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UpGrad

Summary

Creating an Effective B-Plan: Part 1

The objective of making a clear business plan is to have a well-charted and clearly defined path for the business. This is incomplete without detailed workings of the financials, and clear projections of how the business would work, break even and thus make profit. For this, elements such as revenues, fixed costs, variable costs, distribution and marketing costs, overhead costs, manpower costs etc. need to be detailed out. Such an activity would also help the team monitor diversions and take corrective actions.

Key Elements of a Business Plan

As an entrepreneur, you need to to identify the critical factors responsible for the growth and progress of the firm and put that into quantifiable figures by creating a financial model incorporating all of them. Let's look at a few important elements:

- **Goal Setting and Timeline:** A focused entrepreneur will typically have a clear and defined vision for his or her venture in mind. It is, however, critical for the success of the business, to translate each of these goals as well as the vision in general, into a set of numbers, which is understood by all concerned stakeholders.

- **Cost Estimation:** Making cost projections for start-ups is difficult because of the obvious resource constraints. It's good for entrepreneurs to be as conservative as possible, and yet detailing of these costs, as much as is possible in the beginning itself is crucial. Some of the costs are:

  (a) **Manpower Cost:** Manpower cost is one of the biggest fixed costs for any firm, and the average manpower cost might be higher in the beginning, as the core team is likely to be filled with more expensive resources, as compared to later when you add more team members, at lower individual costs.

  (b) **Distribution Cost:** Once you select your distribution channel (inventory model/aggregate supplier/marketplace model), you would be able to estimate the cost of warehouse (if required), courier service cost, working capital requirement, and other associated distribution costs.

  (c) **Capital Expenditure:** It is crucial for you to correctly estimate the capital expense requirement for your venture at the time of putting together your business plan. This is important, as basis this number you will be organizing funds from your chosen sources.

- **Revenue Projection:** There are three key elements of revenue projections:

  (a) **Demand:** As a part of estimating the demand for your product or service, you must take into account the number of people to whom your offering is applicable, from that who all would be targeted and made aware of the offering, and from this what proportion of people would convert and purchase the product.

(b) **Price:** The demand of the product or service, is also a function of the price it is being offered at. This, in turn, can be a function of the quantity of product being offered or the features being provided within the offering. A multiplication of the demand of the product with the price will give you a projected revenue number for the first year of launch.

(c) **Growth:** There are several key macro-economic growth drivers of your industry, which must be estimated to arrive at the impact or the growth/degrowth expected in the Demand and the Price of your offering. For example - growth of 3G Connections; increase in mobile penetration; change in consumer behaviour etc. This, when applied to first year Revenue projections, helps estimate subsequent year estimations of Demand, Price and thus, Revenues.

You should be able to:

- Put your goals into quantifiable set of realistic numbers in the business plan.
- Monitor and take corrective steps as you progress with the execution.
- Optimally allocate cost as per your business requirements.