

Transcription

Creating an Effective B-Plan: Part 1

Building an Effective Business Plan

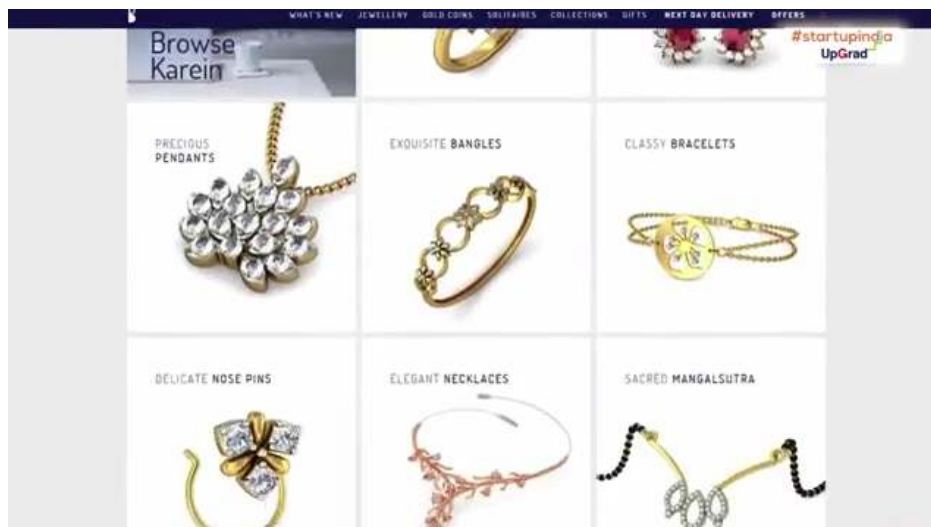


So far we have understood the importance of a business plan and the key element of a business plan then we saw how to structure a well formulated and a crisp business plan. Now that we have a solid theoretical understanding of business plan. I think it's going to be very important and I'm sure you've been the same way in terms of understanding the challenges of penning down your own business plan starting from scratch I mean it is not like we can copy somebody else's business plan cut copy paste from somewhere because if we do that we are going to put our business and ourselves in great trouble. So it's going to be very important for us to understand that how to pen a business plan from first-principles starting from scratch.



Writing a business plan is a good way to solidify your thinking. One of the most crucial success metric for an entrepreneur is the financial metric. So, why not articulate the components of the business plan in the

financial model. As we do this, it will give us a peek into the logical thought process of an entrepreneur, and will allow us to understand the way one needs to think about assumptions for the plan and prepare you for execution. The process of putting together a Business Plan, will force you to carefully review all the risks and rewards before you launch. By the time your Business Plan is complete, your objectives and strategies will become specific and concrete. The finished business plan will convince others of your potential and guide your team as you implement the plan. So, let us begin!!!



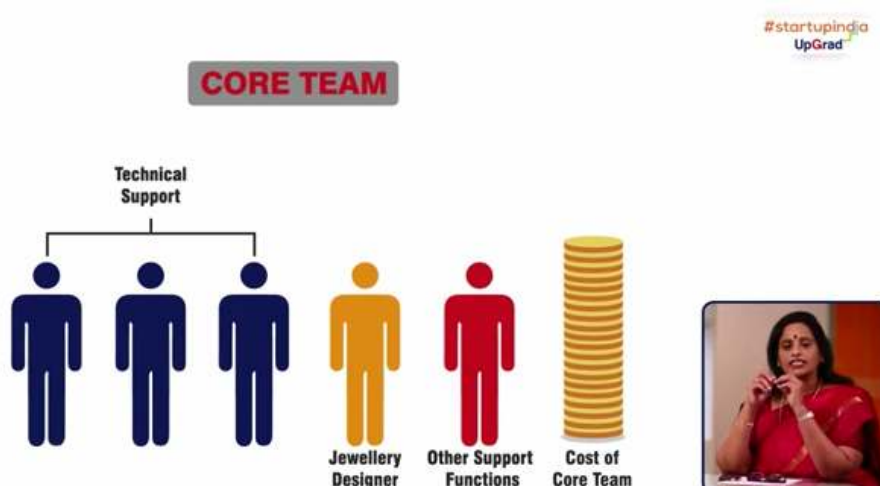
Consider an example where you are an entrepreneur who wants to start an online jewellery store. Let us say you have already done adequate research on the feasibility of the idea and is ready to go ahead. Essentially, you will now, list all the resources and you may require immediately for the next 6 months of operation or one year. Let's call it Year Zero. As you are starting up, for the initial period you will be low on resources and hence, you need to very wisely and innovatively use whatever you have.



So you would look at what are the critical components required to be set up to go live with your idea. For instance, in the case of the online jewellery portal – one would typically need to build the platform for the website. If you have this ability within yourself. Or you could hire a few key employees, make a fair estimation of the time and efforts taken for the same, and accordingly arrive at the cost. This is where the goal setting and timeline setting will come to use.



So, the original business plan that we had built for the business had us hitting like a 35 million dollar brand rate at the end of 2015. As you guys might have an idea what we are finally doing is way beyond that. So anything we thought we would do actually we have only been pleasantly surprised by what the business could have done. So in my point of view I think when you are building out a plan on a excel sheet you are always way more conservative than what consumers might really do for you as a business. You just have to believe. So putting down like 300%-400% growth on excel sheet is a very, only a very optimistic person can actually put that in place.



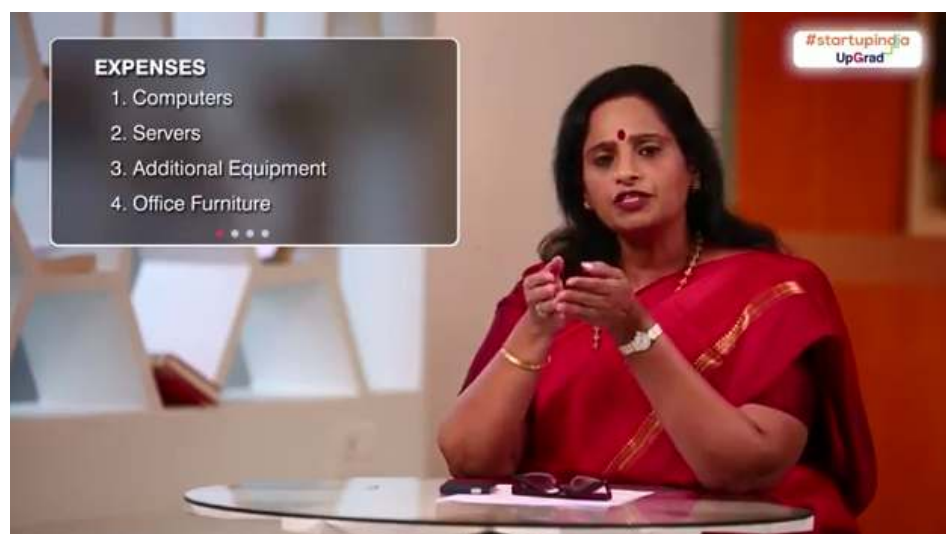
Let us say you require a core team of about 5 members, 3 for technical support, 1 jewellery designer, and 1 for other support functions. Remember the cost of hiring your core team maybe high because it is essential that you invest in the core team, who you may want to retain for a longer period to get your plan executed. Who you may want to retain for a longer period to get your plan executed.



The next thing could be to figure out the distribution strategy for your online jewellery business – would it be through your own

- Inventory model or
- Aggregated suppliers or
- Marketplace model

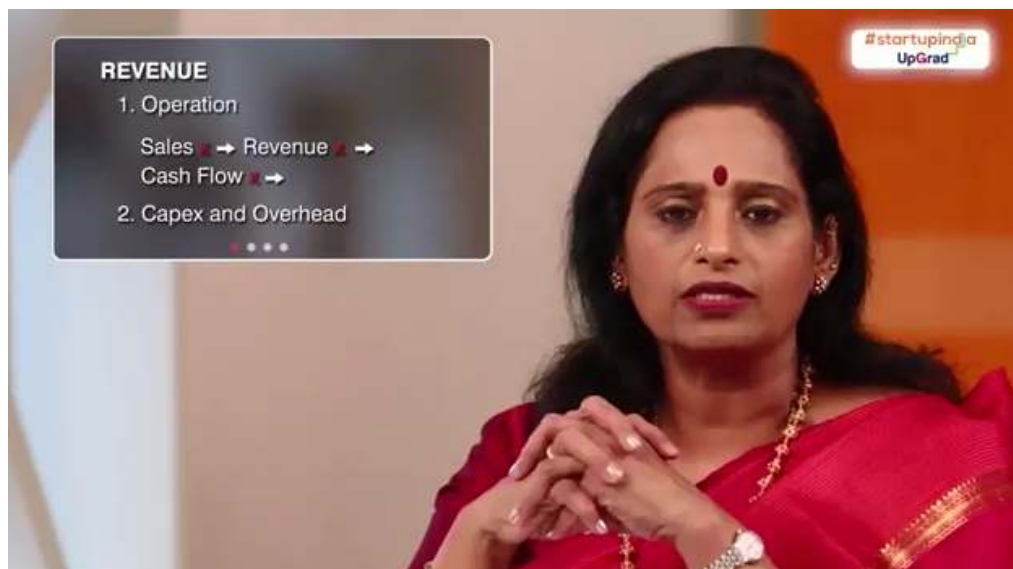
this will help you to strategize the requirement for warehouse, courier partners or delivery boys, and also the working capital to start the business. You have learned about these concepts in other sessions.



The next set of expenses will be your investment in capital expenditure in the form of

- Computers
- Servers
- Any additional equipment
- Office furniture etc

Together with these capital expenditure you will also incur administrative or office expenses, but let me not get into breaking it down, as you can do that for your business at a common sense level. You will also start procuring some inventory to begin sales, thus adding up to your working capital.



I have been listing expenses, but what about your revenue? In terms of operation you will have no sales and hence no revenue or cash inflow from operations. So the whole expense will be represented in capex and overheads. Let us understand revenue projections just like we estimated costs. In the first year of starting-up, set your customer target acquisition on a monthly basis, so that you are clear about the revenue you will touch by the end of the year with the customer base.



In the detailed business plan, you may project annual figures and also add an estimated growth rate. You may or may not achieve these figures, but at least you have set some expectations and goals and will work towards it, changing strategies to reach your goal. The proportion of the market that you can capture involves understanding how the macro-market and industry trends are growing, and what the various drivers of growth at the industry are. It could be driven by the function of how

- 3G connections will grow
- How mobile penetration will grow or even
- How internet connectivity will grow
- How the psychographic behaviour of consumers will change

You have already been through these in your previous sessions. In this session you are using them to make your projections.

ONLINE JEWELLERY STORE - MARKET RESEARCH

	UNITS	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TRAFFIC DETAILS							
No. Of People Shopping Online Per Month	##		25,00,000	32,50,000	42,25,000	54,92,500	71,40,250
No. Of People Shopping Jewellery Online	%		5%	7%	10%	10%	10%
Market Share Of Online Jewellery For The Company	%		10%	20%	30%	30%	30%
Jewellery Unique Visitors Per Month	##		12,500	45,000	1,26,750	1,64,775	2,14,208
Jewellery Growth In Traffic %	%			264%	179%	30%	30%
Conversion Rate	%		5%	5%	5%	5%	5%

How to make some realistic assumptions? Let us assume that your market research shows there are 25,00,000 online shoppers, and about 5% of them shop high value products. This could be your total market. What is the fair share of this market that you can capture? This can be projected by understanding the dynamics of your competitive environment and their positioning, and also looking at global comparisons, and what market share they could achieve over a given period of time.

Assuming that this is a new market, and that there are few players you may project a higher market share in the initial years itself. But as it is a new opportunity identified, and there are no entry barriers you need to keep in mind the duration of time for others to enter into the market and disrupt your projections. Let me say that even the best player in the market captures 20% in the initial years and reaches 50% in 5 years. So, you can conservatively assume 10% of the market share in the first year and increase it to 30% in year three. This gives you the number of customers you can target.

ONLINE JEWELLERY STORE - MARKET RESEARCH

	UNITS	YEAR 0	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TRAFFIC DETAILS							
No. Of People Shopping Online Per Month	##		29,00,000	32,90,000	42,39,000	54,92,300	71,40,250
No. Of People Shopping Jewellery Online	%		5%	7%	10%	10%	10%
Market Share Of Online Jewellery For The Company	%		10%	20%	30%	30%	30%
Jewellery Unique Visitors Per Month	##		12,800	48,000	1,26,750	1,84,775	2,14,208
Jewellery Growth In Traffic %	%			364%	178%	30%	30%
Conversion Rate	%		5%	5%	5%	5%	5%



Next, what revenue can you generate will depend on your pricing and monetisation model. You need to understand how your business model is positioned- Are you charging your consumers based on units purchased or charging on the basis of subscription. Remember you learnt different forms of monetisation in the session on Business model. But, for an online business like this usually the monetization is units sold.



On the pricing – this assumption will require you to first define the product mix, and also what is it that your consumer will be willing to pay for this product mix. This you could achieve by benchmarking the pricing of similar products in the market, and factoring the differentiation you are offering.

For instance, for a jewellery shop, who sells gold ear-rings – the pricing is a mix of the making charges and the weight of gold, but if you go to a branded showroom, the pricing could vary based on the design you choose. So factoring the market sensitivity to the pricing of your products will help you make this assumption. In our case for instance, we have assumed a lower price point in the beginning, given that people may not want to buy high value products online, and from a new entrant – but this behaviour may change over time, hence increasing the average price point in the future.

This session on revenue projections has been covered in very simple terms but it involves an understanding of all macro and micro trends that could affect the assumptions that help you arrive at the revenue. This will culminate into how you project revenue today and in the near future, based on the understanding of the market, industry and product.

Summary: Creating an Effective B-Plan: Part 1



So in this session we understood how to make an effective business plan with the example of an online jewellery store, we saw what a business plan looks like the various components it include and how it should be structure. We also looked at the various factors that are involved in a business plan like who is your target customer, pricing, revenue and market share and the various assumptions that were each of these.

I hope this helps you identify the various elements that are important to write an effective business plan for your own venture. It was great seeing you for the session and I look forward to seeing you again!

No part of this publication may be reproduced, transmitted, or stored in a retrieval system, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publisher.