

Chapter 12

Business Plan Preparation for New Ventures

“If you don’t have a business plan it’s like you are going to an unknown destination without a map.”

~ Jennifer Lee, author of the Right Brain Business Plan



The most effective businesses emerge from a process that includes

1. Recognizing a business idea (convert into opportunity)
2. Testing the feasibility of the idea
3. Writing a business plan (**We are here**)
4. Launching the business

What is a business plan ?

- A written document.
- Typically of 25 to 35 pages.
- Describes what a new business intends to achieve
- How it intends to accomplish the goal.

3. what to achieve

4. how to achieve

Common Errors Committed by Entrepreneurs While Making a Business plan

1. No realistic goals.
2. Failure to anticipate roadblocks.
3. No commitment or dedication.
4. Lack of demonstrated experience.
5. No market niche.

What is a Niche Market?

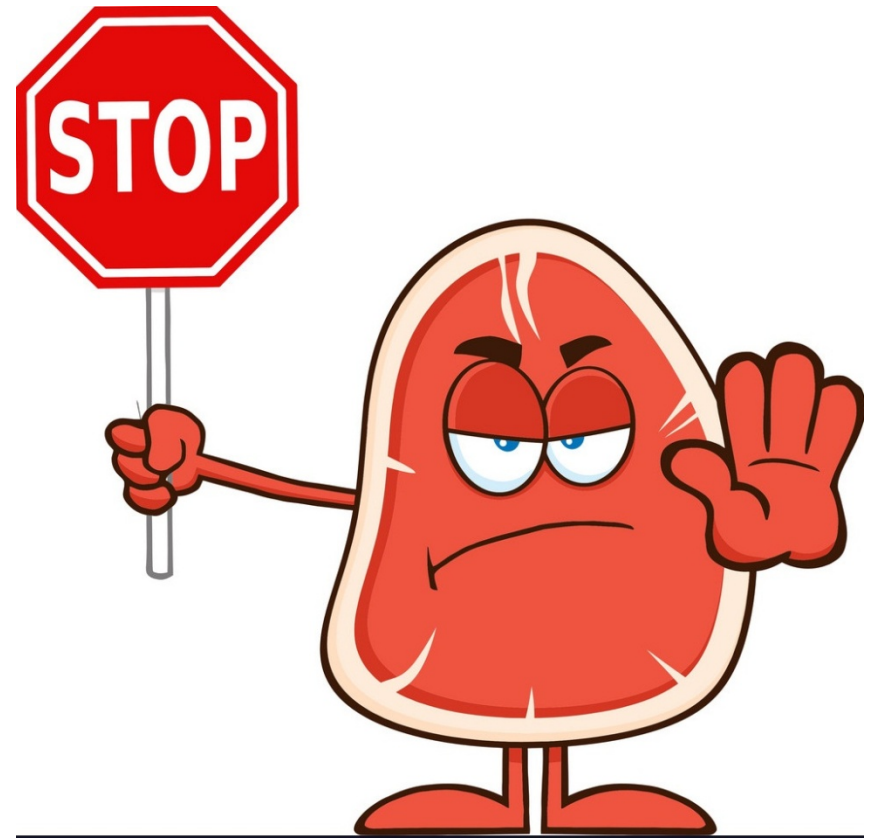
A niche market is a small part of a larger market that has its own specific needs, which are different from the larger market in some way

General Vs Niche Marketing

	General Marketing	Niche Marketing
Market Segment	Covers wide market segment including variety of products & services	Focuses on niche area of any market segment with selective product & services
Competition	Faces more competition	Faces less competition
Product life cycle	General market products are less effective at the initial stage of PLC	Niche market products are more effective at the initial stage of PLC
Customer Retention	Less chances of customer retention	More chances of customer retention

Wait! Don't write a business plan.

- Don't write business plan too early.
- **Must have sufficient details**



What is the purpose of business plan ?

benefits

- The business plan must be substantive enough and have sufficient details about the merits of the new venture to convince the reader for his support.
- Business plan forces the management to think through every aspect of its business and agree on its most important priorities and goals.
- One academic study : potential entrepreneurs who completed a business plan were 6 times more likely to start a business than

Discuss 2 primary reasons for writing a business plan ?

benefits

- For new ventures
- **Reason 1 (Internal Reason)**
 - the firm (it helps to develop a road map to follow to execute its strategies / plans)
 - Forces the founding team to systematically think through every aspect of their new venture
- **Reason 2 (External Reason)**
 - Outside the firm (for potential investors & other stakeholders)
 - Communicates the merits of a new venture to outsiders, such as investors and bankers.
 - Also called **“Selling Document of the Company”**

Is it possible for the entrepreneur to generate capital through outsiders if there is no business plan ?

If well defined business plan
then you are like him

- If the plan is incomplete or looks sloppy, it is easy for an investor to infer that the venture itself is incomplete and sloppy.



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Benefits/Reasons for Writing a Business Plan

- Initial planning document for a new business.
- Serves as a tool to communicate the idea of the new venture to potential investors, bankers, key employees.
- Serves as a record to monitor and compare results.
- To obtain bank financing.
- To obtain investment funds.
- To establish strategic alliances.
- To obtain initial contracts.
- To attract key employees.
- To motivate and focus your management team

Who reads a business plan and what they are looking for ?

benefits

- There are **2 primary audience** :
- A Firm's Employees
 - Vision and future plans of a firm.
 - A clearly written plan **also helps a firm's employees** (different cadre) to operate in sync and move forward in a consistent and purposeful manner.
 - **Newly hired senior management by reading business plan** gets confirmation about the overall company plans and direction of the company.
- Investors and other External Stakeholders
 - **First show business idea and then feasibility analysis.**
 - **Second show the business plan.**
 - Sophisticated investors, potential business partners and recruits will base their assessment of the **future proposal prospects of a business on factor not on guesswork.**
 - Also *disclose all resource limitations the business must meet before it is ready to start earning revenues.*
 - Require capital to buy equipment or hire highly talented work force.

Questions to be answered by your business plan

1. Is your plan organized (appearance do count).
2. Is your product / services and business mission clear and simple?
3. Are you focused on the right thing?
4. Who is your customer?
5. Why will customers buy?
6. Do you have a competitive advantage?
7. Do you have a favorable cost structure?
8. Can the management team build a business?
9. How much money do you need?
10. How does your investor get a cash return?

Outline of the Business Plan



First "Cover Page" then "Table of Contents"

- **Executive Summary** (if executive summary is convincing only then ask for full business plan)
 - Short overview of the entire business plan
- **Company Description**
 - Company history
 - Mission statement
 - Products and services
 - Current status
 - Legal status and ownership
 - Key key partnerships (if any)
- **Industry Analysis**
 - Industry size, growth rate, and sales projections
 - Industry structure
 - Nature of participants
 - Key success factors
 - Industry trends
 - Long term prospects
- **Market Analysis**
 - Market segmentation and target market selection
 - Buyer behavior
 - Competitor analysis
- **Marketing Plan**
- **Management Team and Company Structure**
 - Management team
 - Board of Directors
 - Board of Advisers
 - Company Structure
- **Operations Plan**
 - General approach to operations
 - Business location
 - Facilities and equipment
- **Product (or Service) Design and Development Plan**
 - Development status and tasks
 - Challenges and risks
 - Intellectual property
- **Financial Projections**
 - Sources and uses of funds statements
 - Assumptions sheet
 - Pro Forma Income statements
 - Pro Forma Balance Sheets

What to write in company Description Section ?

1. Company history

1. From where the idea for the company came.
2. Driving force behind its inception.
3. If it is a **startup** then must mention.

2. Mission statement

1. Why a company exists
2. What it aspires (dream) to become
3. Defines the path (financial / moral)

3. Products and services

1. How your products / services are unique
2. How to position (relative to its competitors) this in the market

4. Current status (explain through milestones)

1. Development stage (where your company is at this time)
2. Important milestones
 1. Registered your company's name
 2. Completed a feasibility analysis
 3. Written a business plan
 4. Established a legal entity



5. Legal status and ownership

1. Current form of business ownership (partnership / private limited)

6. Key partnerships (if any)

1. Partnership with other companies to make your company work in competitive world.

Type of Partnership that are common **in Business Plan**

- **Smaller companies partnering with larger companies**
 - to bring their products to market.
 - to produce, fulfill, and / or ship their products.
 - Outsourcing Human Resources Management


Industry Analysis

(before a business selects its target market, it should have a good grasp in its industry)

1. Industry size, growth rate, and sales projections

1. Promising areas of this industry
2. Points of vulnerability

2. Industry structure

1. How concentrated / fragmented 
2. Fragmented industries are more receptive to new entrants than industries that are dominated by a handful of a large firms.

3. Nature of participants (companies)

1. Are the industry participants innovative or conservative

4. Key success factors

1. 6-10 key factors (must be competent to compete)
2. Then differentiation.

5. Industry trends

1. Economic trends / social trends / technological trends / political & regulatory changes

6. Long term prospects

1. What are the trends
2. What you belief (as an entrepreneur)

Market Analysis

1. Market segmentation and target market selection

1. Dividing the market into distinct segments

1. Geographic (city / country)
2. Demographic (age / gender / income)
3. Psychographic (personality / lifestyle / values)

2. Buyer behavior

3. Competitor analysis

Marketing Plan

- Overall marketing strategy
 - How **it** differentiates
 - Guidance for how the company should reach its target markets via (4PCs)
- Product, price, promotions, and distribution (sync with differentiation)



Management Team and Company Structure

(investors first executive summary and then go directly to this section)

- Management team
 - Brief profile of each member
 - Position (title)
 - Duties / responsibilities
 - Previous industry / related experience
 - Previous successes
 - Educational background
- Board of Directors (Legal responsibilities)
- Board of Advisers (No legal responsibilities)
- Company Structure
 - Organizational chart (graphical representation of authority / responsibility)

Operations Plan (3-4 pages)

(how the business will be run)
(what could be break / make issues)

- General approach to operations
- Business location
- Facilities and equipment

Operations Plan (3-4 pages)

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Back Stage (Behind the Scenes Activities)

- Staff selection
- Operations manual
- Relationship with suppliers
- Relationships with govt.
- Development of marketing materials
- Employee orientation and training
- Emergency plans

Front Stage (What the Members See)

- Member tours
- Operating hours
- Staff assistance
- Fitness classes and programs
- Fitness machines
- Workshops
- Monthly newsletter



Product (or Service) Design and Development Plan

- Development status and tasks
 - If developing new products / services then must mention
 - What are your development efforts
 - Details of logical path of that new product development
 - timelines
- Challenges and risks
- Intellectual property

Financial Projections

- Sources and uses of funds statements
 - How much money a firm needs
 - Where the money will come from
 - What the money will be used for
- Assumptions sheet
 - Pakistan population is going to be increased by 3% annually
 - Sales projections are based on this population growth
- Pro Forma Income statements (future not past – 3 to 5 years)
- Pro Forma Balance Sheets (future not past – 3 to five years)
- Pro Forma Cash Flows (future not past – 3 to five years)
- Ratio Analysis
 - Return on assets
 - Return on sales

The 10 most important questions a business plan should answer

1. Is the business just an idea / opportunity with real potential.
2. Is the product / service viable (add significant value to customer) (feasibility analysis completed ?) (Results ?)
3. Business entering into exciting / growing industry (has the firm found any attractive position)
4. Business has well defined target market ?
5. Does the business has points of differentiation ?
6. Does the business has sound marketing plan ?
7. Is the management team experience / skilled to launch a new firm ?
8. Is the business's operations' plan appropriate and sound ?
9. Assumptions (financial on realistic grounds) ?
10. Financial projections completed correctly (is bright future of the firm) ?

Elements of a business plan (section 1-4)

Section 1: Executive Summary

Section 2: Business Description

- a) General description of the business.
- b) Industry background
- c) Goals and potential of the business and milestones (if any)
- d) Uniqueness of product or service.

Section 3: Marketing

E. Research and Analysis

- a) Target market (customers identified)
- b) Market size and trends
- c) Competition.
- d) Estimated market size.

F. Marketing Plan

- a) Market strategy – sales and distribution.
- b) Pricing.
- c) Advertising and promotions.

Section 4: Operations

- g) Identify location : advantages
- h) Specific operational procedures
- i) Personnel needs and uses
- j) Proximity to suppliers.

Elements of a business plan (section 5-8)

Section 5: Management

- a) Management team – key personnel.
- b) Legal structure – stock agreement, employment agreement, ownership.
- c) Board of Directors, advisors, consultants.

Section 6: Financial

- d) **Financial forecast.**
 - i. Profit and loss.
 - ii. Cash flow.
 - iii. Break even analysis.
 - iv. Cost controls.
 - v. Budgeting plans.

Section 7: Critical Risks

- e) Potential problems.
- f) Obstacles and risks.
- g) Alternative courses of action.

Section 8: Harvest Strategy

- h) Liquidity event (IPO or sale)
- i) Continuity of business strategy.
- j) Identify successor.

Elements of a business plan **(section 9)**

Section 9: Milestone Schedule

- a) Timing and objectives.
- b) Deadlines and milestones.
- c) Relationship of events.

Executive Summary

- Brief overview of plan
- Highlight key elements
- Less than 2 pages
- Tailor to reader
- Key financial details
- Make a request



Tip

Do this part
last!

BUSINESS PLAN EXECUTIVE SUMMARY

Enter your sub headline here



Target Market

This is a sample text that you can edit. You can change font.



The Competition

This is a sample text that you can edit. You can change font.



Company Team

This is a sample text that you can edit. You can change font.



Mission

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Milestones

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Company Vision

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BUSINESS PLAN EXECUTIVE SUMMARY



Financial Summary

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last

Critical risk segments

- a) Effects of unfavorable trends.
- b) Design or manufacturing costs that have gone over estimate.
- c) Difficulties long lead times while purchasing parts of materials.
- d) Unplanned for new competition.
- e) Delays.
- f) Inaccurate projections.
- g) Industry slumps.



Harvesting Strategy



- ✦ When future growth appears doubtful, market looks saturated, and the horizon seems bleak, margins have become very thin: firms decide to harvest their business
- ✦ They limit further investments in the business and try to hold on to whatever market share there is for as long as they can
- ✦ From the **BCG Matrix**, the business is likely to turn into a “**DOG**” from Star to Cash-Cow.

BCG MATRIX OF COCA COLA

Market Growth Rate
Cash Usage

High

Cash Generator

High



Star



Low



Question Mark



Low



Cash cow



Dog

Relative Market Share

Milestone Schedule Segment

1. Incorporation of the venture.
2. Completion of design and development.
3. Completion of prototypes.
4. Hiring of sales representatives.
5. Product display at trade shows.
6. Signing up distributors and dealers.
7. Ordering production quantities of materials.
8. Receipts of first orders.

Common business planning mistakes while making a business plan

1. Overall mistakes

- a) Entrepreneurs are unable to clearly articulate their vision in the plan.
- b) They are failed to provide sufficient details regarding the implementations of their strategy.
- c) They ineffectively present the goals and objectives which are most important to the business and success.
- d) They do not convincingly present the basis for their strategy.
- e) They do not improve their plan based on the feedback from investors.

2. Executive summary.

- 1. They do not precise about their needs and capabilities.
- 2. They waste words with fillers and superfluous information.

3. Management.

- a) They forget to include their previous successes and or failures.
- b) They dismiss the importance investors place on an experienced management team.

4. Marketing.

- a) They rely heavily on secondary market research rather than soliciting the opinions of their potential customers.
- b) They claim the percent of the market their company will own without research support.

5. Financials.

- a) They overlook and in turn underestimate their cash flow requirement.
- b) They inflate or underestimate their margins in order to arrive at their ideal profitability.


I. Executive Summary

- No more than three pages. This is the most crucial part of your plan because you must capture the reader's interest.
- What, how, why, where, and so on must be summarized.
- Complete this part after you have a finished business plan.

II. Business Description Segment

- The name of your business.
- A background of the industry with history of your company (if any) should be covered here.
- The potential of the new venture should be described clearly.
- Any uniqueness or distinctive features of this venture should be described clearly.

III. Marketing Segment

- Convince investors that sales projections and competition can be met.
- Use and disclose market studies.
- Identify target market, market position, and market share.
- Evaluate all competition and specifically cover why and how you will be better than your competitors. 
- Identify all market sources and assistance used for this segment.
- Demonstrate pricing strategy. Your price must penetrate and maintain a market share to produce profits; thus, the lowest price is not necessarily the best price.
- Identify your advertising plans with cost estimates to validate proposed strategy.

IV. Operations Segment

- Describe the advantages of your location (zoning, tax laws, wage rates). List the production needs in terms of facilities (plant, storage, office space) and equipment (machinery, furnishings, supplies).
- Describe the specific operations of the venture.
- Indicate proximity to your suppliers.
- Mention the need and use of personnel in the operation.
- Provide estimates of operation costs—but be careful: Entrepreneurs underestimate their costs.

V. Management Segment

- Supply résumés of all key people in the management of your venture.
- Carefully describe the legal structure of your venture (sole proprietorship, partnership, or corporation).
- Cover the added assistance (if any) of advisors, consultants, and directors.
- Give information on how and how much everyone is to be compensated.



VI. Financial Segment

- Give actual estimated statements.
- Describe the needed sources for your funds and the uses you intend for the money.
- Develop and present a budget.
- Create stages of financing for purposes of allowing evaluation by investors at various points.

VII. Critical-Risks Segment

- Discuss potential risks before investors point them out—for example:
- Price cutting by competitors
- Any potentially unfavorable industry-wide trends
- Design or manufacturing costs in excess of estimates
- Sales projections not achieved
- Product development schedule not met
- Difficulties or long lead times encountered in the procurement of parts or raw materials
- Greater than expected innovation and development costs to stay competitive
- Provide some alternative courses of action.

VIII. Harvest Strategy Segment

- Outline a plan for a liquidity event—IPO or sale.
- Describe the plan for transition of leadership.
- Mention the preparations (insurance, trusts, and so on) needed for continuity of the business.

IX. Milestone Schedule Segment

- Develop a timetable or chart to demonstrate when each phase of the venture is to be completed. This shows the relationship of events and provides a deadline for accomplishment.

X. Appendix or Bibliography

Guide Lines for writing a business plan

(it is important to be sensitive to the structure, content and style of a business plan before sending it to an investor or anyone else who may involved with the new firm)

- Structure of the business plan
 - Departing from the basic structure (outline) of the conventional business plan format is usually a mistake.
 - Investors are very busy people and want a plan where they can easily find critical information.
- Content of the business plan
 - Clear and concise information on all important aspects.
 - 25 to 35 pages.
 - Business plan is ready then make sure that no critical information has been omitted.
 - Don't miss information like
 - Significant industry trends
 - How much money the company needed
 - What the money was going to be used for
 - Contact information of the entrepreneur.
- Style or format of the business plan
 - How long and detailed it should be ?
 - Depends on the type of the business plan.
- Recognizing the Elements of the plan may change
 - New insights emerge when start getting feedback from others (so you may make changes in the business plan)
 - This process continues throughout the life of a company



Types of Business Plan

(different rule of thumb regarding the length and level of detail)

- Summary Business Plan

- 10 to 15 pages
- New ventures in the early stages of development
- Want to test the waters
- To see if the investors are interested in their idea



- Full Business Plan (focus of this chapter)

- 25 to 35 pages
- Spells out the company's operations and plans in much more detail than summary business plan
- Works best for new ventures that are at the point where they need funding (serves as blueprint for the company operation)

- Operational Business Plan

- 40 to 100 pages
- Meant for the internal audience
- Works best as a tool for creating a blueprint (providing guidance to ta operational managers)



What is a red flag ?

“red flags are raised when certain aspects of a business plan are insufficient or miss the mark”

- A **red flag** is a warning or an indicator of a potential problem or threat, such as any undesirable characteristic that stands out to an analyst as it pertains to a company's stock, financial statements, or news reports.



Red Flags in Business Plans

1. Founders with non of their own money at risk



2. A poorly cited plan

1. A plan should be built on hard evidence / sound research
2. No guesswork / what the entrepreneur thinks will happen
3. The sources for all primary / secondary research should be cited

3. Defining the market size too broadly

1. True market size is not well defined.
2. Market opportunity needs to be better defined
3. The new venture will target a segment / specific market within the industry.

4. Overly aggressive financials

1. Unrealistically optimistic lose credibility.
2. Well reasoned statements backed by sound research and judgment gain credibility quickly.

5. Sloppiness in any area

1. Balance sheets that are not balanced.

Updating the business plan

1. Financial changes.
2. Additional changes.
3. Changes in the markets.
4. Launch of a new product or service.
5. New management team.

What to do when a venture capitalist turns you down

(Ten Questions)

1. Confirms the decision.
2. Sell for the future.
3. Find out why you were rejected.
4. Ask for advice.
5. Ask for suggestions.
6. Get the name.
7. Find out why.
8. Work on an introduction.
9. Develop a reasonable excuse (can I tell him that your decision to turn us down was based on __")
10. Know your referral (what will you tell him when



