create simple tools, with few features, but the right ones

Current Traction

Given our current business model, ABC has traction with the following partners and clients:

1. Contacts Established (X, Y, Z)
2. Agreements for pilot/field test
3. Pilot projects in progress
4. Secured Sales

<i>Traction</i>	<i>Current Status</i>	<i>Remarks</i>
X	OS Convert	Requires easy to maintain open source LCMS. Has various e-learning clients and has won awards for instructional design. Potential to become trusted advisor to e-learning clients.
Y	OS Convert	Currently developing OS solutions for universities in BC. Potential to become trusted advisor to higher education clients as well as Drupal OS community.
Z	OS Convert	Develop blog for internal use, in partnership with xyz.com. Potential for further R&D projects, or use as a showcase client.

Avoiding Potential Problems for New Growth Companies

Our approach to avoid the landmines.

<i>Dave Pollard's Landmines -</i>	<i>How the ABC Business Model Addresses These:</i>
Don't copy a successful business, because you will have to create a new brand for an existing product/service.	Open Source business models are not yet a great success, but they allow start-ups to enter new markets at lower costs ABC Source approach is focusing on supporting SMB's, mostly with "back-office" services, where it is strong.
Don't overestimate your market.	We are developing our market one client at a time, and estimate three new clients for year one.
Don't be too far or too behind the market.	Given the use of open source by some large companies, we feel that we are not too far ahead of the market. We feel that customers are looking for good value, and reliable service.
Don't bite off too much.	We are targeting three to four customers for the next year, and are focused on slow, sustainable growth.
Don't offer a solution in search of a problem.	Our customer problems have been identified and we are focused on securing a first customer
Listen to the right advisers	We are connected to a network of business advisers/partners who have worked with small IT companies and understand the pitfalls.
Don't blow the budget.	We will bootstrap this operation as much as possible, and keep cash in reserve for unforeseen opportunities and challenges. Our major expense will be salaries.
Beware of group think.	We are not doing what everyone else is doing.
Don't buy the MBA hype.	We understand that ABC Source is not a major corporation, and operates under different rules than a 100 person company.

Essence

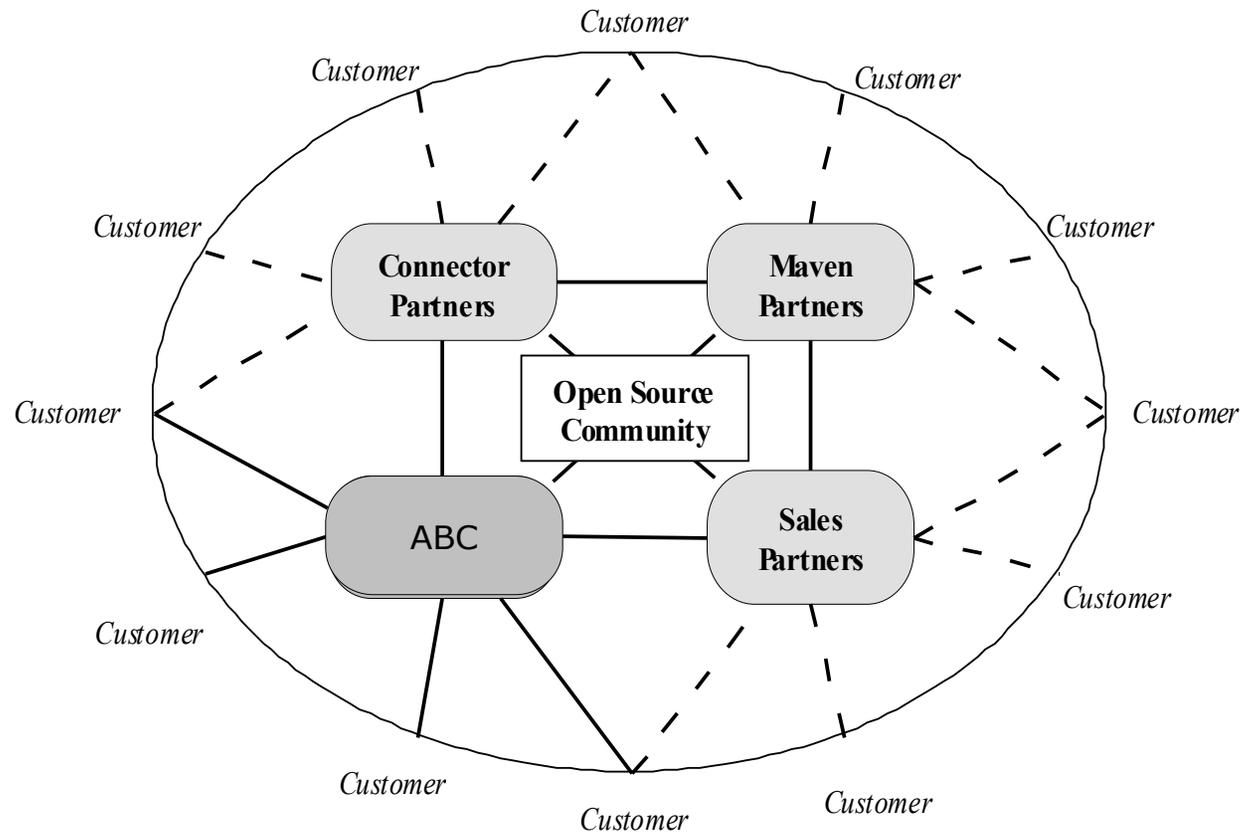
Open Source Artisans⁵ – for the Web and Learning

Open source is here to stay – and so are we. We are a small company with nine years of development experience who have embraced open source as a way to reduce customer costs, ensure long-term stability of our software and focus on what we do best – custom development. As part of a larger global development community, we can stay small and nimble and quickly react to market and technology changes. We openly partner with other like-minded companies and share in the risks of software development, implementation, maintenance and service. We are true to our partners and our customers because we offer Old World service for the long term, by staying on-time and on-budget for the short-term.



⁵ An artisan (craftsperson) is a skilled manual worker in a particular craft, using specialized tools and machinery. Artisans were the dominant producers of goods before the Industrial Revolution. ABC Source are the Artisans of the post-Industrial era, retrieving old world care and attention to detail, but using the latest tools and processes. To ensure that we stay current, we are members of various "Open Source Guilds", such as the Drupal development community.

Marketing & Sales



ABC Source conducts its marketing via its partners and the open source community. This approach uses a synergistic model. Synergy, a biological term, is defined as “the action of two or more substances, organs, or organisms, to achieve an effect of which each is individually incapable.” One small company cannot do everything by itself. Therefore, ABC Source is focused on finding and supporting key strategic partners. Our experience has shown that going direct to the customer, such as a trade show, yields few clients.

For example, when one of our potential customers has a problem, he or she will go through a personal and/or

organisational network in order to come up with some recommendations for a solution. Even though we could provide a solution, we would still need to have a relationship with one of that organisation's networks in order to be on their "radar screen". Only then would we have a chance of doing business with this customer. At ABC Source, we see doing business as the act of connecting a problem with a solution through a reputation-based referral system (network). This underscores the importance of nurturing our business networks, so that we can increase referrals. We are only as good as the reputation that we may have within the referral networks of our prospective clients.

We don't think about "markets" only; we think about networks that connect us to our markets.

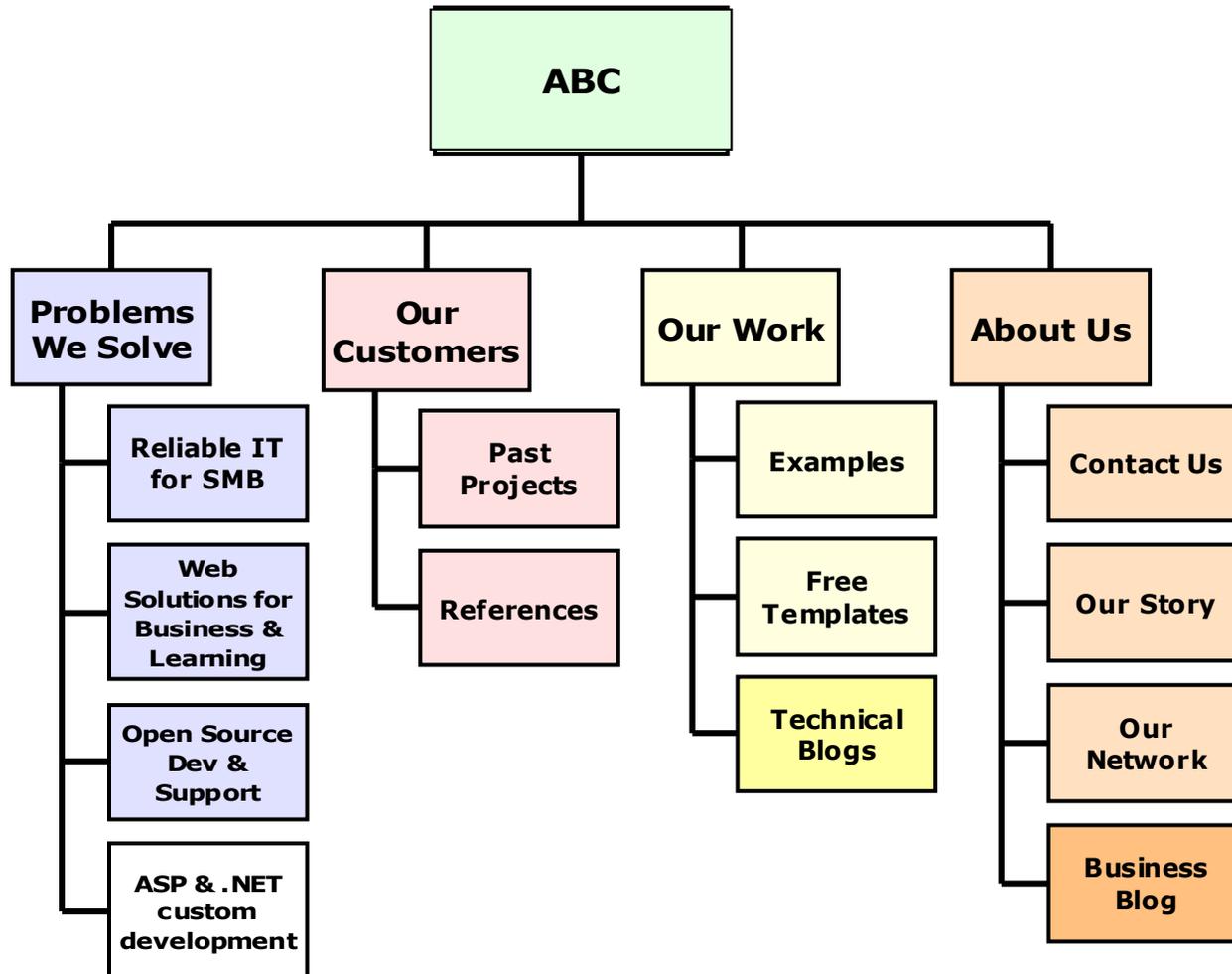
Action Plan

Growing the Network

<i>Contacts</i>	<i>Actions</i>
Mavens: "data banks, they provide the message,"	Read blogs of selected mavens in your field (e.g. Doc Searls) Comment on blogs and create own blog Understand opportunities
Connectors: "social glue: they spread it."	Part of Chamber of Commerce Member of Association X Comment on other blogs of interest in your fields, especially All applicable open source application blogs (focus on Drupal, DrupalED – where ABC already has some traction) Comment on similar business blogs
Salespeople: "with the skills to persuade us when we are unconvinced of what we are hearing... they are as critical to the tipping of word-of-mouth epidemics as the other two groups."	Find initial clients for proof-of-concept and pilot projects

<i>Contacts</i>	<i>Actions</i>
Open Source Community	<p>Develop first open source module for a preferred OS application:</p> <ul style="list-style-type: none"> - Research the needs (participate in developer forums) - Find a small targeted module for our potential clients develop, release, have community review and refine - Release to public, through ABC Source website <p>Develop at least two independent blogs, connected to the company website:</p> <ul style="list-style-type: none"> - Business Orientation – discussing the business model and key issues of importance to CEO - Technical Orientation – as an ongoing discussion point between your developers and their communities (e.g. http://www.acko.net/blog) <p>Install & test Drupal 4.6</p> <ul style="list-style-type: none"> - Develop a new Drupal theme - Develop a Drupal module using one of the learning-based applications that ABC uses in its proprietary LMS, and release through DrupalED

Develop the website in accordance with the new business model



Competition

<i>Competition</i>	<i>ABC Source's Strategy</i>
Established software development companies	Stay below the radar (Asymmetrical Motivation) Develop expertise in open source (Asymmetrical Skills) Target Overshot Customers and Non-consumers only
Open Source Whiz Kids	Co-operate and collaborate where skills are complementary Focus on track record and ability to manage and deliver on time

Note:

Many prospective clients are locked-in to proprietary software – Microsoft, Oracle, etc. – therefore we only target non-consumers, the overshot or price-sensitive and the OS-converted, avoiding the potential for direct competition with proprietary vendors.

Management Team

ABC co-founders are in charge of ABC's operations and development. The shared responsibilities include the company's day-to-day production activities, internal infrastructure, and overall direction. Together they bring almost 25 years of hands-on business operation experience combined with a passion for the high-tech industry and new knowledge-based economy.

Financial Projections

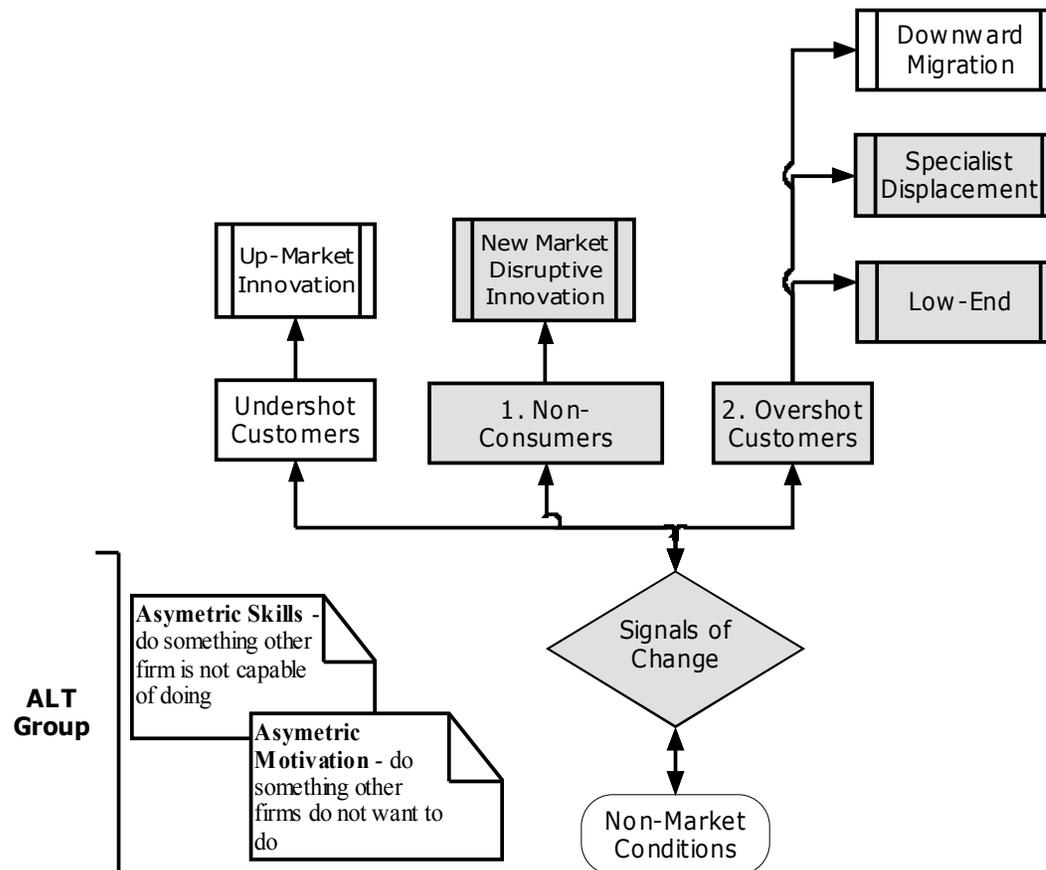
These figures were developed by the consultant, based on information available as of 25 March. This financial projection will evolve as this plan is implemented.

<i>ABC Source</i>	<i>Projected Income Statement</i>	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>
REVENUE	Existing Clients			
	SMB without IT			
	OS Converts			
	Trusted advisers			
	Hosting & Maintenance			
TOTAL REVENUE				
COST OF SALES	Establishing contacts (\$3,000 per secured contact)			
	Pilot Projects/Field Tests (3 per year)			
TOTAL COST				
GROSS PROFIT				
OPERATING COSTS	Facilities Cost (*note – includes rent, phone, Internet, etc.)			
	Payroll			
	Sales Commissions			
	Sales Commissions			
	Management			
	Operating expenses (*note – includes marketing, vehicle/travel, etc.)			
	Premises			
	Equipment lease			
	Research			
	Depreciation & Amortization			
	Debt Service (?)			
TOTAL EXPENSES				
INCOME BEFORE TAXES				

Revenues based on 3 initial customers in year one, 9 new customers in year two and 18 new customers year three, each averaging \$25,000 per project. In addition, hosting and maintenance are premised on retaining some customers from the previous year.

Appendix A - Customer Identification Process

Determining the problem that we are trying to solve is essential in order to understand who are our customers. The model used in this first section of the business plan is based on Christensen, Anthony & Roth (2004) *Seeing What's Next*.



According to this model, new entrants to a market, like ABC Source, should identify potential customers based upon the markets of established incumbent(s). There are three types of customers:

1. Undershot – willing to pay more for more functions/services
2. Overshot – find current offering more than adequate
3. Non-consumers – lack ability or the wealth for current service / products

For a new entrant like ABC Source, the best market is the non-consumer (also the least demanding) who is “below the radar” of the incumbents.

The second best target group is the Overshot Customer (specialist displacement for mainstream) who is willing to accept a more specialised product/service than the broader offering of the incumbent, or one who is looking for something cheaper and “good enough” (low end).

Usually, the products/services for the *non-consumer* market are relatively simple and affordable and make it easier for the customers to do something that they could not do before, or was much too difficult or costly. For instance, open source CMS and blog software have made it easy for anyone to set up a database-driven website. Previously, only large organisations could afford an enterprise system such as *LiveLink* or *Vignette*. Non-consumers, small & medium-sized businesses, have adopted these open source systems under the radar screen of the major vendors and created a new market.

Other factors include *non-market conditions*, such as new regulations, that change the way the market will behave. The requirements for compliance training (such as WHMIS) have created a new market for cheap and easy training programs.

In order to address these markets of non-consumers or overshot customers, the entrant needs *Asymmetric Skills & Asymmetric Motivation*. The entrant must be able to do something that the incumbent firm is not capable of doing or not motivated to do. Developing skills in PHP programming would be an asymmetric skill against an established company that only has skills in ASP or .NET.

The key questions that we keep asking when looking for signals of change in the marketplace are:

- What jobs are customers trying to get done?
- Are customers not served, undershot or overshot by current offerings?
- What improvements reaped premium prices in the past?
- Do integrated or specialist services currently prevail?
- Where is modularity occurring?
- Are interfaces specifiable, verifiable?
- Where are new business models emerging?
- Is there growth in fringe markets?
- What role do regulatory agencies play?

Use Case Scenarios

We can start the problem definition step by creating “Use Case Scenarios”.

Use Case Scenarios⁶ address the following questions:

- What problems do the products/services solve?
- What are the benefits?
- Why is this better than what users are doing now to solve their problems?

Use case scenarios address the use and benefits of the product from the everyday experience of the user, the problems they face and how the product will help solve these problems.

Before Scenario (problems and costs of existing solutions)

- Scene or situation
- Desired outcome
- Attempted approach
- Interfering factors
- Economic consequences

⁶ Adapted from the Chasm Group methodology www.chasmgroup.com

After Scenario (assume same scene, same desired outcome)

- New approach
- Enabling factors
- Economic rewards

Market Situation

The web is becoming ubiquitous and a daily part of most business transactions. We have seen that hardware has been commoditized, with Dell and other suppliers constantly eroding the price point of any computer manufacturer. Even Dell is being attacked on the price front, with competition from China. Therefore, the economists' adage that "over time, price tends to zero" is true in computer hardware.

The same commoditization is occurring with software. The main competition coming from open source. Many companies have realized that open source software (OSS) provides the raw lumber for do-it-yourself IT developers. OSS first made inroads with web servers (Apache) and then with operating systems (Linux) followed by databases (MySQL) and later with content management systems (Drupal) and learning content management systems (Moodle). Competition is now heating up with open source applications like the Firefox browser and the OpenOffice suite.

The elearning and software sectors are becoming mature markets and product vendors are consolidating, while clients are looking more for stability and ease of use, than new features. This is making it difficult for start-ups and small companies to enter new markets without expensive marketing campaigns. At the same time, the services (consulting, design, programming, outsourcing) market is continuing to grow, and offers a viable market for small, innovative companies.

Small, networked companies can use their partners to find new clients and opportunities, and do not need to market directly to potential clients. Partners who have similar size, and have similar risk levels, make for the best long-term partners. ABC Source is developing its markets one client at a time, through direct conversations with their clients, colleagues and partners because "Markets are conversations"⁷

⁷ The Cluetrain Manifesto (1999) <http://www.cluetrain.com>

Appendix B – Our Story

Sample piece for website.

March 2005

We started ABC in 1996 when we graduated from the New Media program at the local College. We had a bootstrapper outlook, and did not even try to incorporate until we had our first customer. During that time a number of new, small technology companies joined us in the “Tech Centre”, which is where we still have our offices. For a while there were probably about a dozen companies and we did a number of projects around custom software development and even developed our own proprietary systems. One of these was for the transportation industry to help haulers calculate their fuel taxes from state to state and province to province. We also developed some customized learning management systems which are still in use in the banking industry. The situation today is quite different than when we started nine years ago.

We survived the Dot Com crash of 2001/2002 but today we have a lot fewer neighbours at the Tech Centre. One of the reasons that we survived was because we managed to stay small and stay focused on our customers. Our projects were not huge, but they were on-time and on-budget. We have learned how to estimate and manage software development projects from start to finish. We don't bite off more than we chew. In this way, you could say that we are a bit old-fashioned, because we aren't trying to get rich quick. We want to offer products that do what they promise and have long-term relationships with our customers. That's why we have spent the past year focusing on open source software.

We believe that many open source software applications have matured to a stage where they provide cheap and reliable foundations for many business and learning needs. We are constantly learning about selected applications by staying active in the developer communities and building and testing new modules. We offer our customers the dependability of our small company's experience and we will stay focused on your needs by ensuring that the open source applications are tried and tested. If you've already embraced open source software then we can give you reliable custom development at a reasonable price. We want to continue to be good custom software developers, and we feel that open source is here to stay. For small and medium sized businesses, open source can save you lot of money, and we help to make it dependable.

Our goal is continue to offer good service at a reasonable price and have some fun building new applications that solve real business and learning challenges. We are committed to our community and our employees and we know that takes a long-term commitment to our customers in order to stay in business. Feel free to contact us, with no hype and no pressure. We don't even have a sales or marketing department – just customer relationships.