Chapter 4

Business plan

Learning objectives

- The nature and meaning of a business plan.
- Business plan structure.
- How to develop a business plan.

Introduction

Entrepreneurial Thought

"It is well established that you can't raise money without a business plan... a business plan is a work of art in its own right. It's the document that personifies and expresses your company. Each plan, like every snowflake, must be different. Each is a separate piece of art. Each must be reflective of the individuality of the entrepreneur. Just as you wouldn't copy someone else's romancing techniques, so should you seek to distinguish your plan for its differences."

--- Joseph R. Mancuso How to Write a Winning Business Plan---

What is a business plan?

- A business plan is a written document that details the proposed venture.
- It must describe the current status, expected needs, and projected results of the new business.
- Every aspect of the venture needs to be covered: the project, marketing, research and development (R&D), management, critical risks, financial projections, milestones, or a timetable.
- The comprehensive business plan, which should be the result of meetings and reflections on the direction of the new venture, is the major tool for determining the essential operation of a venture.

Benefits of a Business Plan

- The entire business planning process forces the entrepreneur to analyze all aspects of the venture and to prepare an effective strategy to deal with the uncertainties that arise.
- A business plan may help an entrepreneur avoid a project doomed to failure.
- For the entrepreneur, the following benefits are gained:
 - ❖ The time, effort, research, and discipline needed to put together a formal business plan force the entrepreneur to view the venture critically and objectively.
 - ❖ The competitive, economic, and financial analyses included in the business plan force the entrepreneur to close scrutiny of his or her assumptions about the venture's success.

Benefits of a Business Plan (Cont.)

- For the entrepreneur, the following benefits are gained:
 - Because all aspects of the business venture must be addressed in the plan, the entrepreneur develops and examines operating strategies and expected results for outside evaluators.
 - The business plan quantifies objectives, providing measurable benchmarks for comparing forecasts with actual results.
 - ❖ The completed business plan provides the entrepreneur with a communication tool for outside financial sources as well as an operational tool for guiding the venture toward success.

Benefits of a Business Plan (Cont.)

- For the financial sources, the following benefits are gained:
 - The business plan provides the details of the market potential and plans for securing a share of that market.
 - Through prospective financial statements, the business plan illustrates the venture's ability to service debt or provide an adequate return on equity.
 - ❖ The plan identifies critical risks and crucial events with a discussion of contingency plans that provide an opportunity for the venture's success.

Benefits of a Business Plan (Cont.)

- For the financial sources, the following benefits are gained:
 - By providing a comprehensive overview of the entire operation, the business plan gives financial sources a clear, concise document that contains the necessary information for a thorough business and financial evaluation.
 - For a financial source with no prior knowledge of the entrepreneur or the venture, the business plan provides a useful guide for assessing the individual entrepreneur's planning and managerial ability.

Pitfalls to Avoid in the Venture Planning Process

- A number of pitfalls in the business plan process should be avoided.
 - * No Realistic Goals.
 - Failure to Anticipate Roadblocks.
 - No Commitment or Dedication.
 - Lack of Demonstrated Experience (Business or Technical).
 - ❖ No Market Niche (Segment).

Business Model Canvas: Initiating the Venture Formation Process

- The Business Model Canvas is a structured brainstorming tool for entrepreneurs to use to define and understand the strategic focus and the questions that need to be answered for each of the nine business building blocks.
- There are nine essential components.
 - Value Proposition.
 - Customer Segments.
 - Channels.
 - Customer Relationships.
 - Revenue Streams.

- Key Activities.
- ❖Key Resources.
- ❖Key Partners.
- Cost Structure.

Business Model Canvas: Initiating the Venture Formation Process (Cont.)

Key Partners

Identify your company's key partners. This can consist of important suppliers in your supply chain. What key resources does the company receive from these partners? What key activities are performed by these partners? Think about whyyour company works with these key partners and the motivations behind them.

Key Activities

What specific key activities are necessary to deliver your value proposition? What activities set your company apart from others? Consider how your company's unique differences in its revenue streams, distribution channels, or customer relationships. Do you need to procure specific niche resources? Do you need to streamline to keep costs and prices low?

Key Resources

What specific key resources or assets are necessary to deliver your value proposition? Consider what resources your distribution channels and revenue streams may require to function.

Additionally, think about what resources are needed to maintain customer relationships. Does your company require a lot of capital or human resources?

Value Propositions

Identify the core value the company provides to customers. What exactly is the company trying to give to customers? What problem is your company trying to solve and what needs are your company satisfying? How do you offer something different that satisfies the demands of your customer segments (e.g. price, quality, design, status)?

Customer Relationships

What type of relationship do you have with your customers? How do you interact with customers and how does this differ amongst customer segments? Do you communicate frequently with your customers? How much support does your company provide?



Customer Segments

Identify who is your value proposition targets. Who are you creating value for? Who are your most important customers? What are they like? What do they need? What do they enjoy? What is the customer market like? Are you targeting a small niche community or a mass market?



How do you deliver your value proposition? How do you reach your customer segments? What channels are used? Consider your supply, distribution, marketing, and communication channels. Are they well-integrated and cost efficient? Are they utilized effectively?





Cost Structure

Identify the key costs in your company's business model. What are the major drivers of costs? How do your **key activities** and **key resources** contribute to the cost structure? How do your costs relate to your **revenue streams**? Are you properly utilizing economies of scale? What proportion of costs are fixed and variable? Is your company focused on cost optimization or value?

Revenue Streams

Identify the ways your value proposition generates money for your business. Does your company have multiple methods of generating revenue? What is the pricing strategy for the products offered by your company? Through what channels do your customers pay? Does your company offer multiple forms of payment?

Source: https://www.brandsvietnam.com/congdong/topic/328065-Business-Model-Canvas-Mo-hinh-kinh-doanh

Business Model Canvas: Initiating the Venture Formation Process (Cont.)

Business Model Canvas Google (2023)

DigitalBizModels.com DBM



Key partners

Website owners: Brands. Businesses, Influencers, Media/News, Blogs, Creators and many more

Ad display partners:

Digital property owners choosing to display ads. e.g. websites (AdSense) Apps (AdMob)

Ad distribution partners:

browser providers, mobile carriers, original equipment manufacturers, software developers

Key activities

Key value creating activities involved in Search:

- Data capture (crawling)
- Data organisation (indexing)
- Search & match
- Presentation

Key resources / assets

- Technology
- Algorithms
- Content/information
- Data
- Google brand

DigitalBizModels.com

Value proposition

3-sided platform:

- (1) Search Users
- (2) Website Owners
- (3) Advertisers*

*subset of website owners but necessary distinction

VP Search Users:

- Find/access information & solutions to problems
- Low search costs/efforts

VP Website Owners:

- Access to audience
- Well-matched traffic

VP Advertisers:

- Targetable ad spaces
- Better advertising ROI

Channels

Search User channels:

Web browsers, default search engine, Chrome / Android OS

Website owner channels: Google Analytics, AdSense

Advertiser channels: Google Ads, ad display properties

Cust. relationships

All r/s are self-serving

Search users: Empowerment, Reliability, Privacy

Website owners: Opportunity

Advertisers: Empowerment: Opportunity

Customer segments

Search users:

- Seamenting for ad targetability for advertising
- Behaviour, Technology:
- Geo-demographic

Website owners:

- By vertical
- Keyword clusters
- Type of page
- Traffic size/sources

Advertisers:

- Geography, industry, company size
- Feature use: ad formats. campaign types, etc
- + website owner segments

Cost structure (FY22)

Cost of revenue includes:

 Traffic acquisition cost \$49b | 17%

- Other CoR \$77b | 28% - Cost of revenue \$126b | 45% - R&D \$40b | 14%

 Marketing \$27b | 9% - G&A \$16b | 6%

Revenues (FY22)

Total revenues: \$283b Operating profit margin: 26%

\$224b 179% Google advertising Google other services \$29b I 10% Google Cloud \$26b 19% |<1% Other bets \$1b

Source: https://www.digitalbizmodels.com/blog/google-business-model

- Most investors agree that only a well-conceived and well-developed business plan can gather the necessary support that will eventually lead to financing.
- The business plan must describe the new venture with excitement and yet with complete accuracy.
- Building a good business plan requires considering the following factors.
 - Who Reads the Plan?
 - Putting the Package Together.
 - Guidelines to Remember.
 - Questions to Be Answered.

Who Reads the Plan?

- It is important to understand the audience for whom the business plan is written, such as venture capitalists, bankers, angel investors, potential large customers, lawyers, consultants, and suppliers.
- Entrepreneurs need to clearly understand three main viewpoints when preparing the plan.
 - ➤ The first viewpoint is, of course, the entrepreneur's, because he or she is the one developing the venture and clearly has the most indepth knowledge of the technology or creativity involved.
 - ➤ The second viewpoint is the venture's ability to reach the market which is more important than using high technology or an innovative idea.
 - > The third viewpoint is concentrated on the financial forecast.

Who Reads the Plan?

- The following six steps represent the typical business plan reading process that many venture capitalists use.
 - > Step 1: Determine the characteristics of the venture and its industry.
 - > Step 2: Determine the financial structure of the plan (amount of debt or equity investment required).
 - > Step 3: Read the latest balance sheet (to determine liquidity, net worth, and debt/equity).
 - > **Step 4:** Determine the quality of entrepreneurs in the venture (sometimes the most important step).
 - > Step 5: Establish the unique feature in this venture (find out what is different).
 - > **Step 6**: Read over the entire plan lightly (this is when the entire package is paged through for a casual look at graphs, charts, exhibits, and other plan components).

Putting the Package Together

- ❖ The brief presentation of the most important issues in the business plan is what determines whether the venture is selected or not.
- Among the format issues to consider are the following:
 - > Appearance.
 - > Length.
 - The Cover and Title Page.
 - > The Executive Summary.
 - The Table of Contents.

Guidelines to Remember

- Entrepreneurs need to note below to understand the importance of the various segments of the business plan they create.
 - Keep the Plan Respectably Short.
 - Organize and Package the Plan Appropriately.
 - Orient the Plan Toward the Future.
 - Avoid Exaggeration.
 - > Highlight Critical Risks.

- Give Evidence of an Effective Entrepreneurial Team.
- Do Not Over-Diversify.
- Identify the Target Market.
- Keep the Plan Written in the Third Person.
- Capture the Reader's Interest.

Questions to Be Answered

- Is your plan organized so key facts leap out at the reader?
- Is your product/service and business mission clear and simple?
- Are you focused on the right things?
- Who is your customer?
- Why will customers buy?
- Do you have a competitive advantage?
- Do you have a favorable cost structure?
- Can the management team build an enterprise?
- How much money do you need?
- How does your investor get a cash return?

Table of Complete Outline for a Business Plan

Section I: Executive Summary

Section II: Business Description

- A. General description of the business
- B. Industry background
- C. Goals and potential of the business and milestones (if any)
- Uniqueness of product or service

Section III: Marketing

A. Research and analysis

Target market (customers) identified

Market size and trends

Competition

Estimated market share

B. Marketing plan

Market strategy—sales and distribution

Pricing

Advertising and promotions

Table of Complete Outline for a Business Plan

Section IV: Operations

- A. Identify location: advantages
- B. Specific operational procedures
- C. Personnel needs and uses
- D. Proximity to supplies

Section V: Management

- A. Management team—key personnel
- B. Legal structure—stock agreements, employment agreements, ownership
- C. Board of directors, advisors, consultants

Section VI: Financial

A. Financial forecast

Profit and loss

Cash flow

Break-even analysis

Cost controls

Budgeting plans

Table of Complete Outline for a Business Plan

Section VII: Critical Risks

- A. Potential problems
- B. Obstacles and risks
- C. Alternative courses of action

Section VIII: Harvest Strategy It stands for Initial Public Offering but it should be well understood.

- A. Liquidity event (IPO or sale)
- B. Continuity of business strategy
- C. Identify successor

Section IX: Milestone Schedule

- A. Timing and objectives
- B. Deadlines and milestones
- C. Relationship of events

Section X: Appendix or Bibliography

- Business Plan Assessment: A Complete Evaluation Tool (reviewed in Table 12.4).
- Table of Helpful Hints for Developing the Business Plan.

I. Executive Summary

- No more than three pages. This is the most crucial part of your plan because you must capture the reader's interest.
- What, how, why, where, and so on must be summarized.
- Complete this part after you have a finished business plan.

III. Marketing Segment

- Convince investors that sales projections and competition can be met.
- Use and disclose market studies.
- Identify target market, market position, and market share.
- Evaluate all competition and specifically cover why and how you will be better than your competitors.
 Identify all market sources and assistance used for this segment.
- Demonstrate pricing strategy. Your price must penetrate and maintain a market share to produce profits; thus, the lowest price is not necessarily the best price.
- Identify your advertising plans with cost estimates to validate proposed strategy.

Table of Helpful Hints for Developing the Business Plan

IV. Operations Segment

- Describe the advantages of your location (zoning, tax laws, wage rates). List the production needs in terms of facilities (plant, storage, office space) and equipment (machinery, furnishings, supplies).
- Describe the specific operations of the venture.
- Indicate proximity to your suppliers.
- Mention the need and use of personnel in the operation.
- Provide estimates of operation costs—but be careful: Too many entrepreneurs underestimate their costs.

V. Management Segment

- Supply résumés of all key people in the management of your venture.
- Carefully describe the legal structure of your venture (sole proprietorship, partnership, or corporation).
- Cover the added assistance (if any) of advisors, consultants, and directors.
- Give information on how and how much everyone is to be compensated.

VI. Financial Segment

- Give actual estimated statements.
- Describe the needed sources for your funds and the uses you intend for the money.
- Develop and present a budget.
- Create stages of financing for purposes of allowing evaluation by investors at various points.

Table of Helpful Hints for Developing the Business Plan

VII. Critical-Risks Segment

- Discuss potential risks before investors point them out—e.g.,
 - Price cutting by competitors
 - Any potentially unfavorable industry-wide trends
 - Design or manufacturing costs in excess of estimates
 - Sales projections not achieved
 - Product development schedule not met
 - Difficulties or long lead times encountered in the procurement of parts or raw materials Greater than expected innovation and development costs to stay competitive
 - Provide some alternative courses of action.

VIII. Harvest Strategy Segment

- Outline a plan for a liquidity event—IPO or sale.
- Describe the plan for transition of leadership.
- Mention the preparations (insurance, trusts, and so on) needed for continuity of the business.

IX. Milestone Schedule Segment

Develop a timetable or chart to demonstrate when each phase of the venture is to be completed. This
shows the relationship of events and provides a deadline for accomplishment.

X. Appendix or Bibliography

Updating the Business Plan

- There are several reasons to update the business plan, including:
 - ❖ Financial Changes. Update your plan on at least a yearly basis to project financials and plan for fiscal needs.
 - ❖ Additional Financing. If continued capital is needed, an updated business plan needs to reflect the current numbers and not the ones projected before the venture was started.
 - ❖ Launch of a New Product or Service. Updating the business plan is an essential method to assess the feasibility of any proposed new product or service and determine its viability.

Updating the Business Plan (Cont.)

- There are several reasons to update the business plan, including:
 - ❖ New Management Team. Any new members of the management team should develop their own plan to initiate strategies for growth.
 - ❖ Changes in the Market. Changes in the customer base and competition should be tracked and strategized with regard to how they might affect your venture.
 - ❖ Reflect the New Reality. Business plans are written based on estimated numbers and projections that may not be accurate after the venture has started. Business plans should be updated to reflect the new reality that the entrepreneur experiences.

Presentation of the Business Plan: The "Pitch"

- The oral presentation—commonly known as an *elevator* pitch (because of the analogy of riding an elevator and having only two minutes to get your story told to another person in the elevator)—provides the chance to sell the business plan to potential investors.
- An entrepreneur should use the following steps to prepare an oral presentation:
 - Know the outline thoroughly.
 - Use keywords in the outline that help recall examples, visual aids, or other details.
 - * Rehearse the presentation to get a feel for its length.
 - ❖ Be familiar with any equipment to be used in the presentation—use your own laptop.
 - The day before, practice the complete presentation by moving through each slide.

In conclusion

- The nature and meaning of a business plan.
- Business plan structure.

How to develop a business plan.



THANK YOU FOR YOUR ATTENTION

Q&A