Entrepreneurs see change as the norm and as healthy. Usually they do not bring about change themselves. But—and this defines entrepreneur and entrepreneurship—the entrepreneur always searches for change, responds to it and exploits it as an opportunity.

Peter Drucker
A Business Planning Architecture
Business Planning Architecture...

Why do you need one? 3 reasons

1. You need a graphic in your head to identify where you are along the path.
2. You need to keep your month-to-month activities in balance with your longer term Tactics, Strategies and Vision.
3. You need something to be able to quickly and easily translate to the rest of your managers.
Planning Terms & Timelines

**Vision:** *Future State* in 24-36 plus months

**Strategies:** *Primary Directions* in 1-18 months

**Tactics:** *Operating Plans* in 1-6-12 months

Every Tactic has Objectives

**Objectives:** *Measurements* in 1-6-12 months.
Company Planning Architecture

Vision

Strategies

1-36+ months

All Key Managers

1-18+ months

All Key Managers

Tactics & Objectives

1-12 months

All Employees

Common Mistake #1

Common Mistake #2

Actions

Operations

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Planning Architecture...

Common Business Planning Mistakes...

- Terminology is not understood and shifts back and forth
- A lack of process consistency
- A lack of timely follow up & review
  - Even understanding the most timelines will be late

The biggest mistake is always...

- A lack of consistency on the part of the CEO
The Chris Columbus Plan Process...

Pre-planning...

- I have a pretty good Vision
- I will bring back gold and riches
- I need some money and ships
- I am not too sure how to get there
- I am also not sure of how long it will take
- But, I’ll be back soon…
The Chris Columbus Plan Process...

Post Planning Follow Up...

- I’m not too sure where we went
- I do know it was not where we expected to be
- There were a lot of strange people there
- It took a lot longer than I expected.
- I did not bring back the gold that I said I would
- I’d like some more money & ships to try again
Successful Planning Architecture

Great Business Planning should provide…

• A common architecture for the future
• Agreed upon & well understood strategies
• A socialized common management language
• Detailed tactics with measurements
• Absolute total consensus
• Ownership & Accountability on everyone’s part
• Responsibility as a senior manager
What’s my responsibility?

To make sure that all of the pieces fit

- Your personal pieces & the Company’s pieces
- They must fit for your long term goals
- They must fit for the Company’s long term plan
- They must fit for your key manager’s goals
What does this process look like?

My Company Plan...

- Once a year for a “business planning” process  
  - It may be strategic; it may be tactical
    - Do not do a strategic review every year
      - Unless your Primary Directions are broken
    - Must leave with detailed agreement & buy-in
    - Must leave with interlaced tactical objectives
    - Must leave with interconnected assignments
- Then three quarterly reviews  
  - ½ day
The Five Stages of Growth
The Five Stages of Growth

- Survival
- Stability
- Growth
- Success
- Crisis

What this really means is...

- you must have metrics at every stage
- you must reach Stability at a minimum
- in order to succeed you must grow

- Positive cash flow
- “A” level managers hired
- Strategies locked down
- Tactical plans in place
The Art of Creating...

The Winning Business Plan
Why create a Business Plan?

• For you as a company manager, it...
  – Communicates your strategic direction
  – Communicates your tactics
  – Communicates your objectives
  – Communicates your department’s objectives
  – Communicates your budget requirements
  – Provides for common agreement & buy-in
  – Provides common language
Why create a Business Plan?

• For you as an entrepreneur, it…
  – Provides the same as a company manager
  – And …
    …provides a framework for investors
Why Else?
For the Team...

- Most importantly, for you & your team
  - The actual process of planning is the key.
    - It consolidates management direction.
    - It provides debate & finally consensus.
  - It is a guide when speed bumps happen.
  - It is your company & personal scorecard.
No Business Plan, No

- Larger corporations
  - Plans are the foundation of your budgeting
  - Business plans are the keys to your objectives

- Smaller companies
  - Plans are the foundation for outside investors
    - Private angels
    - Venture capitalists
    - Corporate investors & strategic partners
    - Banks
Company Planning Architecture

- **Vision**: 1-36+ months, **All Key Managers**
- **Strategies**: 1-18+ months, **All Key Managers**
- **Tactics & Objectives**: 1-12 months, **All Employees**
- **Actions**
- **Operations**

Common Mistake #1

Common Mistake #2
Strategy ? Tactics ? Objectives?

• **Vision** =  
  – Your personal long term objectives 60 months out

• **Strategy** =  
  – Long term directions over the next 18- 24 plus months

• **Tactics** =  
  – My annual operating plans for the 12-18 months

• **Objectives** =  
  – My measurable metrics for the next year
Writing a plan is tough work!

- It requires disciplined balance
  - It’s visionary, but logical.
  - It’s financially perfect, but flexible.
  - It’s for today, but also for 3 years out
  - It’s a formal Plan, but it’s easy to read.
  - It’s creative, but it follows *The Rules*. 
✓ Rules
✓ Preparation
✓ Start Writing
How do you start?

Pay attention to *The Rules*…

- Be compelling
- Be brief, focused, & deliberate
- Focus on the markets & on your customers
- Provide solid market research & hard data
- Be innovative
- Define an experienced management team
Rules...

Be brief & direct & detailed.

- Identify what the business is immediately
- Identify the business model immediately.
- Define the products & their technologies

- Detail the markets

- Identify your customers.
- Identify the sales model immediately

What?

Where?

Who & How?
Rules...

- Define what’s compelling & unique.
- Be realistic with yourself.
- Define your 1 and your 3 year objectives
- Describe your 3 to 4 primary strategies.
- Focus on the cash
Don’t just start writing

• Preparation is The Key to Success.

- Question everything…
  • What’s our Vision?
  • Can we explain it to others?
  • What business are we in today?
    - What about in 3 years?
  • Are we really innovative?
Don’t just start writing

• **Preparation is The Key to Success.**
  – What do we really know about…
    • Our market & customer targets?
    • Who our customers will be in 2008?
    • What is our product roadmap?
    • Market data, trends, & forecasts?
    • Competition?
    • New technologies in development?
One more preparation task...

- Analysis of assumptions...
  - Internally, what do we want for...
    - Revenue growth rates
    - Sales acquisition costs
    - Technology investment rates
    - Product costs & expected margins
    - G&A expense percentages
    - Receivables, payables, financing
Now, you can start writing.

What you need…

– A quiet place and time.
– All of your data easily available.
– Start working by yourself.
– Get the content down quickly.
– Send a first rough draft to others quickly.
– Write draft after draft after draft after…..
The Traditional Business Plan

- An Executive Summary
- 7-9 sections
- 20-30 pages with financials

- Provides clear details
- Brings out the richness of the business idea.
- Details the market opportunity & complexity
- Details the business and sales models
What’s included?

- 7-9 Sections...

1. Executive Summary
2. Introduction to the business
3. Definition of products & services
4. Overview of markets
5. Overview of sales & marketing plans
6. Overview of products and roadmap
7. Summary of manufacturing & operations
8. Management team bios
9. Four pages of financials
MDI Instruments Case Study

The *only* reliable way to check for ear infection.

*Pieces of the June 26, 1998 Pitch*
The Company

• Founded 1994
• Commercialize innovative technologies
  – Healthcare and consumer products
• Venture capital funded: $11 million
  – MDT - Arthur D. Little
  – Boston University
  – Child Health Corporation
• World’s leading pediatricians as advisors
• Boston-based, 20 employees
Entrepreneurial Management Team

Jack Derby, CEO

Geoff Jenkins, COO

Sandra Kimball, VP Medical/Regulatory, Founder

Paul Kowalski, VP Sales

Betsy Winsett, VP Marketing

Michael O’Malley, Chairman
A quick course in Otitis Media

• Inflammation of middle ear
• Acute Otitis Media:
  – Symptoms: Fever, fluid, pain, ear tugging
  – Treatment: Antibiotics
  – Resolution:
    • Infection: 3-4 days
    • Fluid: 2-12 weeks (10% no resolution)
• Otitis Media with Effusion
  – Often asymptomatic
  – Results in hearing loss
Otitis Media is Epidemic

- Most frequently diagnosed illness among preschoolers.
  - Children < 2, office visits more than tripled.
  - Children 2-5, office visits more than doubled.
- Cost: $3-$4 billion annually in U.S.
- 25+ million U.S. antibiotic prescriptions annually.
**Worldwide Opportunity**

<table>
<thead>
<tr>
<th></th>
<th>Children*</th>
<th>Ped’s</th>
<th>Family</th>
<th>ENT’s</th>
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<td><strong>Japan:</strong></td>
<td>21 million</td>
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*15 Years of age and under*
Opportunity: World’s Leading Pediatricians

Need for objective testing…
“Otitis media is the most over and misdiagnosed illness. Annual U.S. costs are $3-4 billion.”
Dr. George McCracken

Need for monitoring…
“Middle ear fluid results in some hearing loss. Even moderate hearing impairment can cause delays in speech, language and cognitive development.”
Dr. Jerome Klein

Need for screening…
“Many children with middle ear fluid do not exhibit symptoms… This is called the “hidden disease”.
Dr. Charles Bluestone
EarCheck®

- Smaller Tip
- Fixed Tip
- Backdoor Circuit Board Contacts
- Ergonomic Designed Handle
- Base Feet
- Smaller size
- LED Display
- Improved Error Codes
- Tip Replacement Alert
- Simpler Operation
- Audible Scan
- Auto Scan
- Audible Complete
EarCheck PRO™ Otitis Media Detector

- Designed for physicians
  - Third party reimbursable
  - More accurate diagnosis of middle ear effusion
  - Objective monitoring and screening
- High volume/high margin disposable tip
- Faster, more comfortable, more cost effective
EarCheck™ Middle Ear Monitor

• Designed for Parents
  – “Is it an ear infection?”
  – Follows the resolution of fluid
  – Gentle, reliable, easy to use
• High margin disposable tip
How EarCheck Works

- Sonar based technology
- Identifies the probability of middle ear fluid
- Instrument emits a “chirp” of sound
- Analyzes the change in reflected sound
- In a healthy ear, the reflected sound is soft across a broad frequency spectrum
- In a restricted ear, the reflected sound is loud across a relatively narrow frequency spectrum
In a fluid filled ear...

1. A low amplitude tone (blue) is generated in the ear canal.

2. A middle ear containing fluid (effusion):
   - Restricts the vibration of the ear drum which reduces the sound reaching the inner ear. More sound is echoed.

3. The resonance characteristics of effusion are a narrow, steep curve.
In a healthy ear...

1. A low amplitude tone (blue) is generated in the ear canal.

2. A Normal middle ear filled with air:
   - Allows sound pressure to vibrate the ear drum
   - Transmits sound energy to the inner ear

3. Resonance curve of the ear drum is wide and shallow, indicating a normal ear

4. Ears with angles greater than 95º are Normal

[Diagram of the ear canal, middle ear, ear drum, microphone, and acoustic transducer]
Strong Clinical Acceptance

- 90 day FDA approvals
- Equivalent accuracy to tympanometry
- CDC/AAP recommendations
- Kaiser endorsement
- Seal of Acceptance, Alliance of Children’s Hospitals
- Lilly & Pfizer studies
- Pediatric Infectious Disease Journal, June 1998
## Pricing & Margins

<table>
<thead>
<tr>
<th></th>
<th>Professional</th>
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<tbody>
<tr>
<td></td>
<td>EarCheck PRO</td>
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</tbody>
</table>
U.S. Consumer Market

- 17.3 million families with children under six
- 4 million births each year
- 83% of all children under 3 have had one or more
- 46% have had three or more
Consumer Market Research

- Vantis International Benchmarking Study
- National Family Opinion Mail Panel
  - Households with children age 6 and under
  - Nationally projectable
- Objectives
  - Market potential
  - Price elasticity
Consumer Market Potential

Purchase Intent for EarCheck is High!

Source: Vantis Research
11/1997

- 37%: Definitely
- 24%: Probably
- 22%: Might
- 10%: Probably Not
- 7%: Definitely Not

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Consumer Market Potential

Virtually No Price Elasticity

% hh with kids 6 and under:

Positive Purchase Intent

$119.00 $99.00 $79.00
Consumer Market Potential
Market Potential is Greater Than Thermoscan

Thermoscan: 24%
EarCheck: 31%
EarCheck PRO Distribution Channels

- 7 District Managers
- McKesson General Medical
- 15 Regional distributors
- PSS
- Bergen Brunswig
- Independent Reps
- Henry Schein & Darby

1997
August 97
December 97
January 98
February 98
May 98
June 98
Multifaceted Professional Marketing Plan

- Journal advertising to core audience
- Public relations focused on clinical studies
- Extensive trade show participation
- Quarterly sales promotions
- Sales support
MDI Retail Distribution Strategy

1997

Specialty Retail
- Sharper Image
- Right Start
- One Step Ahead

Chain Drug
- Longs
- CVS
- Walgreens
- Target
- Eckerd

2000

Mass Merchants
Proactive Consumer Marketing Plan

- Professional endorsement
- Awareness and demand
  - Advertising
  - Public Relations
- Strong retail support programs
  - Merchandising
  - Pharmacy programs
  - Physician and consumer awareness
Manufacturing

Keytronic Corp., Spokane, Washington
- Assembly, functional & release testing
- Packaging & distribution
- Returns & replacements

Keytronic
- The world’s largest independent producer of keyboards
- Broad experience in high volume, high quality
- Plastic components and electronics
- Mexico, Ireland & China
Product Development

- Current products developed in 14 months
- Ear Infection Detector
  - Thermometry & AR combined
- More disposable tip
- International models
- Cost reduction programs
Performance

Sales: 9/97 launch - 6/98
• EarCheck PRO: 4,400 units
• EarCheck consumer: 15,000 units
• $2.8 million in sales
• Safe, no adverse events
• Accurate and efficacious
  – Clinically proven & FDA approved
  – Recommended by CDC, AAP & Kaiser
• Enthusiastic acceptance at retail
MDI’s Sales Plan is Achievable

<table>
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<tr>
<th>Year</th>
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<th>Consumer</th>
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<tr>
<td>1997</td>
<td>$1.28*</td>
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<td>2001</td>
<td>$49.63</td>
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</table>

* Professional $919K, Consumer $363K

Cum. Penetration:
- 1997: 0.3%
- 1998: 1.6%
- 1999: 4.0%
- 2000: 8.2%
- 2001: 12.8%

Total Sales:
- 1997: $5.2 million
- 1998: $56.0 million
- 1999: $220.6 million
- 2000: $409.5 million
- 2001: $719.4 million

Cumulative Penetration:
- 1997: 0.3%
- 1998: 1.6%
- 1999: 4.0%
- 2000: 8.2%
- 2001: 12.8%
MDI’s Opportunity

• Innovative patented technology
• Clinically validated accuracy & safety
• Professional endorsements
• Large consumer market & purchase intent
• Solid professional market
• Excellent manufacturing partner
• Significant barriers to entry
• Identified new product stream
• Experienced entrepreneurial management team
• Achievable business plan
So, if it were your company...

- What would you do?
- Would you continue to build it?
- Would you raise more venture money?
- Would you sell it?