

## STUDY GUIDE FOR MODULE NO. 4

## WRITING A BUSINESS PLAN



## MODULE OVERVIEW

This module discusses the importance of writing a business plan. It also discusses about issues with which entrepreneurs often grapple when facing the challenge of writing a business plan. Other topics included in this module are reasons for writing a business plan, a description of who reads the business plan and what they're looking for and guidelines to follow when preparing a written business plan. Moreover, an outline of a business plan with a description of the material in each section of the plan was also presented. The last section of this module deals with strategies for how to present the business plan to potential investors and others.



## MODULE LEARNING OBJECTIVES

At the end of this module, you will:

- Explain the purpose of a business plan;
- Discuss the two primary reasons for writing a business plan;
- Describe who reads a business plan and what they're looking for;
- Explain the difference between a summary business plan, a full business plan, and an operational business plan;
- Explain why the executive summary may be the most important section of a business plan;
- Describe a milestone and how milestones are used in business plans;
- Explain why it's important to include separate sections on a firm's industry and its target market in a business plan;
- Explain why the "Management Team and Company Structure" section of a business plan is particularly important;
- Describe the purposes of a "sources and uses of funds" statement and an "assumptions sheet";
- Detail the parts of an oral presentation of a business plan.



## LEARNING CONTENTS (Writing a Business Plan)

**What is a Business Plan?**

- A business plan is a written narrative, typically 25 to 35 pages long, that describes what a new business plans to accomplish.
- For most new ventures, the business plan is a dual-purpose document used both inside and outside the firm.

**Why Reads the Business Plan—And What Are They Looking For?**

There are two primary audiences for a firm's business plan.



| Audience                                  | What They are Looking For   |
|---|---|
| A Firm's Employees                        | A clearly written business plan helps the employees of a firm operate in sync and move forward in a consistent and purposeful manner. |
| Investors and other external stakeholders | A firm's business plan must make the case that the firm is a good use of an investor's funds or the attention of others.              |

### Guidelines for Writing a Business Plan

- **Structure of the Business Plan**

- To make the best impression a business plan should follow a conventional structure, such as the outline for the business plan shown in the chapter.
- Although some entrepreneurs want to demonstrate creativity, departing from the basic structure of the conventional business plan is usually a mistake.
- Typically, investors are busy people and want a plan where they can easily find critical information.
- Software Packages
  - ✓ There are many software packages available that employ an interactive, menu-driven approach to assist in the writing of a business plan.
  - ✓ Some of these programs are very helpful. However, entrepreneurs should avoid a boilerplate plan that looks as though it came from a "canned" source.
- Sense of Excitement
  - Along with facts and figures, a business plan needs to project a sense of anticipation and excitement about the possibilities that surround a new venture.

- **Content of the Business Plan**

- The business plan should give clear and concise information on all the important aspects of the proposed venture.
- It must be long enough to provide sufficient information yet short enough to maintain reader interest.
- For most plans, 25 to 35 pages is sufficient.

- **Types of Business Plans**

- There are three types of business plans, which are shown on the figure below.



Figure 4.1: Types of Business Plan

- **Recognizing the Elements of the Plan May Change**
  - It's important to recognize that the plan will usually change while written.
  - New insights invariably emerge when an entrepreneur or a team of entrepreneurs immerse themselves in writing the plan and start getting feedback from others.

### Outline of Business Plan

- A suggested outline of a business plan is shown below.
- Most business plans do not include all the elements introduced in the sample plan; it was all included here for the purpose of completeness.
- Each entrepreneur must decide which elements to include in his or her plan.

### Section 1: Executive Summary

- The executive summary is a short overview of the entire business plan
- It provides a busy reader with everything that needs to be known about the new venture's distinctive nature.
- An executive summary shouldn't exceed two single-space pages.

### Section 2: Company Description

- The main body of the business plan begins with a general description of the company.
- Items to include in this section:
  - Company description.
  - Company history.
  - Mission statement.
  - Products and services.
  - Current status.
  - Legal status and ownership.

**Section 3: Industry Analysis**

- This section should be done by describing the industry the business will enter in terms of its size, growth rate, and sales projections.
- Items to include in this section:
  - Industry size, growth rate, and sales projections.
  - Industry structure.
  - Nature of participants.
  - Key success factors.
  - Industry trends.
  - Long-term prospects.

**Section 4: Market Analysis**

- The market analysis breaks the industry into segments and zeros in on the specific segment (or target market) to which the firm will try to appeal.
- Items to include in this section:
  - Market segmentation and target market selection.
  - Buyer behavior.
  - Competitor analysis.

**Section 5: Marketing Plan**

- The marketing plan focuses on how the business will market and sell its product or service.
- Items to include in this section:
  - Overall marketing strategy.
  - Product, price, promotions, and distribution.

**Section 6: Management Team and Company Structure**

- The management team of a new venture typically consists of the founder or founders and a handful of key management personnel.
- Items to include in this section:
  - Management team.
  - Board of directors.
  - Board of advisers.
  - Company structure.

**Section 7: Operations Plan**

- Outlines how your business will be run and how your product or service will be produced.
- A useful way to illustrate how your business will be run is to describe it in terms of “back stage” (unseen to the customer) and “front stage” (seen by the customer) activities.
- Items to include in this section:
  - General approach to operations.
  - Business location.



- Facilities and equipment.

### **Section 8: Product (or Service) Design and Development Plan**

- If you're developing a completely new product or service, you need to include a section that focuses on the status of your development efforts.
- Items to include in this section:
  - Development status and tasks.
  - Challenges and risks.
  - Intellectual property.

### **Section 9: Financial Projections**

- The final section of a business plan presents a firm's pro forma (or projected) financial projections.
- Items to include in this section:
  - Sources and uses of funds statement.
  - Assumptions sheet.
  - Pro forma income statements.
  - Pro forma balance sheets.
  - Pro forma cash flows.
  - Ratio analysis.

### **Presenting the Business Plan to Investors**

- **The Oral Presentation**
  - ✓ The first rule in making an oral presentation is to follow directions. If you're told you have 15 minutes, don't talk for more than the allotted time.
  - ✓ The presentation should be smooth and well-rehearsed.
  - ✓ The slides should be sharp and not cluttered.
- **Questions and Feedback to Expect from Investors**
  - ✓ The smart entrepreneur has a good idea of the questions that will be asked, and will be prepared for those queries.
- **The Twelve PowerPoint Slides to Include in an Investor Presentation:**
  1. Title Slide
  2. Problem
  3. Solution
  4. Opportunity and target market
  5. Technology
  6. Competition
  7. Marketing and sales
  8. Management team
  9. Financial projections
  10. Current status
  11. Financing sought
  12. Summary

**SUMMARY**

- ❖ A business plan is a written narrative that describes what a new business intends to accomplish and how it plans to achieve its goals.
- ❖ There are two primary audiences for a firm's business plan: a firm's employees and investors and other external stakeholders.
- ❖ The three types of business plan include summary business plan, full business plan and operational business plan.
- ❖ The elements of a business plan consist of executive summary, company description, industry analysis, market analysis, marketing plan, management team and company structure, operations plan, product (or service) design and development Plan and financial projections.
- ❖ In presenting the business plan to investors, the presentation should be smooth and well-rehearsed. The slides should be sharp and not cluttered with material.

**REFERENCES**

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- Scarborough, Norman M. (2011). *Essentials of Entrepreneurship and Small Business Management*, 6th Ed. Pearson.
- Allen, Kathleen R. (2016). *Launching New Ventures: An Entrepreneurial Approach*, 7<sup>th</sup> Ed. Cengage Learning.

