

Chapter 5: The Business Plan: Creating & Starting the Venture Entrepreneurship

Planning as a part of the Business Operation

- Planning is a process that never ends for a business. It is very important in the early stages of any new venture when the entrepreneur will need to prepare a preliminary business plan.
- For any organization it is possible to find financial plans, marketing plans, human resource plans, production plans, & sales plans to name a few. Plans may be short or long term.
- All plans have one important purpose that is to provide guidance to management in a rapidly changing market environment.

The importance of a business plan

1. To help you with critical decisions
2. To avoid the big mistakes
3. To prove the viability of the business
4. To set better objectives and benchmarks
5. To communicate objectives and benchmarks
6. To provide a guide for service providers
7. To secure financing
8. To better understand the broader landscape
9. To reduce risk

What is the Business Plan

Business Plan is “a written document prepared by the entrepreneur that describes all the relevant internal and external elements and strategies for starting a new venture”.

- It is an integration of functional plans such as marketing, finance, manufacturing, sales and human resources. It also addresses both short & long term decision making for the first three years of operation.

Who should write the Plan?

- The business plan should be prepared by the entrepreneur.
- The entrepreneur may consult with many other sources in its preparation, such as lawyers, accountants, marketing consultants, and engineers. Internet also provides a wealth of information as well as actual sample templates or outlines for business planning.
- To help determine whether to hire a consultant or to make use of other resources, the entrepreneur can make an objective assessment of his/her own skills. Through such an assessment the entrepreneur can identify what skills are needed & where to obtain them.

Who Reads The Plan?

The business plan may be read by employees, investors, bankers, venture capitalists, suppliers, customers, advisors, and consultants. Since each of these groups reads the plan for different purposes, the entrepreneur must be prepared to address all their issues & concerns. There are three perspectives should be considered in preparing the plan :

i. Perspective of the entrepreneur:

- Entrepreneur understands better than anyone else the creativity & technology involved in the new venture. The entrepreneur must be able to clearly articulate what the venture is all about.

ii. Marketing perspective:

- Too often, an entrepreneur will consider only the product or technology & not whether someone would buy it. Entrepreneurs must try to view their business through the eyes of their customer.

iii. Investor's perspective:

- The entrepreneurs should try to view his/her business through the eyes of the investor.

Why Have a Business Plan?

- The business plan is valuable to the entrepreneur, potential investors, or even new personnel, who are trying to familiarize themselves with the venture, its goals, and objectives.
- It helps determine the viability of the venture in a designated market
- It provides guidance to the entrepreneur in organizing his or her planning activities
- It serves as an important tool in helping to obtain financing.

Information required before writing a business plan

- Before committing time and energy to preparing a business plan, the entrepreneur should do a quick feasibility study of the business concept to see whether there are any possible barriers to success.
- The information, obtainable from many sources, should focus on marketing, finance, & production, internet can be a valuable resource.
- Before beginning the feasibility study, the entrepreneur should clearly define the goals & objectives of the venture. These goals help define what needs to be done & how it will be accomplished.
- Goals & objectives that are too general or that are not feasible make the business plan difficult to control & implement.

Writing the Business Plan

- A business plan should be comprehensive enough to give any potential investor a complete picture and understanding of the new venture.
- It should help the entrepreneur clarify his/her thinking about the business.

Outline of a Business Plan

I. Introductory Page

- A. Name and address of business
- B. Name(s) and address(es) of principal(s)
- C. Nature of business
- D. Statement of financing needed
- E. Statement of confidentiality of report

II. Executive Summary—Three to four pages summarizing the complete business plan

III. Industry Analysis

- A. Future outlook and trends
- B. Analysis of competitors
- C. Market segmentation
- D. Industry and market forecasts

IV. Description of Venture

- A. Product(s)
- B. Service(s)
- C. Size of business
- D. Office equipment and personnel
- E. Background of entrepreneur(s)

V. Production Plan

- A. Manufacturing process (amount subcontracted)
- B. Physical plant
- C. Machinery and equipment
- D. Names of suppliers of raw materials

VI. Operational Plan

- A. Description of company's operation
- B. Flow of orders for goods and/or services
- C. Technology utilization

VII. Marketing Plan

- A. Pricing
- B. Distribution
- C. Promotion
- D. Product forecasts
- E. Controls

VIII. Organizational Plan

- A. Form of ownership
- B. Identification of partners or principal shareholders
- C. Authority of principals
- D. Management-team background
- E. Roles and responsibilities of members of organization

IX. Assessment of Risk

- A. Evaluate weakness(es) of business
- B. New technologies
- C. Contingency plans

X. Financial Plan

- A. Assumptions
- B. Pro forma income statement
- C. Cash flow projections
- D. Pro forma balance sheet
- E. Break-even analysis
- F. Sources and applications of funds

XI. Appendix (contains backup material)

- A. Letters
- B. Market research data
- C. Leases or contracts
- D. Price lists from suppliers

Business Plan

1. Introductory Page:

This is the title/cover page that provides a brief summary of the business plan's contents. The introductory should contain the following:

- Name and address of business
- Name of the entrepreneur(s), telephone number, fax number, e-mail address, and web site address if available.
- A paragraph describing the company & nature of business •
Statement of financing needed
- Statement of confidentiality of report

Sample Introductory Page

TABLE 7.4 Sample Introductory Page

KC CLEANING SERVICE
OAK KNOLL ROAD
BOSTON, MA 02167
(617) 969-0010
www.cleaning.com

Co-owners: Kimberly Peters, Christa Peters

Description of Business:

This business will provide cleaning service on a contract basis to small and medium-sized businesses. Services include cleaning of floors, carpets, draperies, and windows, and regular sweeping, dusting, and washing. Contracts will be for one year and will specify the specific services and scheduling for completion of services.

Financing:

Initial financing requested is a \$100,000 loan to be paid off over six years. This debt will cover office space, office equipment and supplies, two leased vans, advertising, and selling costs.

This report is confidential and is the property of the co-owners listed above. It is intended for use only by the persons to whom it is transmitted, and any reproduction or divulgence of any of its contents without the prior written consent of the company is prohibited.

- This title page sets out the basic concept that the entrepreneur is attempting to develop. Investors consider it important because they can determine the amount of investment needed without having to read through the entire plan.

2. Executive Summary:

This section of the business plan is prepared after the total plan is written. About two to three pages in length, the executive summary should stimulate the interest of the potential investor.

Generally the executive summary should address a number of issues or questions that any one picking up the written for the first time would want to know: e.g.

- What is the business concept or model?
- How is this business concept or model unique?
- Who are the individuals starting this business?
- How will they make money and how much?

3. Environmental and Industry Analysis:

The environmental analysis assesses external uncontrollable variables that may impact the business plan.

Examples of these environmental factors are:

Economy: The entrepreneur should consider trends in the GNP, unemployment by geographic area, disposable income & so on.

Culture: An evaluation of cultural changes may consider shifts in the population by demographics.

Technology: Advances in technology are difficult to predict. Entrepreneur should develop his technology used in business.

Legal concerns: There are many legal issues in starting a new venture. The entrepreneur should be prepared for any legislation that may affect his product or service. E.g. ban on cigarettes ads.

Once the environmental assessment is complete the entrepreneur should conduct industry analysis which reviews industry trends & competitive strategies. Examples are:

Industry demand: knowledge of whether the market is growing or declining, the number of new competitors, the possible changes in consumers needs.

Competition: Most entrepreneurs generally face potential threats from larger cooperation's. The entrepreneur must be prepared for these threats & should be aware of who the competitors are & what their strengths & weaknesses are.

4. Description of Venture:

The description of the venture should be detailed in this section of the business plan & Provides complete overview of the product, service, size of business, office equipment and personnel, background of entrepreneurs & operation of a new venture.

There are some of the important questions that an entrepreneur needs to answer when preparing this section of the business plan.

Note: if the building or site decision involves legal issues, such as a lease then the entrepreneur should hire a lawyer.

Describing the venture

1. What is the mission of the new venture?
2. What are your reasons for going into business?
3. Why will you be successful in this venture?
4. What development work has been completed to date?
5. What is your product(s) and/or service(s)?
6. Describe the product(s) and/or service(s), including patent, copyright, or trademark status.
7. Where will the business be located?
8. Is your building new? old? in need of renovations? (If renovation is needed, state costs.)
9. Is the building leased or owned? (State the terms.)
10. Why is this building and location right for your business?
11. What office equipment will be needed?
12. Will equipment be purchased or leased?
13. What experience do you have and/or will you need to successfully implement the business plan?

5. Production plan:

Details how the product will be manufactured. If the new venture is a manufacturing operation, a production plan is necessary. This plan should describe the complete manufacturing process. If some or all of the manufacturing process is to be subcontracting, the plan should describe the subcontractor, including location, reasons for selection, costs, & any contracts that have been completed. If the manufacturing is to be carried out in whole or in part by the entrepreneur, he/she will need to describe the physical plant layout, machinery, equipment. Raw materials & suppliers name, address & cost of manufacturing. Some of the important questions of this section are:

1. Will you be responsible for all or part of the manufacturing operation?
2. If some manufacturing is subcontracted, who will be the subcontractors? (Give names and addresses.)
3. Why were these subcontractors selected?
4. What are the costs of the subcontracted manufacturing? (Include copies of any written contracts.)
5. What will be the layout of the production process? (Illustrate steps if possible.)
6. What equipment will be needed immediately for manufacturing?
7. What raw materials will be needed for manufacturing?
8. Who are the suppliers of new materials and what are the appropriate costs?
9. What are the costs of manufacturing the product?
10. What are the future capital equipment needs of the venture?

6. Operation plan:

All businesses (manufacturing or nonmanufacturing) should include an operations plan as part of the business plan. This section goes beyond the manufacturing process & describes the flow of goods & services from production to the customer. Some key issues for both the manufacturing & non manufacturing new venture are:

1. From whom will merchandise be purchased?
2. How will the inventory control system operate?
3. What are the storage needs of the venture and how will they be promoted?
4. How will the goods flow to the customer?
5. What are the steps involved in a business transaction?

7. Marketing plan:

Describes market conditions and strategy related to how the product(s) and service(s) will be distributed, priced, and promoted. It helps in forecasting of sales, budget & appropriate controls. Marketing planning will be an annual requirement (with careful monitoring & changes made on a weekly or monthly basis) for the entrepreneur & should be regarded as the road map for short term decision making.

8. Organizational plan:

Describes form of ownership and lines of authority and responsibility of members of new venture. It describes the venture form of ownership that is proprietorship, partnership or corporation. If the venture is a partnership, the terms of the partnership should be included. Entrepreneur should answer the following questions in preparing the organizational plan:

1. What is the form of ownership of organization?
2. If a partnership, who are the partners & what are the terms of agreement?
3. If incorporated, who are the principal shareholders & how much stock do they own?

4. Who are the members of the board of directors? (give name, address, resume)
5. Who has check signing or authority?
6. Who are the members of the management team & what are their backgrounds?
7. What are the roles & responsibilities of each member of the management team?
8. What are the salaries, bonuses, or other forms of payment for each member of the management team?

9. Assessment of risk:

Identifies potential hazards & alternative strategies to meet business plan goals & objectives. Assessment of risk should be based on:

- Potential risks to the new venture.
- Discussion of what might happen if risks become reality.
- Strategy employed to prevent, minimize, or respond. Major risks for a new venture could from:
 - Competitor's reaction.
 - Weaknesses in marketing/ production/management team.
 - New advances in technology.

In general form, there are 5 Types Of Risk Assessment. Those methods are Qualitative Risk Assessment, Quantitative Risk Assessment, Generic Risk Assessment, Site-Specific Risk Assessment, Dynamic Risk Assessment.

10. Financial plan:

It determines the potential investment commitment needed for the new venture & indicates whether the business plan is economically feasible.

Generally three financial areas are discussed in this section:

- The entrepreneur should summarize the forecasted sales and the appropriate expenses for at least the first three years.
- Cash flow figures for three years.
- Projected balance sheet.

11. Appendix:

The appendix of the business plan generally contains any backup material that is not necessary in the text of the document. Appendix may include:

- Secondary data or primary research data used support plan decisions.
- Leases, contracts, or other types of agreements.
- Price lists from suppliers and competitors.

Using & Implementing the Business Plan

- The business plan is designed to guide the entrepreneur through the first year of operations. Implementation of the strategy contain control point to ascertain progress and to initiate contingency plan if necessary. Business plan not end up in a drawer somewhere once the financing has been attained and the business launched.
- There has been a tendency among many entrepreneurs to avoid planning. The reason often given is that planning is dull or boring & is something used only by large companies. This may be an excuse, perhaps the real truth is that some entrepreneurs are afraid to plan.
- Without good planning, the venture may face many problems like employees will not understand the company goals & how they are expected to perform in their jobs.

Measuring plan progress:

Typically the business plan projections will be made on 12 month schedule, however the entrepreneur cannot wait 12 months to see whether the plan has been successfully achieved. Instead on a frequent i.e. at the beginning of each month the entrepreneur should check the profit & loss statement, & information on inventory, production, quality, sales, collection of accounts receivable & disbursements for the previous month.

Updating the Plan:

The most effective business plan can become out-of-date if condition change. Environmental factors such as the economy, customers, new technology, or competition & internal factors such as the loss can all change the direction of the business plan. If the change are likely to affect the business plan, the entrepreneur should determine what revisions are needed. In this manner, the entrepreneur can maintain reasonable targets and goals and keep the new venture on a course that will increase probability of success.

Why some Business Plan Fails?

Generally a poorly prepared business plan can be blamed on one or more of the following factors.

- 1. Pursuing a bad idea**
- 2. Not having the expertise**
- 3. Not being realistic**
- 4. Assuming everything will go smoothly**
- 5. Neglecting the finances**
- 6. Not checking the spelling and grammar**
- 7. Not believing in the plan**

And much more reasons