

Transcription

Components of a Business Plan

Importance of a Business Plan



So I think one is you are building a business plan, you are putting down on paper what is your dream basically, like you are building a business plan for a company you will spend some of the major time of your life half decade or decade or more or maybe shorter. So one is you have to be thoughtful and be truthful, the best way to do that is don't write down what you think you want someone else to read it, write down what you believe and you want to build and you know that you are being truthful with yourself or not. I would say that in terms of everything with the business plan and everything keep it simple and don't be so clever about things because the more you add what if this happen and then this happen and then this happen, this might happen, they might do this that 5th outcome has literally sub 1 % chances of happening and everybody knows that. Instead focus on, here is the first things which are going to happen and as we achieve that as the majority says we will see the next sequence.



We just heard Rishi from Saavn guiding us about how to write an effective and honest business plan. After hearing him I am very confident that I can put down an effective business plan in my own venture idea. But before that as an early stage entrepreneur I always wonder if it is worth spending a lot of time and energy in putting down a very detailed business plan in the first place. More often than not, entrepreneurs hesitate & detest to write Business plans! Why?

COMMON B-PLAN MYTHS

1. "Why do I need a business plan? It's all there in my head! "
2. "Business plans are for big companies that hire MBA's, I am a very small company"
3. "I don't have time to write any plans as I am too busy trying to get new customers & paying my bills"
4. "In any case who reads a business plan?"
5. "Have all successful entrepreneurs written one?"



Several recorded comments on this are:

1. "Why do I need a business plan? It's all there in my head! "
2. "Business plans are for big companies that hire MBA's, I am a very small company"
3. "I don't have time to write any plans as I am too busy trying to get new customers & paying my bills. "
4. "In any case who reads a business plan?"
5. "Have all successful entrepreneurs written one? "

Let me clarify this once and for all. It is something which is an absolute must for a startup. Statistics from studies indicate that writing a plan greatly increased the chances that a person would actually go into

business. One reason for this is that person who write business plans do a lot of researching on markets and preparing projections required for a startup. No doubt, writing a business plan is a tedious task.



Some of the dimensions of business plan are

- It is a written description
- Future map and
- A communication tool

A good Business Plan should be simple and intuitive. It should be like a neat and clear story by which you can easily communicate.



A well thought out plan also helps you to step-back and think objectively about the key elements of your business venture and helps in your decision-making on a regular basis.

WHY DO YOU NEED A BUSINESS PLAN?



So, for an entrepreneur,

- A business plan charts out clear path to achieve the goals of both the existing as well as may be a new business
- It helps to reinforce the strategies that he has to achieve the goals and also
- Target market for establishing the matrix and
- Track the results against them
- It also helps the entrepreneur to manage the responsibilities and
- The critical resources



Take the example of Zo rooms. Zo Rooms is a low-budget hotel chain that enables users to book rooms through a mobile-app. They had a proper written business plan wherein they described their mission to give their guests friendly, affordable, secure and reliable rooms. Further, they divided a city into zones and localities for the purpose of selecting hotels for tie up. They did the whole market analysis where they found India is short of 1, 50,000 budget hotel rooms, and it's an over \$20 billion opportunity and growing

at a high double digit rate. Proper description of the plan helped them create a good business model in the market.



Business Plan is a future map of short term as well as long term goals. The business plan generally projects 3-5 years ahead and outlines the route a company intends to take to reach its yearly milestones, including revenue projections. Taking the same example of Zo rooms forward in detail. Zo room's business plan defines the future path for them. The budget hotel industry is a \$20 billion industry in India and there is scope for more startups. By December 2015 the company plans to have 1000 plus hotels across 50 cities in India on its platform which they defined in their plan. For them, Leveraging technology in the budget accommodation space is the need of the hour. Looking into the future they identified their prospective competition. Besides them, Oyo and Awesome Stays are among others have been trying to crack this segment. Now imagine you having to raise funds for your venture. A written business plan will make it easier to approach angel investors or other funding agencies. Remember, finance is the life blood of any venture and having a proper financial plan is going to make your life easier.



Let's go back to the example of Zo rooms. Their business plan was a communication tool for the entrepreneurs. With the help of it, they were able to raise rounds of funding from existing investors, like Tiger Global Management and Orios Venture Partners.



There are several audience groups who are interested in the business plan. Let us list them.



Firstly, it is for the

1. Entrepreneur to articulate his idea as business design
2. Investors for equity funding
3. Banks for Loans
4. Key employees of the business
5. Potential partners or alliances

WHEN DO YOU NEED A BUSINESS PLAN?

WHEN STARTING UP OR EXPANDING	WHEN SEEKING FUNDING	WHEN RECRUITING TEAM	WHEN ATTRACTING ALLIANCES
Resources of Money	Gauge Risks	Mission	History of the Venture
Energy or Time	Forecast Growth Prospects	Future Prospects	Long Term Goals
Develop a Sound Strategy	Pay Interest on Time		Financial Aspects
	Repay the Debt		

- Plans are due diligence for an entrepreneur and useful at all stages of their companies' existence. Anybody starting or expanding a venture where significant resources of money, energy or time, is required and that is expected to return a profit, should definitely take the time to draft some kind of plan. It helps you to develop a sound strategy to help your business grow and be successful whether you are seeking finance or trying to figure out how to invest a surplus
- Businesses seeking funding from investors absolutely need a business plan as it helps the investors gauge risks and forecast growth prospects. While applying for a loan, Business Plan helps the financial institution to assess the ability of the business to pay the interest on time and repay the debt
- For recruiting significant team members, business plans conveys the mission and future prospects of the business
- When alliances are sought to reach new markets or to develop new products or to create common facilities, business plans helps them to commit to such long term arrangements with information on the history of the venture, its culture long term goals and the financial aspects. Therefore, it is a tool to convince other stakeholders objectively

Elements of a Business Plan



I remember the business plan or whatever plan that we built for the few days, was very focussed. Was very focussed on solving one problem. When we had launched, we had launched only in the rentals category in the real estate, right. Because we knew people like us were searching for rental properties so maybe we could understand them better and build a product and service for them better, and it's a very high transaction category.

So I think when you approach a business plan specially very initially, you need to really focus on the key areas, you need to be very, very focused, but across the 3 years of the company we have now launched the resale category, we have launched land category, we have launched new project category and now we are existing across categories in real estate. So I think that is where the difference has come in, that initially you were very razor sharp focused and focussed on building depth within a particular category. But now you are focussing across the breadth.



It was very interesting to listen to the journey of housing.com and well it is now a very big and a famous company. But what was interesting was at right from the start they had a very detailed business plan in mind and of course they evolved it over time with changing situations. Now I think it's going to be very

important for us to understand what are the various elements that go in to creating an effective business plan.

ELEMENTS OF BUSINESS PLAN:

1. Vision & Goal



Let's look at few of these elements of this business plan and see what it is going to portray. So, The first one would be the entrepreneurial vision and goal



I think whenever anybody starts a business and we talk to a bunch of entrepreneurs and they come in like what is one of the most critical things while building a business - you need to have a very clear business plan, you need to have a very clear vision.

ELEMENTS OF BUSINESS PLAN:

1. Vision & Goal
2. Company Description
 - i. Original Business Idea
 - ii. Competitive Advantage
 - iii. Brief History
 - iv. Milestones



The company description usually includes a short description of the industry. When describing the industry, discuss the present outlook as well as future possibilities. You should also provide information on all the various markets within the industry, including any new products or developments that will benefit or adversely affect your business.

Also if your business is new. Then, give information regarding the origin of the business idea, the date of formation of the company and its initial supporters. Explain the competitive advantages that you believe will make your business a success such as your location, expert personnel, efficient operations, or ability to bring value to your business if you have been in existence for a while a brief history and milestones need to be included.

ELEMENTS OF BUSINESS PLAN:

1. Vision & Goal
2. Company Description
3. Industry Analysis



The industry market analysis will clearly indicate the efforts that have gone to make the plan. This part should convince the reader that the product will have a substantial market in a growing industry and can achieve sales in face of competition

ELEMENTS OF BUSINESS PLAN:

1. Vision & Goal
2. Company Description
3. Industry Analysis
4. Competitive Analysis
 - i. Assess Competitors' Strengths & Weaknesses
 - ii. Formulate Strategies
 - iii. Create Barriers to Entry
 - iv. Identify Avoidable Weaknesses



The purpose of the competitive analysis is to determine

- The strengths and weaknesses of the competitors within your market
- Strategies that will provide you with a distinct advantage
- The barriers that can be developed in order to prevent competition from entering your market and
- Any weaknesses that can be exploited within the product development cycle

ELEMENTS OF BUSINESS PLAN:

1. Vision & Goal
2. Company Description
3. Industry Analysis
4. Competitive Analysis
5. Management Team
 - i. Show Strengths of Entrepreneur
 - ii. Mention Team's Skill Sets
 - iii. Put up Organizational Chart
 - iv. Detail Future Skills Requirement



To formulate an A+ management team that has both the business and technical skills set.

It is all about the people, who is who and who will do what in the new organization. Investors, invest more in the team than the business model. It is vitally important that you demonstrate that the management team has complementary skills/experiences.

- This portion should present all the strengths of the entrepreneur. Sometimes, it is good to include a short summary bio-data as a paragraph and then include a detailed CV as an appendix
- They are certainly unlikely to find technical, managerial and networking qualities in a single entrepreneur but a team how they complement the skill set is important
- It may be useful to provide a current and projected organization chart, clearly showing responsibility and reporting lines

- Along with this you should also take care of your future skills requirements and hiring

ELEMENTS OF BUSINESS PLAN:

1. Vision & Goal
2. Company Description
3. Industry Analysis
4. Competitive Analysis
5. Management Team
6. Operational Plan
 - i. Responsibilities of Management Team
 - ii. Division-based Task Assignments
 - iii. Capital/Expense Requirement



Thus, the operations plan will highlight the logistics of the organization such as the various

- Responsibilities of the management team
- The tasks assigned to each individuals or division within the company and
- Capital and expense requirements related to the operations of the business

ELEMENTS OF BUSINESS PLAN:

1. Vision & Goal
2. Company Description
3. Industry Analysis
4. Competitive Analysis
5. Management Team
6. Operational Plan
7. Marketing Plan
 - i. Packaging Techniques
 - ii. Medium of Communication
 - iii. Pricing Method



And another important element is the marketing plan.

Having demonstrated that the market exists, you must now go out and win those customers. This section describes the actual marketing strategies that will be used to reach the potential market.

To further elaborate, their marketing plan will include

- Packaging the product or service in way that would appeal to these segments: landscaping apartment balconies and terrace with ornamental, herbs, kitchen garden. Aesthetic value and minimum maintenance
- Get the right communication media to attract potential customers:

You should also ponder upon the questions like:

- What a pricing method would you adopt? Why?
- How different is it from the competitors?

ELEMENTS OF BUSINESS PLAN:

1. Vision & Goal
2. Company Description
3. Industry Analysis
4. Competitive Analysis
5. Management Team
6. Operational Plan
7. Marketing Plan
8. Financial Plan
 - i. Projected Balance Sheets
 - ii. Profit & Loss Statements
 - iii. Break Even Analysis
 - iv. Business Structure
 - v. Unit Metrics
 - vi. Sales Forecast



Every entrepreneur needs to have some financial plan. As of now, whether you have funding or not, but you need to develop one good plan to seek it from various investors.

The financial section is one of the most looked at sections in the business plan. It contains projected balance sheets and the profit and loss account. The amount of detail required in the financial projections will depend upon the stage that the business is at. A breakeven analysis will reveal a lot about how the business is structured and how much risk it entails. This analysis can be easily presented in a graphical format as an exhibit. If the purpose of the business plan is to raise money, then it has to outline how much money is needed, why it is needed and how it is proposed to be used. In the beginning you should also be bothered about the unit metric wherein you should be sure that you are able to make a profit on single unit as well.

Forecasting the probable growth pattern and results of a business into the future is a difficult task. This is particularly so for early stage companies with no track record on which to base future financial results. The key starting point is the sales forecast, which must be based upon projected market and demand rather than capacity, sales force or service hours available.

ELEMENTS OF BUSINESS PLAN:

1. Vision & Goal
2. Company Description
3. Industry Analysis
4. Competitive Analysis
5. Management Team
6. Operational Plan
7. Marketing Plan
8. Financial Plan
9. Risks & Contingencies



Any business idea will have risks, and the business plan will have much more credibility if those risks are identified rather than ignored. You should identify the main risk to the business, and show their potential impact on the financial projections.

ELEMENTS OF BUSINESS PLAN:

1. Vision & Goal
2. Company Description
3. Industry Analysis
4. Competitive Analysis
5. Management Team
6. Operational Plan
7. Marketing Plan
8. Financial Plan
9. Risks & Contingencies
10. Appendices
 - i. Advertising Materials
 - ii. Market Research Studies
 - iii. Locations and Equipment Photos
 - iv. Articles from Magazines



Your plan may have detailed evidence to support and if you feel it adds significantly to your credibility then put it in the appendices.

But including the detailed data in the plan itself will disrupts the story you are telling and makes the document dull.

Therefore, these documents that persuades the reader or is a proof of what you are saying must be separated from the business plan and given as appendices.

Clearly state in your plan of the appropriate appendix so that the reader can find it easily

Everything that can support the business plan like advertising materials,

- Market research studies
- Photos of the locations and planned equipment
- Articles from the magazines related to the business and/or product
- Letters of support from the future customers

Format of a Business Plan



So we now understood the importance of a business plan and why an entrepreneur should put in some effort in making an effective business plan while starting a business. Now that being said we have not yet talked about the external audience that will be consuming the business plan. Most people put their business plan into a word document or an excel or a presentation, and once it becomes very detailed it becomes complicated for people to consume, and that is where it is going to be very important to put down a very crisp and simple business plan so that external stake holders like investors, prudential employees can easily follow the business plan. I would want my business plan to portray a great vision, professionalism, and something more meaningful for the person who is reading it. But how do I exactly do it is the question that comes to my mind. So now let's look at the next segment to understand the various things that we have to keep in mind while creating a crisp and effective business plan.

KEY POINTS TO REMEMBER

1. LANGUAGE

- i. Keep it Simple
- ii. Be Precise
- iii. Avoid Acronyms

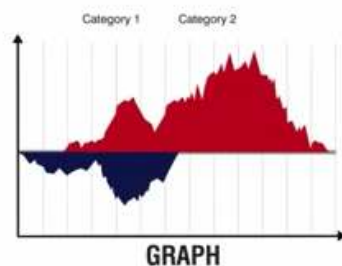


Keep the language simple, keep it straight forward and also have short sentences. I remember once I had read a business plan which contained words like DINK and DISC what did that mean, well he was trying to say “Double Income No Kids” and “Double Income Single Child”. Don’t assume that everybody knows these acronyms so write the full form of these sentences as if the person does not know what you have written.

KEY POINTS TO REMEMBER

1. LANGUAGE

2. USE TABLES AND CHARTS



The second one is use adequate tables and charts, can you imagine just writing word document pages after pages break this monotony with some kind of tables, have some summary tables and also when you are using these tables you could also use some graphs, or maybe bar diagrams or maybe pie charts.

I can give you some examples maybe if you are talking about sales over a period of time or maybe the cost structure bar charts are good, maybe you are talking about the target customer segments and then maybe it could be pie charts. If you are talking about your milestones and what is it that you want to achieve in the future in a period of time, maybe a horizontal bar chart would be.

KEY POINTS TO REMEMBER

1. LANGUAGE
2. USE TABLES AND CHARTS
3. FONT SIZE & SPACING
 - i. Font Size- 12
 - ii. Adequate Spacing
 - iii. Keep the Font Size Constant



The next is about the font size and the spacing, there is no rule actually about the font size and the spacing but can you imagine reading a story book by the font sizes too small or the spacing is nothing, similarly even for an external person reading your business plan, you need to make it more readable, don't cramp all your material into less number of pages because sometimes you want to have less number of pages because we said you don't need to have more than 20 pages of your business plan so that doesn't mean you have a small font size to fix everything into that 20 pages.

- The font size of 12 is reasonable with
- Adequate spacing maybe one and half or maybe two and
- Avoid using too many font sizes. Maybe about 2 font sizes are ok, one for the heading and the rest for other text

KEY POINTS TO REMEMBER

1. LANGUAGE
2. USE TABLES AND CHARTS
3. FONT SIZE & SPACING
4. EASY READING
 - i. Create Various Segments
 - ii. Use Page Breaks
 - iii. Proof Read
 - iv. Use Bullet Points
 - v. Use Spell Check



Now another part, since you are telling a story your story has to be clear and convincing, please put your story in different section so that you are concentrating about something in that section maybe you are taking about only marketing in one section, maybe in another section you are only taking about your operational plan but arrange these sections in such a way that gives a clear convincing and evocative story.

Use page breaks to separate the sections and also have tables on fresh page, don't cramp everything together that is the mantra for having a clean look about your business plan and finally proof read and give

some kind of finish to the look of your business plan, check for items that are going to be repeated sometimes in the business plan when you are telling the story you may have to often keep repeating few things it is alright to be repeated in one or two places but remember at least in one of the sections where it is going to appear where it is important, it has to be elaborated there and in all other places you may just mention about it, it is good to have bullet points because it's an easy read but remember these bullet points must be flushed out with little more information because just bullet points without any meaning to it is frustrating to read. Use a spell-checker to make sure that you've no spelling errors in your business plan and finally read it again and again to make sure that you have made no mistakes.

Summary – Components of a Business Plan



So in this session we understood the importance of an effective business plan and how it helps define the vision and clarify strategy. We also saw the various key elements of a business plan, including

- Company description

- Industry market analysis
- The management team
- The operational plan
- The finance plan
- The marketing plan, and other things like appendices
- Contingencies
- Risks



We also saw that the business plan is not only important for you as an entrepreneur, but it is also critical to convince external stake holders like investors of potential recruits. For example if you are going out to raise funds your investors is definitely going to ask you for your business plan and it also sometimes very helpful to convince potential recruits towards your vision and strategy.

We also saw that the length of an ideal business plan is anywhere between 15-20 pages, but of course it depends on the individual business. If your business is operationally very intensive and complicated, we saw examples where business plans run into 100 pages. So essentially the length of the business plans depends on your audience and the nature of the business you are running.

We also saw the various internal and external data sources that can be used to create an effective business plan. Then we saw how to create a well-structured and formatted business plan and where we looked at the hygiene factor like the font size, the spacing, the use of tables and charts etc. in order to convey something very crispy. This session was very helpful for me pushing me towards writing an effective business plan for my venture, and I hope you enjoyed the session too.

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