

Lecture 13b and 14 Business Planning Overview

BUSINESS PLAN OVERVIEW



Why plan ahead for a new business?

- Unfocused target market often leads to failure
- A great idea \neq a product people want to buy
- Many firms run out of cash before they achieve financial stability
- A business plan is designed to reduce these risks.

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Business Planning Process and Key Elements

- Identify a unique idea or a twist on an existing product or service
 - We'll discuss typical categories
 - Macroeconomic conditions can be helpful or harmful
- Identify a focused target market
 - Who is the competition; is there space in the market?
 - Is the market growing or declining?
- Evaluate what you'll need to start the firm: people with particular skills, materials, equipment
 - Also the costs involved for these
- Evaluate how long it will take to generate revenue
- Evaluate the risks and how you might reduce them

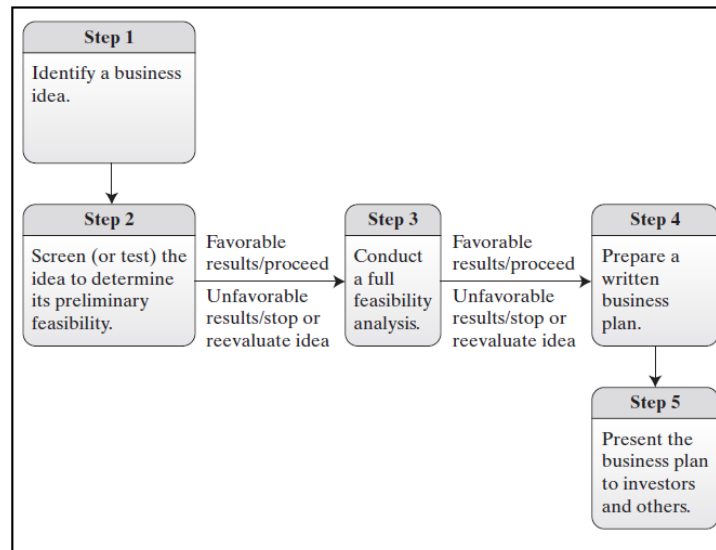
BUSINESS PLAN OVERVIEW

5-STEP BUSINESS PLANNING PROCESS



Business Planning Process

FIGURE 1-3 The Comprehensive Feasibility Analysis/Business Planning Process

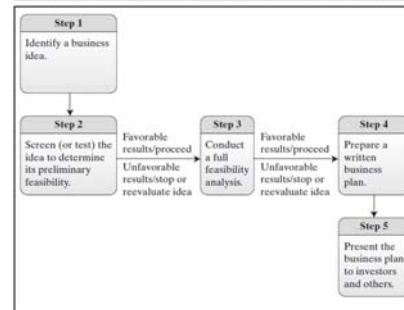


Business Planning Process

Differentiate the steps of the business planning process:

- Step 1: investigative - thinking through the merits of a business idea from the planning and selling stage of the process.
- Steps 2-3: feasibility analysis focused. Also investigative in nature; designed to critically assess the merits of a business idea.
 - A properly conducted feasibility analysis lays the foundation for a well-reasoned and a well-researched business plan
- Step 4: business plan. Focuses on planning and all elements of the plan.
- Not a linear process - iterative!

FIGURE 1-3 The Comprehensive Feasibility Analysis/Business Planning Process



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Business Planning Process

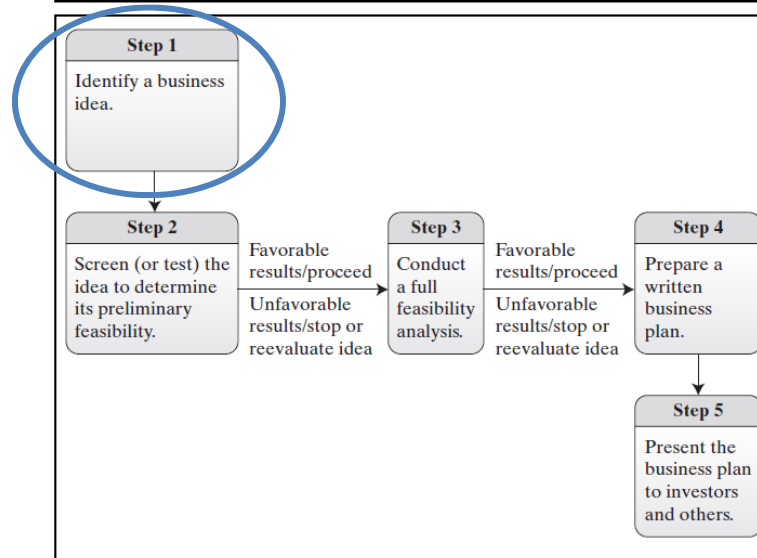
- “Elevator Speech” / “Pitch”
 - Opportunity / problem that needs to be solved
 - How does your product or service meet that?
 - Qualifications to do so?
 - What’s the target market?
- Initial Screening
- Fuller Test of Feasibility
- Prepare Business Plan
- Present Business Plan to Potential Investors / Partners

STEP 1: IDENTIFY THE BUSINESS IDEA



Step 1: Identify the Business Idea

FIGURE 1-3 The Comprehensive Feasibility Analysis/Business Planning Process



Step 1: Identify the Business Idea

Three Ways to identify a **potentially good** Business Idea

- A. Changing Environment Trends (Economic, Social, Technological, and Political/Regulatory environments.)
- B. Unsolved Problems
- C. Gaps in the Marketpl



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Step 1: Identify the Business Idea

A. **Changing Environment Trends**

Economic Trends- recession/expansion

- During a strong economy, customers are more willing to purchase discretionary products and services
- Evaluate who has money to spend
- Identify areas to avoid
- Not fads but trends

Social Trends – health, convenience, foodies

- Impact how people live their lives and products and services they need
- Products often do more to satisfy a social need than the actual need the product fills

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Step 1: Identify the Business Idea

A. Changing Environment Trends (continued)

Technological Advances

- Ongoing source of new ideas
- Technologies used to satisfy basic or changing human needs
- Once a technology is created, products emerge to advance it
 - Ex: ordering via cell phone, home delivery, phone research

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Step 1: Identify the Business Idea

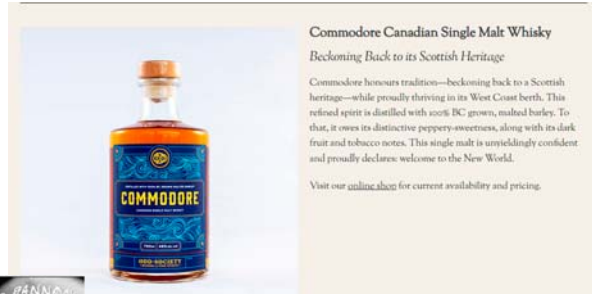
A. Changing Environment Trends (continued)

Political and Regulatory Changes

- New laws and regulations create opportunities
- Changes in regulations motivate entrepreneurs to differentiate themselves by exceeding regulations
- Political change encourages emergence of new ideas
 - Ex: environment, – food label, diet health – carbon tax

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Changing Environment Trends examples



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Step 1: Identify the Business Idea

B. Unsolved Problems

- People trying to solve a problem end up starting a company
- Emerging environmental trends create problems
- Find a similar problem that was solved, and then transfer that solution to your problem

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Unsolved Problems example

- **Example**



Aspara: The Smart Indoor Garden

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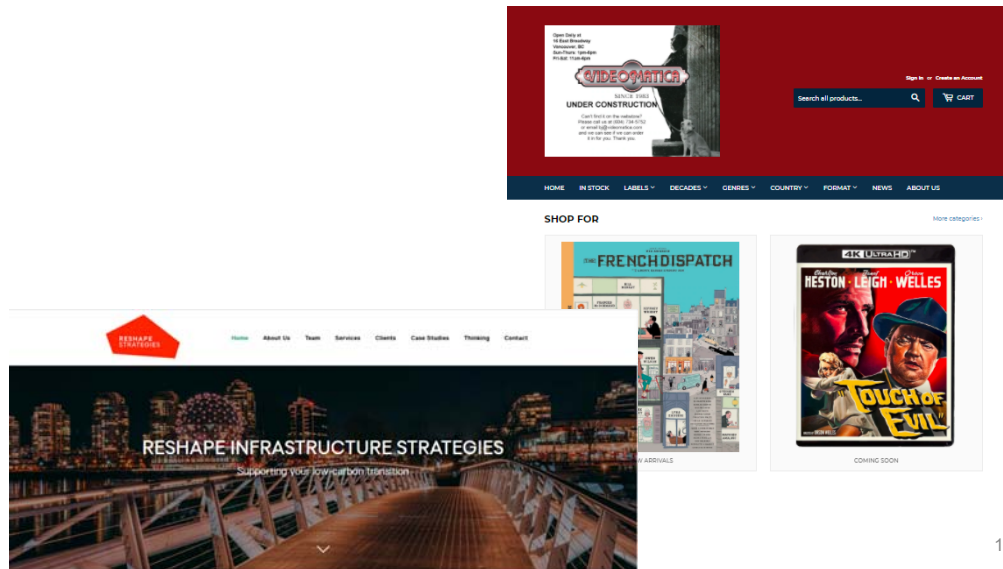
Step 1: Identify the Business Idea

C. Gaps in the Marketplace

- Large retailers compete on price, but leave gaps:
 - Economies of scale
 - Target mainstream consumers
- Take existing product and target a new market or geographic area
 - Can't find needed product
 - Geographic location with small population

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Gaps in the Marketplace examples



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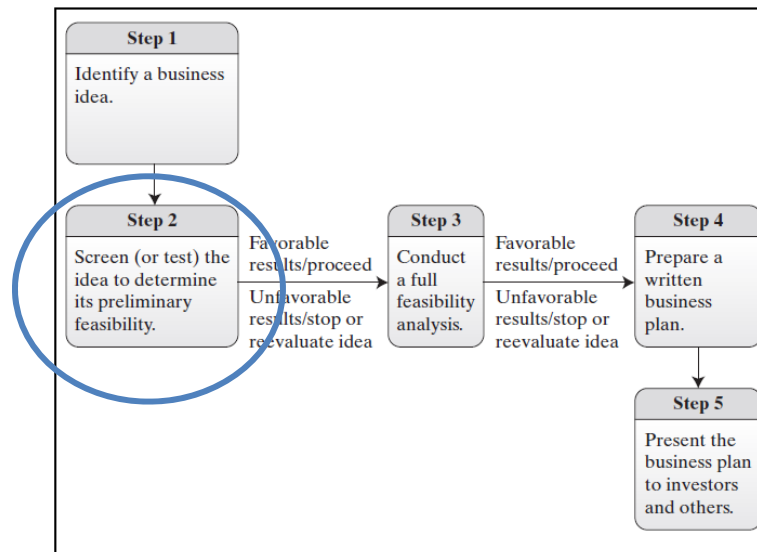
STEP 2: PRELIMINARY SCREENING



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Step 2: Preliminary Screening

FIGURE 1-3 The Comprehensive Feasibility Analysis/Business Planning Process



Step 2: Preliminary Screening

- **Why?** First screening, to quickly assess merit
 - Once a business idea, or several ideas, have been chosen, it is important to have a way to quickly assess the merits of the idea/s, before subjecting it/them to full feasibility and business plan.
- **Parts:**
 - I. Strength of the Idea (“Value Proposition”)
 - II. Industry-Related Issues
 - III. Market- and Customer-Related Issues
 - IV. Founder-Related Issues
 - V. Financial Issues
 - Overall Potential

Step 2: Preliminary Screening

i. Strength of the Business Idea

- Does the business idea take advantage of trend, solve a problem, or address gap?
 - Timeliness of entry to market?
 - Adds value for buyer?



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Step 2: Preliminary Screening

- **Timeliness**, for an entrepreneur to capitalize on an opportunity, its window of opportunity must be open. “window of opportunity” describes the time period in which a firm can realistically enter a new market. Once the market for a new product is established, its window of opportunity opens.
- **Adds Value**: A new idea must “add value” for its buyer or end user in some appreciable way. Value refers to worth, importance, or utility.

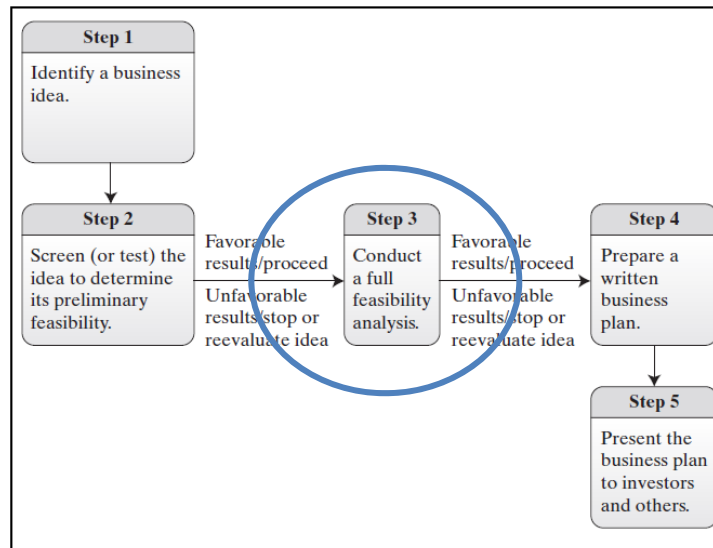
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STEP 3: FULL FEASIBILITY ANALYSIS



Step 3: Conduct a full feasibility analysis

FIGURE 1-3 The Comprehensive Feasibility Analysis/Business Planning Process



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Step 3: Full feasibility analysis

- A feasibility analysis is the process of determining if a business idea is viable.
 - **iterative** steps designed to critically assess the merits of the business idea, (remember the corridor principle)
 - **6 step process**– Take an abstract idea – and put it to a test to review potential for business success.
- If feasible then you go move on to full business plan development.



Step 3: Full feasibility analysis

1. Introduction
2. Part1: Product/Service
3. Part 2: Industry/Target Market
4. Part 3: Organizational
5. Part 4: Financial
6. Summary and Conclusion

Analytical supported
via business research

Results of Feasibility Analysis:

- Not Feasible
- Unsure
- Feasible

Step 3: Full feasibility analysis

- Step 2 “first screen” analysis only takes a few hours to complete
- Step 3 full feasibility analysis is a lengthier process, requiring both primary and secondary research.
- Research:
 - Primary Research
 - Secondary Research

Secondary Business Research

- Data collected from secondary source
- Start with a scan of published information. Data from secondary research will give you a high-level overview of market opportunities.
- **Techniques:**
 - Trade magazines, reports, published research studies, government publications.
 - Firm or Agency specific: Annual reports, Websites, Trade Associations
 - Syndicated data bases

Primary Business Research

- Data collected directly from primary source for a specific purpose and then analyzed (e.g., consumer, business, supplier)
- Primary research for small business: Go out and find out for yourself about your potential market.
- **Techniques:**
 - Talking to industry experts and potential customers
 - Review product reviews
 - Buy and try related products
 - Observe the competition: visit their store, count the customers and track their social media sites.

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STEP 3: FULL FEASIBILITY ANALYSIS

PART 1: PRODUCT / SERVICE FEASIBILITY



Step 3: Full feasibility analysis

Part 1: Product/Service Feasibility

Why? Affirm proposed product or service is desirable and serves a need in the marketplace.

Review:

Product Desirability & Demand:

- Research (primary and secondary):
 - Does it make sense? Is it reasonable?
 - Is it something that consumers will get excited about?
 - Does it take advantage of an environmental trend, solve a problem, or fill a gap in the marketplace?
 - Is this a good timing in the market?
- Test **product's basic design and potential flaws** using a **concept test**
- Test **product demand** for the product using **buying intention survey**

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STEP 3: FULL FEASIBILITY ANALYSIS

PART 2: INDUSTRY ANALYSIS AND TARGET MARKET ANALYSIS



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Step 3: Full feasibility analysis

Part 2: Industry Analysis and Target Market Analysis

What is an Industry Analysis?

- Snapshot analysis of the state of your industry and any trends taking place
- Defines where the business will fit in that industry
- Supported by market research

What is a Target Market Analysis?

- Analysis of the ideal customer for your business idea

Why undertake these?

- Assess overall appeal of industry and target market

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Step 3: Full feasibility analysis

Part 2: Industry and Target Market Analysis

Choose Industry that is:

- Large, growing, young
- Low barriers to entry, so is easy to enter and compete
- Favorable environmental & business trends
- High importance of product to customers
- Few substitutes available from other industries

Choose Target Markets that are :

- Large enough target to be Profitable
- Clients can be found and marketed to in a specific manner?
- Client groups are different from other buyers

break point:
continue here



STEP 3: FULL FEASIBILITY ANALYSIS

PART 2C: COMPETITIVE ANALYSIS



Competitive Analysis: Objective

- To become familiar with competitors and structure
- Find and focus on a gap or niche
- Allows you to avoid a very competitive industry
- Reveals the competitive position of firms in the market
- Review competitive advantage (unique selling proposition) of firms – yours and others

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Competitive Analysis: Steps

- Step 1 - Identify & Describe Competitors- primary secondary..
- Step 2 –Analyze Competitive Information by Applying the Methods/Framework
 - Competitive Grid** – Gaps, Strategy and Differentiation
 - ANSOFF**- Product & Market Growth
 - Perceptual Map & Position**- revisited
 - SWOT** – revisited but with product
- Step 3 - Determine Sustainable Competitive Advantage



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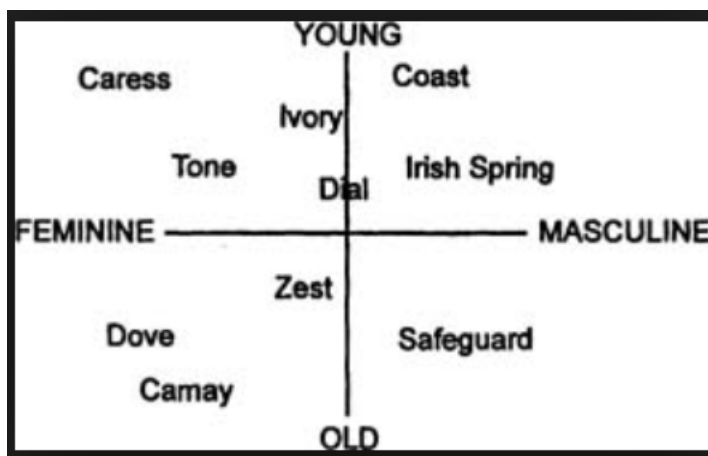
Competitive Analysis: Ansoff Matrix

		Products	
		EXISTING	NEW
Markets	EXISTING	Market Penetration: more of the same to the same customers	Product Development: new products for existing customers
	NEW	Market Development: new customers for existing products	Diversification: new products and new customers

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Competitive Analysis: Product Position & Perceptual Map

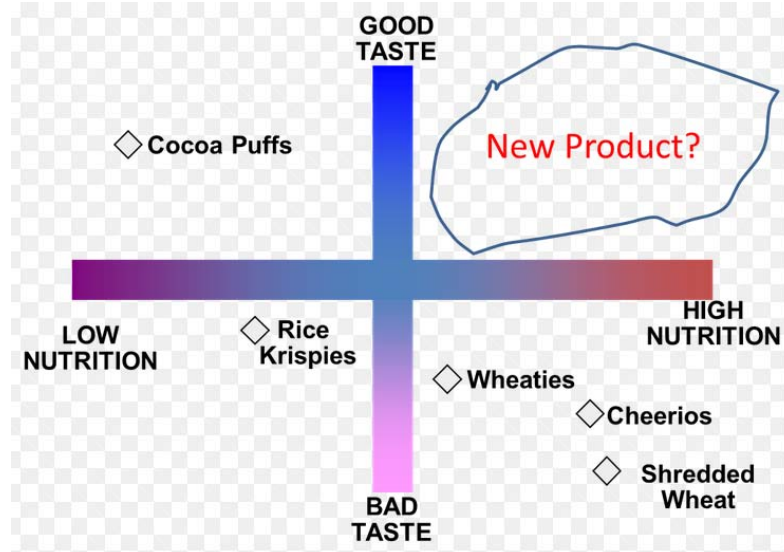
- Soap



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Competitive Analysis: Product Position & Perceptual Map

► Breakfast Cereal



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Competitive Analysis: SWOT Analysis

- A SWOT analysis guides you to identify the positives and negatives inside your product (Strength & Weakness) and outside of it, in the external environment (Opportunity & Threat).
- Use it to:
 - Identify and prioritize issues or problems or opportunities
 - Develop strategies to mitigate weaknesses and threats & leverage opportunities and strength.
 - Set or reaffirm goals.
 - Create an action plan.

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SWOT

S	W	O	T
STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> Things your company does well Qualities that separate you from your competitors Internal resources such as skilled, knowledgeable staff Tangible assets such as intellectual property, capital, proprietary technologies etc. 	<ul style="list-style-type: none"> Things your company lacks Things your competitors do better than you Resource limitations Unclear unique selling proposition 	<ul style="list-style-type: none"> Underserved markets for specific products Few competitors in your area Emerging need for your products or services Press/media coverage of your company 	<ul style="list-style-type: none"> Emerging competitors Changing regulatory environment Negative press/media coverage Changing customer attitudes toward your company

WordStream

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SWOT Example 1: Cheesy Toast Food Truck

Strengths:

- Strong, experienced staff
- High brand recognition
- Lower prices than competition
- Pride in innovative food with fresh ingredients

Weaknesses:

- Limited funds in reserve, limiting expansion and ability to manage possible slowdown

Opportunities:

- Growing market
- One of the main local brick-and-mortar competitors has closed
- Collaboration with a local bar (dinner & drink package)

Threats:

- Costs rising due to increases in food costs
- A main competitor has lowered its prices
- Municipality may add further restrictions on food trucks



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STEP 4: BUSINESS PLAN



Objectives of the plan

- Assessments: financial, marketing, operations and human resource
 - realistic and unbiased
- Map of where the business is now, where it is going, and when and how it will get there.

PLUS :

- Assessment of the strengths, assets, knowledge, and skills of the business
- Reality check- weaknesses, liabilities, lacking & strategies how these will be overcome
- Review whereby any discrepancies, gaps or unrealistic assumptions will come to light
- Communication tool whereby you can communicate your idea to stakeholders

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Key Elements and Questions to Address

- Clear vision and purpose: what is the long term vision?
- What needs will you meet?
- What makes your team or product unique?
- Who is your competition and how will you beat them?
- What are the barriers to entry that will keep others out and give you a competitive advantage?
- How large is your market?
- How fast is it growing?
- Who is on your management team?
- What do your 5-year financials look like?
- What's the path to profitability?
- Keep it lean: focus on resources needed to meet customer needs

Objectives of the plan

- Who is the Audience?
 - **Inside the Firm** – Used to Develop a Road Map to Execute Strategies and Plans
 - **Internal:** the founders of a firm to systematically think through each aspect of their new venture before they actually start it. It forces the founders to come to agreement on vital aspects of operating the firm.
 - Operating plan clarity
 - Communication across firm
 - Strategy for receiving investment capital and/or loans
 - **Outside the Firm** - Plan Introduces Potential Investors and Other Stakeholders to the Business Opportunity Firm is Pursuing. Examples?
 - **External reason**—communicates the merits of a new venture to outsiders, such as Prospective Investors, Venture Capitalists, Business Accelerators and Incubators, Suppliers and Potential Partners.

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Elements of a Business Plan

- A business plan includes the following sections:
 1. Title Page
 2. Table of Contents
 3. **Executive Summary**
 4. **Business & Product/Service Overview**
 5. **Marketing Plan** (industry and market analysis)
 6. **Operations Plan**
 - a. Operations and product development
 - b. Human resources and management
 7. **Financial Plan** (cost and revenue projections, sources of funding)
 8. **Action Plan** (planned actions over next 2-5 years)
 9. Appendices

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STEP 4: BUSINESS PLAN EXECUTIVE SUMMARY



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Executive Summary (1 – 2-page max)

- 1. Purpose of plan** Opportunity defined and purpose
 - Get money, prove feasibility, expand and get partners, etc.
 - 2. Highlights of elements**
 - It is a mini-business plan so do this after all the plan is completed
 - Product, management team, clients, market, competition, challenges, opportunities for growth, key financial data (e.g., projections for profit, revenue, assets, debt) plus assumptions underlying this data, action plan for business startup.
- Not promo
 - Not intro
 - Be sure to review examples

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STEP 4: BUSINESS PLAN

MARKETING MANAGEMENT AND ANALYSIS



Marketing Management

Marketing Management involves:

- Understanding needs of consumers and developing and selling products to meet those needs
- Helps producers decide what, how, why, where, when and whom sells the product and to whom is it sold
- Industry and competitive landscape review
- Marketing strategy definition regarding price, product, promotion, place and target market (marketing mix – 4Ps)
- Activities such market research, selling , advertising, web design, customer service and new product development
- Labeling, Labour, Trade and Tariff Regulations & Relevant Provincial/Federal Legislation

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Approaches to Marketing Management

- **Production**
- **Product**
- **Selling**
- **Marketing**
- **Societal / Social**



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Approaches to Marketing Management

- **Production:**
 - Involves manufacturing concept & economies of scale
 - Quality and efficiency of production key strategic points.
 - Produce as much as possible at lowest possible cost
 - Producer focus
 - Possible where demand is greater than supply
 - Challenge: focusing on technology development and optimized manufacturing may cause a firm to lose touch with the marketplace.
- **Product:**
 - Focuses on building a superior product or service that will pull customers to firm because you have what they need.
 - Still mainly producer-focus versus consumer-focused
 - Firms make product research, development and improvements the focal point, and then market the results to consumers.
 - Involves marketing concept

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Approaches to Marketing Management

- **Selling**
 - Characteristics that set it apart from a market-oriented business. aggressive selling methods
 - relies on branding and communications strategies to pull customers to firm by making them believe you have something they want
 - tendency to plan for the short-term rather than the long-term
 - need for heavy promotion
 - assumption that consumers will buy the product if the company makes it.
 - **Examples:**
 - Door to Door Sales ? Ali Express ? Amazon?
 - Not initially looking for the product, but did so because the ad or salesperson showed benefit to buying it.

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Approaches to Marketing Management

- **Marketing approach**
 - Strategies derived from assessing customer needs and competitor data, and responding
 - Customer-first approach: detect needs before the general market is aware of them.
 - Firm conduct marketing research and responding to customer
 - Long term profit and loyalty focus
 - Challenge: Keeping up-to-date, and responding to market changes
- Examples:
 - **Personalizing Online Shopping:** Amazon.com - company with a high level of market orientation.
 - **Best Buy** – Return Policy 14 days trial on computers
 - **Food:** Celiac, convenience, salads box

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Approaches to Marketing Management

- **Societal marketing**
 - Purpose of societal marketing is for a company to meet its needs and the needs of a consumer while considering the long-term good of society.
 - Company uses its socially conscious stance as a way to attract consumers who may appreciate the company's desire to market its products with consideration for society.
 - Build social and ethical considerations into their marketing practices.

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Approaches to Marketing Management

- **Societal Marketing: Examples**
 - **Consumer Health**
 - Firms that market organic ingredients or no chemicals or additives in their products consider/promote consumer health
 - **Eco-Friendly Marketing**
 - Firms that emphasize recycled products and organic products market themselves as concerned about the long-term impact on society. Includes materials used for producing products and their own day-to-day operation
 - **Supporting Farms and Local Business**
 - More contained form of societal marketing by marketing products made with materials obtained from local sources – accounts for well-being of a local social structure.

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STEP 4: BUSINESS PLAN

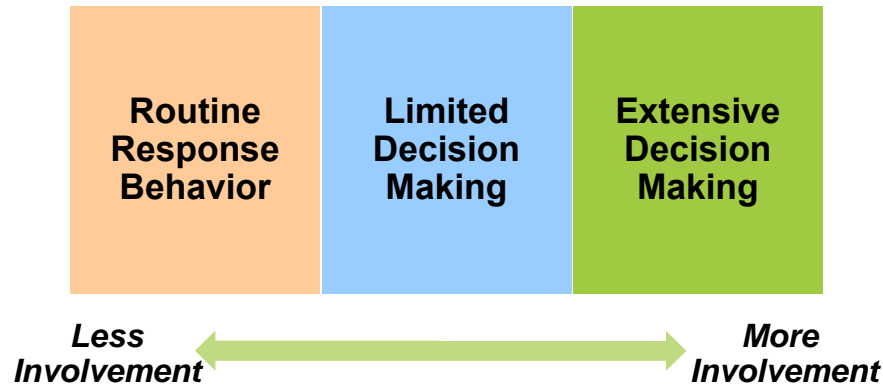
MARKETING STRATEGY: CONSUMER BEHAVIOUR



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Consumer Buying Decisions and Consumer Involvement

- Three levels of decision making



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Consumer Buying Decisions and Consumer Involvement

Three levels of consumer decision-making:

1. Routine-response behaviour (low involvement)

- Consumers have experience with the product category & well established set of criteria for evaluation
- Consumer make automatic purchase decisions based on limited information or information they have gathered in the past.
- Can also include impulse buying
- Ex: Buy same brand of juice

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Consumer Buying Decisions and Consumer Involvement

Three levels of consumer decision-making:

2. Limited problem-solving

- Consumers have established a basic criteria for product evaluation &/or some experience with the product
- Medium involvement because consumers have some information about a good or service but continue to search for a little more information.
- Brand preferences not fully established
- Ex: new back pack and you have an old one

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Consumer Buying Decisions and Consumer Involvement

Three levels of consumer decision-making:

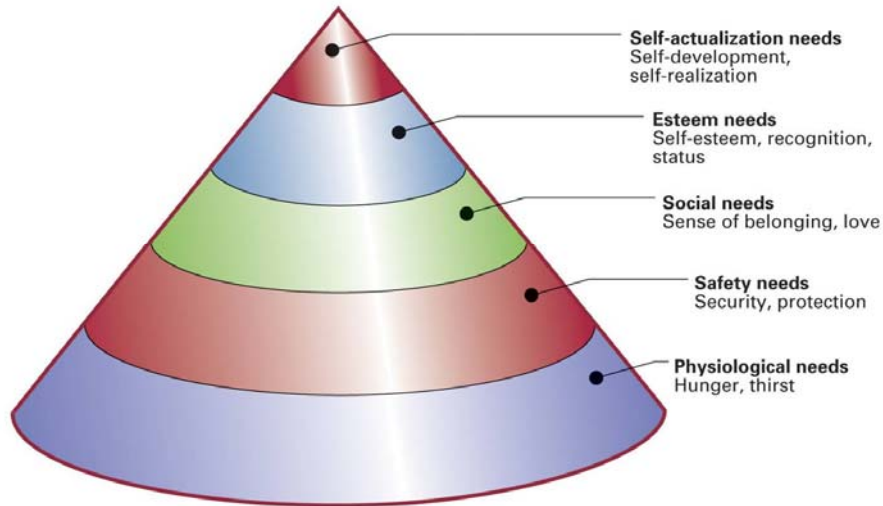
3. Extensive problem-solving (High Involvement)

- Consumers have not yet established a criteria for evaluating the product
- Decisions carry a higher risk to buyers if they fail because they are complex, and/or have high price tags.
- Consumer spend a lot of time comparing different aspects of product: prices, benefits, and warranties.
- Ex: car, a house, cell phone

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Consumer Buying Decisions – Psychological

Maslow's Hierarchy of Needs - arranges needs in ascending order of importance.



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STEP 4: BUSINESS PLAN

OPERATIONS PLAN

HUMAN RESOURCES PLAN

PRODUCT PROTECTION



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Operations Plan

- **Purpose:** Outlines how product or service will be produced and how business will be run
- **Overview: sections**
 1. Operating Model and procedures: back-stage" and "front stage"
 2. Business location
 3. Facilities and equipment
 4. Human resource requirements
 5. Product property: patents, trademarks, copyrights, or trade secrets
 6. License, Permits, Regulations & Insurance
 7. Risk management plan
 - Vary in depth and breadth with business idea

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Operations Plan

The most important rule of thumb for writing the operations and the product design and development sections of your business plan is to focus on the aspects of each of these areas that are either essential to the success of your business or sets you apart from your competitors.

Routine topics should be dealt with lightly and quickly.

7 Steps

- variation in depth and application
- dependent on the product/service/firm

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Human Resources Plan

Key elements:

- Main team –responsibilities
- Guidance: Board
- Employees – tasks, hours, pay, benefits, requirements
- HR Organizational Chart

Easy to ignore when you are a small / startup firm, but crucial, particularly if some staff will be part time

Common mistakes:

- Friends make good co-workers
- Previous success in other areas must mean success on new topics
- I can handle everything by myself
- Top quality people don't need to be compensated fairly or offered part-ownership
- We can paper over any weaknesses and work them out later

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Product Protection

How should you protect your product, service or idea?

- Patent
- Trade secret
- Copyright
- Trademark

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STEP 4: BUSINESS PLAN FINANCIAL PLAN



FINANCIAL ANALYSIS

- **Why?** Determine the financial needs and profit potential
- **Review:**
 - Total Startup Cash Needed
 - Financial Performance of Similar Businesses
 - Overall Financial Attractiveness



Financial Projections

- Create 5 years worth of projections
- Years 1 and 2 require detail, further years can be extrapolated
- Document assumptions
- Start with well-grounded, bottom-up analysis, then compare against top down
- Validate projections against market comparables
- Build from “single unit” economics: how much it costs to acquire a customer vs how much they will be worth to the firm

Financial Projections: short term needs

- Potential clients
- Outreach plan
- Staffing needs
- Office and equipment needs
- Cost estimates for all elements
- Startup funding plan

Key milestones: generating revenue, generating a profit

Financial Projections: Start-up vs Business Case

<switch to Excel example>

Financial Projections example

Financial Projections - 5 Year Financial Plan

Income and Expenses

This section lists the expected sources of income and expenses of our business. Estimated quantities, and the month-by-month income flow will be expanded upon in our 5 year financial plan.

Values given in the tables are not in present worth.

Projected sources of income (5 years)

In the first five years, much of our capital is expected to come from government funds and grants and investments. We expect to see revenue by the end of the second year, upon which our reliance on such external funding is expected to decrease. As such, the funds raised, not including sales, will aim to pay for the first two years of costs. We expect the largest contributor to our expenses to be the sourcing and manufacturing of components.

Source	Projected / target amount	Examples* / Description
Government funds	\$678k (Government and Angel Investments add to \$1.357M)	Innovative Solutions Canada [8] (\$150k for proof of concept, up to \$2M for prototype development) Creative Export Canada [7] Export Grant Funding (up to \$2.5 M)
Angel investments	\$678k (Government and Angel Investments add to \$1.357M)	VANTEC Angel Network [5] Western Universities Technology Innovation Fund (WUTIF Capital) [5] eFund (VANTEC's Entrepreneur Fund) [5] Vancouver Angel Forum [5] Keiretsu Forum (Vancouver Chapter) [5]
Venture capitalist investments	\$678k	Venture Capital investors to contact can be found in databases such as this: https://www.crunchbase.com/hubs/canada-venture-capital-investors
Government/Bank Loans	\$543k	Canada Small Business [6] Financing Program (up to \$1M in loan support) in
		cooperation with RBC [13] BDC Small Business Loans [3]
Personal funds and assets	\$136k	N/A
Sales	\$0 (year 1) \$1.8 M (year 2) \$5.4 M (year 3-5)	Projected

* Grant examples (to apply to, or to further investigate our eligibility to) and prospective investors. Funds may end up coming from other sources.

Financial Projections example

Source	Annual projected amount	Explanation
Salaries	\$320k (year 1-2) \$320-400k (year 3-5)	Competitive entry-level engineering salary of \$80k/person/year 4 Employees in year 1-2 4-5 Employees in year 3-5
Components and manufacturing	\$1.22M (year 1-2) \$3.60M (year 3-5)	These costs are a conservative estimate based on predicted popularity (predictions based on sale of similar products, such as Fairphone in the EU). We expect ordering of individual modules to be less significant to start, and so values are not explicitly included in this table. \$600 / phone Expected batch size is 2000 Projected launch of first batch is at the end of year 2
Advertising	\$7.8k (year 1) \$26k (year 2) \$25k (year 3-5)	Year 1 costs include online media advertising at \$20 / day, and website costs at \$40/month Year 2 costs are the same as Year 1, with additional funding to send product samples to reviewers Year 3-5 have additional funding to expand our business reach.

Legal fees (including filing for incorporation etc.)	\$7k (year 1) \$1k (year 2-5)	Estimates are derived from Voyer Law quotes [15]. Year 1-2 costs are set up funds and thus higher. Year 3-5 costs are discretionary funds (as needed)
Equipment	\$5k (year 1) \$1k (year 2-5)	Rework station required for prototyping (year 1). Manufacturing is out of house, so costs are minimal (include solder, prototyping equipment replacement, some discretionary funds)
Workshop / space	\$0 (year 1-2) \$301k (year 3-5)	We plan on working out of a private space to save costs in years 1-2 We are budgeting for a 1000 square feet office in years 3-5 at ~\$25 / square feet / month for office space (competitive rates in Surrey, BC) Commercial property insurance is on the order of \$1k / year [4].

Financial Projections example

Cash Flows

The following cash flow uses a MARR of 10%, with EOY cash flows and market values (no inflation). If a range is given in the above tables, the maximum cost and minimum revenue is used.

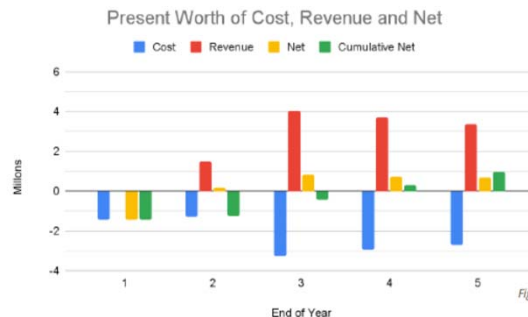


Fig 3: Present worth of the costs, revenue, and the net of the two at end-of-year for the first five years of operation. This does not include initial capital from investments, loans, etc.

As shown above the primary financial strain is within the first three years of operation, and this is what initial investment will cover. This remains true even with an MARR of up to 18%.

As a simplification, corporate taxes are not included. We expect that between the marginal tax rates and deductions due to paying interest would lead to zero taxable income. More

information about interest rates and other tax deductions for small businesses would give a more detailed analysis.

STEP 4: BUSINESS PLAN RISK MANAGEMENT



Risk Management ID and Strategies

Major Types of Risk

- **Monetary** - **Financial and Business Risk** relates to losing monetary resources or incurring unacceptable liabilities
- **Operational** - Risks that relate to doing the right things in the wrong way
- **Product**: Risk associated with production, safety, or shipping
- **Reputation** - Risks that relate to the organizations brand or image
- **Information** - Risks that relate to loss or inaccuracy of data ,systems or reported information
- **People** - The risks associated with employees and management
- **Regulatory** - The risks related to the regulatory environment

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Risk Management ID and Strategies

Step 1 Generate a list of MAJOR risks and narrow down

Start with macroeconomic risks, then events specific to your industry, then firm, and then product.

Examples:

- Interest Rate Changes
- Recessions/Inflation
- Owner departure
- Customer decrease or safety concern
- Food safety e coli
- Drought
- Cost increase or limitation of supplies
- Production & Price Changes for Product/Commodity
- Stakeholder-caused risks
- Rainy season ..much too rainy

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Risk Management ID and Strategies

Step 2 Define the consequences and likelihood

Consequences: If it happens –what is the result?

- Insignificant
- Minor,
- Moderate
- Major
- Most Severe

Likelihood: How likely is it that the event will happen?

- Rare (less than once in 20 years)
- Unlikely (once in 10-20 years)
- Possible (once in 10 years)
- Likely (once in 3 years)
- Almost Certain (once a year)



Monetary (% of income or budget)
 Reputation
 Ability to recover
 Effect on Organisation

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Risk Management ID and Strategies

Step 3 Develop a Risk Matrix

Consequences	Most Severe					
	Major					
	Moderate					
	Minor					
	Insignificant					
		Rare	Unlikely	Possible	Likely	Almost Certain
		Likelihood				

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Risk Management ID and Strategies

• Step 4 Develop Risk Response Strategies

Consequences	Most Severe					
	Major					
	Moderate					
	Minor					
	Insignificant					
		Rare	Unlikely	Possible	Likely	Almost Certain
		Likelihood				

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