**Chapter 2: Business Planning**

* 1. **INTRODUCTION**

In the previous chapter, we dealt with the concept of Entrepreneurship. This unit will help you to understand the concept of opportunity identification and evaluation, business idea development and how to prepare a business plan. Virtually to start any type of business or expand the existing one needs to work on opportunity identification and evaluation, business idea development and then prepare business plan. Lack of proper opportunity identification and evaluation, idea development process and business planning are the most often cited reasons for business failure

**2.2 Opportunity Identification and Evaluation**

The initial stage in the entrepreneurial process is the identification and refinement of a viable economic opportunity that exists in the market. Without the recognition of an opportunity the entrepreneurial process is likely to result in failure.

Opportunity recognition corresponds to the principal activities that take place before a business is formed or structured. The opportunity identification and evaluation stage can be divided into five main steps namely;

* getting the idea/scanning the environment,
* identifying the opportunity,
* developing the opportunity,
* evaluating the opportunity and
* evaluating the team.

1. **Scanning the Environment/ Idea Generation**

While scanning the environment it may be provide you with idea and business opportunities. Idea is a thought or suggestion about a possible course of action. Synonymous with “**idea**” are the terms thought, intention, scheme, suggestion, proposal, initiative, impulse, brainwave, insight, concept and connotation. Whereas, opportunity is a favorable time or set of circumstances for doing something. A business opportunity is a gap left in a market by those who currently serve it, giving a chance to others to add unrealized value by performing differently from and better than competitors in order to create new possibilities.

Business opportunities are distinguished from ideas; an idea is not synonymous with opportunity.

**The Difference Between An Idea And An Opportunity**

* An Opportunity is the possibility of occupying the market with a specific innovative product that will satisfy a real need and for which customers are willing to pay but
* **Idea** is all about opinion about anything we can have. Successful venturing may well rest upon the ability of an individual to recognize or distinguish an opportunity from an idea.

1. **Opportunity Identification**

Opportunity identification is ability to see, to discover and exploit opportunities that others miss. It is the process of seeking out better ways of competing. It includes scanning the informational environment, being able to capture, recognize and make effective use of abstract, implicit and changing information from the changing external environments.

It is important for the entrepreneur to understand the cause of the opportunity. Is it technological change, market shift, government regulation, or competition? These factors and the resulting opportunity have a different market size and time dimension. The market size and the length of the window of opportunity form the primary basis for determining risks and rewards which serves for opportunity evaluation.

Opportunity identification is a very difficult task, as most opportunities do not just appear but rather result from an entrepreneur’s alertness to possibilities. In developing countries, problems may be changed to business opportunities.

1. **Opportunity Development**

Having recognized the opportunity, timely adaptation of that opportunity to suit actual market need is key to new venture success. Opportunity development is the process of combining resources to pursue a market opportunity identified. This involves systematic research to refine the idea to the most promising high potential opportunity that can be transformed into marketable items.

1. **Opportunity Evaluation**

Opportunity screening and evaluation is a critical element of the entrepreneurial process. A professional executed evaluation can tell whether the specific product or service has the returns needed to justify the investment and the risk to be taken.

Opportunity screening and evaluation is perhaps the most critical element of the entrepreneurial process, as it allows the entrepreneur to assess whether the specific product or service has the returns needed for the resources required. This evaluation process involves looking at the creation and length of the opportunity, its real and perceived value, its risks and returns, its fit with the personal skills and goals of the entrepreneur, and its differential advantage in its competitive environment. According to experts, evaluating the opportunity must answer the questions listed in table 2.1 below:

**Table 2.1: Business factors and questions for opportunity evaluation**

| **Business factor** | **Questions for evaluation** |
| --- | --- |
| Product or  Service | Description of the product or service, its differentiator, purpose and the need it fills   * What competitive advantage / benefits does the product have? * What is the required customer care support for this product/service? * Is the company able to produce product and supply required aftercare support? |
| Market  Opportunity | * Where is the market demand? What is the target market? Is it generic or a niche? * Industry characteristics (growth rates, change, entry barriers). * What market share can the product reasonably expect today? In 2, 5 or 10 years? * Timing and length of the window of opportunity? * What competition exists in this market? Substitutes? How big is their turnover? * How accessible are the desired distribution channels? |
| Costing and  Pricing | * How much will it cost to develop the product and commercialize it? * Where will the funds come from? * How do the pricing, costs and economies of scale compare with competitors? * How easy is it to acquire equipment, skills and other inputs required? |
| Profitability | * Where is the money to be made in this activity? What are the gross margins? * Would the return on investment be acceptable? What is the payback period? * What are the cash flow patterns and the source of working capital? |
| Capital  Requirements | * How much capital (people, operating expense and assets) is required to start? * What are the long-term capital needs? * How much of the required capital is secured and where will the rest come from? * What securities are available to guarantee the required funds? * Is there a list of potential funders? In case the funders withdraw their capital? |
| Issues and risks | * What risks (real and perceived) are inherent with the product/service? * Industry based risks e.g. is the market on a decline? * Are there plans for surviving the death of the lead entrepreneur? * Unreliable forecasts? Inadequate cash flow? * Inability to grow with the demand or cope with shrinking sales? * Supplier and value chain management? |

1. **Assessment of the Entrepreneurial Team**

Regardless of how right the opportunity may seem to be, it will not make a successful business unless it is developed by a team with strong skills. Gartner et al (1999:230) advices that once the opportunity has been evaluated, the next step is to ask pertinent questions about the people who would run the company. Such questions are illustrated in table 2.2:

**Table 2.2: Team factors and questions for opportunity evaluation**

| **Team factor** | **Questions for evaluation** |
| --- | --- |
| Focus: | * Is the founder really an entrepreneur, bent on building a company? * Does the entrepreneur (or his team) have some experience (work or industry)? * Do they really like this product/sector? Do they really want this? * Can the team create products to suit that market need? * How stressful is the opportunity for the team? |
| Selling: | * Does the team have the necessary selling and closing skills? |
| Management: | * + Who will work full time? Do your managers represent competitive advantage?   + Does the team have the necessary management and technical skills?   + If the required skills are not available, can they be acquired at competitive rates?   + How is their relationship with the entrepreneur, commitment and motivation? |
| Ownership: | * + Have the critical decisions about ownership and equity splits been resolved?   + Are the members committed to these?   + Does the owners have enough financial capital for required own contributions? |

**2.3 Business Idea Development: -** A **business idea** is a short and precise description of the basic operation of an intended business. There are three types of business ideas. They are:

1. **Old Idea** – Here an individual copies an existing business idea from someone.
2. **Old Idea with Modification** – In this case the person accepts an old idea from someone and then modifies it in some way to fit a potential customer’s demand.
3. **A New Idea** – This one involves the invention of something new for the first time

**2.4 Business Idea Identification**

Before you start a business, you need to have a clear idea of the sort of business you want to run. Your business idea will tell you:

* Which need will your business fulfill for the customers and what kind of customers will you attract?
* What good or service will your business sell?
* Who will your business sell to?
* How is your business going to sell its goods or services?
* How muchwill your business depend upon and impact the environment? A good business idea will be compatible with the sustainable use of natural resources and will respect the social and natural environment on which it depends.

All business ideas are not equally worth. Therefore, to identify promising business idea among others, it is important to answer the above raised questions. Let we see the explanation for the questions raised above.

**2.4.1 The Need wills Your Business Fulfill for the Customers**

Your business idea should always have customers and their needs in mind.

**2.4.2 Good or Service will your Business Sell**

Depending on your skills and the needs of the customers, you should decide which good or service your business will sell. Also, keep in mind that they must be goods or services that people are willing to pay for and at a price that will allow you to make a profit.

A good is an item that people pay for and use. It may be something you make yourself or it may be something you buy to resell. Tools, baked goods, clothes and retail items are all products. A service is something you do for people that they then pay you for. For example, delivering goods, banking, babysitting, repairing items, collecting recyclable waste from apartment buildings, operating tours, etc. are all services.

**2.4.3 Identifies Potential Customer**

Any business cannot succeed without customers. Therefore, it is essential that you know who your customers will be. Will you sell to a specific type of customer or to everyone in an area? There must be enough people who are able and willing to pay for your goods and services or the business will not survive.

**2.4.4 Strategy for Selling Goods or Services/ how is Your Business Going to Sell Good or Services?**

How are you going to sell your goods or services? If you plan to open a shop, you know how you will sell your product, but manufacturers or service operators can sell their products in many different ways. A manufacturer, for example, can sell either directly to customers, to retailers or to wholesalers.

**2.4.5 Relation between Business and Environment**

Your business can only be sustainable in the long run if it works in harmony with the social and natural environment. How much does your business depend on the environment? Does it rely on the weather, soil or other natural resources? Does it need any specific type of labor from the local community? Does it need the local community to support it? What should you do to make sure that your business nurtures the natural environment and helps the local community? Will your business nurture the natural environment or will it have a detrimental impact? How would you minimize or reverse any negative effect that your business might have? This is discussed in detail in Chapter one of this module.

**2.5 Methods for Generating Business Ideas**

Every business idea should be based on knowledge of the market and its needs. **The market** refers to people who might want to buy a good or service; i.e. the customers. The market differs from place to place, depending on who lives in the area, how they live and for what goods or services they spend their money. When you understand the market in your area, you might recognize many business ideas that you may have previously ignored.

When generating business ideas, it is best to try to keep your mind open to everything. Your first goal is to think of as many ideas as possible and make a list of all the possible business opportunities. With a list, you will have more choices! You then can scan the list and nail down the idea(s) that sound most feasible to you and that you think will be most profitable.

There are many ways to come up with business ideas, such as surveying local businesses or asking existing business owners. The information gained from one approach may supplement another and help you to clearly describe your business ideas. Below, we will examine a few different approaches to generating business ideas.

1. **Learn from successful business owners**

You can learn a lot from people in your area who have already gone through the process of establishing a business. You should try to get the following information from them:

* What kind of idea did these businesses start with?
* Where did the ideas come from?
* How did they develop their ideas into successful businesses?
* How does the business profit and fit into the local environment?
* Where did they get the money to start their business?

When to meet successful business owners; use the Business Ideas Analysis Form shown below, to write down their answers to the above listed questions.

|  |
| --- |
| **BUSINESS IDEAS ANALYSIS FORM**  **Name of business:** \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Goods or services to be sold:** \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Main customers:** \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **When and why did the owner decide to start this business?**  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Why did the owner think it was a good idea to start that kind of business?**  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**How did the owner learn what his potential customers wanted?**  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**What strengths or assets did the owner use to start this business?** (E.g., previous experience, training, family background, contacts, hobbies)  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**What problems did the owner face in setting up the business?**  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Has the business good or service changed over time?**  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **What is the impact of the business on the natural environment and the community?**  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Notes:**  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |

1. **Draw From Experience**
   1. **Your own Experience: -** Look at the list of your interests, your experiences and your networks. Are there any possible business ideas that you can derive from your own past experience? Think about each type of experience.

Start with yourself. What has your experience been as a customer in the market place? Have you ever searched all day for some items that you could not find in any store in your area? Think about the goods and services you have wanted at different times and that you have had difficulty finding.

* 1. **Other People’s Experience:-**The people around you are potential customers. It is important to understand their experience trying to find goods and services that are unavailable or not exactly what they need. Listen carefully to what these people say about their shopping experience.

Ask your family and friends about the things they would like to find that are not locally available. Expand your social knowledge by talking to people from different age groups, social classes, etc. You can also visit community groups, colleges, etc. for a greater understanding of the market.

Here are some examples of comments that would help with your search for a business idea:

* “I cannot find a lunch box that keeps the food warm.”
* “The choice of cooking pots in the shops is very limited.”
* “There is no reliable way of sending gift packages to my friends and relatives living in the villages.”
* “There is not enough entertainment in this town and the weekends are so boring.”
* “I really need to buy some marketing textbooks, but there are no good bookstores in this town.”
* “There is so much garbage on the streets. Somebody should do something about it.”

1. **Survey Your Local Business Area**

Another way of discovering business ideas is to look around your local community. Find out what type of businesses are already operating in your area and see if you can identify any gaps in the market.

If you live in a village or small town, you may be able to identify all the fields of business in the whole town. Otherwise, you may need to focus on the preferred business fields and business types that you identified. This is an activity that will be much easier to do with a business partner or friend. Visit the closest industrial area, markets and shopping centers in your area.

1. **Scanning Your Environment**

You can use your creativity to find more business ideas in your area. Look at the list of existing local businesses. If the list has included most of the local markets, you may be able to learn about the industries or service providers on which the local economy relies.

It may be useful to think about business ideas by considering all the resources and institutions in your area. For example think about:

* Natural resources,
* Characteristics and skills of people in the local community,
* Import substitution,
* Waste products,
* Publications,
* Trade fairs and exhibitions ,
  1. **Natural Resources: -** Think of what is abundantly available in your area that could be made into useful products without harming the environment. Natural resources include materials from soil, agriculture, forest, mineral, water, etc.

Perhaps there is good clay soil in the area that can be used for making bricks. It may be used for other business ventures such as making plates, cups or tiles.

Think about a way to use this resource that would enable you to continue working with it for many years. In other words, make sure that your business idea will not exhaust the natural resource that would be the foundation of your business.

* 1. **Characteristics and Skills of People in the Local Community:-** Consider whether the people in your area have some special characteristics or skills that could be useful for a business:
  + Are there people in your community who are good artisans, tailors or carpenters or who have specific skills creating items unique to your area?
  + Are there recent graduates looking for jobs who you could employ?
  + Are there caregivers, nurses or people who could offer services to children, the elderly or the sick?
  + Is your community digitally connected?
  + Is the infrastructure in your community well developed?
  1. **Waste Products:-**Business opportunities can also be generated by using materials that have been previously used by both homeowners and businesses. Think about the possible use of waste materials for the production of other useful and marketable items. Recyclable waste products can be identified by analyzing certain items to see how they are discarded. Man-made waste has a detrimental effect on the environment. In most cases, companies are keen to work with entrepreneurs who can turn their waste products into valuable and marketable items.

Usually there is something that can be reused in things that we throw away. Recycling may be done with waste products that come from agricultural processing, household garbage, used machinery and appliances or industrial waste. People throw away food that could be used to make compost or animal feed. They also throw away paper, glass and aluminum that can be recycled. Think of things that can be made from what others thought was garbage.

Many industries dispose of useful materials. A clothing company might throw out small pieces of cloth that could be used to make something else. Plastics factories usually have materials left over that might be useful for insulation, stuffing for pillows or a new kind of fuel.

Is there a possibility that you could recycle something that is found in abundance in your neighborhood? Is there a way of using resources more efficiently? May be you could offer a service to help individuals or institutions dispose of their waste in a way that is environmentally-friendly or maybe you can make something new out of the waste.

* 1. **Import Substitution:-**Can you think of anything that is imported that might be made locally? Some imported goods have high import duties, making them very expensive. You could investigate the possibility of operating a business that can easily make the imported goods locally.
  2. **Publications: ­-** Publications from the internet and other printed material may help you find ideas. There are many sites on the internet that you can visit to find out about business ideas as well as franchise businesses for sale. There are also web-based businesses that you can search from home if you have internet connection.

Newspapers are a great source of ideas. They often describe types of businesses that you could start or products that you could provide in your area. The classified advertisements may give your ideas, as well as articles about business trends in other places.

* 1. **Trade Fairs and Exhibitions:-**Organizations hold trade fairs for different goods or services. Attending these fairs may give you exposure to a number of new business ideas that you had not previously considered. Be sure to attend any trade fair for fields of business in which you may be interested.

1. **Brainstorming**

Brainstorming means opening up your mind and thinking about many different ideas. You start with a word or a topic and then write down everything that comes to mind relating to that subject. You continue writing for as long as possible, putting down things that you think of, even if they seem irrelevant or odd. Good ideas can come from concepts that initially seem strange.

Brainstorming works best in a group. Get your family, friends or classmate together and ask them to help by writing down ideas they have when they hear the word or subject matter.

1. **Structured Brainstorming**

Structured brainstorming is when you think of the different processes that are involved in the operation of a particular business and the goods/services that can be offered with respect to those processes. This is different from thinking about random items related to a particular business field and type.

Try to think of all the businesses that are related to different aspects of a product:

* + Those involved in production,
  + Those involved in the selling process,
  + Those involved in recycling or re-using materials,
  + Those indirectly related (spin-offs),
  + Those involved in servicing,

As far as all brainstorming exercises are concerned, it is essential to recall the basic rules of brainstorming: no criticizing or censoring of ideas, wild and turbulent sessions allowing the uninterrupted flow of ideas, no interruption once the basic idea of the exercise has been introduced, no shyness and no limitations.

1. **Focus Group**

Focus group is a group of individuals providing information on a structured format which is led by moderators. It is characterized by an open and in depth discussion: rather than simply asking questions to solicit student response. The moderator focuses the discussion in either Directive or non-directive manner. It is useful for both getting new idea on existing product or screening idea/concepts.

1. **Problem Inventory Analysis**

It is similar to focus group to generate new product ideas. The difference is rather than generating new idea themselves, consumers are provided with a list of problems in general product category. It is a method of obtaining “New Idea” and solutions by focusing on problems.

* 1. **. Business Idea Screening**

Idea screening is the process to spot good ideas and eliminate poor one. To screen the business idea generated, three approaches are discussed as follow:

1. **Macro screening**: is aimed screening down ideas to 10. And the common criteria are:

* Are my own competencies (see strength detector) sufficient?
* Can I finance it to a large extent with my own equity?
* Will people buy my product/service (i.e. is it needed and can people afford it)?

1. **Micro Screening**: is aimed screening down ideas into the common criteria used for screening are:

* Solvent demand
* Availability of raw materials
* Availability of personal skills
* Availability of financial resources

1. **Scoring the Suitability of Business Idea**:

This approach is most appropriate when deciding on starting a business. When there are more than one possible business ideas and one needs to decide which one to follow, we use score business ideas (e.g., BI1, BI2, BI3) by assigning a rating from 1 to 3 for each question, with 3 being the strongest. After we score the ideas we sum the total and select the idea with the highest score.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **S. No** | **Questions** | **BI1** | **BI2** | **BI3** |
|  | Are you familiar with the operations of this type of business? |  |  |  |
|  | Does the business meet your investment goals? |  |  |  |
|  | Does the business meet your income goals? |  |  |  |
|  | Does the business generate sufficient profits? |  |  |  |
|  | Do you feel comfortable with the business? |  |  |  |
|  | Does your family feel comfortable with the business? |  |  |  |
|  | Does the business satisfy your sense of status? |  |  |  |
|  | Is the business compatible with your people skills? |  |  |  |
|  | Is there good growth projected for the overall industry of the business? |  |  |  |
|  | Is the risk factor acceptable? |  |  |  |
|  | Does the business require long hours? |  |  |  |
|  | Is the business location-sensitive? |  |  |  |
|  | Does the business fit your personal goals and objectives? |  |  |  |
|  | Does this business fit your professional skills? |  |  |  |
| **Totals** | |  |  |  |

**Notes**: while to answer the above listed questions it is important to conduct survey. Collecting information on your business idea gives you an opportunity to promote your business idea and to present yourself as a potential entrepreneur. While to answer the above questions, there are four important groups that you should talk to:

* **Potential customers**: Their views are essential to your understanding of whether or not your proposed product is important to them and if you need to modify your idea to meet their needs.
* **Competitors, suppliers and entities with financial resources**: Their views will reveal the challenges of competition that you would face, as well as other issues related to your potential business.
* **Financial institutions**: Find out the lending requirements to determine whether borrowing for a new business is possible.
* **Key informants and opinion leaders**: These are people who would know a lot about the type and field of business you want to go into and/or a lot about your potential customers. Their views would give you a lot to think about and could also give you a better insight into the feasibility of your business idea.

When you have completed the summary of your business idea, you can go on to the next step to start your own business: Prepare a business plan for the proposed business.

**2.7 Concept of Business Plan**

Planning is the first and the most crucial step for starting a business. A carefully charted and meticulously designed business plan can convert a simple idea/innovation into a successful business venture.

A business plan is a road map for starting and running a business. A well-crafted business plan identifies opportunities, scans the external and internal environment to assess the feasibility of business and allocates resources in the best possible way, which finally leads to the success of the plan. It provides information to all concerned people like the venture capitalist and other financial institutions, the investors, the employees. It provides information about the various functional requirements (marketing, finance, operations and human resources) for running a business.

A business plan is the blueprint of the step-by-step procedure that would be followed to convert a business idea into a successful business venture. A business plan first of all identifies an innovative idea, researches the external environment to list the opportunities and threats, identifies internal strengths and weakness, assesses the feasibility of the idea and then allocates resources (production/operation, finance, human resources ) in the best possible manner to make the plan successful:.

**The objectives of a business plan are to:**

* Give directions to the vision formulated by entrepreneur.
* Objectively evaluate the prospects of business.
* Monitor the progress after implementing the plan.
* Persuade others to join the business.
* Seek loans from financial institutions.
* Visualize the concept in terms of market availability, organizational, operational and financial feasibility.
* Guide the entrepreneur in the actual implementation of the plan.
* Identify the strengths and weakness of the plan.
* Identify challenges in terms of opportunities and threats
* Clarify ideas and identify gaps in management information about their business, competitors and the market.
* Identify the resources that would be required to implement the plan.
* Document ownership arrangements, future prospects and projected growths of the business venture.

**2.8 Developing a Business Plan**

**2.8.1 Business Planning Process**

A plan, which looks very feasible at the first instance, might actually not be when the details are drawn. Hence documenting the business plan is one of the early steps that an entrepreneur should take. As discussed above, the successful entrepreneur lays down a step-by-step plan that she/he follows in starting a new business. This business plan acts as a guiding tool to the entrepreneur and is dynamic in nature – it needs continuous review and updating so that the plan remains viable even in changing business situations. The various steps involved in business planning process are discussed here below:

1. **Preliminary Investigation**

Before preparing the plan entrepreneur should:

* Review available business plans (if any).
* Draw key business assumptions on which the plans will be based (e.g. inflation, exchange rates, market growth, competitive pressures, etc.).
* Scan the external environment and internal environment to assess the strengths, weakness, opportunities and threats.
* Seek professional advice from a friend/relative or a person who is already into similar business (if any).

1. **Opportunity Identification and Idea Generation**

Entrepreneurship is not just limited to innovation (generation of an entirely new concept, product or service, but it also encompasses incremental value addition to the concept/product/ services offered to the consumer, shareholder and employee).

Opportunity identification and business idea generation is the first stage of business planning process. It involves generation of new concepts, ideas, products or services to satisfy demand.

1. **Environmental Scanning**

Once a promising idea emerges through idea generation phase the next step is environmental scanning, which is carried out to analyze the prospective strengths, weakness, opportunities and threats of the business enterprise. Hence before getting into the finer details of setting up business it is advisable to scan the environment both external and internal and collect the information about the possible opportunities, threats from the external environment and strengths and weaknesses from the internal environment (the detail has been addressed in chapter one).

1. **Feasibility Analysis**

Feasibility study is done to find whether the proposed project (considering the above environmental scanning) would be feasible or not. It is important to demarcate environmental scanning and feasibility study at this point. Environmental scanning is carried out to assess the external and internal environment of the geographical area/areas where, entrepreneur intends to set up his business enterprise, whereas feasibility study is carried out to assess the feasibility of the project itself in a particular environment in greater detail.

1. **Report Preparation**

After environmental scanning and feasibility analysis, a business plan report is prepared. It is a written document that describes step-by- step, the strategies involved in starting and running a business.

**2.8.2 Essential Components of Business Plan**

1. **Cover Sheet:** Cover sheet is like the cover page of the book. It mentions the name of the project, address of the headquarters (if any) and name and address of the promoters.
2. **Executive Summary:** Executive summary is the first impression about the business proposal. As the saying goes, the first impression is the last impression. A careful presentation of information should be done to attract the attention of the evaluators. It should be in brief (not more than two or three pages) yet it should have all the factual details about the project that can improve its marketability. It should briefly describe the company; mention some financial figures and some salient features of the project. Generating interest in the minds of the readers is the prime motive of the executive summary.
3. **The Business:** This will give details about the business concept. It will discuss the objective of the business, a brief history about the past performance of the company (if it is an old company), what would be the form of ownership (whether it would be a single proprietor, partnership, cooperative society or a company under company law). It would also labelthe address of the proposed headquarters.
4. **Funding Requirement:** Since the investors and financial institutions are one of the key bodies examining the business plan report and it is one of the primary objectives of preparing the business plan report, a careful, well-planned funding requirement should be documented. It is also necessary to project how these requirements would be fulfilled. Debt equity ratio should be prepared, which can give an indication about how much finance would the company require and how it would like to fund the project.
5. **The Product or Services:** A brief description of product/services is given in this subsection. It includes the key features of the product, the product range that would be provided to the customers and the advantages that the product holds over and above the similar products/ substitute products available in the market. It also gives details about the patents, trademarks, copyrights, franchises, and licensing agreements.
6. **The Plan:** Now the functional plans for marketing, finance, human resources and operations are to be drawn.
7. **Marketing Plan:** Marketing mix strategies are to be drawn, based on the market research.
8. **Operational Plan:** The operational plan would give information about (i) Plant location: why was a particular location chosen? Is it in the vicinity of the market, suppliers, labor or does it have an advantage of government subsidies for that particular location or are there any other specific reasons for choosing the particular location?, (ii) Plan for material requirements, inventory management and quality control are also drawn for identifying further costs and intricacies of the business. Finally, the budget for operational plan is also drawn.
9. **Organizational Plan**: The organizational plan indicates the pattern of flow of responsibilities and duties amongst people in the organization, it provides details about the manpower plan that would be required to put life into the business and it would also enlist the details about the laws that would be governed in managing the employees of the organization. In the end the organizational plan is also budgeted.
10. **Financial Plan:** The financial plan is usually drawn for two to five years for an existing company. For a new organization the following projections are drawn:
11. Projected Sales
12. Projected Income and Expenditure Statement
13. Projected Break Even Point
14. Projected Profit and Loss Statement
15. Projected Balance Sheet
16. Projected Cash Flows
17. Projected Funds Flow
18. Projected Ratios
19. **Critical Risks:** The investors are interested in knowing the tentative risks to evaluate the viability of the business and to measure the risks involved in the business. This can further give confidence to the investors as they can calculate the risks involved in the business from their perspectives as well.
20. **Exit Strategy:** The exit strategies would provide details about how the organization would be dissolved, what would be the share of each stakeholder in case of winding-up of the organization. It further helps in measuring the risks involved in investing.
21. **Appendix:** The appendix can provide information about the Curriculum Vitae of the owners, Ownership Agreement and the like.