5
Business Planning

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How This Chapter Fits in a Typical MBA Curriculum

Business planning is often central to teaching entrepreneurship. Entrepreneurship is an iterative cycle between *thinking* and *acting.* If would-be entrepreneurs only think and never *act* on that thinking, then they are what I affectionately term "cocktail entrepreneurs." For any new business or invention that comes around, cocktail entrepreneurs will regale you with tales about how they thought of this idea first and how the company that ultimately launched it "stole" their idea, or some other reason why the entrepreneur didn't *act.* In reality, cocktail entrepreneurs are missing a key component to entrepreneurial success—the ability to *act* on their ideas. Likewise, entrepreneurs who *act* without *thinking* are apt to make more mistakes, and those mistakes are often much more costly than entrepreneurs who are active *thinkers.* Thus, entrepreneurship is an iterative balance between *thinking* and *acting.*

Within most MBA programs, there is a course that is focused on business planning, because it is a means to gain deep learning about the opportunity that you wish to pursue. While most MBA courses focus on producing a formal finished product that the entrepreneur can share with investors or other stakeholders, it is the process that is important. As I tell my students, I don't care whether they produce an actual written document, or just accumulate numerous computer files on areas of importance. But following a formal process can help ensure that you don't miss any important gaps in your planning process. As General Dwight D. Eisenhower famously stated, "In preparing for battle I have always found that plans are useless, but planning is indispensable."[1]

Who Uses This Material in the Real World

Business planning is widely used throughout the business world. Entrepreneurs use business planning to launch nascent ventures, and managers throughout existing organizations use business planning on a regular basis as they anticipate their companies' next moves. Large Fortune 500 companies also see the benefits of business planning. For example, Bert DuMars, vice president of e-business and interactive marketing at Newell Rubbermaid, was tasked with integrating social media marketing into well-established products, such as the Sharpe pen. "This is a new area for us and heavy investing (whether dollars, personnel or both) without understanding how, when, and why our consumers would like to engage with us is risky and dangerous for our brands."[2] For Newell Rubbermaid, it would be considered reckless to pursue a new opportunity without the benefit of thoughtful evaluation that is achieved through a well-prepared business plan.

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The Story of Your Business

The purpose of business planning is to tell a story—the story of your business. Thorough business planning can establish the fact that there is an opportunity worth exploiting and should then describe the details of how this will be accomplished. During the dotcom boom of the late 1990s, many entrepreneurs and venture capitalists questioned the importance of the business plan. Typical of this hyper-start-up phase are stories like that of James Walker, who generated financing on a 10 day-old company based on "a bunch of bullet points on a piece of paper." He stated, "It has to happen quick in the hyper-competitive wireless-Internet-technology world. There's a revolution every year and a half now."[3] The implication was simple: Business planning took time—time that entrepreneurs didn't have.

April 2000 brought a sobering wake-up call for investors and entrepreneurs who had invested in that dot-com boom. Previously, many entrepreneurs believed that all they needed in order to find investors and go public was a few PowerPoint slides and a good idea. The NASDAQ crash in April dispelled those beliefs as people came to realize that the majority of these businesses never had the potential to produce profits. Today, investors have learned from this lesson and demand well-researched market opportunities and solid business planning. Entrepreneurs have also learned the various benefits of a well-researched plan.

There is a common misperception that business planning is primarily used for raising capital. Although a good business plan assists in raising capital, the primary purpose of the process is to help entrepreneurs gain a deeper understanding of the opportunity they are envisioning. Many would-be entrepreneurs doggedly pursue ideas that will never be profitable because they lack deep understanding of the business model. The relatively little time spent developing a sound business plan can save thousands or even millions of dollars that might otherwise be wasted in a wild goose chase. For example, if a person makes $100,000 per year, spending 200 hours on a business planning process equates to a $10,000 investment in time spent ($50/hour x 200 hours). However, launching a flawed business concept can quickly accelerate into millions in spent capital. Most entrepreneurial ventures raise enough money to survive two years, even if the business will ultimately fail. Assuming the only expense is the time value of the lead entrepreneur, a two-year investment equates to $200,000, not to mention the lost opportunity cost and the likelihood that other employees were hired and paid and that other expenses were incurred. So do yourself a favor and spend the time and money up front.

The business planning *process* helps entrepreneurs shape their original vision into a better opportunity by raising critical questions, researching answers for those questions, and then answering them. For example, one question that every entrepreneur needs to answer is "What is the customer's pain?" Conversations with customers and other trusted advisers assist in better targeting the product offering to what customers need and want. This pre-start-up work saves untold effort and money that an entrepreneur might spend trying to reshape the product after the business has been launched. While all businesses adjust their offerings based upon customer feedback, business planning helps the entrepreneur to anticipate some of these adjustments in advance of the initial launch.

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Perhaps the greatest benefit of business planning is that it allows the entrepreneur to articulate the business opportunity to various stakeholders in the most effective manner. The plan provides the background so the entrepreneur can communicate the upside potential and attract equity investment. The business plan provides the validation needed to convince potential employees to leave their current jobs for the uncertain future of a new venture. It is also the instrument that can secure a strategic partner or key customer or supplier. In short, business planning provides the entrepreneur with the deep understanding she needs to answer the critical questions that various stakeholders will ask. Completing a well-founded business plan gives the entrepreneur credibility in the eyes of various stakeholders.

Types of Plans

Business plans can take a number of forms depending upon their purpose. Each form requires the same level of effort and leads to the same conclusions, but the final document is crafted differently depending on who uses it and when they use it. For instance, when you are introducing your concept to a potential investor, you might send them a short, concise summary plan. As the investor's interest grows and she wants to more fully investigate the concept, the investor may ask for a more detailed plan. Although commonly associated with raising capital, a business plan serves so much more than the needs of potential investors. Employees, strategic partners, financiers, and board members all may find use in a well-developed business plan. Most importantly, the entrepreneur herself gains immeasurably from the business planning process as it allows her not only to run the company better, but also to clearly articulate her story to stakeholders who may never read the plan. In conclusion, different consumers of the business plan require different presentation of the work.

If outside capital is needed, a business plan geared towards equity investors or debt providers typically is 25 to 40 pages long. Entrepreneurs need to recognize that professional equity investors (such as venture capitalists) and professional debt providers (such as bankers) will not read the entire plan from front to back. That being the case, the entrepreneur needs to produce the plan in a format that facilitates spot reading. We investigate the major sections that comprise business plans throughout this chapter. My general rule of thumb is that less is more. For instance, I've seen more plans receive venture funding that were closer to 25 pages than 40 pages.

A second type of business plan, the *operational* plan, is primarily for the entrepreneur and her team to guide the development, launch, and initial growth of the venture. There really is no length specification for this type of plan; however, it is common for these plans to exceed 80 pages. The basic organizational format of the two types of plans is the same, but the level of detail tends to be much greater in an operational plan. The creation of this document is where the entrepreneur really gains the deep understanding so important in discerning how to build and run the business. Since this document is typically for internal use only, it may not be published per se, but it might exist virtually on various computer files.

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A *dehydrated* business plan is considerably shorter than the previous two, typically no more than 10 pages. The purpose of this plan is to provide an initial conception of the business. As such, it can be used to test initial reaction to the entrepreneur's idea. It is a document that the entrepreneur can share with her confidantes and receive feedback before investing significant time and effort on a longer business planning process.

After entrepreneurs complete the business planning process, I encourage them to come back and rewrite the dehydrated plan (otherwise known as an *expanded executive summary).* This expanded executive summary can be used to attract attention. For instance, entrepreneurs may send it to investors that they have recently met to spur interest and a meeting. It is usually better to send an expanded executive summary rather than a full business plan, as the investor will be more apt to read it. If the investor is interested, she will call the entrepreneur in for a meeting. If the meeting goes well, the investor often then asks for the full business plan.

From Glimmer to Action: The Process

Perhaps the hardest part of business planning is getting started. Compiling the data, shaping it into an articulate story, and producing a finished product can be a daunting task. That being the case, the best way to attack business planning is in steps. First, write a short (less than five pages) summary of your current vision. This provides a road map for you and others to follow as you complete the rest of the planning process. Second, start attacking major sections of the planning process. Although each section interacts and influences every other section, it is often easiest for entrepreneurs to write the product/service description first. This is usually the most concrete component of the entrepreneur's vision. Keep in mind, however, that business planning isn't purely a sequential process. You will be filling in different parts of the plan simultaneously or in whatever order makes the most sense in your mind. Finally, after completing a first draft of all the major sections, it is time to come back and rewrite a shorter, more concise executive summary. Not too surprisingly, the executive summary will be quite different than the original summary because of all the learning and reshaping that the business planning process facilitates.

Wisdom is in realizing that the business plan is a living document. Although your first draft will be polished, most business plans are obsolete the day they come off the presses. That means that entrepreneurs are continuously updating and revising their business plan. Each major revision should be kept and filed, and occasionally looked back upon for the lessons you have learned. Remember, the importance of the business plan isn't the final product, but the learning that is gleaned from writing the novel of your vision. It articulates what you see in your mind, as well as crystallizes that vision for you and your team. It also provides a history, a photo album if you will, of the birth, growth, and maturity of your business. Although daunting, business planning can be exciting and creative, especially if you are working on it with your founding team. So now let us dig in and examine how to effectively conduct the business planning process.

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The Story Model

One of the major goals of business planning is to attract various stakeholders and convince them of the potential of your business. Therefore, you need to keep in mind how these stakeholders will interpret your plan. The guiding principle is that you are writing a story.

Exhibit 5.1 Taglines

Nike:	*Just Do It!*
Federal Express:	*When it absolutely, positively has to be there overnight*
McDonald's:	*We love to see you smile*
Cisco Systems:	*Discover all that's possible on the Internet*

All good stories have a theme, a unifying thread that ties the setting, characters, and plot together. If you think about the most successful businesses in America, they all have well publicized themes, summarized in taglines. When you hear these taglines, you instantly gain insight into the business. For example, when you hear the tagline "When it absolutely, positively has to be there overnight," most people connect it to Federal Express and package delivery. In addition, most people think of reliability—the quality that is associated with FedEx. Similarly, "Just do it" is intricately linked to Nike and the image of athletic proficiency (see Exhibit 5.1). A tagline is a sentence, or even a fragment of a sentence, that summarizes the pure essence of your business. It is the theme that every sentence, paragraph, page, diagram, and so on, within your business plan should adhere to, the unifying idea of your story. A useful tip is to put your tagline in a footer that runs on the bottom of every page. As you are writing, if the section doesn't build on, explain, or otherwise directly relate to the tagline, it most likely isn't a necessary component to the business plan. Rigorous adherence to the tagline facilitates writing a concise and coherent business plan.

The key to the story model is capturing the reader's attention. The tagline is the foundation, but in writing the plan you want to create a number of visual catch-points. Too many business plans are text-laden, dense manifestos. Only the most diligent reader will wade through all that text. Help the reader by highlighting different key points throughout the plan. How do you create these catch-points? Some effective techniques include extensive use of headings and subheadings, strategically placed bullet point lists, diagrams, charts, and the use of sidebars.[4] The point is to make the document not only content rich, but visually attractive.

Now, let's take a look at the major sections of the plan (see Exhibit 5.2). Keep in mind that although there are variations, most plans have these components. It is important to keep your plan as close to this format as possible because many stakeholders are accustomed to the format and it facilitates spot reading. If you are seeking venture capital, for instance, you want to facilitate quick perusal because venture capitalists often spend as little as five minutes on a plan before rejecting it or putting it aside for later consideration. If a venture capitalist becomes frustrated with an unfamiliar format, it is more likely that she will reject it rather than try to pull out the pertinent information. Even if you aren't seeking venture

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capital, the structure given in Exhibit 5.2 is easy for other investors to follow and understand. Furthermore, the sections highlighted provide a road map for questions that you need to consider as you prepare to launch your business.

Exhibit 5.2 Business Plan Outline

I.	Cover
II.	Executive Summary
III.	Table of Contents
IV.	Industry, Customer, and Competitor Analysis
V.	Company and Product Description
VI.	Marketing Plan
VII.	Operations Plan
VIII.	Development Plan
IX.	Team
X.	Critical Risks
XI.	Offering
XII.	Financial Plan

The Business Plan

We will progress through the sections in the order that they typically appear, but keep in mind that you can work on the sections in any order that you wish.

The Cover

The cover of the plan should include the following information: company name, tagline, contact person and address, phone number, fax number, e-mail address, date, disclaimer, and copy number. Most of the information is self-explanatory, but a few things should be pointed out (see Exhibit 5.3). First, the contact person for a new venture should be the president or another founding team member. I have seen some business plans that failed to include the contact person's name, e-mail, and phone on the cover. Imagine the frustration of an excited potential investor who can't find out how to contact the entrepreneur to gain more information. More often than not, that plan will end up in the rejected pile.

Second, business plans should have a disclaimer along these lines:

> This business plan has been submitted on a confidential basis solely to selected, highly qualified investors. The recipient should not reproduce this plan, nor distribute it to others without permission. Please return this copy if you do not wish to invest in the company.

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Controlling distribution is particularly important when seeking investment, especially if you do not want to violate Regulation D of the Securities Exchange Commission (SEC), which specifies that you may only solicit qualified investors (high net worth and income individuals).

The cover should also have a line stating which number copy it is. For example, you will often see on the bottom right portion of the cover a line that says “Copy 1 of 5 copies.” Entrepreneurs should keep a log of who has copies so that they can control for unexpected distribution.

Finally, the cover should be eye-catching. If you have a product or prototype, a picture of it can draw the reader in. Likewise, a catchy tagline draws attention and encourages the reader to look further.

Executive Summary

This section is the most important part of the business plan. If you don’t capture the reader’s attention in the executive summary, it is unlikely that she will read any other parts of the plan. This is just like a book’s jacket notes: Most likely, the reader will only buy the book if she is impressed with the notes inside the cover. Therefore, you want to hit your reader with the most compelling aspects of your business opportunity right up front.

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Dated: December 4, 2008

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Exhibit 5.3 Sample Business Plan Cover

Hook the reader. That means having the first sentence or paragraph highlight the potential of the opportunity. “The current market for widgets is $50 million, growing at an annual rate of 20 percent. Moreover, the emergence of mobile applications is likely to accelerate this market’s growth. Company XYZ is positioned to capture this wave with its proprietary technology: the secret formula VOOM.” This creates the right tone. The first sentence emphasizes that the potential opportunity is huge and that company XYZ has some competitive advantage that enables it to become a big player in this market. Yet I have read too many plans that start with “Company XYZ, incorporated in the state of Delaware, will develop and sell widgets.” Ho-hum. That does not excite me. I don’t really care, at this point, that the business is incorporated or that it is a Delaware corporation (aren’t they all?). Capture my attention immediately or risk losing me altogether.

Common subsections within the executive summary include:

- Description of opportunity.

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- Business concept.
- Industry overview.
- Target market.
- Competitive advantage.
- Business model and economics.
- Team and offering.
- Financial snapshot.

Remember that since this is an executive summary, all of these components are covered in the body of the plan. As such, you will explore them in greater detail as you progress through the sections. Keep it brief here.

Since the executive summary is the most important part of the finished plan, it should be written after you have gained your deep learning by going through all of the other sections. Don't confuse the executive summary included in the plan with the expanded executive summary that I suggested you write as the very first step of the business plan process. Again, the two summaries are likely to be significantly different as the later summary incorporates all the deep learning that you have gained throughout the process. Don't recycle your initial summary. Rewrite it entirely based on the hard work you have done going through the business planning process.

Table of Contents

Continuing the theme of making the document easy to read, a detailed table of contents is critical. It should list major sections, subsections, exhibits, and appendixes. The table provides the reader a road map to your plan (see Exhibit 5.4).

Industry, Customer, and Competitor Analysis

Industry

The goal of this section is to illustrate the business opportunity and how you are going to capture that opportunity. Before you can develop your plot and illustrate a theme, you need to provide a setting or context for your story. A useful framework for visualizing the opportunity is Timmon's Model of Opportunity Recognition.[5] Using the "three Ms" helps quantify an idea and assess how strong an opportunity the idea is.

First, examine *market demand.* If the market is growing at 20 percent or better, the opportunity is more exciting. Second, we look at *market size and structure.* A market that is currently $50 million with $1 billion potential is attractive. This often is the case in emerging markets, those that appear poised for rapid growth and have the potential to change how we live and work. For example, the PC, disk drive, and computer hardware markets of the 1980s were very hot. Many new companies were born and rode the wave of the emerging

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technology, including Apple, Microsoft, and Intel. In the 1990s, it was anything dealing with the Internet. Google, eBay, and Facebook have leveraged the Internet and changed the way we live. Today, we are seeing important trends in energy and environment that have created a clean technology boom. According to the 2008 Clean Energy Trends Report, revenue from clean technologies grew 40 percent from $55 billion in 2006 to $77 billion in 2007 and is projected to grow to $255 billion by 2017.[6]

Exhibit 5.4 Business Plan Table of Contents

TABLE OF CONTENTS

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Another market structure that tends to have promise is a fragmented market where small, dispersed competitors compete on a regional basis. Many of the big names in retail revolutionized fragmented markets. For instance, category killers such as Wal-Mart, Staples, and Home Depot consolidated fragmented markets by providing quality products at lower prices. These firms replaced the dispersed regional and local discount office supply and hardware stores.

The final M is *margin analysis*. Do firms in the industry enjoy high gross margins (revenues minus cost of goods sold) of 40 percent or greater? Higher margins allow for higher returns, which again leads to greater potential businesses.

The three Ms help distinguish opportunities and as such should be highlighted as early as possible in your plan. Describe your overall industry in terms of revenues, growth, and pertinent future trends. Within this section, avoid discussing your concept—the proposed product or service you will offer. Instead, use dispassionate, arm's-length analysis of the industry with the goal of highlighting a space or gap that is underserved. Thus, how is the industry segmented currently, and how will it be segmented into the future? After identifying the relevant industry segments, identify the segment that your product will target. Again, what are the important trends that will shape the segment into the future?

Customer

Once the plan has defined the market space it plans to enter, the target customer needs to be examined in detail. The entrepreneur needs to define who the customer is by using demographic and psychographic information. The better the entrepreneur can define her specific customers, the more apt she is to deliver a product that the customer truly wants. Although you may argue that everyone who is hungry is a restaurant's customer, such a vague definition makes it hard to market to the core customer. As a middle aged man with a family, I have different eating habits than I did in my twenties. I frequent different types of establishments and expect certain kinds of foods within a certain price range. The entrepreneur needs to understand who her core customer is so that she can create a product that the core customer wants and then market a message to which the core customer responds.

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A venture capitalist recently told me that the most impressive entrepreneur is the one who comes into his office and not only identifies who the customer is in terms of demographics and psychographics, but can also name who that customer is by address, phone number, and e-mail address. When you understand who your customer is, you can assess what compels them to buy, how your company can sell to them (direct sales, retail, Internet, direct mail, etc.), how much it is going to cost to acquire and retain that customer, and so forth.

For example, Best Buy has profiled a variety of customers, which serves as an aide to help employees to better understand their customers' needs. "Buzz" is a young urban male who might be interested in video games, whereas "Barry" is an upscale suburban client who wants premium products that are packaged as a total solution.[7] A schedule inserted into the text describing customers on the basic parameters can be very powerful. It communicates a lot of data quickly.

Exhibit 5.5 Competitive Profile Matrix

	THS	Big Box	Amazon	THC Web site	Museum Stores	Specialty Web sites
History book selection	2	3	1	3	4	3
Display of artifacts	1	5	5	5	3	5
History-related gift items	1	5	4	2	1	2
Videos/DVDs	1	4	3	3	5	2
Price	3	2	1	2	3	3
Atmosphere	1	2	5	5	4	5
Employee knowledge	1	4	5	5	2	5
Ease to shop specific item	2	2	1	1	3	4
Ease to browse	1	2	3	3	2	4

Competition

The competition analysis falls directly out of the customer analysis. Specifically, you have previously identified your market segment and described what the customer looks like and what the customer wants. The key factor leading to competitive analysis is what the customer wants in a particular product. These product attributes form a basis of comparison against your direct and indirect competitors. A competitive profile matrix not only creates a powerful visual catch-point, it conveys information regarding your competitive advantage and also the basis for your company's strategy (see Exhibit 5.5). The competitive profile matrix should lead the section and be followed by text describing the analysis and its implications.

In Exhibit 5.5, the entrepreneur rates each competitor (or competitor type) on various key

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success factors using a five-point scale (with 1 being strong on the attribute and 5 being weak). The entrepreneur has also listed his concept, The History Shoppe (THS), in the matrix. We can see that THS expects to do well on most attributes, except for price. The rationale is that customers are willing to pay a bit more for the added benefit of the THS concept. To this point in his business plan, the entrepreneur has been setting the platform to introduce his concept by using dispassionate analysis of the industry, customer, and competition. By including THS in the matrix, he is foreshadowing the company section.

Finding information about your competition can be easy if the company is public, harder if it is private, and very difficult if the company is operating in stealth mode (it hasn't yet announced itself to the world). Most libraries have access to databases that contain a wealth of information about publicly traded companies (see Exhibit 5.6 for some sample sources), but privately held companies or those stealth ventures represent a greater challenge.

The best way for savvy entrepreneurs to gather competitive information is through their network and via trade shows. Who should be in the entrepreneur's network? First and foremost are the customers the entrepreneur hopes to sell to in the near future. Just as you are (or should be) talking to your potential customers, your existing competition is interacting with the customers every day and your customers are likely aware of the "stealth" competition that is on the horizon. Although many entrepreneurs are fearful (verging on the brink of paranoia) that valuable information will fall in the wrong hands and lead to new competition that invalidates the current venture, the reality is that entrepreneurs who operate in a vacuum (meaning they don't talk to customers or show up to tradeshows, etc.) fail far more often than those who are talking to everybody they can. Take the risk. Talking allows entrepreneurs to get valuable feedback that enables them to reshape their offering prior to launching a product that may or may not be accepted by the marketplace. So, network not only to find out about your competition, but also to improve your own venture concept.

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Exhibit 5.6 **Sample Source Information for Public/Private Companies**

Infotrac—Index/Abstracts of journals, general business and finance magazines, market overviews, and profiles of public and private firms.

Dow Jones Interactive—Searchable index of articles from over 3000 newspapers.

Lexis/Nexis—Searchable index of articles.

Dun's Principal International Business—International Business directory.

Dun's One Million Dollar Premium—Database of public and private firms with revenues greater than $1 million or more than 8 employees.

Hoover's Online—Profiles of private and public firms with links to web sites, etc.

Corp Tech—Profiles of high technology firms.

Bridge Information Services—Detailed financial information on 1.4 million international securities that can be manipulated in tables and graphs.

RDS Bizsuite—Linked databases providing data and full-text searching on firms.

Bloomberg—Detailed financial data and analyst reports.

Company and Product Description

Completing the dispassionate analysis described in the previous section lays the foundation for describing your company and concept. In one paragraph, identify the company name, where it is incorporated, and provide a brief overview of the concept for the company. This section should also highlight what the company has achieved to date; what milestones have you accomplished that show progress?

More space should be used to communicate the product. Again, graphic representations are visually powerful (see Exhibit 5.7). Highlight how your product fits into the customer value proposition. What is incorporated into your product and what value-add do you deliver to the customer? Which of the customer's unmet wants and needs are fulfilled by your offering?

The History Shoppe uses retailing research by Pine and Gilmore that identifies the attributes customers desire in experiential shopping.[8] As shown in Exhibit 5.7, The History Shoppe then illustrates how it meets the needs of the customer in each quadrant (they will have guest speakers, display historical artifacts, sell books and historical merchandise, all in a pleasing atmosphere). The diagram captures The History Shoppe's customer value proposition and explains why THS believes its customers will pay a bit more for its books than they would at Barnes & Noble.

This section should clearly and forcefully identify your venture's competitive advantage. Based upon your competitive analysis, why is your product better, cheaper, faster than what customers currently have access to? Your advantage may be a function of proprietary

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technology, patents, distribution, and so forth. In fact, the most powerful competitive advantages are derived from a bundle of factors, because this makes them more difficult to copy. The History Shoppe, for example, plans on bundling products, museumlike atmosphere, and educated sales personnel (history buffs) with locations near historical sites. Achieving a good fit among all the items in this bundle is what will set your business apart.

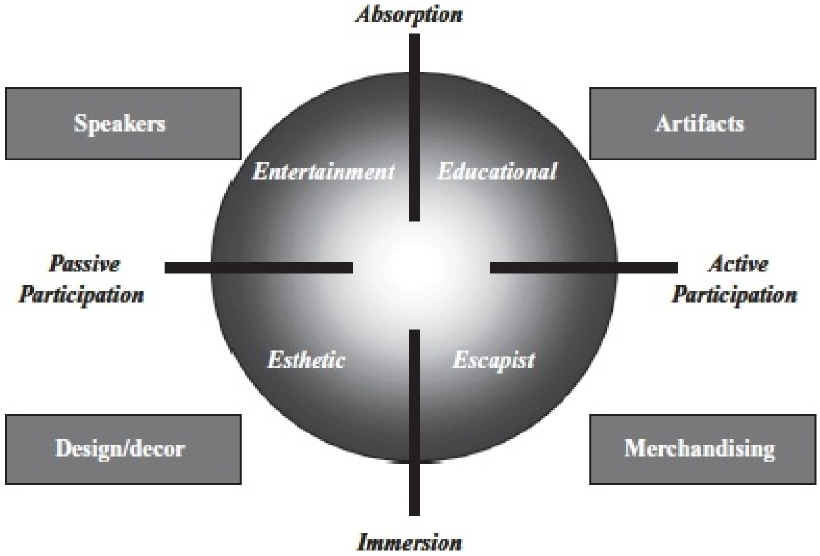

Exhibit 5.7 Customer Value Proposition

Entrepreneurs also need to identify their market entry and growth strategies. Since most new ventures are resource constrained, especially in terms of available capital, it is crucial that the lead entrepreneur establish the most effective way to enter the market. Based upon analysis in the market and customer sections, entrepreneurs need to identify their primary target audience (PTA). Focusing on a particular niche or subset of the overall market allows new ventures to effectively utilize scarce resources to reach those customers and prove the viability of their concept.

The business plan should also sell the entrepreneur's vision for growth because that indicates the true potential for the business. Thus, a paragraph or two should be devoted to the firm's growth strategy. If the venture achieves success in its entry strategy, it will either generate internal cash flow that can be used to fuel the growth strategy or be attractive enough to get further equity financing at improved valuations. The growth strategy should talk about the secondary and tertiary target audiences that the firm will pursue. For example, The History Shoppe plans on building a flagship store in Lexington, Massachusetts (birthplace of the Revolutionary War), and then expanding to other states with strong customer demographics and important historical sites. Other industries might show growth strategies along other dimensions. For instance, technology companies might shift from selling to users who want the best performance (early adopters) to users who want ease of use (mainstream market).

Marketing Plan

To this point, we have described your company's potential to successfully enter and grow in a market place. Now we need to devise the strategy that will allow the company to reach its

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potential. The primary components of this section include a description of the target market strategy, the product/service strategy, pricing strategy, distribution strategy, advertising and promotion, sales strategy, and sales and marketing forecasts. Let's take a look at each of these subsections in turn.

Target Market Strategy

Every marketing plan needs some guiding principles. Based upon the knowledge gleaned from the customer analysis, entrepreneurs need to target and position their product accordingly. For instance, product strategies often fall on a continuum with the endpoints being rational purchase and emotional purchase. As an example, when I buy a new car, the rational purchase might be a low-cost, reliable car such as the Ford Aspire. However, there is an emotional element as well. I want the car to be an extension of my personality. So, based upon my economic means and self-perception, I might buy a BMW or Audi because of the emotional benefits I derive.

Within every product space, there is room for products measured at different points along this continuum. You may also find other dimensions that define continuums upon which you can classify your marketplace. These tools help entrepreneurs decide where their product fits (or where they would like to position it). Your target market strategy determines the other aspects of the marketing plan.

Product/Service Strategy

Building from the target market strategy, this section of the plan describes how your product is differentiated from the competition. Discuss why the customer will switch to your product and how you will retain customers so that they don't switch to your competition in the future. Incorporating the attributes defined in your customer profile matrix, a product attribute map is a powerful visual to show how your firm compares to the competition. It is best to focus on the two most important attributes, putting one on the x-axis and the other on the y-axis. The map should show that you are clearly distinguishable from your competition on desirable attributes.

Exhibit 5.8 shows the competitive map for The History Shoppe. The two attributes upon which it evaluates competitors are atmosphere (is this a place that people will linger) and focus (broad topic focus or specialized). As you can see from Exhibit 5.8, The History Shoppe plans to have a high level of history specialization and atmosphere, placing it in the upper right quadrant. The competitor map identifies how THS plans on distinguishing itself from the competition. THS believes that history specialization and atmosphere will attract history buffs and entice them to return time and again.

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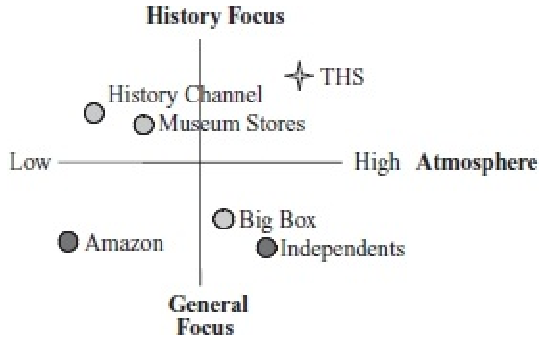

Exhibit 5.8 Competitive Map (Downloadable) Copyright © 2010 by William D. Bygrave and Andrew Zacharakis. To download this form for your personal use, please visit www.wiley.com/go/portablembainentrepreneurship.

This section should also address how you will service the customer. What type of technical support will you provide? Will you offer warranties? What kind of product upgrades will be available and when? It is important to detail all these efforts, as they must all be accounted for in the pricing of the product. Many times, entrepreneurs underestimate the costs of these services, which leads to a drain on cash and ultimately to bankruptcy.

Pricing Strategy

Determining how to price your product is always difficult. The two primary approaches can be defined as a *cost-plus* approach and a *market demand* approach. I advise entrepreneurs to avoid cost-plus pricing for a number of reasons. First, it is difficult to accurately determine your actual cost, especially if this is a new venture with a limited history. New ventures consistently underestimate the true cost of developing their products. For example, how much did it really cost to write that software? The cost would include salaries and benefits, computer and other assets, overhead contribution, and so on. Since most entrepreneurs underestimate these costs, there is a tendency to underprice the product.

Often, I hear entrepreneurs claim that they are offering a low price so that they can penetrate and gain market share rapidly. The problems with a low price are that it may be difficult to raise the price later; it can send a signal of lower quality; demand at that price may overwhelm your ability to produce the product in sufficient volume; and it may unnecessarily strain cash flow.

Therefore, the better method is to canvass the market and determine an appropriate price based upon what the competition is currently offering and how your product is positioned. If you are offering a low-cost value product, price below market rates. Price above market rates if your product is of better quality and possesses many features (the more common case).

Distribution Strategy

This section identifies how you will reach the customer. A company's distribution strategy is more than an operational detail. It can define a company's fortune as much as or more than the company's product. Much of the cost of delivering a product is tied up in its distribution. For example, the e-commerce boom of the late 1990s assumed that the growth in Internet

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usage and purchases would create new demand for pure Internet companies. Yet the distribution strategy for many of these firms did not make sense. Pets.com and other online pet supply firms were based on a strategy where the pet owner would log on, order the product from the site, and then receive delivery via UPS or the U.S. Postal Service. In theory this works, except that the price the market would bear for this product didn't cover the exorbitant shipping costs of a 40-pound bag of dog food.

It is wise to examine how the customer currently acquires the product. If I buy my dog food at Wal-Mart, then you should probably use primarily traditional retail outlets to sell me a new brand of dog food. This is not to say that entrepreneurs might not develop a multichannel distribution strategy, but if they want to achieve maximum growth, at some point they will have to use common distribution techniques, or reeducate the customer about the buying process (which can be very expensive). If you determine that Wal-Mart is the best distribution channel, the next question becomes whether you can access it. As a new start-up in the dog food industry, it may be difficult to get shelf space at Wal-Mart. That may suggest an entry strategy of boutique pet stores to build brand recognition. The key here is to identify appropriate channels and then assess how costly it is to access them.

Advertising and Promotion

Communicating effectively to your customer requires advertising and promotion. Resource-constrained entrepreneurs need to carefully select the appropriate strategies. What avenues most effectively reach your primary target audience (PTA)? If you can identify your PTA by names, then direct mail may be more effective than mass media blitzes. Try to utilize grassroots techniques such as public relations efforts geared toward mainstream media.

Sheri Poe, founder of Ryka shoes (geared towards women), appeared on the Oprah Winfrey show touting shoes for women, designed by women. The response was overwhelming. In fact, she was so besieged by demand that she couldn't supply enough shoes. Referring again to the dot-com boom of the late 1990s, the soon-to-be-defunct Computer.com made a classic mistake in its attempt to build brand recognition. It blew over half of the venture capital it raised on a series of expensive Super Bowl ads for the January 2000 event ($3 million of $5.8 million raised on three Super Bowl ads).[9]

As you develop a multipronged advertising and promotion strategy, create detailed schedules that show which avenues you will pursue and the associated costs (see Exhibits 5.9 and 5.10). These types of schedules serve many purposes including providing accurate cost estimates, which will help in assessing how much capital you need to raise. These schedules also build credibility in the eyes of potential investors as they demonstrate that you understand the nuances of your industry.

Sales Strategy

This section provides the backbone that supports all of the preceding strategies. Specifically, it illustrates what kind and level of human capital you will devote to the effort. How many salespeople, customer support personnel, and so on do you need? Will these people be

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internal to the organization or outsourced? If they are internal, will there be a designated sales force or will different members of the company serve in a sales capacity at different times? Again, this section builds credibility if the entrepreneur demonstrates an understanding of how the business should operate.

Exhibit 5.9 Advertising Schedule

Promotional Tools	Budget over One Year
Print advertising	$5,000
Direct mail	3,000
In-store promotions	2,000
Tour group outreach	1,000
Public relations	1,000
Total	$ 12,000

Exhibit 5.10 Magazine Advertisements

Publication	Circulation	Ad Price for Total Budget	Quarter Page for Year 1
Lexington Minuteman Newspaper	7,886	$ 500	$4,000
Boston Magazine	1,400,000	$1,000	$1,000

Sales and Marketing Forecasts

Gauging the impact of the efforts just described is difficult. Nonetheless, to build a compelling story, entrepreneurs need to show projections of revenues well into the future. How do you derive these numbers? There are two methods: the comparable method and the build-up method. After detailed investigation of the industry and market, entrepreneurs know the competitive players and have a good understanding of their history. The *comparable* method models sales forecasts after what other companies have achieved, adjusting for age of company, variances in product attributes, support services such as advertising and promotion, and so forth. In essence, the entrepreneur monitors a number of comparable competitors and then explains why her business varies from those models.

In the *build-up* method, the entrepreneur identifies all the revenue sources and then estimates how much of that revenue type they can generate per day, or some other small time period. For example, The History Shoppe generates revenues from books and artifacts. The entrepreneur would then estimate the average sales price for each category. Then he might estimate the number of people who would come through the store on a daily basis and what percentage would purchase each revenue source. Those estimates can then be aggregated into larger blocks of time (months, quarters, or years) to generate rough estimates, which might be further adjusted based upon seasonality in the retail industry.

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The build-up technique is an imprecise method for the new start-up with limited operating history, but it is critically important to assess the viability of the opportunity. It is so important, in fact, that I advise entrepreneurs to use both the comparable and build-up techniques to assess how well they converge. If the two methods are widely divergent, go back through and try to determine why. The deep knowledge you gain of your business model will greatly help you articulate the opportunity to stakeholders, as well as manage the business when it is launched. Chapter 6 provides more detail on how to derive these estimates.

The one thing we know for certain is that these forecasts will never be 100 percent accurate, but the question is the degree of error. Detailed investigation of comparable companies reduces that error. Triangulating the comparable results with the build-up method reduces that error further. The smaller the error, the less likely it is that the company will run out of cash. Rigorous estimates also build credibility with your investors.

Operations Plan

The key in the operations section is to address how operations will add value to your customers. This section details the production cycle, allowing the entrepreneur to gauge the impact on working capital. For instance, when does the company pay for inputs? How long does it take to produce the product? When does the customer buy the product and, more importantly, when does the customer pay for the product? The time from the beginning of this process until the product is paid for will drain cash flow and has implications for financing.

Counterintuitively, many rapidly growing new companies run out of cash even though they have increasing sales and substantial operating profit, because they fail to properly finance the time cash is tied up in the procurement, production, sales, and receivables cycle.

Operations Strategy

The first subsection provides a strategy overview. How does your business win/compare on the dimensions of cost, quality, timeliness, and flexibility? The emphasis should be on those aspects that provide your venture with a comparative advantage.

It is also appropriate to discuss geographic location of production facilities and how this enhances the firm's competitive advantage. Discuss available labor, local regulations, transportation, infrastructure, proximity to suppliers, and so forth. This subsection should also provide a description of the facilities, how the facilities will be acquired (bought or leased), and how future growth will be handled (e.g., renting an adjoining building, etc.). As with all sections detailing strategy, it is imperative that you support your plans with actual data.

Scope of Operations

What is the production process for your product or service? A diagram facilitates the decision

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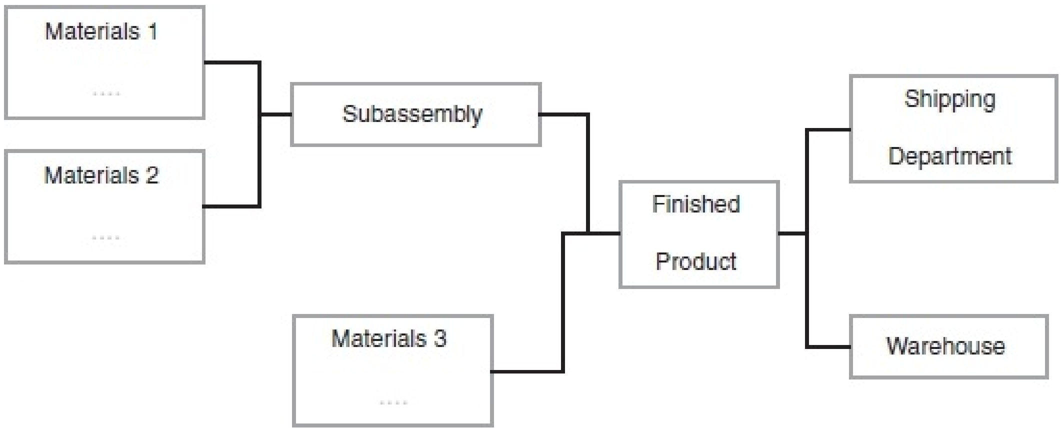
of which production aspects to keep in-house and which to outsource (see Exhibit 5.11). Considering that cash flow is king and that resource-constrained new ventures typically should minimize fixed expenses on production facilities, the general rule is to outsource as much production as possible.



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However, there is a major caveat to that rule: Your venture should control aspects of production that are central to your competitive advantage. Thus, if you are producing a new component with hardwired proprietary technology—let's say a voice-recognition security door entry—it is wise to internally produce that hard-wired component. The locking mechanism, though, can be outsourced to your specifications. Outsourcing the aspects that aren't proprietary reduces fixed costs for production equipment and facility expenditures, which means that you have to raise less money and give up less equity.

The scope of operations should also discuss partnerships with vendors and suppliers. Again, the diagram should illustrate the supplier and vendor relationships by category (or by name if the list isn't too long and you have already identified your suppliers). The diagram helps you visualize the various relationships and strategies to better manage or eliminate them. The operations diagram also helps entrepreneurs to identify personnel needs. For example, the diagram provides an indication of how many production workers might be needed, dependent upon the hours of operations, number of shifts, and so on.

Ongoing Operations

This subsection builds upon the scope of operations by providing details on day-to-day activities. For example, how many units will be produced in a day and what kinds of inputs are necessary? An operating cycle overview diagram graphically illustrates the impact of production on cash flow (see Exhibit 5.12). As entrepreneurs complete this detail, they can start to establish performance parameters, which will help monitor and modify the production process into the future. If this is an operational business plan, the level of detail may include specific job descriptions, but for the typical business plan, this level of detail would be much more than an investor, for example, would need or want to see in the initial evaluation phase.

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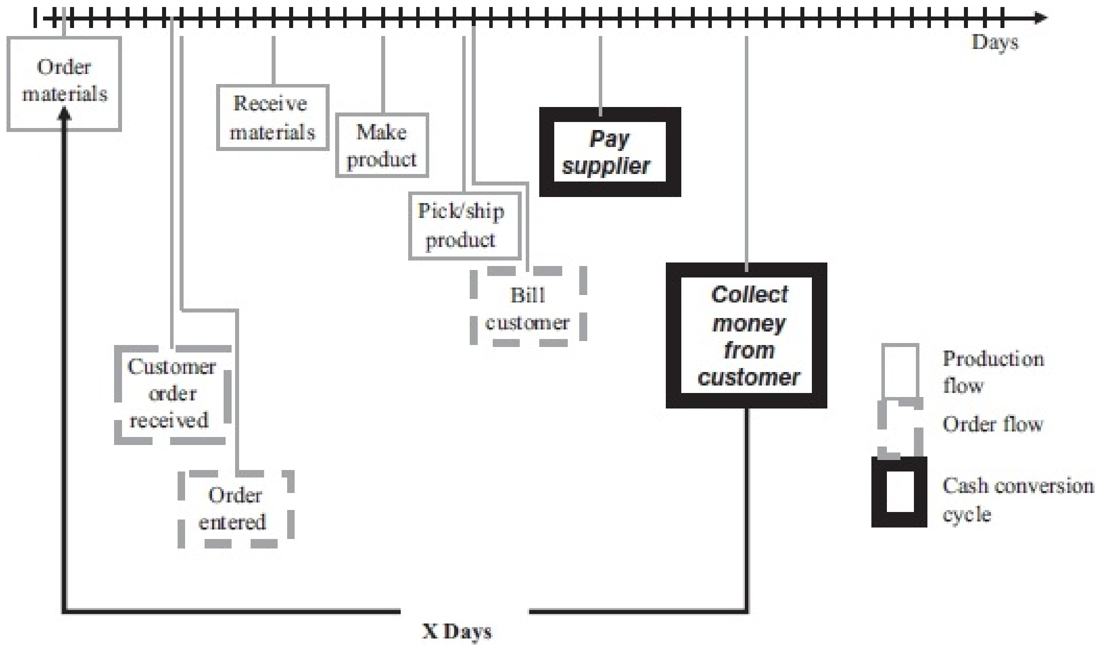

Exhibit 5.12 Operating Cycle

Source: Adapted from work by Professor Bob Eng, Babson College.

Development Plan

The development plan highlights the development strategy and also provides a detailed development timeline. Many new ventures will require a significant level of effort and time to launch the product or service. This is the prologue of your story. For example, new software or hardware products often require months of development. Discuss what types of features you will develop and tie them to the firm's competitive advantage. This section should also talk about patent, trademark, or copyright efforts if applicable.

Development Strategy

What work remains to be completed? What factors need to come together for development to be successful? What risks does the firm face? For example, software development is notorious for taking longer and costing more than most companies originally imagined. Detailing the necessary work and what is required for the work to be considered successful helps entrepreneurs understand and manage the risks involved. After you have laid out these details, a development timeline is assembled.

Development Timeline

A development timeline is a schedule that highlights major milestones and can be used to monitor progress and make changes. Exhibit 5.13 details the steps The History Shoppe needs to take prior to opening its doors. The timeline helps entrepreneurs to track major events and to schedule activities to best execute on those events. It is a good idea to show what has already transpired as well, as of the writing of the business plan. Illustrate which development milestones you have already achieved.

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It is also helpful to assign names to the tasks. Who is responsible for ensuring that the milestone is met? As the old adage says, time is money. For every day your product is in development and not on the market, you lose a day's worth of sales. So work hard to meet those deadlines, especially in those industries where speed to market is critical.

Team

Georges Doriot, the father of venture capital and founder of American Research and Development Corporation (the first modern-day venture capital firm), said that he would rather back "an A entrepreneur with a B idea than a B entrepreneur with an A idea." The team section of the business plan is often the section that professional investors read after the executive summary. This section is also critically important to the lead entrepreneur. It depicts the members responsible for key activities and conveys why they are exceptionally skilled to execute on those responsibilities. This section also helps the entrepreneur consider how well this group of individuals will work together. It is well established that ventures started by strong teams tend to succeed at a greater rate.

Team Bios and Roles

Every story needs a cast of characters. The best place to start is by identifying the key team members and their titles. Often, the lead entrepreneur assumes a CEO role. However, if you are young and have limited business experience, it is usually more productive to state that the company will seek a qualified CEO as it grows. In these cases, the lead entrepreneur may assume a chief technology officer role (if she develops the technology) or vice president of business development. However, don't let these options confine you.

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Activity	12	11	10	9	8	7	6	5	4	3	2	1	Open Month
10 – 12 Months Prior to Opening													
1. Finalize business plan and financials													
2. Review plans with local bookstores / specialty shop owners													
3. Fill in skill gaps with advisory board													
4. Determine exact location possibilities													
7 – 9 Months Prior to Opening													
5. Register rights to business name													
6. Seek funding from appropriate sources													
7. Update business plan per feedback from potential financiers													
8. Initial contact with product vendors													
9. Contact for POS/inventory vendors and store designers													
4 – 6 Months Prior to Opening													
10. Determine exact store design													
11. Finalize product vendors													
12. Confirm funding													
3 Months Prior to Opening													
13. Finalize store design plans													
14. Open vendor/bank accounts													
15. Place fixture orders													
16. Finalize marketing plan and implement to announce store opening events													
17. Submit merchandise orders with all vendors													
1 Month Prior to Opening													
18. Contact local media regarding placement in local newspapers and magazines													
19. Code merchandise category data in inventory management system													
20. Recruit and train staff													
21. Receive merchandise, fixtures, and complete set-up of store													
Opening Month													
22. "Soft opening" of store to assess customer response, training, and system functioning													
Grand Open Store													

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The key is to convince investors that you have assembled the best team possible and that your team can execute on the brilliant concept you are proposing.

A simple, relatively flat organization chart is often useful to visualize what roles you have filled and what gaps remain. It also provides a road map for reading the bios that follow. The bios should demonstrate records of success; if you have previously started a business (even if it failed), highlight the company's *accomplishments*. If you have no previous entrepreneurial experience, discuss your achievements within your last job. For example, bios often contain a

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description of the number of people the entrepreneur previously managed and, more importantly, a measure of economic success, such as growing division sales by 20-plus percent. The bio should demonstrate your leadership capabilities. To complement this description, resumes are often included as an appendix.

Advisory Boards, Board of Directors, Strategic Partners, External Members

To enhance the team's credentials, many entrepreneurs find that they are more attractive to investors if they have strong advisory boards. In building an advisory board, identify individuals with relevant experience within your industry. Industry experts provide legitimacy to your new business as well as strong technical advice. Other advisory board members may bring other skills, such as financial, legal, or management expertise. Thus, it is common to see lawyers, professors, accountants, and so on, who can assist the venture's growth, on advisory boards. Moreover, if your firm has a strategic supplier or key customer, it may make sense to invite them onto your advisory board. Typically, these individuals are remunerated with a small equity stake and compensation for any organized meetings.

By law, most organization types require a board of directors. This is different from an advisory board (although these members can also provide needed expertise). The board's primary role is to oversee the company on behalf of the investors. Therefore, the business plan needs to briefly describe the size of the board, its role within the organization, and any current board members. Most major investors, such as venture capitalists, will require one or more board seats. Usually, the lead entrepreneur and one or more inside company members (e.g., chief financial officers, vice presidents, etc.) will also have board seats.

Strategic partners may not necessarily be on your advisory board or your board of directors, but they still provide credibility to your venture. In such cases, it makes sense to highlight their involvement in your company's success. It is also common to list external team members, such as the law firm and accounting firm that your venture uses. The key in this section is to demonstrate that your firm can successfully execute the concept. A strong team provides the foundation that conveys assurance your venture will implement the opportunity successfully.

Compensation and Ownership

A capstone to the team section should be a table listing key team members by role, compensation, and ownership equity. A brief description of the table should explain why the compensation is appropriate. Many entrepreneurs choose not to pay themselves in the early months. Although this strategy conserves cash flow, it would misrepresent the individual's worth to the organization. Therefore, the table should contain what salary the employee is due, and then, if deemed necessary, that salary can be deferred until a time when cash flow is strong.

Another column that can be powerful shows what the person's current or most recent compensation was and what she will be paid in the new company. I am most impressed when I see highly qualified entrepreneurs taking a smaller salary than at their previous job. This

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suggests that the entrepreneur really believes in the upside payoff the company's growth will generate. Of course, the entrepreneur plans on increasing this salary as the venture grows and starts to thrive. As such, the description of the schedule should underscore the plan to increase salaries in the future.

It is also a good idea to hold stock aside for future key hires and to establish a stock option pool for lower-level but critical employees, such as software engineers. Again, the plan should discuss such provisions.

Critical Risks

Every new venture faces a number of risks that may threaten its survival. Although the business plan, to this point, is creating a story of success, there are a number of threats that readers will identify and recognize. The plan needs to acknowledge these potential risks; otherwise investors will believe that the entrepreneur is naive or untrustworthy, and they may therefore withhold investment.

How should you present these critical risks without scaring your investor? Identify the risk and then state your contingency plan (see Exhibit 5.14). Critical risks are critical assumptions, factors that need to happen if your venture is to succeed as currently planned. The critical assumptions vary from one company to another, but some common categories are market interest and growth potential, competitor actions and retaliation, time and cost of development, operating expenses, and availability and timing of financing.

Market Interest and Growth Potential

The biggest risk any new venture faces is that once the product is developed, no one will buy it. Although there are a number of things that can be done to minimize this risk, such as market research, focus groups, and beta sites, it is difficult to gauge overall demand and growth of that demand until your product hits the market. This risk must be stated, but countered with the tactics and contingencies the company will undertake. For example, sales risk can be reduced by an effective advertising and marketing plan or identifying not only a primary target customer but also secondary and tertiary target customers that the company will seek if the primary customer proves less interested.

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Exhibit 5.14 Sample Critical Risk

Highly Competitive Industry
The book and DVD industries are highly competitive across many different channels, including superstores, independent bookstores, Internet retailers, book clubs, and specialty stores. Many of these competitors have been in business for many years, have developed significant brand recognition and loyal customers, and have substantial resources to promote their products. We believe the THS concept is in a unique position with its offering of a complete selection of historical merchandise across several product categories and its superior shopping environment. However, unexpected increases in local competition, including Internet competition, alternative delivery methods for books and video, or unanticipated margin pressures caused by irrational pricing by competitors, could have a materially adverse effect on the Company's financial results.

Competitor Actions and Retaliation

Having had the opportunity to work with entrepreneurs and student entrepreneurs over the years, I have always been struck by their firmly held belief that direct competition either didn't exist or that it was sleepy and slow to react. I caution against using this as a key assumption of your venture's success. Most entrepreneurs passionately believe that they are offering something new and wonderful that is clearly different from what is currently being offered. They go on to state that existing competition won't attack their niche in the near future. The risk that this assessment is wrong should be acknowledged.

One counter to this threat is that the venture has room in its gross margins, and cash available to withstand and fight back against such attacks. You should also identify some strategies to protect and reposition yourself should an attack occur.

Time and Cost to Development

As mentioned in the development plan section, many factors can delay and add to the expense of developing your product. The business plan should identify the factors that may hinder development. For instance, as the popularity of mobile device applications grows, there will be an increased demand for software engineers who are skilled in mobile application development. That leads to the risk of hiring and retaining the most qualified professionals. One way to counter the problem might be to outsource some development to the underemployed engineers in India. Compensation, equity participation, flexible hours, and other benefits that the firm could offer might also minimize the risk.

Operating Expenses

Operating expenses have a way of growing beyond expectations. Sales and administration, marketing, and interest expenses are some of the areas that the entrepreneur needs to monitor and manage. The business plan should highlight how these expenses were forecasted (comparable companies and detailed analysis), but also talk about contingencies such as

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slowing the hiring of support personnel, especially if development or other key tasks take longer than expected.

Availability and Timing of Financing

I can't stress enough how important cash flow is to the survival and flourishing of a new venture. One major risk that most new ventures face is that they will have difficulty obtaining needed financing, both equity and debt. If the current business plan is meant to attract investors and is successful, that isn't a near-term risk, but most ventures will need multiple rounds of financing. If the firm fails to make progress (or to meet key milestones), it may not be able to secure additional rounds of financing on favorable terms. A contingency to this risk is to identify alternative sources that are viable, or strategies to slow the burn rate (how much more cash the company is spending than it is bringing in).

There are a number of other risks that might apply to your business. Acknowledge them and discuss how you can overcome them. Doing so generates confidence in your investors and helps you anticipate corrective actions that you may need to take.

Offering

Based upon the entrepreneur's vision and estimates of the capital required to achieve it, the entrepreneur can develop a "sources and uses" schedule (see Exhibit 5.15). The *sources* section details how much capital the entrepreneur needs and the types of financing, such as equity investment and debt infusions. The *uses* section details how the money will be spent. Typically, the entrepreneur should secure enough financing to last 12 to 18 months. If the entrepreneur takes more capital than needed, she has to give up more equity. If she takes less capital than needed, it may mean that the entrepreneur runs out of cash before reaching milestones that equate to higher valuations.

Exhibit 5.15 Sources/Uses of Funds Table

Sources of funds			Uses of funds		
Founder	$50,000		Inventory	$94,541	
Friends/family	$200,000	$250,000	Computers, software and office equipment	20,000	
			Leasehold improvements	30,000	
			Furniture and fixtures	51,000	
			Opening Costs	$17,000	
					$212,541
			Working Capital/ Contingencies	$37,459	
					$37,459
Total Sources		$250,000	**Total Uses**		$250,000

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Financial Plan

If the preceding plan is your verbal description of the opportunity and how you will execute it, the financial plan is the mathematical equivalent. The growth in revenues speaks to the upside of your opportunity. The expenses illustrate what you need to execute on that opportunity. Cash flow statements serve as an early warning system to point out potential problems (or critical risks), and the balance sheet enables monitoring and adjustment of the venture's progress.

That being said, generating realistic financials is one of the most intimidating hurdles that many entrepreneurs face. Chapter 6 goes into detail on how to construct your pro-forma financials.

This section of the business plan should include a description of the key drivers that impact your revenues and costs so that the reader can follow your pro-forma financials. I typically break the description down into four main subsections, after beginning with an overview paragraph that briefly introduces the business model. For example, The History Shoppe might highlight that the projections are based upon one store in year one, growing to three stores by year five. This helps the reader understand the growth in revenues. They might then reiterate the main sources of revenues and any other information that gives a sense of the numbers behind the concept.

The first subsection should discuss the *income* statement. Talk about the factors that drive revenue, such as store traffic, percentage of store visitors that buy, average ticket price, and so forth. It is also important to talk about seasonality and other factors that might cause uneven sales growth. Then discuss the *expense* categories, paying attention to cost of goods sold and major operating expense categories, such as rent, interest expense, and so forth. Based upon your description, the reader should be able to look at and understand the actual financials. The key focus here is to help the reader follow your financials; you don't need to provide the level of detail that an accountant might if they were auditing your company.

The next subsection should discuss the *cashflow* statement. Here you focus on major infusions of cash, such as equity investments and loan disbursements. It is also good to describe the nature of your accounts receivables and payables. How long, for instance, will it be before your receivables convert to cash? If you are spending money on leasehold improvements, plant and equipment, and other items that can be depreciated, you should mention them here. Typically, the discussion of the cash flow statement is quite a bit shorter than the discussion of the income statement.

The final subsection discusses the *balance sheet.* Here you would talk about major asset categories, such as amount of inventory on hand and any liabilities that aren't clear from the previous discussion.

Appendixes

The appendixes can include anything and everything that you think adds further validation to your concept but doesn't fit or is too large to insert in the main parts of the plan. Common

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inclusions would be one-page resumes of key team members, articles that feature your venture, technical specifications, and so on.

As a general rule, I try to put all exhibits discussed within the written part of the plan on the same page that the exhibit is discussed. This facilitates reading as the reader doesn't have to keep flipping back to the end of the plan to look at an exhibit. However, some exhibits are very large (such as the store layout of The History Shoppe). In such cases, it is acceptable to put large exhibits in the appendix.

Conclusion

The business plan is more than just a document; it is a process, a story. Although the finished product is often a written plan, the deep thinking and fact-based analysis that go into that document provide the entrepreneur with keen insight needed to marshal resources and direct growth. The whole process can induce pain, but it almost always maximizes revenue and minimizes costs as it allows the entrepreneur to better anticipate instead of react. Business planning also provides talking points so that entrepreneurs can get feedback from a number of experts, including investors, vendors, and customers. Think of business planning as one of your first steps on the journey to entrepreneurial success.

Other Resources

A number of resources exist for those seeking help to write business plans. There are numerous software packages, but I find that generally the templates are too confining. The text boxes asking for information drive writers into a dull, dispassionate tone. The best way to learn about business plans is by digging out the supporting data, writing sections as you feel compelled, and circulating drafts among your mentors and advisers. Nonetheless, I have provided links to some business planning software sites. I also firmly believe that the entrepreneur should read as many other articles, chapters, and books about writing business plans as possible. You will want to assimilate different perspectives so that you can find your own personal voice.

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For Further Reading

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Timmons, J., A. Zacharakis, and S. Spinelli. *Business Plans that Work.* New York: McGraw-Hill, 2004.

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Kim, C., and R. Mauborgne. *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant.* Boston: Harvard Business School Press, 2005.

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Downloadable Resources for this chapter available at www.wiley.com/go/portablembainentrepreneurship

Competitive Map

Operations Flow

Launch Timeline

Internet Links

Business Plan Preparation Sites

http://www.bplans.com/

http://www.pasware.com/

http://www.brs-inc.com/

http://www.jian.com/

Other Great Sites

http://www.entrepreneurship.org/—The Kauffman Foundation offers a comprehensive site providing a variety of information for entrepreneurs and links to other helpful sites.

http://www.bizmove.com/—The Small Business Knowledge Base is a comprehensive, free resource of small business information packed with dozens of guides and worksheets.

http://www.babson.edu/ESHIP/eship.cfm—The Babson College entrepreneurship site links to different resources of interest to those studying and practicing entrepreneurship.

http://www.nbia.org/—National Business Incubation Association. Business incubators nurture young firms, helping them to survive and grow during the start-up period when they are most vulnerable.

http://www.nfib.com/—The National Federation of Independent Business (NFIB) is the largest advocacy organization representing small and independent businesses in Washington, D.C., and all 50 state capitals—a great resource.

http://www.score.org—The SCORE Association is a national nonprofit association and a resource partner with the U.S. SBA, with 11,500 volunteer members and 389 chapters throughout the United States.

http://www.morebusiness.com/—Comprehensive business resource center providing entrepreneurs with information on start-up, running the business, templates, and so on. This site is updated daily

www.entrepreneur.com—*Entrepreneur* magazine publishes stories on entrepreneurship, management, and opportunities.

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3. P. Thomas, "Rewriting the Rules: A New Generation of Entrepreneurs Find Themselves in the Perfect Time and Place to Chart Their Own Course," *Wall Street Journal*, May 22, 2000, R4.

4. A sidebar is a visual device that is positioned down the right-hand side of the page that periodically highlights some of the key points in the plan. Don't overload the sidebar, but one or two items per page can draw attention to highlights that maintain reader interest.

5. J. Timmons and S. Spinelli, *New Venture Creation*, 8th ed. (New York: McGraw-Hill/Irwin, 2008).

6. J. Makower, R. Pernick, and C. Wilder, *Clean Energy Trends 2008* (San Francisco: Clean Edge, Inc., 2008).

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9. O. Sacirbey, "Private Companies Temper IPO Talk," *IPO Reporter*, December 18, 2000.

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