

1.5: Chapter 5 – Business Planning

Business planning is an important precursor to action in new ventures. By helping firm founders to make decisions, to balance resource supply and demand, and to turn abstract goals into concrete operational steps, business planning reduces the likelihood of venture disbanding and accelerates product development and venture organizing activity. – Delmar and Shane (2003, p. 1165)

We always plan too much and always think too little. We resent a call to thinking and hate unfamiliar argument that does not tally with what we already believe or would like to believe. – Joseph Schumpeter

Trying to predict the future is like trying to drive down a country road at night with no lights while looking out the back window. – Peter Drucker

Learning Objectives

After completing this chapter you will be able to

- Describe the purposes of business planning
- Describe common business planning principles
- List and explain the elements of the business plan development process outlined in this book
- Explain the purposes of each of the elements of the business plan development process outlined in this book
- Explain how applying the business plan development process outlined in this book can aid in developing a business plan that will meet entrepreneurs' goals
- Describe general business planning guidelines and format

Overview

This chapter describes the purposes of business planning, the general concepts related to business planning, and guidelines and a format for a comprehensive business plan.

Business Planning Purposes

Business plans are developed for both internal and external purposes. Internally, entrepreneurs develop business plans to help put the pieces of their business together. The most common external purpose for a business plan is to raise capital.

Internal Purposes

- The business plan is the road map for the development of the business because it
 - defines the vision for the company
 - establishes the company's strategy
 - describes how the strategy will be implemented
 - provides a framework for analysis of key issues
 - provides a plan for the development of the business
 - is a measurement and control tool
 - helps the entrepreneur to be realistic and to put theories to the test

External Purposes

The business plan is often the main method of describing a company to external audiences such as potential sources for financing and key personnel being recruited. It should assist outside parties to understand the current status of the company, its opportunities, and its needs for resources such as capital and personnel. It also provides the most complete source of information for valuation of the business.

Business Planning Principles

Business Plan Communication Principles

As Hindle and Mainprize (2006) note, business plan writers must strive to communicate their expectations about the nature of an uncertain future. However, the liabilities of newness make communicating the expected future of new ventures difficult (more so than for existing businesses). They outline five communications principles:

- Expectations

- Translation of your vision of the venture and how it will perform into a format compatible with the expectations of the readers
- Communicate that
 - you have identified and understood the key success factors and risks
 - the projected market is large and you expect good market penetration
 - you have a strategy for commercialization, profitability, and market domination
 - you can establish and protect a proprietary and competitive position
- Milestones
 - Anchoring key events in the plan with specific financial and quantitative values
 - Communicate that
 - your major plan objectives are in the form of financial targets
 - you have addressed the dual need for planning and flexibility
 - you understand the hazards of neglecting linkages between certain events
 - you understand the importance of quantitative values (rather than just chronological dates)
- Opportunities
 - Nothing lasts forever—things can change to impact the opportunity: tastes, preferences, technological innovation, competitive landscape
 - Communicate these four aspects to distinguish the business concept, distinctive competencies, and sustainable advantages:
 - the new combination upon which venture is built
 - magnitude of the opportunity or market size
 - market growth trends
 - venture's value from the market (% of market share proposed or market share value in dollars)
- Context
 - Four key aspects describing context within which new venture is intended to function (internal and external environment)
 - Communicate
 - how the context will help or hinder the proposal
 - how the context may change & affect the business & the range of flexibility or response that is built into the venture
 - what management can or will do in the event the context turns unfavourable
 - what management can do to affect the context in a positive way
- Business Model
 - Brief and clear statement of how an idea actually becomes a business that creates value
 - Communicate
 - Who pays, how much, and how often?
 - The activities the company must perform to produce its product, deliver it to its customers and earn revenue
 - And be able to defend assertions that the venture is attractive and sustainable and has a competitive edge

Business Plan Credibility Principles

Business plan writers must strive to project credibility (Hindle & Mainprize, 2006), so there must be a match between what the entrepreneurship team (resource seekers) needs and what the investors (resource providers) expect based on their criteria. A take it or leave it approach (i.e. financial forecasts set in concrete) by the entrepreneurship team has a high likelihood of failure in terms of securing resources. Hindle and Mainprize (2006) outline five principles to help entrepreneurs project credibility:

- Team
 - Without the right team, nothing else matters.
 - Communicate
 - What do they know?
 - Who do they know?
 - How well are they known?
- Elaboration
 - Break down individual tasks into their sub-parts so each step maximizes the upside and minimizes the downside:

- sub-strategies
 - ad-hoc programs
 - specific tactical action plans
- Scenario Integration
 - Claiming an insuperable lead or a proprietary market position is naïve.
 - Venture building is like chess:
 - Anticipate several moves in advance
 - View the future as a movie vs. snapshot
 - Financial Link
 - Key assumptions related to market size, penetration rates, and timing issues of market context outlined in the business plan should link directly to the financial statements.
 - Income and cash flow statements must be preceded by operational statements setting forth the primary planning assumptions about market sizes, sales, productivity, and basis for the revenue estimate.
 - The Deal
 - If the main purpose is to enact a harvest, then the business plan must create a value-adding deal structure to attract investors.
 - Common things: viability, profit potential, downside risk, likely life-cycle time, potential areas for dispute or improvement

General Business Plan Guidelines

Many businesses must have a business plan to achieve their goals. The following are some basic guidelines for business plan development.

- A standard format helps the reader understand that the entrepreneur has thought everything through, and that the returns justify the risk.
- Binding the document ensures that readers can easily go through it without it falling apart.
- Be 100% certain that
 - everything is completely integrated: the written part must say exactly the same thing as the financial part
 - all financial statements are completely linked and valid (make sure all balance sheets validly balance)
 - the document is well formatted (layout makes document easy to read and comprehend—including all diagrams, charts, statements, and other additions)
 - everything is correct (there are NO spelling, grammar, sentence structure, referencing, or calculation errors)
 - the document easy to read and comprehend because it is organized well with no unnecessary repetition
 - It is usually unnecessary—and even damaging—to state the same thing more than once. To avoid unnecessarily duplicating information, you should combine sections and reduce or eliminate duplication as much as possible.
 - all the necessary information is included to enable readers to understand everything in your document
 - the terms you use in your plan are clear
 - For example, if your plan says something like “there is a shortage of 100,000 units with competitors currently producing 25,000. We can help fill this huge gap in demand with our capacity to produce 5,000 units,” a reader is left completely confused. Does this mean there is a total shortage of 100,000 units, but competitors are filling this gap by producing 25,000 per year (in which case there will only be a shortage for four years)? Or, is there an annual shortage of 100,000 units with only 25,000 being produced each year, in which case the total shortage is very high and is growing each year? You must always provide the complete perspective by indicating the appropriate time frame, currency, size, or another measurement.
 - if you use a percentage figure, you indicate to what it refers, otherwise the figure is completely useless to a reader.
 - if your plan includes an international element, which currencies the costs, revenues, prices, or other values are quoted in
 - This can be solved by indicating up-front in the document the currency in which all values will be quoted. Another option is to indicate each time which currency is being used, and sometimes you might want to indicate the value in more than one currency. Of course, you will need to assess the exchange rate risk to which you will be exposed and describe this in your document.
- credibility is both established and maintained

- If a statement is included that presents something as a fact when this fact is not generally known, always indicate the source. Unsupported statements damage credibility
- Be specific. A business plan is simply not of value if it uses vague references to high demand, carefully set prices, and other weak phrasing. It must show hard numbers (properly referenced, of course), actual prices, and real data acquired through proper research. This is the only way to ensure your plan is considered credible.

Developing a *High Power Business Plan*

The business plan development process described next has been extensively tested with entrepreneurship students and has proven to provide the guidance entrepreneurs need to develop a business plan appropriate for their needs; a *high power business plan*.

The Stages of Development

There are six stages involved with developing a *high power business plan*. These stages can be compared to a process for hosting a dinner for a few friends. A host hoping to make a good impression with their anticipated guests might analyze the situation at multiple levels to collect data on new alternatives for healthy ingredients, what ingredients have the best prices and are most readily available at certain times of year, the new trends in party appetizers, what food allergies the expected guests might have, possible party themes to consider, and so on. This analysis is the *Essential Initial Research* stage.

In the *Business Model* stage, the host might construct a menu of items to include with the meal along with a list of decorations to order, music to play, and costume themes to suggest to the guests. The mix of these kinds of elements chosen by the host will play a role in the success of the party.

The *Initial Business Plan Draft* stage is where the host rolls up his or her sleeves and begins to assemble make some of the food items, put up some of the decorations, send invitations, and generally get everything started for the party.

During this stage, the host will begin to realize that some plans are not feasible and that changes are needed. The required changes might be substantial, like the need to postpone the entire party and ultimately start over in a few months, or less drastic, like the need to change the menu when an invited guest indicates that they can't eat food containing gluten. These changes are incorporated into the plan to make it realistic and feasible in the *Making the Business Plan Realistic* stage.

Making A Plan to Appeal to Stakeholders stage involves further changes to the party plan to make it more appealing to both the invited guests and to make it a fun experience for the host. For example, the host might learn that some of the single guests would like to bring dates and others might need to be able to bring their children to be able to attend. The host might be able to accommodate those desires or needs in ways that will also make the party more fun for them—maybe by accepting some guests' offers to bring food or games, or maybe even hiring a babysitter to entertain and look after the children.

The final stage—*Finishing the Business Plan*—involves the host putting all of the final touches in place for the party in preparation for the arrival of the guests.

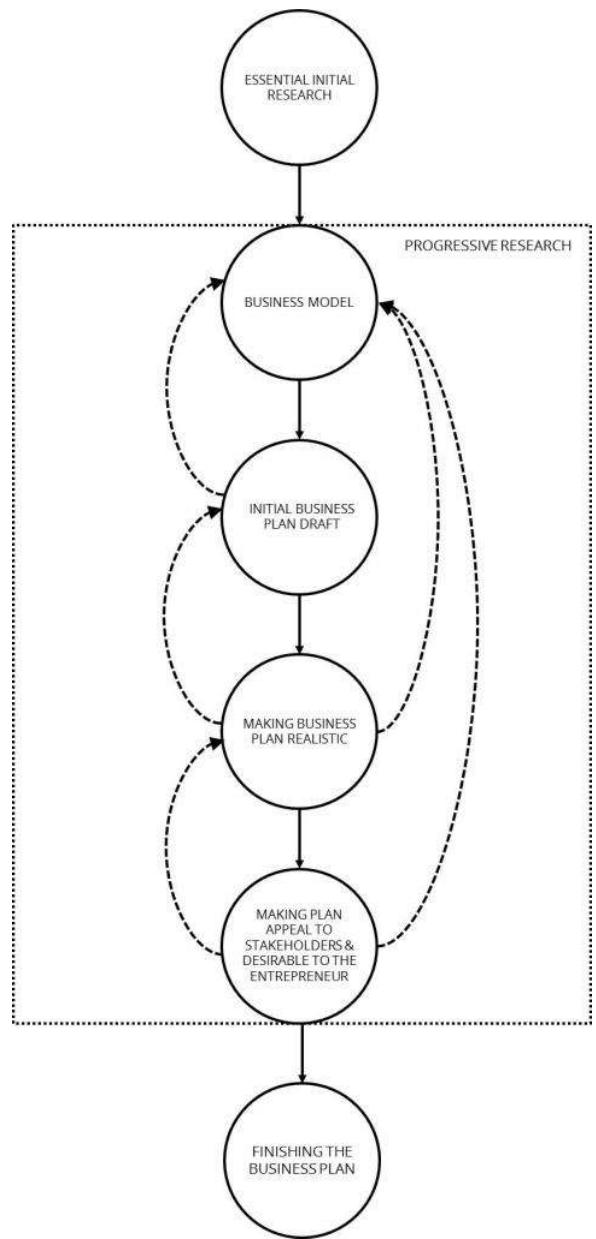


Figure 5 – Business Plan Development Process (Illustration by Lee A. Swanson)

Essential Initial Research

A business plan writer should analyze the environment in which they anticipate operating at each of the societal, industry, market, and firm levels of analysis (see pages 51–60). This stage of planning, the essential initial research, is a necessary first step to better understand the trends that will affect their business and the decisions they must make to lay the groundwork for, and to improve their potential for success.

In some cases, much of the essential initial research should be included in the developing business plan as its own separate section to help build the case for readers that there is a market need for the business being considered and that it stands a good chance of being successful.

In other cases, a business plan will be stronger when the components of the essential initial research are distributed throughout the business plan as a way to provide support for the plans and strategies outlined in the business plan. For example, the industry or market part of the essential initial research might outline the pricing strategies used by identified competitors and might be best placed in the pricing strategy part of the business plan to support the decision made to employ a particular pricing strategy.

Business Model

Inherent in any business plan is a description of the business model chosen by the entrepreneur as the one that they feel will best ensure success. Based upon their essential initial research of the setting in which they anticipate starting their business (their analysis from stage one) an entrepreneur should determine how each element of their business model—including their revenue streams, cost structure, customer segments, value propositions, key activities, key partners, and so on—might fit together to improve the potential success of their business venture (see Chapter 4 – Business Models).

For some types of ventures, at this stage an entrepreneur might launch a lean start-up (see page 68) and grow their business by continually pivoting, or constantly adjusting their business model in response to the real-time signals they get from the markets' reactions to their business operations. In many cases, however, an entrepreneur will require a business plan. In those cases, their initial business model will provide the basis for that plan.

Of course, throughout this and all of the rounds in this process, the entrepreneur should seek to continually gather information and adjust the plans in response to the new knowledge they gather. As shown in Figure 8 by its enclosure in the progressive research box, the business plan developer might need conduct further research before finishing the business model and moving on to the initial business plan draft.

Initial Business Plan Draft

The Business Plan Draft stage involves taking the knowledge and ideas developed during the first two stages and organizing them into a business plan format. An approach preferred by many is to create a full draft of the business plan with all of the sections, including the front part with the business description, vision, mission, values, value proposition statement, preliminary set of goals, and possibly even a table of contents and lists of tables and figures all set up using the software features enabling their automatic generation. Writing all of the operations, human resources, marketing, and financial plans as part of the first draft ensures that all of these parts can be appropriately and necessarily integrated. The business plan will tell the story of a planned business startup in two ways by using primarily words along with some charts and graphs in the operations, human resources, and marketing plans and in a second way through the financial plan. Both ways must tell the same story.

The feedback loop shown in Figure 8 demonstrates that the business developer may need to review the business model. Additionally, as shown by its enclosure in the progressive research box, the business plan developer might need conduct further research before finishing the Initial Business Plan Draft stage and moving on to the Making Business Plan Realistic stage.

Making Business Plan Realistic

The first draft of a business plan will almost never be realistic. As the entrepreneur writes the plan, it will necessarily change as new information is gathered. Another factor that usually renders the first draft unrealistic is the difficulty in making certain that the written part—in the front part of the plan along with the operations, human resources, and marketing plans—tells the exact same story as the financial part does. This stage of work involves making the necessary adjustments to the plan to make it as realistic as possible.

The Making Business Plan Realistic stage has two possible feedback loops. The first goes back to the Initial Business Plan Draft stage in case the initial business plan needs to be significantly changed before it is possible to adjust it so that it is realistic. The second feedback loop circles back to the Business Model stage if the business developer need to rethink the business model. As shown in Figure 8 by its enclosure in the progressive research box, the business plan developer might need conduct further research before finishing the Making Business Plan Realistic stage and moving on to the Making Plan Appeal to Stakeholders stage.

Making Plan Appeal to Stakeholders and Desirable to the Entrepreneur

A business plan can be realistic without appealing to potential investors and other external stakeholders, like employees, suppliers, and needed business partners. It might also be realistic (and possibly appealing to stakeholders) without being desirable to the entrepreneur. During this stage the entrepreneur will keep the business plan realistic as they adjust plans to appeal to potential investors and to themselves.

If, for example, investors will be required to finance the business start, some adjustments might need to be relatively extensive to appeal to potential investors' needs for an exit strategy from the business, to accommodate the rate of return they expect from their investments, and to convince them that the entrepreneur can accomplish all that is promised in the plan. In this case, and in others, the entrepreneur will also need to get what they want out of the business to make it worthwhile for them to start and run it. So, this stage of adjustments to the developing business plan might be fairly extensive, and they must be informed by a superior knowledge

of what targeted investors need from a business proposal before they will invest. They also need to be informed by a clear set of goals that will make the venture worthwhile for the entrepreneur to pursue.

The caution with this stage is to balance the need to make realistic plans with the desire to meet the entrepreneur's goals while avoiding becoming discouraged enough to drop the idea of pursuing the business idea. If an entrepreneur is convinced that the proposed venture will satisfy a valid market need, there is often a way to assemble the financing required to start and operate the business while also meeting the entrepreneur's most important goals. To do so, however, might require significant changes to the business model.

One of the feedback loops shown in Figure 8 indicates that the business plan writer might need to adjust the draft business plan while ensuring that it is still realistic before it can be made appealing to the targeted stakeholders and desirable to the entrepreneur. The second feedback loop indicates that it might be necessary to go all the way back to the Business Model stage to re-establish the framework and plans needed to develop a realistic, appealing, and desirable business plan. Additionally, this stage's enclosure in the progressive research box suggests that the business plan developer might need conduct further research.

Finishing the Business Plan

The final stage involves putting all of the important finishing touches on the business plan so that it will present well to potential investors and others. This involves making sure that the math and links between the written and financial parts are accurate. It also involves ensuring that all the needed corrections are made to the spelling, grammar, and formatting. The final set of goals should be written to appeal to the target readers and to reflect what the business plan says. An executive summary should be written and included as a final step.

General Business Plan Format

Title page

Include nice, catchy, professional, appropriate graphics to make it appealing for targeted readers

Executive summary

- Can be longer than normal executive summaries, up to three pages
- Write after remainder of plan is complete
- Includes information relevant to targeted readers as this is the place where they are most likely to form their first impressions of the business idea and decide whether they wish to read the rest of the plan

Table of Contents

List of Tables

Each table, figure, and appendix included in the plan must be referenced within the text of the plan so the relevance of each of these elements is clear.

List of Figures

Introduction

- Describes the business concept
- Indicates the purpose of the plan
- Appeals to targeted readers

Business Idea

- May include description of history behind the idea and the evolution of the business concept if relevant

Vision

- Generally outlines what the owner intends for the venture to be
- Should inspire all members of the organization
- Should help stakeholders aspire to achieve greater things through the venture because of the general direction provided through the vision statement

Mission

- Should be very brief—a few sentences or a short paragraph
- Indicates what your organization does and why it exists—may describe the business strategy and philosophy

Values

- Indicates the important values that will guide everything the business will do
- Outlines the personal commitments members of the organization must make, and what they should consider to be important
- Defines how people behave and interact with each other.
- Should help the reader understand the type of culture and operating environment this business intends to develop

Major Goals

- Describes the major organizational goals
- Ensures each goal is:
 - Specific, Measurable, Action-Oriented, Realistic, and Timely [SMART]
 - Realistic, Understandable, Measurable, Believable, and Achievable [RUMBA]
- Perfectly aligns with everything in plan

Operating Environment

Trend Analysis

- Includes an analysis of how the current and expected trends in the political, economic, social, technological, environmental, and legal (PESTEL) factors will impact the development of this business
 - Consider whether this is the right place for this analysis: it may be better positioned in, for example, the Financial Plan section to provide context to the analysis of the critical success factors, or in the Marketing Plan to help the reader understand the basis for the sales projections.

Industry Analysis

- Includes an analysis of the industry in which this business will operate
- Commonly uses the Five Forces Model (Porter, 1985)
 - consider whether this is the right place for this analysis: it may be better placed in, for example, the Marketing Plan to enhance the competitor analysis, or in the Financial Plan to provide context to the industry standard ratios in the Investment Analysis section

Operations Plan

- Answers several key questions:
 - What are your facility plans?
 - Where will your facility be located?
 - expressed as a set physical location
 - expressed as a set of requirements and characteristics
 - How large will your facility be and why must it be this size?
 - How much will it cost to buy or lease your facility?
 - What utility, parking, and other costs must you pay for this facility?
 - What expansion plans must be factored into the facility requirements?
 - What transportation and storage issues must be addressed by facility decisions?
 - What zoning and other legal issues must you deal with?
 - What will be the layout for your facility and how will this best accommodate customer and employee requirements?
 - What constraints are you operating under that will restrict your capacity to produce and sell your product?
 - Given these constraints, what is your operating capacity (in terms of production, sales, etc.)?
 - What is the workflow plan for your operation?
 - What work will your company do and what work will you outsource?

Operations Timeline

- Outlines several key questions:
 - When will you make the preparations, such as registering the business name and purchasing equipment, to start the venture?
 - When will you begin operations and make your first sales?
 - When will other milestone events occur such as moving operations to a larger facility, offering a new product line, hiring new key employees, and beginning to sell products internationally?
- May include a graphical timeline showing when these milestone events have occurred and are expected to occur

Business Structure and other Set-up Elements

Somewhere in your business plan you must indicate what legal structure your venture will take. Your financial statements, risk management strategy, and other elements of your plan are affected by the type of legal structure you choose for your business:

- Sole Proprietorship
- Partnership
- Limited Partnership
- Corporation
- Cooperative

As part of your business set-up, you need to determine what kinds of control systems you should have in place, establish necessary relationships with suppliers and prior to your start-up, and generally deal with a list of issues like the following. Many of your decisions related to the following should be described somewhere in your business plan:

- Naming
- Zoning, equipment prices, suppliers, etc.
- Location
- Lease terms, leasehold improvements, signage, pay deposits, etc.
- Getting business license, permits, etc.
- Setting up banking arrangements
- Setting up legal and accounting systems (or professionals)
- Ordering equipment, locks and keys, furniture, etc.
- Recruiting employees, set up payroll system, benefit programs, etc.
- Training employees
- Testing the products/services that will be offered
- Testing the *systems* for supply, sales, delivery, and other functions
- Deciding on graphics, logos, promotional methods, etc.
- Ordering business cards, letter head, etc.
- Setting up supplier agreements
- Buying inventory, insurance, etc.
- Revising business plan
- And many more things, including, when possible, attracting purchased orders in advance of start-up through personal selling (by the owner, a paid sales force, independent representatives, or by selling through brokers wholesalers, catalog houses, retailers), a promotional campaign, or other means

Start-up

- What is required to start up your business, including the purchases and activities that must occur before you make your first sale?
- When identifying capital requirements for start-up, a distinction should be made between fixed capital requirements and working capital requirements.

Fixed Capital Requirements

- What fixed assets, including equipment and machinery, must be purchased so your venture can conduct its business?
- This section may include a start-up budget showing the machinery, equipment, furnishings, renovations, and other capital expenditures required prior to operations commencing.
- If relevant you might include information showing the financing required; fixed capital is usually financed using longer-term loans.

Working Capital Requirements

- What money is needed to operate the business (separately from the money needed to purchase fixed assets) including the money needed to purchase inventory and pay initial expenses?
- This section may include a start-up budget showing the cash required to purchase starting inventories, recruit employees, conduct market research, acquire licenses, hire lawyers, and other operating expenditures required prior to starting operations.
- If relevant you might include information showing the financing required ... working capital is usually financed with operating loans, trade credit, credit card debt, or other forms of shorter-term loans.

Risk Management Strategies

- Includes descriptions of the organization's risk exposure
 - enterprise – liability exposure for things like when someone accuses your employees or products you sell of injuring them.
 - financial – securing loans when needed and otherwise having the right amount of money when you need it
 - operational – securing needed inventories, recruiting needed employees in tight labour markets, customers you counted on not purchasing product as you had anticipated, theft, arson, natural disasters like fires and floods, etc.
- Always includes descriptions of the planned strategies for managing each of the risks identified
 - avoid – choose to avoid doing something, outsource, etc.
 - reduce – through training, assuming specific operational strategies, etc.
 - transfer – insure against, outsource, etc.
 - assume – self-insure, accept, etc.

Operating Processes

- What operating processes will you apply?
- Depending upon the type of business for which you are creating your plan, you will need to describe different things:
 - Retail and wholesale operations
 - How will you ensure your cash is managed effectively?
 - How will you schedule your employees?
 - How will you manage your inventories?
 - If you will have a workforce, how will you manage them?
 - etc.
 - Service operation
 - How will you bill out your employee time?
 - How will you schedule work on your contracts?
 - etc.
 - Manufacturing operation
 - How you will manufacture your product (process flow, job shop, etc.?)
 - How will you maintain quality?
 - How will you institute and manage effective financial monitoring and control systems that provide needed information in a timely manner?
 - How will you manage expansion?
 - etc.

Facilities

- May include planned layouts for facilities

Organizational Structure

- May include information on Advisory Boards or Board of Directors from which the company will seek advice or guidance or direction
- May include an organizational chart
- Can nicely lead into the Human Resources Plan

Human Resources Plan

- Answers key questions:
 - How do you describe your desired corporate culture?

- What are the key positions within your organization?
- How many employees will you have?
- What characteristics define your desired employees?
- What is your recruitment strategy? What processes will you apply to hire the employees you require?
- What is your leadership strategy and why have you chosen this approach?
- What performance appraisal and employee development methods will you use?
- What is your organizational structure and why is this the best way for your company to be organized?
- How will you pay each employee (wage, salary, commission, etc.)? How much will you pay each employee?
- What are your payroll costs, including benefits?
- What work will be outsourced and what work will be completed in-house?
- Have you shown and described an organizational chart?

Recruitment and Retention Strategies

- Includes how many employees are required at what times
- Estimates time required to recruit needed employees
- Estimates all recruitment costs including
 - employment advertisements
 - contracts with employment agency or search firms
 - travel and accommodations for potential employees to come for interviews
 - travel and accommodations for interviewers
 - facility, food, lost time, and other interviewing costs
 - relocation allowances for those hired including flights, moving companies, housing allowances, spousal employment assistance, etc.
- may include a schedule showing the costs of initial recruitment that then flows into your start-up expense schedules

Leadership and Management Strategies

- What is your leadership philosophy?
- Why is it the most appropriate leadership approach for this venture?

Training

- What training is required because of existing rules and regulations?
- How will you ensure your employees are as capable as required?
- In which of the following areas will you provide training for your employees?
 - Health and safety (legislation, WHMIS, first aid, defibrillators, etc.)
 - Initial workplace orientation
 - Management
 - Financial systems
 - Sales
 - Contracts
 - Product features
 - Other

Performance Appraisals

- How will you manage your performance appraisal systems?

Health and Safety

- Any legal requirements should be noted in this section (and also legal requirements for other issues that may be included in other parts of the plan)

Compensation

- Always completely justifies your planned employee compensation methods and amounts
- Always includes all components of the compensation (CPP, EI, holiday pay, etc.)
- Outlines how will you ensure both internal and external equity in your pay systems
- Describes any incentive-based pay or profit sharing systems planned

- May include a schedule here that shows the financial implications of your compensation strategy and supports the cash flow and income statements shown later

Key Personnel

- May include brief biographies of the key organizational people

Marketing Plan

- What primary and secondary research have you done?
 - You must show evidence of having done proper research, both primary and secondary. If you make a statement of fact, you must back it up with properly referenced supporting evidence. If you indicate a claim is based on your own assumptions, you must back this up with a description as to how you came to the conclusion.
- Somewhere in your plan have you done an effective analysis of the economic environment relevant to your business?
 - It is a given that you must provide some assessment of the economic situation as it relates to your business. For example, you might conclude that the current economic crisis will reduce the potential to export your product and it may make it more difficult to acquire credit with which to operate your business. Of course, conclusions such as these should be matched with your assessment as to how your business will make the necessary adjustments to ensure it will thrive despite these challenges, or how it will take advantage of any opportunities your assessment uncovers.
- Somewhere in your plan have you done an effective assessment of the industry within which your venture will operate?
 - You must provide an assessment of the industry coupled with descriptions of how your venture will prosper in those circumstances. A common approach used to assess the industry is to apply Porter's (1985) Five Forces Model.
 - If you apply the Five Forces Model, do so in the way in which it was meant to be used to avoid significantly reducing its usefulness while also harming the viability of your industry analysis. This model is meant to be used to consider the entire industry—not a subcomponent of it (and it usually cannot be used to analyze a single organization).
 - Your competitor analysis might fit within your assessment of the industry or it might be best as a section within your marketing plan. Usually a fairly detailed description of your competitors is required, including an analysis of their strengths and weaknesses. In some cases, your business may have direct and indirect competitors to consider. Be certain to maintain credibility by demonstrating that you fully understand the competitive environment.
 - Assessments of the economic conditions and the state of the industry appear incomplete without accompanying appraisals outlining the strategies the organization can/should employ to take advantage of these economic and industry situations. So, depending upon how you have organized your work, it is usually important to couple your appraisal of the economic and industry conditions with accompanying strategies for your venture. This shows the reader that you not only understand the operating environment, but that you have figured out how best to operate your business within that situation.
- Have you done an effective analysis of your venture? (See the Organizational Analysis section below.)

Market Analysis

- Usually contains customer profiles, constructed through primary and secondary research, for each market targeted
- Contains detailed information on the major product benefits you will deliver to the markets targeted
- Describes the methodology used and the relevant results from the primary market research done
- If there was little primary research completed, justifies why it is acceptable to have done little of this kind of research and/or indicate what will be done and by when
- Includes a complete description of the secondary research conducted and the conclusions reached
- Describes potential customers
 - Define your target market in terms of identifiable entities sharing common characteristics. For example, it is not meaningful to indicate you are targeting Canadian universities. It is, however, useful to define your target market as Canadian university students between the ages of 18 and 25, or as information technology managers at Canadian universities, or as student leaders at Canadian universities. Your targeted customer should generally be able to make or significantly influence the buying decision.
 - You must usually define your target market prior to describing your marketing mix, including your proposed product line. Sometimes the product descriptions in business plans seem to be at odds with the described target market characteristics. Ensure your defined target market aligns completely with your marketing mix (including product/service description, distribution channels, promotional methods, and pricing). For example, if the target market is defined as Canadian university

students between the ages of 18 and 25, the product component of the marketing mix should clearly be something that appeals to this target market.

- Carefully choose how you will target potential customers. Should you target them based on their demographic characteristics, psychographic characteristics, or geographic location?
- Identifies how your targeted customers make their buying decisions
 - You will need to access research to answer this question. Based on what you discover, you will need to figure out the optimum mix of pricing, distribution, promotions, and product decisions to best appeal to how your targeted customers make their buying decisions.

Competition

- Fully describes the nature of your competitors
 - However, this information might fit instead under the market analysis section.
- Describes all your direct competitors
- Describes all your indirect competitors
- If you can, includes a competitor positioning map to show where your product will be positioned relative to competitors' products



Figure 6 – Competitor Positioning Map (Illustration by Lee A. Swanson)

- Identifies your competitive advantage
 - What distinguishes your business from that of your competitors in a way that will ensure your sales forecasts will be met?
 - What is your venture's value proposition?
 - You must clearly communicate the answers to these questions in your business plan to attract the needed support for your business. One caution is that it may sound appealing to claim you will provide a superior service to the existing competitors, but the only meaningful judge of your success in this regard will be customers. Although it is possible some of your competitors might be complacent in their current way of doing things, it is very unlikely that all your competitors provide an inferior service to that which you will be able to provide.

Marketing Strategy

- Covers all aspects of the marketing mix including the promotional decisions you have made, product decisions, distribution decisions related to how you will deliver your product to the markets targeted, and pricing decisions
- Outlines how you plan to influence your targeted customers to buy from you (what is the optimum marketing mix, and why is this one better than the alternatives)

Organizational Analysis

- Leads in to your marketing strategy or is positioned elsewhere depending upon how your business plan is best structured
- Often applies a SWOT Analysis
 - If doing so, always ensure this analysis results in more than a simple list of internal strengths and weaknesses and external opportunities and threats. A SWOT analysis should always prove to the reader that there are organizational strategies in place to address each of the weaknesses and threats identified and to leverage each of the strengths and opportunities identified.
- An effective way to ensure an effective outcome to your SWOT Analysis is to apply a TOWS Matrix approach to develop strategies to take advantage of the identified strengths and opportunities while mitigating the weaknesses and threats. A TOWS Matrix evaluates each of the identified threats along with each of the weaknesses and then each of the strengths. It does the same with each of the identified opportunities. In this way strategies are developed by considering pairs of factors
- The TOWS Matrix is a framework with which to help you organize your thoughts into strategies. Most often you would not label a section of your business plan as a TOWS Matrix. This would not normally add value for the reader. Instead, you should describe the resultant strategies—perhaps while indicating how they were derived from your assessment of the strengths, weaknesses, opportunities, and threats. For example, you could indicate that certain strategies were developed by considering how internal strengths could be employed toward mitigating external threats faced by the business.

Product Strategy

- Identifies your product/service and why this particular product/service will appeal to your targeted customers more than the alternatives
 - If your product or service is standardized, you will need to compete on the basis of something else – like a more appealing price, having a superior location, better branding, or improved service. If you can differentiate your product or service you might be able to compete on the basis of better quality, more features, appealing style, or something else. When describing your product, you should demonstrate that you understand this.

Pricing Strategy

- Outlines your pricing strategies and explains what makes these strategies better than the alternatives
 - If you intend to accept payment by credit card (which is probably a necessity for most companies), you should be aware of the fee you are charged as a percentage of the value of each transaction. If you don't account for this you risk overstating your actual revenues by perhaps one percent or more.
- Identifies your sales forecasts and explains why are these realistic
 - Sales forecasts must be done on at least a monthly basis if you are using a projected cash flow statement. These must be accompanied by explanations designed to establish their credibility for readers of your business plan. Remember that many readers will initially assume that your planned time frames are too long, your revenues are overstated, and you have underestimated your expenses. Well crafted explanations for all of these numbers will help establish credibility.

Distribution Strategy

- Describes your distribution strategies and explains what makes these strategies better than the alternatives
 - If you plan to use e-commerce, you should include all the costs associated with maintaining a website and accepting payments over the Internet.

Promotions Strategy

- Answers the following key questions:
 - As a new entrant into the market, must you attract your customers away from your competitors they currently buy from or will you be creating new customers for your product or service (i.e. not attracting customers away from your competitors)?
 - If you are attracting customers away from competitors, how will these rivals respond to the threat you pose to them?
 - If you intend to create new customers, how will you convince them to reallocate their dollars toward your product or service (and away from other things they want to purchase)?

- In what ways will you communicate with your targeted customers? When will you communicate with them? What specific messages do you plan to convey to them? How much will this promotions plan cost?
- Outlines the anticipated responses that competitors will have to your entrance into the market, especially if your success depends upon these businesses losing customers to you
 - If your entry into the market will not be a threat to direct competitors, it is likely you must convince potential customers to spend their money with you rather than on what they had previously earmarked those dollars toward. In your business plan you must demonstrate an awareness of these issues.
- Maps out your promotional expenditures according to the method used and time frame
 - Consider listing the promotional methods in rows on a spreadsheet with the columns representing weeks or months over probably about 18 months from the time of your first promotional expenditure. This can end up being a schedule that feeds the costs into your projected cash flow statement and from there into your projected income statements.
 - If you phone or visit newspapers, radio stations, or television stations seeking advertising costs, you must go only after you have figured out details like on which days you would like to advertise, at what times on those days, whether you want your print advertisements in color, and what size of print advertisements you want.
 - Carefully consider which promotional methods you will use. While using a medium like television may initially sound appealing, it is very expensive unless your ad runs during the non-prime times. If you think this type of medium might work for you, do a serious cost-benefit analysis to be sure.
 - Some promotional plans are developed around newspaper ads, promotional pamphlets, printing business cards, and other more obvious mediums of promotion. Be certain to, include the costs of advertising in telephone directories, sponsoring a little league soccer team, producing personalized pens and other promotional client give-always, donating items to charity auctions, printing and mailing client Christmas cards, and doing the many things businesses find they do on-the-fly. Many businesses find it to be useful to join the local chamber of commerce and relevant trade organizations with which to network. Some find that setting a booth up at a trade fair helps launch their business.
 - If you are concerned you might have missed some of these promotional expenses, or if you want to have a buffer in place in case you feel some of these opportunities are worthwhile when they arise, you should add some discretionary money to your promotional budget. A problem some companies get into is planning out their promotions in advance only to reallocate some of their newspaper advertisement money, for example, toward some of these other surprise purposes resulting in less newspaper advertising than had been intended.

Financial Plan

- Outlines financial projections
 - It is nearly certain you will need to make monthly cash flow projections from business inception to possibly three years out. Your projections will show the months in which the activities shown on your fixed capital and working capital schedules will occur. This is nearly the only way to clearly estimate your working capital needs and, specifically, important things like the times when you will need to draw on or can pay down your operating loans and the months when you will need to take out longer-term loans with which to purchase your fixed assets. Without a tool like this you will be severely handicapped when talking with bankers about your expected needs. They will want to know how large of a line of credit you will need and when you anticipate needing to borrow longer-term money. It is only through doing cash flow projections will you be able to answer these questions. This information is also needed to determine things like the changes to your required loan payments and when you can take owner draws or pay dividends.
 - Your projected cash flows are also used to develop your projected income statements and balance sheets.

Pro forma Cash Flow Statements

Pro forma Income Statements

Pro forma Balance Sheets

Investment Analysis

Projected Financial Ratios and Industry Standard Ratios

[Critical Success Factors \(Sensitivity Analysis\)](#)

[References](#)

[Appendices](#)

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