# Chapter Readings, Lecture Notes & Videos-2

 Read Ch 5- Crafting a Business Plan

Chapter 5. Crafting a business plan and building a solid strategic plan

Part 1: Learning Objectives

1. Explain the benefits of an effective business plan.
2. Describe the elements of a solid business plan.
3. Explain the “Five Cs of Credit” and why they are important to potential lenders and investors reading business plans.
4. Understand the keys to making an effective business plan presentation.
5. Understand the importance of strategic management to a small business.
6. Explain why and how a small business must create a competitive advantage in the market.
7. Develop a strategic plan for a business using the nine steps in the strategic planning process.

****Part 2: Class Instruction****

****Introduction****

A business plan is a planning tool that builds on the foundation of the idea assessment, feasibility analysis, and business model.  The primary goals of a business plan are to guide entrepreneurs as they launch their businesses and to help them acquire the necessary financing.  A business plan offers:

* A systematic, realistic evaluation of venture’s chances for success
* A way to determine the principal risks facing the venture
* A game plan for managing the business successfully
* A tool for comparing actual results against targeted performance
* An important tool for attracting capital in the challenging hunt for money

****The Benefits of Creating a Business Plan     LO 1****

The U.S. Small Business Administration reports that entrepreneurs who write business plans early on are two-an-a-half times more likely to actually start their businesses.  A ***business plan*** is a written summary of an entrepreneur’s proposed business venture, its operational and financial details, its marketing opportunities and strategy, and its managers’ skills and abilities.

A business plan serves two essential functions.  First, it provides a battery of tools – a mission statement, goals, objectives, budgets, financial forecasts, target markets, and entry strategies – to help entrepreneurs subject their ideas to one last test of reality before launching.   It also helps to lead the company successfully through launch and early start-up.

The second function is to attract lenders and investors. To get external financing, a plan must pass three tests with potential lenders and investors:

1. Reality Test – proves that a market for the product or service really does exist. This focuses on industry attractiveness, market niches, potential customers, market size, degree of competition, and similar factors.  In addition, the plan indicates if the company can really build it for the cost estimates, if it is truly different from what competitors are already selling, and if it offers customers something of value.
2. Competitive Test – evaluates the company’s relative position to its key competitors.
3. Value Test – convinces lenders and investors to put their money into the venture.

****The Elements of a Business Plan                     LO 2****

Every business plan is unique and must be tailored to the specific needs of the business. There are many resources available to use as a guide. The seemingly overwhelming task of building a business plan is easily broken down into workable parts that any student or entrepreneur can undertake. Today the trend is for shorter plans of 10 pages instead of the 20-40 page plans of the past.  Plans may include the following:

* Title Page and Table of Contents
* Executive Summary
* Mission and Vision Statement
* Description of Firm’s Product/Service
* Business and Industry Profile
* Competitor Analysis
* Market Entry Strategy
* Marketing Strategy
  + Showing Customer Interest
  + Documenting Market Claims
  + Target Market
  + Advertising and Promotion
  + Market Size and Trends
  + Location
  + Pricing
  + Distribution
* Entrepreneurs’ and Managers’ Resumes
* Plan of Operation
* Pro-Forma (Projective) Financial Statements
* The Loan or Investment Proposal. Refer to Figure 5.1, Visualizing a Venture’s Risks and Rewards.

Refer to Appendix A to view The Sample Business Plan Outline.

In addition, there are ten tips on preparing your business plan that can save time and help to create a more cohesive and impressive overall plan.

1. Have an attractive cover
2. Check for spelling and grammar
3. Create a visual appeal throughout the plan
4. Include a table of contents with page numbers
5. Make it interesting and compelling
6. Demonstrate its profit potential
7. Use spreadsheets
8. Include cash flow projections
9. Keep it concise and “crisp”
10. Tell the truth – always!

****What Lenders and Investors Look for in a Business Plan                                                                                    LO 3****

Bankers and other lenders include the “five Cs” of credit as a part of their evaluation of the credit-worthiness of loan applications. The higher a business scores on the evaluation, the greater its chance will be of receiving a loan based on these five criteria:

1. A small business must have a stable capital base before any lender will grant a loan.
2. A synonym for capacity is cash flow.
3. This refers to assets an entrepreneur can pledge to a lender as security for the repayment of the loan.
4. An evaluation of character is based on intangible factors such as honesty, competence, polish, determination, knowledge, experience, and ability.
5. Factors include potential growth in the market, competition, location, form of ownership, and the purpose of the loan.

****The Pitch: Making the Business Plan Presentation LO 4****

The content of the presentation should include five basic areas:

* Your company and its products and services
* The problem to be solved, told through a compelling story
* A simple description of your company’s solution to the problem
* Your company’s business model
* Your company’s competitive edge

Keys to making an effective business plan presentation include the following:

* Prepare and practice your delivery. Demonstrate enthusiasm, but don’t be too emotional.  Focus on communicating the dynamic opportunity your idea offers and how you plan to capitalize on it.
* “Hook” investors quickly with an up-front explanation of the new venture, its opportunities, and the benefits to them.
* Use visual aids. Follow Guy Kawasaki’s 10/20/30 rule for PowerPoint presentations.  Use 10 slides that you can cover in 20 minutes.  Use 30-point font.
* Explain how your company’s products or services solve some problem and emphasize the factors that make your company unique. Offer proof.  Hit the highlights.  Keep the presentation crisp.  Avoid the use of technical terms.
* Every lender and investor is thinking, “What’s in it for me?”
* Close by reinforcing the nature of the opportunity and the related benefits to investors. Be prepared for questions.  Anticipate the questions the audience is most likely to ask.
* Be sensitive to issues that are most important to lenders and investors.
* Follow up with every investor to whom you make a presentation.

****Consider using You Be the Consultant: “The Battle of the Plans” at this point.****

****Building a Strategic Plan                                                LO 5****

Once the business moves past its start-up a strategic plan becomes necessary.  A solid strategic plan provides managers and employees a sense of direction when everyone is involved in creating and updating it.

There is a shift unfolding now in the economy from a base of financial to intellectual capital.  ***Intellectual capital*** is comprised of three components:

1. Human capital – talent, creativity, skills, and abilities of the work force.
2. Structural capital – accumulated knowledge and experience of the company.
3. Customer capital – customer base, positive reputation, relationships, and goodwill.

Successful entrepreneurs use the process of strategic management to cope with the constantly changing competitive environment.  ***Strategic management*** involves developing a game plan to guide a company as it strives to accomplish its vision, mission, goals, and objectives and to keep it from straying off its desired course.

****Building a Competitive Advantage                   LO 6****

The goal of developing a strategic plan is to create a ***competitive advantage*** – the value proposition that sets a small business apart from its competitors and gives it a unique position in the market that is superior to its rivals.

Entrepreneurs should examine five aspects of their businesses to define their companies’ competitive advantages:

* Products they sell
* Service they provide
* Pricing they offer
* Way they sell
* Values to which they are committed

Building a competitive advantage alone is not enough; the key to success over time is building a *sustainable* competitive advantage.   This can be accomplished by developing a set of core competencies that are better than their competitors.  ***Core competencies*** are a unique set of capabilities that a company develops in key areas, such as superior quality, customer service, innovation, team building, flexibility, and responsiveness, which allow it to vault past competitors.  Refer to Figure 5.2, Building a Sustainable Competitive Advantage.  Typically a company develops core competencies in no more than five or six (often fewer) areas.

Successful small companies are able to build strategies that exploit all the competitive advantages that their size gives them by doing the following:

* Responding quickly to customers’ needs. Providing the precise desired level of customer service.
* Remaining flexible and willing to change. Constantly searching for new, emerging market segments.  Building and defending small market niches.
* Erecting “switching costs,” the costs a customer incurs by switching to a competitor’s product or service, through personal service and loyalty.
* Remaining entrepreneurial and willing to take risks and act with lightning speed. Constantly innovating.

Strategic management enhances a small company’s effectiveness, but entrepreneurs first must have a process designed to meet their needs and their business’s special characteristics.  The strategic management procedure for a small business should include the following features:

* Use a relatively short planning horizon – two years or less.
* Be informal and not overly structured.
* Encourage the participation of employees and outside parties.
* Do not begin with setting objectives because extensive objective setting early on may interfere with the creative process of strategic management.
* Maintain flexibility; competitive conditions change too rapidly.
* Focus on strategic thinking, not just planning, by linking long-range goals to day-to-day operations.
* Be an ongoing process because businesses and the competitive environment in which they operate constantly change.

****The Strategic Management Process              LO 7****

There are nine steps in the process.

Step 1 – Develop a Clear Vision and Translate It into a Meaningful Mission Statement.  The purpose of developing a ***vision*** is to focus everyone’s attention on the same target and to inspire them to reach it.  It is future oriented and touches everyone associated with the company.  It is the result of the entrepreneur’s dream that does not exist yet and the ability to pain a compelling picture of that dream for everyone to see.  Refer to Table 5.1, Creating a Vision for Your Company.  A strong vision helps a company in four ways:

1. Provide direction
2. Determine decisions
3. Inspire people
4. Allow for perseverance in the face of adversity

The ***mission statement*** addresses the question, “What business are we in?”  It must be concise and specific so your customers understand your purpose and how you provide value to them.  Refer to Table 5.2, Tips for Writing a Powerful Mission Statement.  It includes the following elements:

* What are we in business to accomplish?
* Who are we in the business to serve?
* How are we going to accomplish that purpose?
* What principles and beliefs form the foundation of the way we do business?

Step 2 – Assess the Company’s Strengths and Weaknesses.  Building a successful competitive strategy requires a business to magnify its strengths and overcome or compensate for its weaknesses.  ***Strengths*** are positive internal factors that a company can draw on to accomplish its mission, goals, and objectives.  Examples include special skills or knowledge, a superior proprietary product or process, a positive public image, etc.  ***Weaknesses*** are negative internal factors that inhibit a company’s ability to accomplish its mission, goals, and objectives.  Examples include lack of capital, a shortage of skilled workers, or inability to master technology.

One technique for taking this strategic inventory is to prepare a “balance sheet” of the company’s strengths and weaknesses.  Refer to Table 5.3, Identifying Company Strengths and Weaknesses.

Step 3 – Scan the environment for significant opportunities and threats facing the business.  ***Opportunities*** are positive external options that a firm can explain to accomplish its mission, goals, and objectives.  A small business should analyze only those that are most significant to the business (two or three at most).  ***Threats*** are negative external forces that inhibit a company’s ability to achieve its mission, goals, and objectives.  Examples include new competitors entering the local market, government regulations, economic recession, or technological advances.  Refer to Table 5.4, Identifying and Managing Threats, for 12 major sources of risk.

Step 4 – Identify the Key Factors for Success (KSF) in the Business.  ***Key success factors*** determine a company’s ability to compete successfully in an industry.  Examples include managing costs, superior product quality, and solid relationships with suppliers.  Focus on surpassing competitors on one or two KSFs to build a sustainable competitive advantage.  Refer to Table 5.5, Identifying Key Success Factors.

Step 5 – Analyze the Competition.  Keeping tabs on rivals’ movements through competitive intelligence programs is a vital strategic activity.  The primary goals include: conducting continuous rather than periodic analysis of competition, avoiding surprises from existing competitors’ new strategies and tactics, improving reaction time to competitors’ actions, and anticipating rivals’ next strategic moves.

Entrepreneurs can use the results of their competitive intelligence efforts to construct a ***competitive profile matrix*** for its most important competitors.  It allows the owners to evaluate their firms against the major competitors using the KSFs for that market segment.  Refer to Table 5.6, Sample Competitive Profile Matrix.

Step 6 – Create Company Goals and Objectives.  ***Goals*** are broad, long-range attributes that a business seeks to accomplish; they tend to be general and sometimes even abstract.  Refer to Figure 5.3, What Makes an Effective BHAG?  ***Objectives*** are more specific targets of performance, such as profitability, productivity, growth, efficiency, sales, etc.

Well-written objectives have the following characteristics:

* Specific
* Measureable
* Action commitments
* Assignable
* Realistic yet challenging
* Timely
* Written down

Step 7 – Formulate Strategic Options and Select the Appropriate Strategies.  A ***strategy*** is a road map of the actions an entrepreneur draws up to accomplish a company’s mission, goals, and objectives.  There are three basic strategies; refer to Figure 5.4, Three Strategic Options.

* ***Cost leadership strategy*** – the firm strives to be the lowest-cost producer relative to its competitors in the industry.
* ***Differentiation strategy*** – seeks to build customer loyalty by selling good or services that provide unique attributes and that customers perceive to be superior to competing products.
* ***Focus strategy***– recognizes that not all markets are homogeneous but are made up of various segments. Businesses with a focus strategy sell to specific segments rather than try to sell to the mass market.  Refer to Figure 5.5, Long Tail Markets.

Step 8 – Translate Strategic Plans into Action Plans.  Entrepreneurs must convert strategic plans into operating plans.  Executing a strategy focuses on the purpose of the project, the scope, contributions to other projects, resource requirements, and timing.

Step 9 – Establish Accurate Controls.  Controlling plans and projects and keeping them on schedule means that an entrepreneur must identify and track key performance indicators based on operating data from the company’s normal business activity  To judge the effectiveness of their strategies, many companies are developing ***balanced scorecards***, a set of multidimensional measurements that are unique to a company.  Refer to Figure 5.6, The Balanced Scorecard Links Performance Measures.  Ideally a balanced scorecard reviews five perspectives:  customer perspective, internal business perspective, innovation and learning perspective financial perspective, and corporate citizenship.  Refer to Figure 5.7, Tesco’s Corporate Steering Wheel of the Balanced Scorecard.

****Consider using Hands On… How To “Beat the Big Guys,” You Be the Consultant: “Digital Franchise Seeks to Expand Nationwide” or You Be the Consultant: “Finding a Niche with a Subscription Business Model” at this point.****

****Conclusion****

A solid business plan is essential to raising the capital needed to start a business.  Creating a successful business requires entrepreneurs to put the plan into action and then managing the growth of the business with a sound strategic plan.  The strategic planning process does not end with the nine steps outlined in this chapter; it is an ongoing procedure.

****Sample Business Plan Outline****

There is a comprehensive business plan outline at the end of this chapter that summarizes universal elements that should be included in any formal plan.

****You Be the Consultant: “Finding a Niche with a Subscription Business Model”****

1. ****Which of the strategies discussed in this chapter are these companies using?    (LO 7) (AACSB: Application of knowledge)****

* Dollar Shave Club – Cost Leadership Strategy.[http://www.youtube.com/watch?v=ZUG9qYTJMsI (Links to an external site.)](http://www.youtube.com/watch?v=ZUG9qYTJMsI" \t "https://fisk.instructure.com/courses/1910/pages/_blank)[](http://www.youtube.com/watch?v=ZUG9qYTJMsI)
* Citrus Lane - Differentiation Strategy.[http://www.youtube.com/watch?v=85FCvu6O6js (Links to an external site.)](http://www.youtube.com/watch?v=85FCvu6O6js" \t "https://fisk.instructure.com/courses/1910/pages/_blank)[](http://www.youtube.com/watch?v=85FCvu6O6js)
* For the Makers - Focus Strategy.[http://www.youtube.com/watch?v=Fek4YjmpDDw (Links to an external site.)](http://www.youtube.com/watch?v=Fek4YjmpDDw" \t "https://fisk.instructure.com/courses/1910/pages/_blank)[](http://www.youtube.com/watch?v=Fek4YjmpDDw)

****Part 5: Case Studies****

The following text case may be used for lecture and assignments for topics presented in this chapter.

* Case 4: Father and Son Pizzeria
* Case 5: Jimmy Beans Wool
* Case 8: SocialToaster
* Case 9: CoolPeopleCare
* Case 10: InQuicker