## Chapter 5

**Business Plan**

- Defined as detailed and integrated written document that describes the various activities involved in opening and operating a new entrepreneurial venture.

**Major Parts of the Business Plan**

- Introduction
- Executive Summary
- Environmental Analysis
- Business description
- Organizational plan
- Production plan
- Operation plan
- Marketing plan
- Financial plan
- Appendix

**Introduction**

- Presents the general perspective of the business.

Introduction includes the following sections:

- Proposed name of the business
- Address of the business
- Name of the owner/s
- Description of the business
- Location of the business
- Funding requirement and source

**Proposed name of the business**

- Reflect the business identity and image
- Promote the philosophical values and culture that the business values the most.
- Profess the brand identity and product
- Attract or influence the target consumers

**Address of the business**

- Address must be correctly written because all business correspondence are mailed to the business address.
- Raw materials and other manufacturing supplies are also shipped by the seller to the designated business address.

**Name of the Owner**

- The name of the owner must be properly stated.
- In a sole proprietorship, there is only one owner.
- In partnership, the names of the partners, including the extent of their liabilities, must be indicated. For example, if a partner's contribution takes the form of service, description like industrial partner or limited partner must be properly mentioned.
- For corporate entity, the names, nationalities and addresses of the incorporations must be given. **INCORPORATORS** are persons who originally formed the corporation.

**Description of the business**

- Must include information about the type of product or service that the business intends to produce or provide.
- May include a brief information about the ultimate mission, vision, and objectives of the business.
- Other products or services that the business plans to produce or provide must also be mentioned.

**Location of the business**

The following factors should be considered when deciding on the location of the proposed business:

- Proximity to the target consumers
- Distance from the sources of raw materials, labor and utilities
- Availability and cost of transportation
- Peace and order situation
- Presence of direct competitors
- The geographic and climatic conditions

**Address of the business vs Location of the business**

What is the difference between the sections Address of the business and Location of the business?

<u>Address of the business states the exact business address</u>. No additional description is provided to highlight the exact business address.

<u>Location of the business indicates the reason/s for the selection of the location.</u> In case the processing plant is not within the vicinity of the business, its exact location must also be described.

**Funding requirement and source**

- The estimated total initial cost of the business venture must clearly indicated.

- Include the projected breakdown or allocation of the total cost: How much will be building, fixtures, equipment, supplies and working capital.
- Presents source or sources of funds. Initial cost of the investment may be provided solely by the owner or owners or partly by the owner and creditors. The estimated period to settle the funding source provided by creditors must also be mentioned.

**Executive Summary**

- Although it is commonly the last section to be written after all other major parts have been completed, it is the next major part of the business plan after the introduction.
- It points out the overall highlights of the business plan as well as a bird's-eye view of its section. However, the executive summary, must not, in any manner, provide a summary of the different major sections of the business plan.
- It must be written in simple language that can be easily understood and at the same time attract the attention and influence the decision of the reader.
- Investors, creditors, and other significant parties usually proceed to the details of the business plan once they find the executive summary interesting, convincing, and worthy of further reading.

The Executive Summary must include the following sections:

- Vision, mission, goals and objectives of the business
- Business model
- Business and product position
- Wealth improvement approaches
- Parties supporting the business

**Vision, Mission, Goals, and Objectives**

- Business plan must depict the fundamental characteristics, nature, philosophical values, identity, and image of the business. These important concerns are embodied in the vision, mission, goals and objectives (VMGO) of the business.
- VMGO must be clearly stated and understood.
- Must be reviewed and revisited at least three years to determine whether they are still reasonable and achievable in view of the rapid changes in the business community.

**Business Model**

- Defines the perspective of the business in terms of its structure, production, operation, and financial activities that will lead to the achievement of the VMGO.

**Business and Product Position**

- Will help determine how the business defines its course and the process of accumulating wealth.

**Wealth Improvement Approaches**

- Describes the methodologies or approaches that will be taken by the business in order to
  - Maintain a competitive advantage
  - Position the business in the market
  - Improve the market share
  - Maximize the utilization of resources

  This section also includes:

- Brief discussion of the marketing policies and financial operations of the business
- Profitability level of the industry and of the business.

**Parties supporting the business**

- A description of the parties that strongly support the business.

The parties that have a direct relationship with the business are as follows:

- Consumers
- Creditors
- Suppliers
- Employees and staff

**Environmental Analysis**

- A strategic tool that helps determine the external and internal factors affecting the performance of the business.

Factors may be:

- Political
- Economic
- Social
- Technological

Environmental analysis may consist of:

- Global Analysis
- Societal Analysis
- Industry Analysis

**Global Analysis**

- May begin with a description of the global business situation to provide enough knowledge about the global perspective or horizon of the business.

- The global trend simply act as an indicator of any favorable sign for a business idea.

**Societal Analysis**

- Determine the different variables affecting the societal environment: political forces, economic forces, socioeconomic forces, technological forces, ecological forces and legal forces.
- The societal analysis must tell how the environmental forces affect the proposed business and how great their affects are.

**Industry Analysis**

The industry analysis basically involves three important related tasks as follows:

- Conducting a critical evaluation of the forces in the industry that affect the proposed business
- Evaluating the probable position of the business in the industry
- Determining the most appropriate strategy that may be adopted by the proposed business.

**Conducting a Critical Evaluation**

- The industry analysis in all instances must not fail to evaluate and describe the target consumers and the competitors.
- **DEMAND AND SUPPLY ANALYSIS (CONSUMER AND COMPETITOR ANALYSIS)** is the backbone or the foundation of all other analyses. Where there are no consumers or buyers of the product, the business will never be created. The presence of the consumers is the ultimate reason for the existence of any business endeavor.

**Evaluating the Business Position**

- This deals with market share and growth.
- Entrepreneurs may use a **PERCEPTUAL MAP (also called POSITIONING MAP)** to help them understand their position against their competitors in the market. It shows the consumer respond to their product and services.

**Determining the most Appropriate Business Strategy**

- Describe the most appropriate strategy that may be adopted by the business.
- The strategy is highly influenced by the analysis of the business strengths, weaknesses, opportunities, and threats.
- The reason for the selection of the strategy must likewise be clearly indicated.

**Business Description**

- Presents the nature and form of the business to be undertaken.

- As to nature, business may be a merchandising, service, manufacturing or a hybrid. The description must include the innovative features of the business.
- As to form, it may either be a sole proprietorship, a partnership, or corporation. The reason/s for the selection of the form must also be indicated.

In addition, the business description also includes the following information:

- Product or service that it plans to produce or serve
- Various plant and office equipment
- Size of the proposed business
- Future parties with whom contracts may be necessary
- Administrative operation

**Organizational Plan**

The organizational plan provides a detailed description of the business in terms of the following:

- Form of the business organization
- Liability of the owner/s
- Organization structure
- Roles and responsibilities
- Salary requirements

**Form of the Business Organization**

- Forms of business organization: sole proprietorship, a partnership, or a corporation. The factors affecting the selection of the most appropriate business form include the following:
    - Capital requirement
    - Liability of the owner/s
    - Management and supervisory skills
    - Tax implications
    - Government Intervention
    - Nature of the business
    - External financing requirement

**Liability of the Owner/s**

- Describes the extent of the owner's financial obligation with creditors.

The creditors can be in the form of:

- Individual persons
- Suppliers of raw materials and supplies
- Financial institutions

**Liability**

- The extent of financial liability can be either limited or unlimited.
- The extent of liability of the owners in a sole proprietorship and a partnership is usually unlimited.

**Limited liability**

- Means that in case of business dissolution and there still remains unsettled financial obligation of the business, the creditor cannot go after the personal property of the business owner.

**Unlimited liability**

- Means that the creditors can run after the personal property of the owner in the event that the business fails to fully settle its financial obligation during business dissolution.

**Organizational Structure**

- Usually shown or reflected in the organizational chart.
- It shows and defines the hierarchy of the different positions in the organization and the interrelationships of the different offices or departments.
- The organizational chart depicts the flow of communication within the organization, and the line and staff authority that must be observed and executed.

**Roles and Responsibilities**

- The roles and responsibilities of the various positions in business organization must be clearly defined in order to minimize and avoid misunderstanding and overlapping of functions.
- The educational requirements and experiences required of the workers must also be specified.

**Salary Requirement**

- The organization plan must show the total estimated monthly and annual salary requirements of the business.
- All other mandatory benefits like the employer's contributions to the Social Security System (SSS), Pag-Ibig, and PhilHealth must likewise be specified.

**Production Plan**

- Presents or describes activities related to the production of goods.
- The production plan is the result of the industry analysis, particularly the study of supply and demand and consumer behavior.

The production plan usually includes the following:

- Production schedule
- Production process
- Processing plant and equipment
- Sources of materials
- Production cost

This section basically applies to manufacturing entities. For service entities, this section must be modified and labeled as **Service Provision Plan.**

**Production schedule**

- Presents the total number of goods to be produced and the expected time to produce them.

The total number of units to produce is usually affected by the following factors:

- Demand for the product
- Availability of resources
- Capacity of the plant

- The primary factor that influences the number of goods to be produced is market demand. The entrepreneur must produce goods based on the total demand of the consumers.

**Production process**

- In this section, the different processes or stages involved in the production of goods must be clearly stated as well as the description of the following:
  - Exact processing procedure
  - Materials, parts, or ingredients required
  - Expected time to process the product

**Processing Plant and Equipment**

- This section describes the manufacturing plant, the machinery and equipment, and the various tools to be used in the production of goods, including their respective estimated costs.
- It also talks about the location of the processing plant and the reason for the selection of the site.

In the selection of the machinery and other equipment, the entrepreneur must consider the following factors:

- Capacity of the plant or machinery
- Model f the machinery or equipment
- Availability of spare parts

- Cost and terms of payment

**Sources of Materials**

The possible sources of raw materials and manufacturing supplies must be described in terms of the following:

- Proximity of the source to the processing plant
- Payment terms and conditions
- Discounts and damages
- Terms of shipment

**Production Cost**

- This section must show the estimated cost of production.
- The three elements of cost, namely labor, direct materials, and factory overhead must be properly described and accounted for.

**Operation Plan**

The operation plan commonly covers the following areas:

- Evaluation of suppliers
- Materials requisition and receiving procedures
- Storage and inventory control system
- Shipment system and control
- Functions of supported services

**Evaluation of Suppliers**

- The business must conduct a critical evaluation of the suppliers of raw materials and establish harmonious working relationships with them to reduce the threats they posed.
- The suppliers of raw materials must practice total quality management to minimize or avoid defects or damages in the supplies.

**Materials Requisition and Receiving Procedures**

- The procedures in requisitioning raw materials and other manufacturing supplies and receiving them must be explained in the operation plan. The person assigned to conduct inspections upon receipt of the materials must also be included.

This section covers the following areas:

- Basis of receiving the raw materials
- Comparison of the order and receipt
- Quality of materials received

**Materials and Inventory Control System**

- The operation plan describes how the business stores the finished goods and protects its inventory against possible theft and losses.

This section deals with the following:

- Owning or renting a warehouse
- Management of the warehouse
- Procedures in the transfer of goods
- Control of inventory in the warehouse

**Shipment System and Control**

This section covers the following:

- Approval of shipping and sales documents
- Terms of shipment
- Manner of shipping the product
- Other terms and conditions like sales contract

The proper operation plan on the shipment of goods must be clearly defined. It would be too costly on the part of the business to lose millions of pesos on shipment.

**Functions of Support Services**

- The operation plan defines and describes the functions of other support services relative to the acquisition, processing and shipment of goods to the customers.
- It also includes the important role of other support services such as the maintenance personnel and security officers and staff.

Most business consist of three or four functional areas as follows:

- Finance
- Marketing
- Operation
- Human resources

**Marketing Plan**

- Details how the proposed business will sell its product to the target consumers.

It may consist of some or all of the following important sections:

- Product
- Place
- Price

- Promotion
- People
- Packaging

**Financial Plan**

- It accumulates and describes all the date expressed in monetary units from the other sections of the business plan.

It is composed of the following important areas:

- Major assumptions
- Projected statement of comprehensive income
- Projected statement of cash flows
- Projected statement of changes in equity
- Projected statement of financial position
- Financial statement analysis

**Major Assumptions**

- The financial statements in the business plan are not actual but rather projected, thus requiring some major assumptions based on reliable data or information.

**Financial Statements**

The financial plan features the following different projected financial statements of the proposed business:

- Statement of comprehensive income
- Statement of cash flows
- Statement of changes in equity
- Statement of financial positions

**Financial Statement Analysis**

- The financial statements do not provide any useful and relevant information to the users unless they are evaluated and analyzed.
- Financial statement analysis is conducted to determine the financial operation of the business in terms of its liquidity level, profitability of operations, and solvency status.

## Chapter 6

**Model**

- A plan or diagram that's used to make or describe something

**Business Model**

- The firm's plan or diagram for how it competes, uses its resources, structures its relationships, interfaces with customers, and creates value to sustain itself on the basis of the profits it generates.
- The term "Business Model" is used to include all the activities that define how a firm competes in the marketplace.

**Diversity**

- There is no standard business model for an industry or for a target market within an industry.

**Value Chain**

- String of activities that moves a product from the raw material stage, through manufacturing and distribution, and ultimately to the end user.
- Value chain analysis is also helpful in identifying opportunities for new business and in understanding how business models emerge.

This type of analysis may focus on:

- A single primary activity such as marketing and sales.
- The interface between one stage of the value chain and another, such as the interface between operations and outgoing logistics.

**Components of a Business Model**

Four components of a business model:

- Core Strategy
- Strategic Resources
- Partnership Network
- Customer Interface

**Core Strategy**

- Describes how a firm competes relative to its competitors.

Primary Elements of Core Strategy:

- **Mission Statement**

Describes why the firm exists and what its business model is supposed to accomplish.

- **Product/Market Scope**
  Defines the products and markets on which it will concentrate.
- **Basis for differentiation**
  It is important that a new venture differentiate itself from its competitors in some way that is important to its customers.

**Strategic Resources**

- A firm is not able to implement a strategy without resources, so the resources a firm has affects its business model. For a new venture, its strategic resources may initially be limited to the competencies of its founders, the opportunity they have identified, and the unique way they plan to serve their market.

The two most important strategic resources are:

- A firm's core competencies
- Strategic assets

**Core competency**

- A resource or capability that serves as a source of a firm's competitive advantage.

**Strategic assets**

- Anything rare and valuable that a firm owns

**Partnership Network**

- New ventures in particular, typically, do not have the resources to perform key roles.
- A business does not want to do everything itself because majority of the tasks needed to build a product or deliver a service are not core to a company's competitive advantage.

A firm's partnership network includes:

- **Supplier**
  A company that provides parts or services to another company.
- **Other key relationship**
  Firms partner with other companies to make their business models work. An entrepreneur 's ability to launch a firm that achieves a competitive advantage may hinge as much on the skills of the partners as on the skills within the firm itself.

Most common types of business partnership:

- **Joint venture**

An entity created by two or more firms pooling a portion of their resources to create a separate, jointly owned organization.

- **Network**
  A hub-and-wheel configuration with a local firm at the hub organizing the interdependencies of a complex array of firms.
- **Consortia**
  A group of organizations with similar needs that band together to create a new entity to address those needs.
- **Strategic Alliance**
  An arrangement between two or more firms that establishes an exchange relationship but has no joint ownership involved.
- **Trade Associations**
  Organizations (typically nonprofit) that are formed by firms in the same industry to collect and disseminate trade information, offer legal and technical advice, furnish industry-related training, and provide a platform for collective lobbying.

**Customer Interface**

- The way a firm interacts with its customer hinges on how it chooses to compete.

The three elements of a company's customer interface are:

- **Target Market**
  A firm's target market is the limited group of individuals or businesses that it goes after or tries to appeal to
- **Fulfillment and Support**
  Describes the way a firm's product or service reaches it customers. It also refers to the channels a company uses and what level of customer support it provides.
- **Pricing Model**
  Vary, depending on a firm's target market and its pricing philosophy.

**Chapter 7**

**Feasibility Analysis**

- Designed to access whether your entrepreneurial endeavor is, in fact, feasible or possible.

**Business Plan vs Feasibility Analysis**

- A feasibility study allows a business to address where and how it will operate, its competition, possible hurdles, and funding needed to begin.
- The business plan then provides a framework that sets out a map for following and executing on the entrepreneurial vision.

**Market Feasibility Analysis**

Market feasibility analysis is to be conducted for the following reasons:

- To estimate the demand of the proposed product/service in future.
- To estimate the market share of the proposed product/service in future.

Demand and market share is based on a factors like:

- Consumption pattern
- Availability of substitute goods/services
- Type of competition

**Technical/Operational Feasibility Analysis**

- Is done to assess the operational ability of the proposed business enterprise.

**Parameters**

1. **Material Availability:**
- Assess the availability of the raw material required for production of goods/services.

  Study of material should make an account of following variables:
  - Availability of quality and quantity of raw material
  - Factors on which the availability of raw material is dependent
  - Price sensitivity of raw material
  - Perishable time of raw material
2. **Material requirement planning:**
- Analyze the quantity of material that would be required to let the production run smoothly.
3. **Analysis of choice oof technology:**
- Identify whether the product developed at the idea generation stage is technology feasible.

The choices of the technology would be affected by:

- Capacity of the plant
- Amount of investment
- Availability of technology
- Production cost
- Latest developments
- Quantity of planned production
- Impact environment

**4. Plant Location:**

- Plant location refers to a fairly broad area where the enterprise is to be established, like city, industrial zone or costal area. Plant location is the physical layout of the business and is affected by process of production, safety of personnel, minimum production cost, scope of expansion, proper utilization, etc.

**5. Machinery and Equipment:**

- Machinery and equipment is dependent on production technology, plant capacity, investment cost of buying, maintenance and running cost.

**Financial Feasibility Analysis**

- Done to assess financial issues of the proposed business venture

**1. Cost of land and building**

- Depending on the requirement and the availability of funds the land and building can be hired, can be taken on lease or purchased.

**2. Cost of plant and machinery**

- It includes estimates cost of plant and machineries, their running and maintenance cost.

**3. Preliminary Cost Estimation**

- Made to assess how much cost would be required in conducting market survey, preparing feasibility report, expenses in registering and incorporating machine, establishment expenses, expenses in raising capital from public and other miscellaneous expenses.

**4. Provision for contingencies**

- Needs to be made to cover certain unexpected expenses which can emerge due to change in the external environment, like increase in price of raw material, or transport costs going up if the petrol prices are revised.

5. Working capital estimates for running the business are also made.
6. Cost of production, which would include raw material cost, labour cost, overhead expenses, utilities like power, water, fuel, etc.
7. Sales and production estimates: Based on the plant capacity the production and sales estimates are made, which help in estimating profitability.

Profitability projections are made on the following parameters:

- Cost of production
- Sales expenses
- Administrative expenses
- Expected sales

**Applying Feasibility Outcomes**

- After conducting a feasibility analysis, you must determine whether to proceed with the venture.
- One technique that is commonly used in project management is known as a **go-or-no-go decision.**

**Go-or-no-go decision**

- A tool that allows a team to decide if criteria have been met to move forward on a project.

## Chapter 8

Address the query by following a 3-step process:

- Segmenting the market
- Selecting a target market
- Crafting a unique positioning strategy

**Segmenting the Market**

- Involves studying a firm's industry and determining the different target markets in that industry.

Markets can be segmented in a number of different ways, including:

- Product type
- Price point
- Customers served

Example: Segmenting the Computer Industry by Product Type

- Handheld computers
- Netbooks
- PCs
- Minicomputers
- Mainframes

**Selecting a Target Market**

- Once a firm has segmented the market, a target market must be chosen.
- The market must be sufficiently attractive and the firm must have the capability to serve it.

**Establishing a Unique Position**

- After selecting a target market, the firm's next step is to establish a "position" within the market that differentiates it from its rivals.
- A "position" is the part of a market that the firm is claiming as its own.
- A firm establishing a unique position in its customers' minds by drawing attention to two or three of the product's attributes.

**Selling benefits rather than features**

- Many entrepreneurs make the mistake of positioning their company's products or services on features rather than benefits.

- A positioning or marketing strategy that focuses on the features of a product, such as its technical merits, is usually much less effective than a campaign focusing on what the merits of the product can do.

**Establishing a Brand**

**Brand**

- A brand is the set of attributes – positive or negative – that people associated with a company.
    - **Positive attributes –** trustworthy, dependable, easy to deal with.
    - **Negative attributes –** cheap, unreliable, or difficult to deal with.
- Some companies monitor the integrity of their brands through a program called "brand management".

Ways of thinking about the meaning of a Brand

- A brand is a promise
- A brand is a guarantee
- A brand is pledge
- A brand is reputation
- A brand is an unwritten warrantee
- A brand is an expectation of performance
- A brand is a presentation of credentials
- A brand is a mark of trust and reduced risk
- A brand is a collection of memories
- A brand is a handshake between a company and its customers

**Strong Brand and Cobranding**

- A strong brand can be a powerful asset for a firm.
- A technique that companies use to strengthen their brands is to enter into a cobranding arrangements with other firms.
- **Cobranding** refers to a relationship between two or more firms where the firm's brands promote each other.

**The four Ps of Marketing for New Ventures**

**Product**

- Is the good or service a firm offers to its target market
- The initial rollout is one of the most critical times in the marketing of a new product.

**Core Product vs Actual Product**

**Core Product**

- The product itself (such as an antivirus software program)

**Actual Product**

- The product plus all the attributes that come with it such as quality level, features, design, packaging, and warranty.

**Price**

- Price is the amount of money consumers pay to buy a product.
- The price a company charges for its products sends an important message to its target market.

Two methods to set the price for their products:

- **Cost-based pricing** – the list price is determined by adding a markup percentage to a product's cost.
- **Value-based pricing** – the list price is determined by estimating what consumers are willing to pay for a product.

**Promotion**

- Refers to the activities the firm takes to communicate the merits of its product to its target market.
- These are several common Activities that entrepreneurs use to promote their products and services.
- Advertising is making people aware of a product or service in hopes of persuading them to buy it.

**Pluses and Minuses of Advertising**

**Pluses:**

- Raise customer awareness of a product
- Explain a product's comparative features and benefits
- Create association between a product and a certain lifestyle

**Minuses:**

- Low credibility
- The possibility that a high percentage of people who see the ad will not be interested.
- Message clutter
- Relative costliness compared to other forms of promotion
- Intrusiveness

## Place

- Encompasses all the activities that move a firm's product from its place of origin to the consumer.
- Within most industries, both choices are available, so the decision typically depends on how a firm believes its target market wants to buy its product.

**Selling Direct vs Selling through an Intermediary**

**Selling direct**

- Many firms sell direct to consumer, maintaining control of the distribution and sales process.

**Selling through intermediaries**

- Other firms sell through intermediaries and pass off their products to wholesalers who place them in retail outlets to be sold.