

Business Planning

GST 06206

SEMESTER II- 2019/2020

Introduction to Business Plan

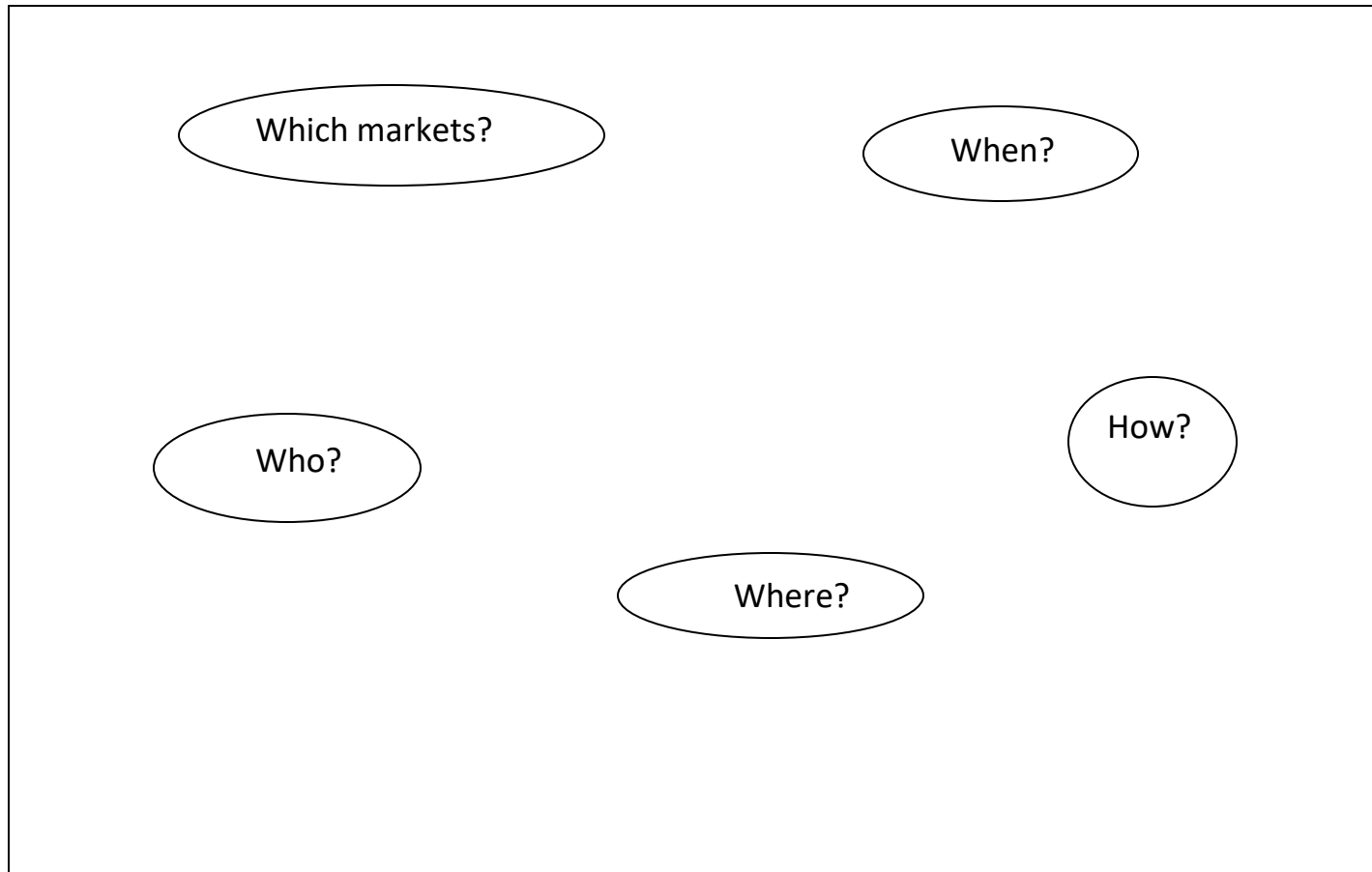
- What is a Business Plan?
- What is the purpose of a Business Plan?
- Why prepare a Business Plan?
- How can a Business Plan benefit you?
- Who needs a business plan?
- What is not a business plan?

What is a business plan?

- A Business Plan is a document in which a business opportunity or a business already under way, is identified, described and analyzed, examining its technical, economic and financial feasibility. The Plan develops all of the procedures and strategies necessary in order to convert the business opportunity into an actual business project.

- The business plan describes all the relevant external and internal elements involved in starting a new venture. It is often an integration of functional plans such as marketing, finance, manufacturing, and human resources. Finally, the business plan projects the financial results of the business over the planning period.
- A business plan is also known as a; Venture plan, Game plan, Road map, Loan proposal, an investment prospectus.

- A business plan provides information about the current status of the venture i.e. what the venture is the future direction of the venture and strategies to attain the ventures objectives.
- It provides an answer to simple questions about a new business or a business already under way:



What is the Purpose of a Business Plan?

- The purpose of a Business Plan is to identify, describe and analyze a business opportunity and/or a business already under way, examining its technical, economic and financial feasibility.
- Moreover, it should serve as a business card for introducing the business to others: banks, investors, institutions, public bodies or any other agent involved, when it comes time to seek cooperation or financial support of any kind.

- A Business Plan has a dual function:
 - Management Tool
 - Planning Tool
- As management tool
- Provides economic/financial projections.
- Enhances the monitoring and control of the business by following up the results obtained and analyzing management indicators.
- Introduces an analysis of the supply and demand.
- Reflects the commercial strategy and the marketing policy.
- Identifies the guidelines for the management of human resources.
- Analyzes the key factors of success and the risks of a business.

▪ **As planning tool**

The company assumes and takes responsibility for the definition of its objectives:

- With results-oriented actions.
- Strict fulfillment of its economic commitments.
- Orients decision-making processes:
- Provides qualitative and quantitative information.
- Planning conform to a homogeneous pattern.

Why prepare a business plan?

- 1) A plan describes a path for an entrepreneur to follow through period of growth.
- 2) A business plan shows the current status of the venture, expected needs of the venture and projected results of the venture
- 3) It provides important information needed by investors and financial sources (e.g. information about current and projected revenues and costs)

- 4) Lends credibility to the entrepreneur and the venture (i.e. to Banks and other lending institutions). A business plan therefore assists in marketing/promoting the venture.
- 5) It provides outsiders with the general view of the entrepreneur's conceptual and managerial ability.
- 6) It serves as sale document to raise funds.
- 7) A well developed business plan prepares the entrepreneur to minimize risk of failure, and avoid potential problems.

How can a business plan benefit you?

1. As an Entrepreneur

- a. It allows for the entrepreneur to view the venture critically and objectively.
- b. It quantifies objectives and goals; this provides measurable benchmark for making comparison between the forecasts and the actual results.
- c. It allows for the entrepreneur to develop and examine operating strategies and expected results for outside evaluators.

2. To the financial sources

- a. It provides information about the market potential and plans to secure a share of that market.
- b. Through providing various financial statements, the plan demonstrates the ability of the venture to service the debt or ability to provide adequate return on equity.
- c. It identifies the risks, crucial events and contingency plans for the success of the venture.

Who needs a business plan?

- 1) Entrepreneur him/herself
- 2) Investors
- 3) Financial institutions
- 4) Employees
- 5) Suppliers
- 6) Government officials like TRA, BRELA etc.

What is not a business plan?

Contrary to what some may think, a business plan is not:

- a. A set of financial projections
- b. An application for financial assistance
- c. A guaranteed formula for success

Business Idea Generation

A business idea is a **proposal** describing the potential product or services to be offered in a business. A business opportunity is an idea plus the following characteristics:

- 1) A good income potential
- 2) A reasonably ease of entry into the market
- 3) Low or modest start-up costs
- 4) Good growth potential
- 5) Attractiveness to customers
- 6) Resources and skills/abilities to create the business

Identifying Business Opportunities

Business opportunities must be identified creatively, not simply by copying.

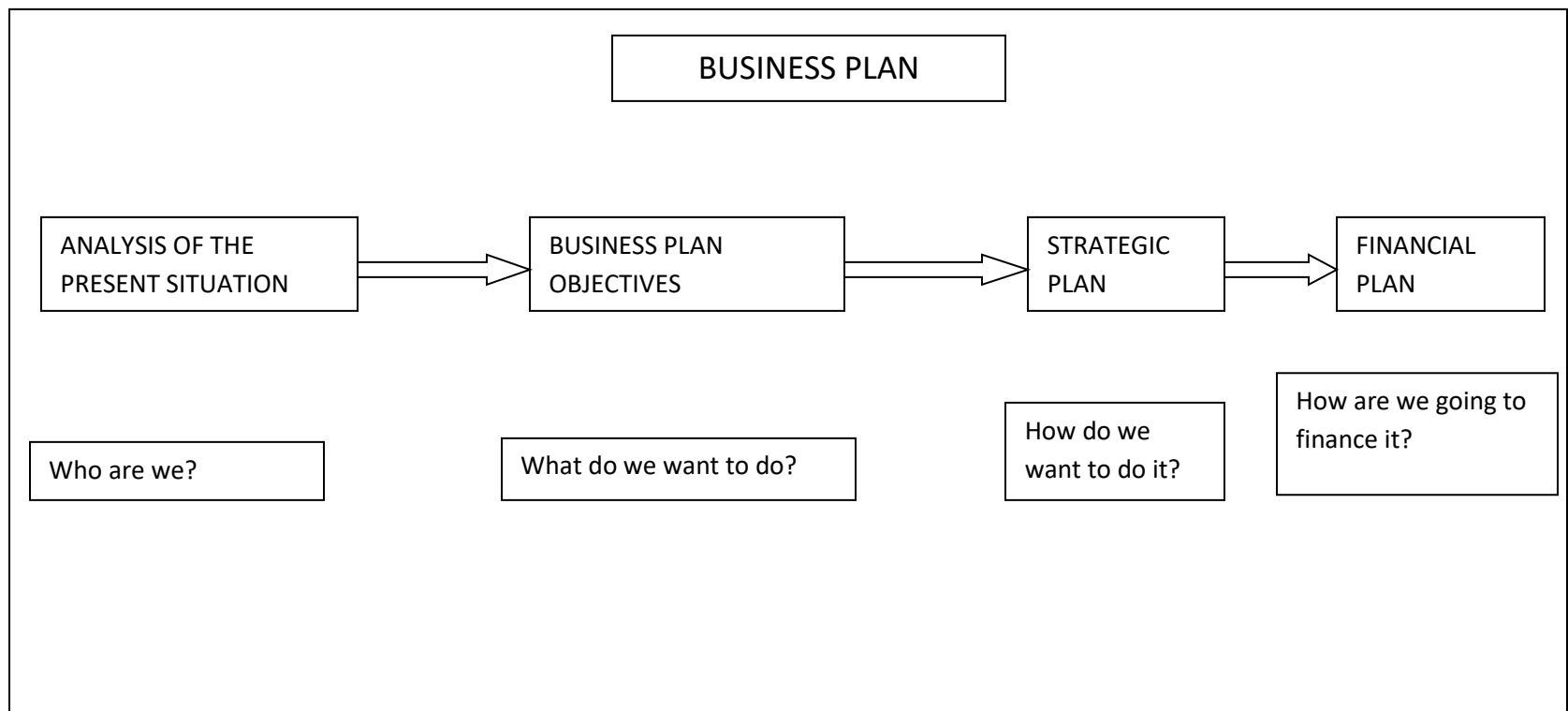
- a. Identify unmet demand (provide examples)
- b. Identify quality gaps
- c. Variety gaps
- d. Service gaps
- e. Price mismatch

Identification of Business Ideas

- **Sources of new Ideas:** Consumers, Existing products and services, Distribution channels, Government, Research and development, etc
- **Methods of Generating Ideas:** Even with such a wide variety of sources of ideas available, coming up with an idea to serve as the basis for a new venture can still pose a problem. The entrepreneur can use several methods to help generate and test new ideas, such as: focus groups, brainstorming, and problem inventory analysis, newspapers, magazine articles, trade shows and exhibitions.

Preparation of business plan

The development of a BUSINESS PLAN consists of the following elements, which provide answers to the main questions that can be raised by third parties



1. Analysis of the Present Situation

- What is the sector like?
- What is the present situation of the sector and the future outlook?
- Who are the competition in the sector in which the company participates and what is the degree of rivalry among competitors?
- Who are the potential competitors?
- What are the main factors that determine the success or failure of a competitor in the sector?
- In what way is our business different from the business of our competition?
- Identify weaknesses, threats, strengths and opportunities of the business.
- Is there a target market for this business?

2. Business Plan Objectives

- What are the reasons for investing in this business?
- What does my business consist of? What are the goods or services that I am going to offer?
- What strategy am I going to follow in order to maintain a competitive advantage over time; specialization, differentiation or competition in costs?
- What areas or processes are critical for the development of the business?
- What areas are supports for the critical processes of the business?
- What are my perspectives on the evolution of the business?

3. *Strategic Plan*

- What is the mission of my company?
- How are the strategic lines of my project going to unfold as long-term objectives?
- Have specific action plans been defined for achieving the long-term objectives? Have resources been allocated to such plans?
- How is my marketing policy structured? Have I considered the price, location, product, promotional aspects?
- How many employees comprise my staff? And what are my personnel management policies?
- Have I planned for the financial needs that could arise in the long term?

4. Financial Plan

- The purpose is to analyze the profitability and economic feasibility of the business project.
- This analysis is the quantification of the strategy defined by the entrepreneur and will enable him or her to analyze the economic impact of the decision making.
- A full analysis includes a projection for the time horizon considered in the Business Plan.

Writing a business plan

Important hints to remember (Guidelines for writing business plan)

- 1) **Keep the plan respectably short and clear:** The plan should not be more than 40pg excluding appendices.
- 2) **Organize and package the plan appropriately:** The contents of the plan should be correctly and logically arranged. The documents must also be neat and properly bound.
- 3) **Orient the plan towards the future:** Entrepreneurs should attempt to make the plan exciting by developing trends and forecasts that describe what the venture intends to do and prospects for the use of the product/service.

- 4) **Avoid exaggeration:** Sales potentials, revenue estimates and the venture's potential growth should not be inflated. Documentation and research are important for credibility of the plan
- 5) **Highlight critical risks:** The critical risks highlight demonstrates the entrepreneur's ability to analyse potential problems and develop alternative courses of action.
- 6) **Give evidence of an effective entrepreneurial team:** Skills and competencies of key persons in the venture must be indicated. It is also important to show how such persons can work together to form an effective team in managing the venture.

- 7) **Do not over diversify:** Focus the attention of the plan on one main opportunity. A new business should not attempt to create multiple markets nor pursue multiple ventures until it has developed one main strength.
- 8) **Identify the target market:** Substantiate the marketability of the venture product or services by identifying a particular customer niche that is being sought. This requires use of market research to demonstrate how the market segment has been identified.
- 9) **Capture reader's interest:** Investors receive numerous business plans in need of funding. However due to limited resources available for funding entrepreneurs need to draw the attention and interest of the reader by stating the uniqueness of the venture so as to attract financing.

ESSENTIAL CONTENTS OF A BUSINESS PLAN

CONTENTS	USEFUL POINTS
<p>1. EXECUTIVE SUMMARY</p> <p>This section is a brief overview of the whole Business Plan</p>	<ul style="list-style-type: none">• Highlight the attractions of your business.• Show that your plan is well researched with figures to back up your forecasts.• Demonstrate your management ability.• Show that your product has a market.
<p>2. ENTERPRISE DESCRIPTION</p> <ul style="list-style-type: none">• It is important that you demonstrate a clear understanding of the business you would like to be in.• You should also explain your business concept and the reasons why you think it will be a success.	<ul style="list-style-type: none">• Define your background and those of any sponsors (owners/partners).ie name ,age, experience, occupation etc• Provide an overview of your business idea.• State why you chose to go into this particular business.• Show any personal skills and/or experience that will help you in your business.• State why you believe the business will be a success.

<h3>3.PRODUCT OR SERVICE DESCRIPTION</h3> <p>This section helps you to think about your product or service which reflects on your ability to understand and cater for your clients' expectations.</p>	<ul style="list-style-type: none"> • Describe your range of products or services. • Mention plans for new additions to your range. • Speak about innovative ideas. • What value would the clients place on your products? • What will your clients expect from your product? <p><i>Example: Quality, Design, Reliability, Innovation, Reasonable Price, Customer Care</i></p>
<h3>4. INDUSTRY ANALYSIS</h3> <p>This section helps you to understand the industrial environment you intend to be working in and through it you can identify important changes that are likely to take place in your market.</p>	<ul style="list-style-type: none"> •How big is your sector? •How many companies operate this sector? •What are the general trends? •How is your industry changing? •How will these changes affect you? •Are you aware of legislation and/or regulations that could affect your business? • Have you thought about any other changes - political, economical, regulatory, social, environmental or technological - that could affect your business?

<p>5. COMPETITION ANALYSIS</p> <p>In order to compete successfully in any business you need to know your competitors. Also, it is useful to study how and why they achieve success. Also you need to be aware of their failures to avoid committing the same errors.</p>	<ul style="list-style-type: none"> • Who are your competitors? (local and foreign) • What are their strengths and weaknesses? • How can you be different? • How can you become more competitive?
<p>6. SWOT ANALYSIS</p> <p>S = Strengths W = Weaknesses O = Opportunities T = Threats</p> <p>This section enables you to look closely at the internal strengths and weaknesses of your business, and to identify external threats and potential opportunities.</p>	<p>INTERNAL</p> <ul style="list-style-type: none"> • What are your strengths? • What are your weaknesses? <p>EXTERNAL</p> <ul style="list-style-type: none"> • What are the opportunities? • What are the threats?

<p>7. MARKETING SUB-PLAN</p> <p>It is no use having the greatest product in the world if you cannot sell it.</p> <p>This section focuses on your potential customers and allows you to see whether your products can satisfy their needs.</p>	<ul style="list-style-type: none"> • Is the market STATIC, GROWING or DECLINING? • What market segment(s) do you wish to operate in? • Who are your target clients? • Do you have niche or mass market products? • What is your pricing policy? • How do you compare with the competition? • How do you intend to sell your product? • Where do you intend to sell your product
<p>8. OPERATIONS SUB-PLAN</p> <p>This section helps you to look at your internal operations in detail to see if your business can be run efficiently and effectively. It draws attention to your team and allows you to develop strategies for good and effective management.</p>	<ul style="list-style-type: none"> • How strong are your management systems? Eg. general management ; marketing management & financial management • How will you ensure an efficient production system? • Have you thought about quality certification? • How important are health & safety standards for your product? • Do you intend to invest in product development? • Will you invest in new or second hand equipment? • Has consideration been given to whether the equipment(s) are manufactured in the country or outside the country?

<p>9. HUMAN RESOURCES SUB- PLAN</p> <p>People are the greatest resource of any business venture.</p> <p>This section focuses your attention on your work force, their training needs as well as their material needs in terms of health & safety, professional development, job satisfaction and remuneration.</p>	<ul style="list-style-type: none"> • Describe your management structure. • What technical skills will your employees have? • Do you need to invest in training? • How will you motivate your workforce? • How will you monitor their performance?
<p>10. PREMISE AND GENERAL ESTABLISHMENT</p> <p>Space may be needed for office functions, sales, storage, garage, workshop or factory function, staff canteen and rest rooms.</p>	<ul style="list-style-type: none"> • Describe the type, size and location of premises required for the business project. • What is the cost if you buy, build or rent premise? • What essential services are needed for these? • How much floor space is required? Square meters

11. FINANCIAL SUB-PLAN

In the financial plan, you will deal with the financial aspects of your proposed business.

To measure your future financial potential, you will prepare pro-forma balance sheets, pro- forma profit and loss accounts and a projected cash flow statement.

Preparing these statements requires expertise in finance and accounting.

- Identify your pre-operational costs.
- Prepare Profit and loss projections; Balance sheet projections & Cash flow projection statements.
- Determine the break-even level of sales.
- Calculate the expected profitability ratios of your business.
- Indicate your financial requirements and proposed capitalisation.
- Prepare Implementation schedule showing the timing of the major events necessary to your business.
- Indicate the critical risks and potential problems you are likely to face and contingency plan (s) to combat them.

12. Appendices

The appendix of a business plan is usually the last section to appear in the business plan.

Serve as a place for supplementary documents, materials or raw data or extra information that helps clarify information within the content of your business plan, so as to help your reader understand your business better.

This includes:

- Technical data on products
- Organization charts
- CVs of key managers and technical staff.
- Photos of your products
- Copies of patents, permits or licenses you hold
- Building permit and equipment lease documentation
- Contact information for attorneys, accountants, advisors, and so on

COMPLING YOUR BUSINESS PLAN

At this point in the process of preparing the business plan, you should be ready to put it in its final form. You and your team will have assembled the essential information and presumably organized the data in the form of notes and drafts.

The following are pointers to keep in mind: Write clearly, Address the readers' key concerns, Get an outsider's perspective, Tend to the details, Tailor the plan, Consider more than one version of the plan, Prepare an oral presentation.

Updating the Plan

- The most effective business plan can become out-of-date if conditions change.
- Environmental factors such as the economy, customers, technology, or competition – and internal factors such as loss or addition of key personnel, can also change the direction of the business plan.
- Thus, it is important to be sensitive to changes in the company, industry, and market. If these changes are likely to affect the business plan, the entrepreneur should determine what revisions are needed.

Critical Factors in Business Planning

- 1) Set realistic goals: i.e. goals must be specific, measurable and attainable within specific time frame (time bound)
- 2) Commitment: The venture must be supported by all involved family, partners, and employee's team members.
- 3) Milestones: sub goals must be set for continual and timely evaluation process.
- 4) Flexibility: Obstacles and challenges must be anticipated and alternative strategies must be developed to deal with them.

Pitfalls to Avoid in Planning

- 1) Avoid setting over ambitions/unrealistic goals/challenges
- 2) No commitment
- 3) Lack of demonstrated ability to run business/handle the venture
- 4) Failure to identify market segment for your offerings.

Why Small Firms Ignore Business Plans?

- 1) Ignorance about the process and/benefits of business planning
- 2) The pressure to do rather than wasting time on thinking and analysis
- 3) The assumption that strategic planning is complex and only suitable for large organizations

Why Small Business Plans Fail?

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

- 1) Goals set by the entrepreneur are unreasonable
- 2) Goals are not measurable
- 3) The entrepreneur has not made a total commitment to the business or the family
- 4) The entrepreneur has no experience in the planned business
- 5) The entrepreneur has no sense of potential threats or weaknesses to the business
- 6) No customer need was established for the proposed product or service.

SEVEN DEADLY SINS

