

## WRITING A BUSINESS PLAN

This chapter discusses the importance of writing a business plan. Although some new ventures simply “wing it” and start doing business without the benefit of formal planning, it is hard to find an expert who doesn’t recommend preparing a business plan.

### Business Plan:

A **business plan** is a **written narrative**, typically **25 to 35** pages long, **that describes what a new business intends to accomplish and how it intends to accomplish it.**

It **focuses** on **2 aspects**, **what?** And **how?** What is related to the goals of business. How is related more to the plans to achieve those goals.

### Who Reads the Business Plan – And What Are They Looking For?

- ✓ **1. A Firm’s Employees:** A clearly written business plan, which articulates **the vision** and **future plans of a firm**, is important for both the **management** team and the **employees**. It helps them understand overall goal of the organization and how their particular job is contributing in achieving that goal. It gives a perceived purpose to their job.
- ✓ **2. Investors and Other External Stakeholders:** **External stakeholders** who are being recruited to join a firm such as **investors, potential business partners**, and key **employees** are the **second audience for a business plan.**

Overly optimistic statements or projections undermine a business plan’s credibility, so it is foolish to include them. At the same time, **the plan must clearly demonstrate that the business idea is viable and offers potential investors financial returns greater than lower-risk investment alternatives.** The same is true for potential business partners, customers, and key recruits.

**As investor**, the thing to look for is that **if none of the money of founder** is invested in the business, it should be considered as a **red flag**. **If the founders aren’t willing to put their own money at risk, why should anyone else?**

### SECTIONS OF A BUSINESS PLAN

Following are the sections of a detailed business plan. Details of each are discussed on the next pages.

- |                                     |                               |
|-------------------------------------|-------------------------------|
| ✓ 1. Cover Page & Table of Contents | 8. Product Design & Dev. Plan |
| ✓ 2. Executive Summary              | 9. Operations Plan            |
| ✓ 3. Industry Analysis              | 10. Organizational Structure  |
| 4. Company Description              | 11. Overall Schedule          |
| 5. Market Analysis                  | 12. Financial Projections     |
| 6. The Economics of the Business    | 13. Appendix                  |
| 7. Marketing Plan                   |                               |

## 1. Cover Page & Table of Contents

The cover page should include the company's name, address, phone number, the date, the contact information for the lead entrepreneur, and the company's Web site address if it has one. The company's Facebook page and Twitter name can also be included.

Because the cover letter and the business plan could get separated, it is wise to include contact information in both places.

Table of contents on the other hand, will include all of the above 13 points. An example is given below.

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### Cover Page

#### Table of Contents

|   |   |
|---|---|
| I. Executive Summary                              | Product, Price, Promotions, and Distribution                                |
| II. Industry Analysis                             | Sales Process (or Cycle)  |
| Industry Size, Growth Rate, and Sales Projections | Sales Tactics   |
| Industry Structure                                | VII. Design and Development Plan  |
| Nature of Participants                            | Development Status and Tasks  |
| Key Success Factors                               | Challenges and Risks  |
| Industry Trends                                   | Projected Development Costs   |
| Long-Term Prospects                               | Proprietary Issues (Patents, Trademarks, Copyrights, Licenses, Brand Names) |
| III. Company Description                          | VIII. Operations Plan   |
| Company History                                   | General Approach to Operations  |
| Mission Statement                                 | Business Location   |
| Products and Services                             | Facilities and Equipment  |
| Current Status                                    | IX. Management Team and Company   |
| Legal Status and Ownership                        | Structure   |
| Key Partnerships (if any)                         | Management Team (Including a Skills Profile)                                |
| IV. Market Analysis                               | Board of Directors  |
| Market Segmentation and Target Market Selection   | Board of Advisers   |
| Buyer Behavior                                    | Company Structure   |
| Competitor Analysis                               | X. Overall Schedule   |
| Estimates of Annual Sales and Market Share        | XI. Financial Projections   |
| V. The Economics of the Business                  | Sources and Uses of Funds Statement   |
| Revenue Drivers and Profit Margins                | Assumptions Sheet   |
| Fixed and Variable Costs                          | Pro Forma Income Statements   |
| Operating Leverage, and Its Implications          | Pro Forma Balance Sheets  |
| Start-up Costs                                    | Pro Forma Cash Flows  |
| Break-Even Chart and Calculation                  | Ratio Analysis  |
| VI. Marketing Plan                                | Appendices  |
| Overall Marketing Strategy                        |   |

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## 2. Executive Summary:

The executive summary is a short overview of the entire business plan; it provides a busy reader with everything he/she needs to know about the new venture's distinctive nature.

in many instances an investor will first ask for a copy of a firm's executive summary and will request a copy of the full business plan only if the executive summary is sufficiently convincing.

This is why the executive summary, then, is arguably the most important section of the business plan. It is not an introduction or preface to the business plan. Instead, **it is meant to be a summary of the plan itself.**

### 3. Industry Analysis:

The main body of the business plan begins by **describing the industry** the business will enter in terms of **its size, growth rate, and sales projections.** It is important to focus strictly on the business's industry and not its industry and target market simultaneously.

Industry structure refers to how **concentrated or fragmented** an industry is. Fragmented industries are more receptive to new entrants than industries that are dominated by a handful of large firms.

Industry trends should be discussed, which include both environmental and business trends. **The most important environmental trends are economic trends, social trends, technological advances, and political and regulatory changes.**

### 4. Company Description

**This section begins with a general description of the company.** The company history section should be brief, but should **explain where the idea for the company came from and the driving force behind its inception.** It also includes **tagline** which is a phrase that a business plans to use to reinforce its position in the marketplace.

- ✓ Moreover, business's vision, mission and milestones are also made part of this section. (all three were explained in lecture)

### 5. Market Analysis

The market analysis is distinctly different than the industry analysis. Whereas the **industry analysis focuses on the industry that a firm will participate in** (textile, petroleum etc) **market analysis focuses on customer's side.** Such as **market segmentation and targeting.**

A **competitor analysis** is also undertaken, which is a detailed analysis of a firm's competitors. The final section of the market analysis estimates a firm's annual sales and market share.

### 6. The Economics of the Business

- ✓ This section begins the financial analysis of a business, and end in the form of financial projections.

It addresses the **basic logic of how profits are earned in the business** and how many **units of a business's product or service must be sold for the business to "break even"** and then start earning a profit.

In order to state projected profit, an idea about **cost of goods sold** and **profit margins** is also needed.

## 7. Marketing Plan

While market analysis in section 5 is about overall market including competitors as well, this section focuses on business's own plan for marketing. The marketing plan focuses on how the business will market and sell its product or service. It deals with the nuts and bolts of marketing in terms of price, promotion, distribution, and sales.

The best way to describe a company's marketing plan is to start by articulating its marketing strategy, positioning, and points of differentiation, and then talk about how these overall aspects of the plan will be supported by price, promotional mix and sales process, and distribution strategy.

## ✓ 8. Product (or Service) Design and Development Plan

If you're developing a completely new product or service, you need to include a section in your business plan that focuses on the status of your development efforts.

Most products follow a logical path of development using following steps;

- i. Product Conception ✓
- ii. Prototyping ✓
- iii. Initial Production ✓
- iv. Full Production ✓

**Conception** is the stage which includes thinking of an idea, turning it into an opportunity, conducting a feasibility analysis and making a final decision about starting a business.

A **product prototype** is the first physical manifestation of a new product, often in a crude or preliminary form.

A **service prototype** is a representation of what the service will be like and how it will be experienced by the customer.

## 9. Operations Plan

The operations plan section of the business plan outlines how your business will be run and how your product or service will be produced.

Your readers will want an overall sense of how the business will be run, but they generally will not be looking for detailed explanations. As a result, it is best to keep this section short and crisp.

## 10. Management Team and Company Structure

Many investors and others who read business plans look first at the executive summary and then go directly to the management team section to assess the strength of the people starting the firm.

The management team of a new firm typically consists of the founder and a handful of key management personnel. A brief profile of each member of the management team should be provided, starting with the founder of the firm. Each profile should include the following information:

- ✓ • Title of the position
- ✓ • Duties and responsibilities of the position
- ✓ • Previous industry and related experience
- ✓ • Previous successes
- ✓ • Educational background

Moreover, organizational chart (or structure) can also be made a part of this section. The triangle diagram.

### 11. Overall Schedule:

A schedule should be prepared that shows the major events required to launch the business. The schedule should be in the format of milestones critical to the business's success, such as incorporating the venture, completion of prototypes, rental of facilities, obtaining critical financing, starting the production of operations, obtaining the first sale, and so forth. An effectively prepared and presented schedule can be extremely valuable in convincing potential investors that the management team is aware of what needs to take place to launch the venture and has a plan in place to get there.

### 12. Financial Projections

Having completed the previous sections of the plan, it's easy to see why the financial projections come last. They take the plans you've developed and express them in financial terms.

At this stage, the focus is more on sources of generating funds and how those funds will be spent. We do not look for the financial statement at this stage.