

Business Plan Preparation for New Ventures

The Importance of Planning

- Planning is essential to the success of any undertaking. Critical factors that must be addressed when planning are:
 - **Realistic goals.** These must be specific, measurable, and set within time parameters.
 - **Commitment.** The venture must be supported by all involved—family, partners, employees, team members.
 - **Milestones.** Subgoals must be set for continual and timely evaluation of progress.
 - **Flexibility.** Obstacles must be anticipated, and alternative strategies must be formulated.

Pitfalls to Avoid in Planning

- Pitfall 1: No Realistic Goals
- Pitfall 2: Failure to Anticipate Roadblocks
- Pitfall 3: No Commitment or Dedication
- Pitfall 4: Lack of Demonstrated Experience
(Business or Technical)
- Pitfall 5: No Market Niche (Segment)

What is a Business Plan?

- A written document that details the proposed venture:
 - Describes the current status, expected needs, and projected results of the new business.
 - Covers the project, marketing, research and development, manufacturing, management, critical risks, financing, and milestones or a timetable.
 - Demonstrates a clear picture of what that venture is, where it is projected to go, and how the entrepreneur proposes it will get there—a roadmap for a successful enterprise.

Benefits of a Business Plan

- For the Entrepreneur:

- The time, effort, research, and discipline required to create a formal business plan forces the entrepreneur to view operating strategies and expected results critically and objectively.

- For Outside Evaluators:

- The business plan provides a tool for use in communications with outside financial sources.

Benefits of the Business Plan (cont'd)

- Specifically for the Financial Sources:
 - Details the market potential and plans for securing a share of that market.
 - Shows how the venture's intends to service debt or provide an adequate return on equity.
 - Identifies critical risks and crucial events with a discussion of contingency plans.
 - Contains the necessary information for a thorough business and financial evaluation.

Developing a Well-Conceived Business Plan

- The Five-Minute Reading

1. Determine the characteristics of the venture and its industry.
2. Determine the financial structure of the plan (amount of debt or equity investment required).
3. Read the latest balance sheet (to determine liquidity, net worth, and debt/equity).
4. Determine the quality of entrepreneurs in the venture (sometimes the most important step).
5. Establish the unique feature in this venture (find out what is different).
6. Read the entire plan over lightly (this is when the entire package is paged through for a casual look at graphs, charts, exhibits, and other plan components).

Putting the Package Together

- Appearance
- Length
- The cover and title page
- The executive summary
- The table of contents



Guidelines to Remember

- Keep the plan respectably short
- Organize and package the plan appropriately
- Orient the plan toward the future
- Avoid exaggeration
- Highlight critical risks
- Give evidence of an effective entrepreneurial team
- Do not over-diversify
- Identify the target market
- Keep the plan written in the third person
- Capture the reader's interest

Questions to Be Answered

- Is your plan organized so key facts leap out at the reader?
- Is your product/service and business mission clear and simple?
- Are you focused on the right things?
- Who is your customer?
- Why will customers buy? How much better is your product/service?
- Do you have a competitive advantage?
- Do you have a favorable cost structure?
- Can the management team build a business?
- How much money do you need?
- How does your investor get a cash return?

Table

12.1

Common Business Plan Phrases: Statement versus Reality

Statement	Reality
We conservatively project . . .	We read a book that said we had to be a \$50 million company in five years, and we reverse-engineered the numbers.
We took our best guess and divided by 2.	We accidentally divided by 0.5.
We project a 10 percent margin.	We did not modify any of the assumptions in the business plan template that we downloaded from the Internet.
The project is 98 percent complete.	To complete the remaining 2 percent will take as long as it took to create the initial 98 percent but will cost twice as much.
Our business model is proven if you take the evidence from the past week for the best of our 50 locations and extrapolate it for all the others.
We have a six-month lead.	We tried not to find out how many other people have a six-month lead.
We need only a 10 percent market share.	So do the other 50 entrants getting funded.
Customers are clamoring for our product.	We have not yet asked them to pay for it. Also, all of our current customers are relatives.
We are the low-cost producer.	We have not produced anything yet, but we are confident that we will be able to.
We have no competition.	Only IBM, Microsoft, Netscape, and Sun have announced plans to enter the business.
Our management team has a great deal of experience consuming the product or service.
A select group of investors is considering the plan.	We mailed a copy of the plan to everyone in <i>Pratt's Guide</i> .
We seek a value-added investor.	We are looking for a passive, dumb-as-rocks investor.
If you invest on our terms, you will earn a 68 percent internal rate of return.	If everything that could ever conceivably go right does go right, you might get your money back.

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Elements of a Business Plan

- Section I: Executive Summary
- Section II: Business Description
 - A. General description of business
 - B. Industry background
 - C. Goals and potential of the business and milestones (if any)
 - D. Uniqueness of product or service
- Section III: Marketing
 - A. Research and analysis
 - 1. Target market (customers) identified
 - 2. Market size and trends
 - 3. Competition
 - 4. Estimated market share

Source: Donald F. Kuratko and Robert C. McDonald, *The Entrepreneurial Planning Guide* (Bloomington: Kelley School of Business, Indiana University, 2007).

Elements of a Business Plan (cont'd)

- Section III: Marketing (cont'd)

- B. Marketing plan

- 1. Market strategy—sales and distribution
 - 2. Pricing policy
 - 3. Advertising and promotions plans

- Section IV: Operations

- A. Identify location

- 1. Advantages
 - 2. Zoning
 - 3. Taxes

- B. Proximity to suppliers

- C. Access to transportation

Source: Donald F. Kuratko and Robert C. McDonald, *The Entrepreneurial Planning Guide* (Bloomington: Kelley School of Business, Indiana University, 2007).

Elements of a Business Plan (cont'd)

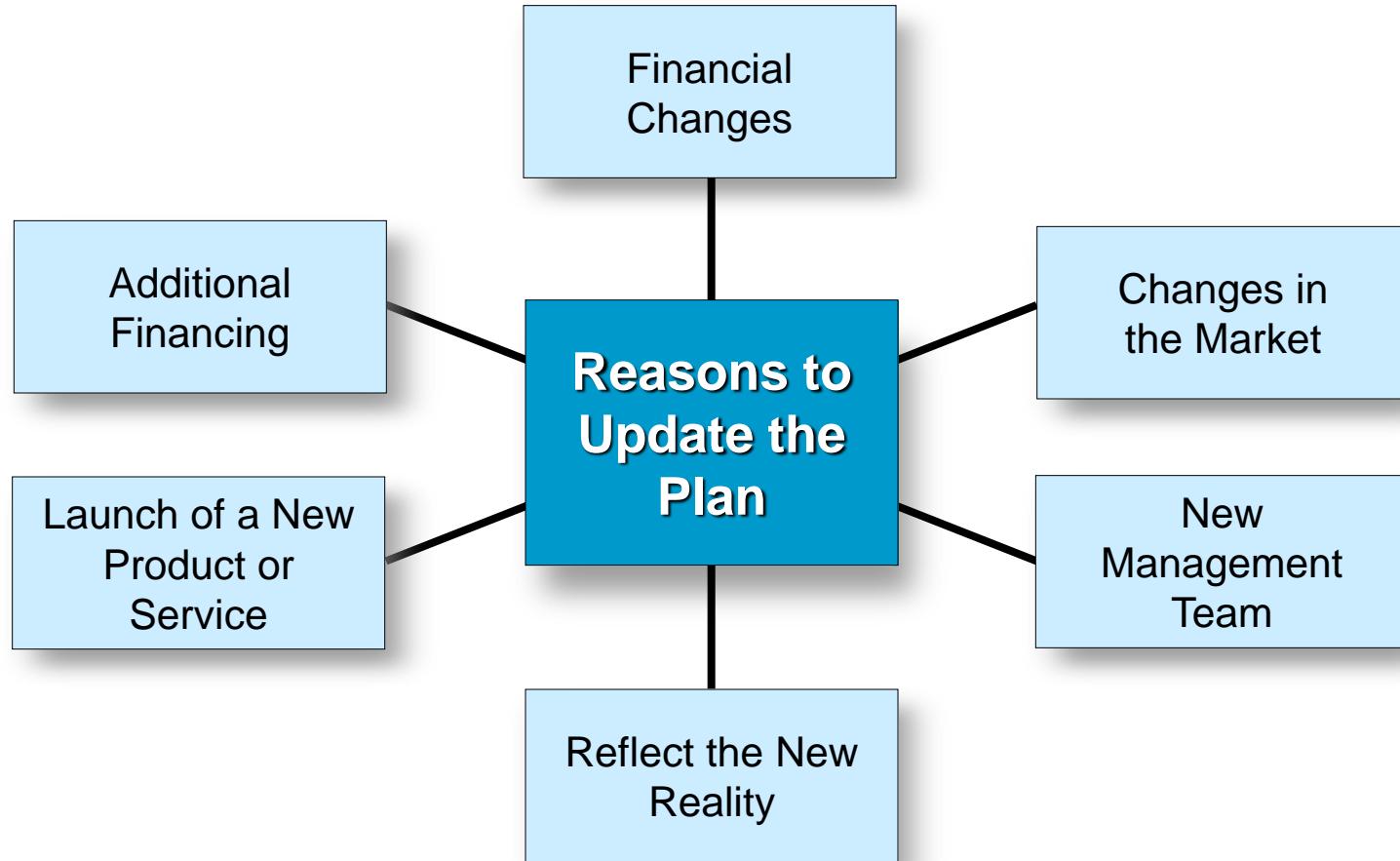
- Section V: Management
 - A. Management team—key personnel
 - B. Legal structure—stock and employment agreements, and ownership
 - C. Board of directors, advisors, and consultants
- Section VI: Financial
 - A. Financial forecast (pro forma financial statements)
 - 1. Profit and loss
 - 2. Cash flow
 - 3. Break-even analysis
 - 4. Cost controls
 - 5. Budgeting plans

Source: Donald F. Kuratko and Robert C. McDonald, *The Entrepreneurial Planning Guide* (Bloomington: Kelley School of Business, Indiana University, 2007).

Elements of a Business Plan (cont'd)

- Section VII: Critical Risks
 - A. Potential problems
 - B. Obstacles and risks
 - C. Alternative courses of action
- Section VIII: Harvest Strategy
 - A. Transfer of asset
 - B. Continuity of business strategy
 - C. Identity of successor
- Section IX: Milestone Schedule
 - A. Timing and objectives
 - B. Deadlines and milestones
 - C. Relationship of events
- Section X: Appendix or Bibliography

Updating the Business Plan



Presentation of the Business Plan: The Pitch

- Know the outline thoroughly.
- Use key words that help recall examples, visual aids, or other details.
- Rehearse the presentation to get the feel of its length.
- Be familiar with any equipment to be used in the presentation—use your own laptop.
- The day before, practice the complete presentation using all visual aids and equipment.



Suggestions for Presentation

- Focus on the **pain** for which your venture will be the solution.
- Demonstrate the **reachable market**.
- Explain the **business model**.
- Tout the **management team**.
- Explain your **metrics**.
- Motivate the **audience**.
- Why *you* and why *now*?

Key Terms and Concepts

- business model
- business plan
- elevator pitch
- five-minute reading
- management team
- market niche
- marketing segment
- marketing strategy
- metrics
- milestone schedule
- segment
- pain
- reachable market