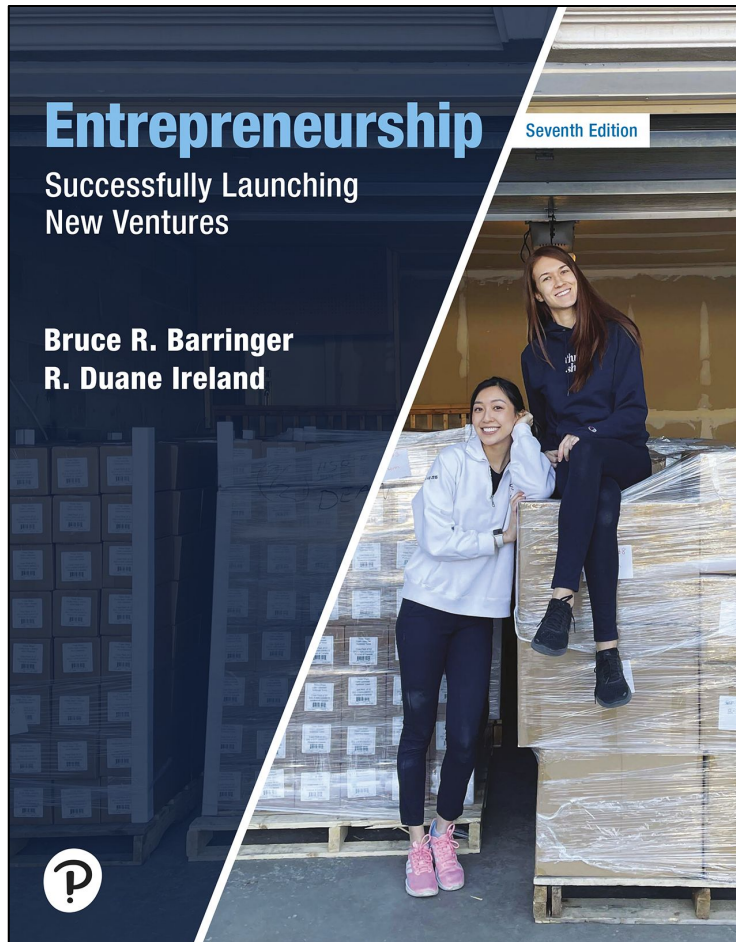


Entrepreneurship: Successfully Launching New Ventures

Seventh Edition



Chapter 6

Writing a Business Plan

Learning Objectives

6.1 Explain the purpose of a business plan.

6.2 Describe who reads a business plan and what they are looking for.

6.3 Discuss the guidelines to follow to write an effective business plan.

6.4 Identify and describe a suggested outline of a business plan.

6.5 Explain how to effectively present a business plan to potential investors.

What Is 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.
- Dual-Use Document
 - For most new ventures, the business plan is a dual-purpose document that is used both inside and outside the firm.

6.1 The Business Plan

- The business plan must be substantive enough and have sufficient details about the merits of the new venture to convince the reader that it is exciting and should receive support.
- The Wells Fargo/Gallup Small Business Index Survey found that businesses that have a business plan have significantly higher expectations for the years ahead than those without.

Figure 6.1 Two Primary Reasons for Writing a Business Plan

Internal Reason

Forces the founding team to systematically think through every aspect of its new venture

External Reason

Communicates the merits of a new venture to outsiders, such as investors and bankers

6.2 Who Reads the Business Plan—and What Are They Looking For?

There are two primary audiences for a firm's business plan

Audience	What They Are Looking for
A Firm's Employees	A clearly written business plan helps the employees of a firm operate in sync and move forward in a consistent and purposeful manner.
Investors and Other External Stakeholders	A firm's business plan must make the case that the firm is a good use of an investor's funds or the attention of others.

6.3 Guidelines for Writing a Business Plan (1 of 5)

- Red Flags in Business Plans
 - Founders with none of their own money at risk
 - A poorly cited plan
 - Defining the market size too broadly
 - Overly aggressive financials
 - Sloppiness in any area

6.3 Guidelines for Writing a Business Plan (2 of 5)

- Structure of the Business Plan
 - To make the best impression, a business plan should follow a conventional structure, such as the outline for the business plan shown in the chapter.
 - Although some entrepreneurs want to demonstrate creativity, departing from the basic structure of the conventional business plan is usually a mistake.
 - Typically, investors are busy people and want a plan where they can easily find critical information.

6.3 Guidelines for Writing a Business Plan (3 of 5)

- Online Platforms
 - There are many online platforms available that employ an interactive, menu-driven approach to assist in the writing of a business plan.
 - Some of these programs are very helpful. However, entrepreneurs should avoid a boilerplate plan that looks as though it came from a “canned” source.
- Sense of Excitement
 - Along with facts and figures, a business plan needs to project a sense of anticipation and excitement about the possibilities that surround a new venture.

6.3 Guidelines for Writing a Business Plan (4 of 5)

- Content of the Business Plan
 - The business plan should give clear and concise information on all the important aspects of the proposed venture.
 - It must be long enough to provide sufficient information yet short enough to maintain reader interest.
 - For most plans, 25 to 35 pages is sufficient.
- Types of Business Plans
 - There are three types of business plans, which are shown on the next slide.

Figure 6.2 Types of Business Plans

Summary Business Plan

10-15 pages
Works best for new ventures in the early stages of development that want to "test the waters" to see if investors are interested in their idea

Full Business Plan

25-35 pages
Works best for new ventures that are at the point where they need funding or financing; serves as a "blueprint" for the company's operations

Operational Business Plan

40-100 pages
Is meant primarily for an internal audience; works best as a tool for creating a blueprint for a new venture's operations and providing guidance to operational managers

6.3 Guidelines for Writing a Business Plan (5 of 5)

- Recognizing the Elements of the Plan May Change
 - It's important to recognize that the plan will usually change while written.
 - New insights invariably emerge when an entrepreneur or a team of entrepreneurs immerse themselves in writing the plan and start getting feedback from others.

6.4 Outline of the Business Plan

- A suggested outline of a business plan is shown on the next several slides.
- Most business plans do not include all the elements introduced in the sample plan; we include them here for the purpose of completeness.
- Each entrepreneur must decide which elements to include in his or her plan.

Section 1: Executive Summary (1 of 2)

- Executive Summary
 - The executive summary is a short overview of the entire business plan.
 - It provides a busy reader with everything that needs to be known about the new venture's distinctive nature.
 - An executive summary shouldn't exceed two single-spaced pages.
 - Even though the executive summary appears at the beginning of the business plan, it should be written last.
 - The plan itself will evolve as it's written, so not everything is known at the outset.

Section 1: Executive Summary (2 of 2)

Key Insights

- In many instances an investor will first ask for a copy of the firm's PowerPoint deck or executive summary and will request a copy of the full business plan only if the PowerPoint deck or executive summary is sufficiently convincing.
- The executive summary, then, is arguably the most important section of a business plan.

Section 2: Industry Analysis (1 of 2)

- Industry Analysis
 - This section should begin by describing the industry the business will enter in terms of its size, growth rate, and sales projections.
 - Items to include in this section:
 - Industry size, growth rate, and sales projections.
 - Industry structure.
 - Nature of participants.
 - Key success factors.
 - Industry trends.
 - Long-term prospects.

Section 2: Industry Analysis (2 of 2)

Key Insights

- Before a business selects a target market it should have a good grasp of its industry—including where its promising areas are and where its points of vulnerability are.
- The industry that a company participates in largely defines the playing field that a firm will participate in.

Section 3: Company Description (1 of 2)

- Company Description
 - This section begins with a general description of the company.
 - Items to include in this section:
 - Company description.
 - Company history.
 - Mission statement.
 - Products and services.
 - Current status.
 - Legal status and ownership.
 - Key partnerships (if any).

Section 3: Company Description (2 of 2)

Key Insights

- While at first glance this section may seem less important than the others, it is extremely important.
- It demonstrates to your reader that you know how to translate an idea into a business.

Section 4: Market Analysis (1 of 2)

- Market Analysis
 - The market analysis breaks the industry into segments and zeroes in on the specific segment (or target market) to which the firm will try to appeal.
 - Items to include in this section:
 - Market segmentation and target market selection.
 - Buyer behavior.
 - Competitor analysis.
 - Estimate of the firm's annual sales and market share.

Section 4: Market Analysis (2 of 2)

Key Insights

- Most startups do not service their entire industry. Instead, they focus on servicing a specific (target) market within the industry.
- It's important to include a section in the market analysis that deals with the behavior of the consumers in the market. The more a startup knows about the consumers in its target market, the more it can tailor its products or services appropriately.

Section 5: The Economics of the Business (1 of 2)

- The Economics of the Business
 - This section addresses the basic logic of how profits are earned in the business and how many units of a business's profits must be sold for the business to “break even” and then start earning a profit.
 - Items to include in this section:
 - Revenue drivers and profit margins.
 - Fixed and variable costs.
 - Operating leverage and its implications.
 - Startup costs.
 - Break-even chart and calculations.

Section 5: The Economics of the Business (2 of 2)

Key Insights

- Two companies in the same industry may make profits in different ways. One may be a high-margin, low-volume business, while the other may be a low-margin, high-volume business. It's important to check to make sure the approach you select is sound.
- Computing a break-even analysis is an extremely useful exercise for any proposed or existing business.

Section 6: Marketing Plan (1 of 2)

- Marketing Plan
 - The marketing plan focuses on how the business will market and sell its product or service.
 - Items to include in this section:
 - Overall marketing strategy.
 - Product, price, promotions, and distribution.
 - Sales process (or cycle).
 - Sales tactics.

Section 6: Marketing Plan (2 of 2)

Key Insights

- The best way to describe a startup'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 distribution strategy.
- It's also important to discuss the company sales process.

Section 7: Product (or Service) Design and Development Plan (1 of 2)

- 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.
 - Items to include in this section:
 - Development status and tasks.
 - Challenges and risks.
 - Projected development costs.
 - Proprietary issues (patents, trademarks, copyrights, licenses, brand names).

Section 7: Product (or Service) Design and Development Plan (2 of 2)

Key Insights

- Many seemingly promising startups never get off the ground because their product development efforts stall or the actual development of the product or service turns out to be more difficult than thought.
- As a result, this is a very important section for businesses developing a completely new product or service.

Section 8: Operations Plan (1 of 2)

- Operations Plan
 - Outlines how your business will be run and how your product or service will be produced.
 - A useful way to illustrate how your business will be run is to describe it in terms of “back stage” (unseen to the customer) and “front stage” (seen by the customer) activities.
 - Items to include in this section:
 - General approach to operations.
 - Business location.
 - Facilities and equipment.

Section 8: Operations Plan (2 of 2)

Key Insights

- You have to strike a careful balance between adequately describing this topic and providing too much detail.
- As a result, it is best to keep this section short and crisp.

Section 9: Management Team and Company Structure (1 of 2)

- Management Team and Company Structure
 - The management team of a new venture typically consists of the founder or founders and a handful of key management personnel.
 - Items to include in this section:
 - Management team.
 - Board of directors (if you have one).
 - Board of advisors (if you have one).
 - Company structure.

Section 9: Management Team and Company Structure (2 of 2)

Key Insights

- This is a critical section of a business plan.
- Many investors and others who read the business plan 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.

Section 10: Overall Schedule (1 of 2)

- 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.
 - Examples of milestones:
 - Incorporating the venture.
 - Completion of prototypes.
 - Rental of facilities.
 - Obtaining critical financing.
 - Starting production.
 - Obtaining the first sale.

Section 10: Overall Schedule (2 of 2)

Key Insight

- An effectively prepared and presented schedule can be extremely helpful 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.

Section 11: Financial Projections (1 of 2)

- Financial Projections
 - The final section of a business plan presents a firm's pro forma (or projected) financial projections.
 - Items to include in this section:
 - Sources and uses of funds statement.
 - Assumptions sheet.
 - Pro forma income statements.
 - Pro forma balance sheets.
 - Pro forma cash flows.
 - Ratio analysis.

Section 11: Financial Projections (2 of 2)

Key Insights

- Having completed the earlier 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.

6.5 Presenting the Business Plan to Investors (1 of 2)

- The Oral Presentation
 - The first rule in making an oral presentation is to follow directions. If you're told you have 20 minutes, don't talk for more than the allotted time.
 - The presentation should be smooth and well-rehearsed.
 - The slides should be sharp and not cluttered.
- Questions and Feedback to Expect from Investors
 - The smart entrepreneur has a good idea of the questions that will be asked and will be prepared for those queries.

6.5 Presenting the Business Plan to Investors (2 of 2)

Twelve PowerPoint Slides to Include in an Investor Presentation

- | | |
|----------------------------------|--------------------------|
| 1. Title Slide | 7. Marketing and sales |
| 2. Problem | 8. Management team |
| 3. Solution | 9. Financial projections |
| 4. Opportunity and target market | 10. Current status |
| 5. Technology | 11. Financing sought |
| 6. Competition | 12. Summary |

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