

MODULE III

CHAPTER 3

New Venture Planning

University Prescribed Syllabus w.e.f Academic Year 2021-2022

Methods to Initiate Ventures; Acquisition-Advantages of acquiring an ongoing venture and examination of key issues; Developing a Marketing plan-customer analysis, sales analysis and competition analysis, Business Plan-benefits of drivers, perspectives in business plan preparation, elements of a business plan; Business plan failures.
Self-learning Topics : Refer following URL to study various case studies <https://www.entrepreneurindia.co/case-studies>

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Introduction

- The success of any new venture depends on its ability to identify the needs of its customers and design products and services accordingly.
- The identification of customer needs and the designing of products accordingly is the responsibility of the entrepreneur. So the first step in the starting of a new venture is the generation of a business idea which originates from a customer need which the entrepreneur has identified.)
- In this chapter we shall be studying the entire process of starting a new venture right from the generation of business idea to the presentation of business plan to prospective investors.

3.1 METHODS TO INITIATE VENTURES

GQ: state The most common idea generation methods.

GQ: Enumerate the sources of business ideas.

3.1.1 Generating Business Idea

- The first step in starting a new venture is to generate the right type of business idea. The idea when implemented should be able to deliver long term profits to the entrepreneur. The right business idea ensures that there are no losses and growth is steady. However, this is easier said than done as to strike the right business idea requires full attention and efforts in doing all the necessary steps to come up with a profitable idea for business.
- The first step in generating a workable business idea is to brainstorm and evaluate your own skills, training and talent. The entrepreneur should question himself on his passion, knowledge and proficiency.
- In most cases, a new venture is based on experience or knowledge. This gives a head start in terms of being able to create or offer the product or services that he is good at.

The most common idea generation methods are:

- 1) Brainstorming :** brainstorming is a group creativity technique that was designed by Alex Osborn to generate a large number of ideas for the solution of a problem or product development. Brainstorming business ideas or new product development should be uncensored. No idea is dumb or impossible, and each person's contribution is equally valuable. The mail clerk's ideas are as valued as the President's.
- 2) Market Analysis :** market analysis studies the attractiveness and the dynamics of a special market within a special industry. It is part of the industry and customer analysis the chances, strengths, weaknesses and risks of an entrepreneur can be identified. Finally, with the help of a SWOT analysis, adequate business strategies of an entrepreneur will be defined which lead to product development. The market analysis is also known as a documented investigation of a market that is used to inform a firm's product planning activities, and also around decisions of inventory, purchase, work force expansion/contraction, facility expansion, purchases of capital equipment, promotional activities, and many other aspects of a new company.
- 3) Think tank :** the entrepreneur should form his own core group which is usually formed by the people who know him, have good business acumen and who are likely to be involved in the decision making of the company. This group is called as the think tank of the company or the management. Whenever a new product needs to be developed this think tank can be pressed into service.
- 4) Looking into the future :** the future is unknown but holds the key to the success of the company. Entrepreneurs should use forecasting techniques for product development and observe the changing customer needs and social trends.)

3.1.2 Sources of New Ideas

A wide variety of sources should be tapped to identify new ideas. A few of these sources are as follows :

► (1) Analyze the performance of Existing Industries :

A study of the performance of existing industries in terms of their profitability and capacity utilization can indicate promising investment opportunities which are profitable and relatively risk free. Such a study becomes useful if it is done region-wise, particularly for products which have high transportation costs.

► (2) Examine the Inputs and Outputs of various Industries :

Opportunities exist when

- (i) Materials, purchased parts, or supplies are presently being procured from distant sources with attendant time lag and transportation cost, and
- (ii) Several firms produce internally some components/parts which can be supplied at a lower cost by a single manufacturer who can enjoy economies of scale. Similarly, a study of the output of the existing industries may reveal opportunities for adding value through further processing of the main outputs, by products, as well as waste products.

► (3) Review Imports and Exports :

An analysis of import statistics for a period of five to seven years is helpful in understanding the trend of imports various goods and the potential for import substitution. Indigenous manufacture of goods currently imported advantageous for several reasons;

- (i) It improves the balance of payments situation.
- (ii) It generates employment, and
- (iii) It provides a market for supporting industries and services. Likewise, an examination of export statistics is useful in learning about the export possibilities of various products.

► (4) Study plan outlays and Government guidelines :

The proposed outlays of Governments in different sectors provides useful pointers towards investment opportunities and the potential demand for goods and services in different sectors.

A very valuable source of information to estimate the scope of further investment is the Guidelines to Industry published annually by the Department of Industrial Development, Government of India. This publication provides information about the structure and location, production performance, licensed and installed capacity, exports, future scope of various industries.

While the Government projections are often a starting point, they must be reviewed with caution.

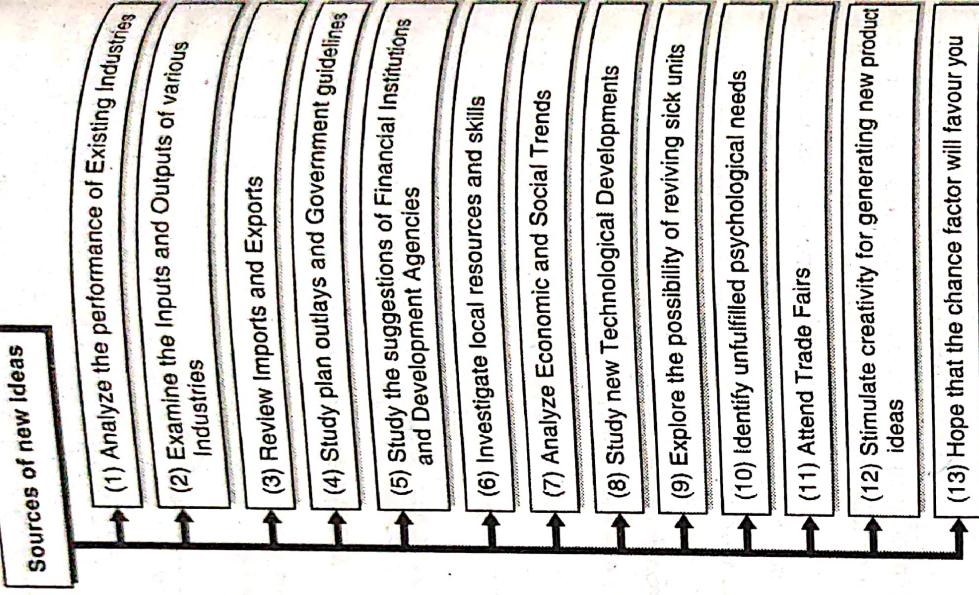


Fig. C2.1 : Sources of new ideas

► **(5) Study the suggestions of Financial Institutions and Development Agencies :**

To promote development of industries in their respective states, state financial corporations, state industrial development corporations, and other development bodies conduct studies, prepares feasibility reports and offer suggestions to potential entrepreneurs. The suggestions of these agencies are helpful in identifying promising projects.

► **(6) Investigate local resources and skills :**

Various ways of adding value to locally available materials may be examined. Similarly, the skills of local artisans may suggest products that may be profitably produced and marketed.

The National Council of Applied Economic (NCAER) and other bodies publish surveys of various regions showing the potential of industrial development in various regions. These surveys assess the resources (human and Material), Infrastructural facilities, and markets for various products.

► **(7) Analyze Economic and Social Trends :**

Changing economic conditions and consumer preference provide new business opportunities. For example, a greater awareness of the value of is getting public attention. Hence the demand for time-saving products like prepared food items, ovens, and powered vehicles has been increasing. Another change observed is the increasing desire for leisure and recreational products and services.

► **(8) Study new Technological Developments :**

New products or new processes and technologies for existing products developed by research laboratories under the umbrella of the Council of Scientific and Industrial Research may be examined for profitable commercialization.

Draw clues from Consumption Abroad-Entrepreneurs willing to take higher risks may identify products for manufacture of products or services which are new to the country but extensively used abroad. Automatic vending machines, entertainment parks, pre-fabricated houses, and fast food restaurants are examples of projects belonging to this category.

► **(9) Explore the possibility of reviving sick units :**

There are numerable of units that are characterized as sick, they are either closed or face the prospect of closure. A significant portion of sick units however can be nursed back to health by sound management, infusion of further capital, and provision of complementary inputs.

Hence there is a fairly good scope for investment in this area. Such investments typically have a shorter gestation period because one does not have to begin from scratch. Indeed in many cases marginal efforts would suffice to revive such units.

► **(10) Identify unfulfilled psychological needs :**

For well-established, multi-brand product groups like bathing soap, detergents, cosmetics, and toothpaste, there are certain psychological needs of the customers which are presently unfulfilled.

To find out whether such an opportunity exists, the technique of spectrum analysis is useful. This analysis is done in the following manner;

- Important factors influencing brand choice are identified.
- Existing brands in the market are positioned on a continuum in respect of factors identified,
- Gaps which exist in relation to consumer psychological needs are identified.

► **(11) Attend Trade Fairs :**

National and international trade fairs provide excellent opportunities to know about new products and developments.

► **(12) Stimulate creativity for generating new product Ideas :**

New product ideas may be generated along the following lines : Modification, rearrangement, reversal, Magnification, reduction, Substitution, Adaptation and Combination.

► **(13) Hope that the chance factor will favour you :**

Identification of investment opportunity may be influenced by chance factor.

3.2 ACQUISITION - ADVANTAGES OF ACQUIRING AN ONGOING VENTURE AND EXAMINATION OF KEY ISSUES

GQ: Why is acquisition considered to be a viable business policy?

GQ: State the advantages and disadvantages of Acquisition.

3.2.1 What is Acquisition?

- Acquisition means the process of acquiring a portion or all of another company's shares and assets with the intention of taking control and building on the acquired company's strengths. The acquiring company or person buys the shares or the assets of the target company which gives the acquiring company or person the powers to make decisions concerning the acquired assets without needing the approval of shareholders from the target company.
- An entrepreneur can use acquisition as a policy and save himself the trouble of setting up an enterprise from scratch. However, before acquiring any existing company that is up for acquisition a detailed study needs to be undertaken to ensure whether the company is worth acquiring. This task of researching the background and the potential is also arduous as it will involve going through the existing processes of the company, the worth and value of its assets, the liabilities that exist, the personnel that it employs, the potential that exists in the future, etc. Before embarking on acquisition, the entrepreneur should study the existing working of the company and carry out a SWOT analysis.

3.2.2 Benefits of Acquisition:

1. **Reduced Entry Barriers** – by acquiring an existing firm the entrepreneur is able to enter into the market with a brand that is already recognized, has an existing client base and a good reputation. Thus, the entrepreneur has to encounter limited or no entry barriers which he would have otherwise encountered. Breaking into a new market is always a challenge and a costly affair but by acquiring an existing firm the entrepreneur is able to be a part of the market.
2. **Market share** – as the firm is already in the market it has some sort of market share on which the entrepreneur can build. Although, competition can be challenging, growth through acquisition can be helpful in gaining a competitive edge in the market.
3. **New competencies and resources** – the entrepreneur may target to acquire a firm that has competencies and resources that he lacks. By doing so he may be able to achieve the kind of growth that would otherwise not be possible.
4. **Access to existing expertise** – the acquired firm has developed certain expertise in its years of operation. The entrepreneur is able to now utilize this expertise in furthering the business of the acquired firm.
5. **Fresh ideas and energy** – the entrepreneur may be able to infuse fresh ideas and energy that the acquired may be lacking.

3.2.3 Challenges with Acquisition:

1. **Culture Clashes** – every company and person have their own distinct culture which may not match with the other person or company. The entrepreneur may experience a culture clash with the company that he has acquired. However, the entrepreneur can overcome this challenge or may check the company's culture in terms of work and ethics before acquiring it.

2. **Duplication** – when one firm acquires another firm then there is bound to be some degree of duplication in activities and role of employees and departments. This may unnecessarily add to the cost and may require some major reorganization and job cuts. Job cuts and reorganization reduces the morale of the employees.
3. **Conflicting objectives** – the objectives of the two firms may be distinct and hence may lead to conflicts that may be difficult to reconcile. For instance, one firm may want to increase its market share while the other may aim to cut costs.
4. **Lack of synergy** – the firm that is acquiring needs to ensure that it has synergy with the firm that is being acquired.

However, acquisition is great way for an entrepreneur to achieve rapid growth over a short period of time. Entrepreneurs may choose to grow through acquisition to improve market share, achieve synergies and gain control of assets. Acquisition is less expensive, less risky and faster than traditional growth methods.

3.3 DEVELOPING A MARKETING PLAN-CUSTOMER ANALYSIS, SALES ANALYSIS AND COMPETITION ANALYSIS

GQ. What is a marketing Plan? State the features of a Marketing plan.

GQ. Enumerate the steps in the marketing planning process.

GQ. What is marketing research?

3.3.1 Marketing Plan

- Marketing plan is the process of setting the marketing goals and finding ways to achieve these goals with the help of different marketing activities. It is basically a written document that details the necessary actions to achieve one or more marketing objectives.
- A marketing plan can be prepared for a product, service or a brand. Marketing plans are prepared for a period between one and five years. It can be a part of an overall business plan.
- A formal, written marketing plan is necessary as it provides an unambiguous reference point for activities throughout the planning period. The planning process in a marketing plan provides a forum to the managers of the company to brainstorm for the success of a particular product.

Features of a Good Marketing Plan

1. Measurable :

The predicted outcome of each activity should be quantified; so that its performance can be monitored.)

2. Focused :

The marketing plan should be highly focused. In this regard, an 80:20 rule is followed.

- Here a plan should concentrate on 20 percent of products or services, and on the 20 percent of customers, which will account for 80 percent of the volume and 80 percent of the profit.

(a) **Clear** : There should be a clear statement of exactly what is to be done.

(b) **Realistic** : The marketing plan should have targets that must be achievable.

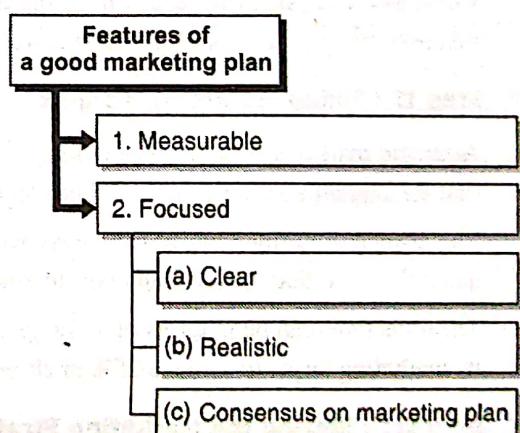


Fig. C3.1 : Features of a good marketing plan

(c) Consensus on marketing plan

- The people who are involved in the process of implementing the plan should be committed and must agree that the plan is achievable.
- The Marketing plan should act on a working document which can guide the campaigns taking place throughout the organization over the period of the plan.
- Any deviation from the plan must be questioned as it indicates that things are not working out the way organization wanted and then make amendments to achieve the goals.

Steps Involved In the Marketing Planning Process

The marketing planning consists of five steps starting from the market and environment analysis, fixing the marketing target, setting the marketing strategy, developing the marketing mix and then marketing controlling.

Step I : Market and Environment Analysis

- The process of marketing planning starts with analyzing the market prospects for the product. This can be done by market research to estimate the potential of that product.
- In this stage, the needs and preferences of the customers are found with the help of research. Also, companies try to find out the promotional strategies that will attract maximum response from the customers.
- Apart from the market potential, companies also analyze the macro environment which consists of economic, legal, government, technology, ecological, socio cultural factors.
- Market analysis is done on factors based on market definition, market size, Market Segmentation, industry structure and strategic groupings, Competition and market share, Competitors and own SWOT analysis.
- Consumer analysis is done based on the demographics of the targeted group, buyer motivation, Psychographics and nature of buying decision. Internal resources of the companies such as people, financial health, skills are also reviewed.

Step II : Fixing Marketing Targets

- After the market and environment analysis has been done, marketing targets have to be fixed for the company. Here, first the marketing objective should be clearly defined.
- The company defines the objective as where they want to be in a specific time period. The objectives should be quantifiable so that the company gets to know whether they are on the right path or not.
- The objectives can be in terms of volume, sales, market share etc. An example of such an objective can be "ITC fixing its marketing target to achieve 25% of chips market share in 3 years".

Step III : Setting the Marketing Strategy

- Once the marketing objectives are clearly defined, the next step in planning process is to decide the marketing strategy that the company intends to follow.
- As the product is introduced in target market, the marketing strategy needs to be designed accordingly. Different marketing strategies are required for products that are in different phases of product life cycle.
- A very aggressive strategy is required when the product is in introduction phase; a milder one can do for the growth and decline phases. These strategies are basically the guidelines to achieve the objective set in the previous stage.

Step IV : Developing the Marketing Mix

- The Marketing planning process must ensure that the marketing mix variables i.e. product, price, place and promotion has been taken into account in designing marketing programs.
- In product, factors such as packaging, design, quality should be taken care of. In pricing, the methods such as (cost plus, demand based, or competitor indexing), discounts, free gifts, and pricing strategy has to be discussed. In promotion, the most suited form for the particular product is analyzed.
- The difference between product and services lies in this stage as in the service industry, apart from the four P's that we discussed, marketers have to take care of three more P's. They are People, process and physical evidence.
- The skill of people involved in service delivery is an important parameter. The process helps a service provider to be better than others.

Step V : Marketing Controlling

- After the marketing strategies have been implemented, it is important to keep a watch on the efficacy of the programs.
- Since the variables are generally taken so that they are quantifiable, any deviation from that means, the program is not yielding desired results.
- The marketing control has to be done at all stages of procurement, production, logistics, distribution etc and so it is a shared responsibility that lies with employees of all functions.

Contents of a Marketing Plan

The contents of a marketing plan of any company broadly include :

► **1. Executive summary :** It is a brief overview of the marketing plan, the expected expenditure and the implementation process of the plan. It highlights the main points of the marketing plan.

► **2. Situation analysis :**

The current situation of the company and the environment is analyzed in this part and mainly includes the macro-environmental factors (Political, Legal, Socio-economic, cultural, environment) and consumer analysis (demographics, psychographics, Loyalty and buyer motivation).

► **3. Opportunity and issue analysis :**

In this section, the opportunities and threats to the company are analyzed. Market analysis is done based on market size, segmentation, porter five forces analysis, SWOT analysis of the company, analysis of the competitors and the market trends.)

► **4. Marketing strategy :**

Based on the opportunity and issue analysis, the marketers decide upon the marketing strategy of the company. They primarily focus on the product, price, place and promotion. The marketing strategy is made such that it helps in attaining the organizational and marketing goals of the company.

► **5. Action programs :**

It is the detailed report of the strategies adopted by the company to achieve the objective. Some of the questions that have to be answered in the action programs are :

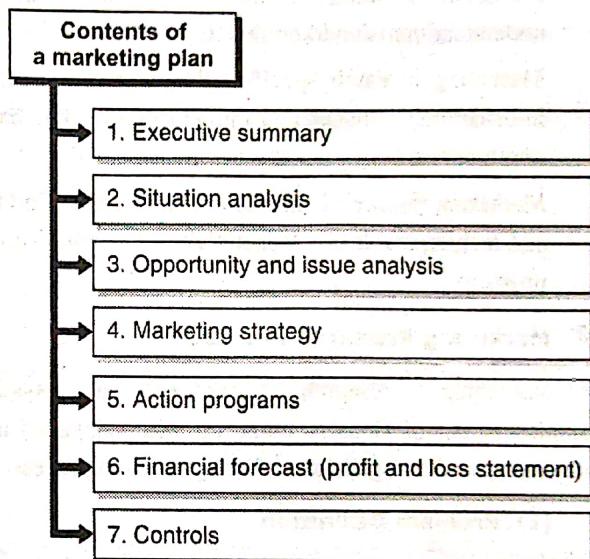


Fig. C3.2 : Contents of a marketing plan 1

- (i) What are the exact actions that are being taken to do a particular activity?
- (ii) What is the time frame for the action being done?
- (iii) Who is the person responsible for that particular activity?
- (iv) What is the cost of engaging in that activity?

► **6. Financial forecast (profit and loss statement) :**

This section contains the projected profit and loss accounts of the marketing plan. It will include the break even analysis, sales forecast, Expense forecast and contribution margin.

► **7. Controls :**

This is the final step of a marketing plan. Here the marketers along with the top management find whether the plan is moving on track and whether they are being able to achieve the objectives. If there is any deviation, then rectification measures are taken by the company. It also involves the planning related to any kind of contingency in the plan.

3.3.2 Marketing Research

- American Marketing Association (AMA) defines market research as "the function that links the consumer, customer, and public to the marketer through information - information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process."
- Marketing research specifies the information required to address these issues, designs the methods for collecting information, manages and implements the data collection process, analyzes, and communicates the findings and their implications."
- Marketing research is normally conducted to find the solution for a marketing problem with the help of scientific tools and techniques. It involves activities to gather, store and analyze data in order to arrive at meaningful conclusion for a problem.

Marketing Research Process

Marketing research involves a systematic commencement of steps to come up with relevant findings. Following are the steps in a marketing research process.

► **(I) Problem Definition**

- For a marketing research to be successful, it is very important to define the problem correctly. This is done in consultation with the business head for which the research is being conducted.
- If the problem is not rightly understood the whole task of collecting and analyzing data goes for a toss.

► **(II) Developing Research Objectives**

After the problem has been defined and understood, it is important to develop the research objective which includes the purpose of study, methodology, information required and the probable sources of information.

► **(III) Developing the Research Plan**

- After the problem has been defined and the objectives are laid out, the next step is to develop the research plan.

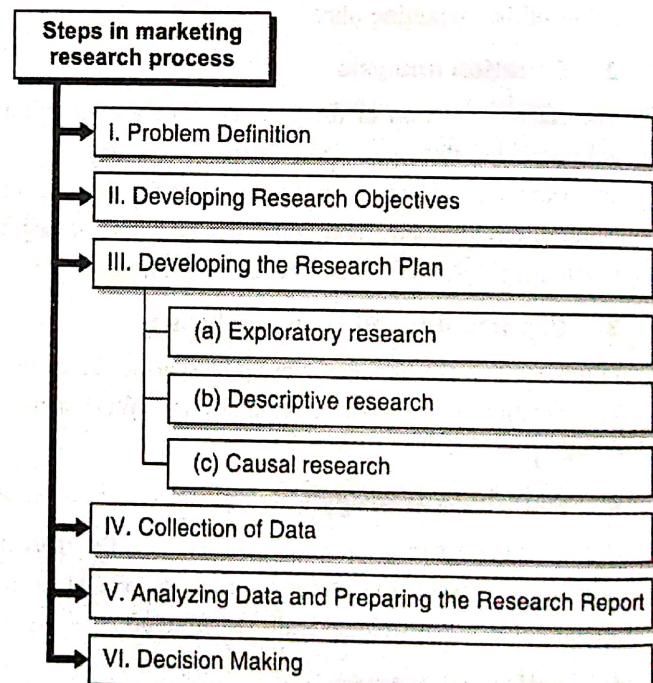


Fig. C3.3 : Steps in marketing research process



- Research plan includes identifying the tools and techniques that will be used to arrive at desired results.

• The research design is mainly classified into three types: Exploratory research, Descriptive research and causal research.

(a) **Exploratory research** : This is the basic research done by the company to identify opportunities and threats and is done by using minimum resources in terms of time and expense. Data is collected with the help of magazines, books, journals and questionnaires filled by knowledgeable people with relevant experience. A company going for a primary survey to identify the taste and preferences of its target customer base also form part of exploratory research

(b) **Descriptive research** : This is a more specific kind of research and is conducted after clearly defining the problem in exploratory research. Descriptive research identifies the intensity of the problem

(c) **Causal research** : This research is used by companies to devise strategies for a marketing endeavor. Causal research helps in finding the cause and effect relationship between two variables. This type of research is conducted with the help of diligently designed questionnaire. One such example can be a research conducted by ITC group of hotels to find whether the decrease in occupancy has any relation with its recent hike in room tariffs.

Research Instruments

- Research team mainly uses two types of instruments to collect primary data. They are questionnaires and mechanical devices. Questionnaires are set of relevant questions in a sequence to collect required information.
 - This is the most common research instrument used by companies. The questionnaire should be prepared such that it can bring out the required information.
 - Some researchers commit the mistake of designing questionnaire which has lot of redundant questions which makes it lengthy and thus boring to the respondents. Mechanical Devices such as galvanometer is used to measure the response or interest of a customer when subjected to a marketing endeavor such as a picture or a video on the product.
 - Other devices such as Global positioning system GPS can be used to find out the number of people passing by a particular billboard in a given period of time.

► (IV) Collection of Data

- For the purpose of research there are two types of data which companies try and collect. These are primary data and secondary data.
 - Primary data is the first hand data collected from the respondents with the help of instruments like questionnaire e-mails and telephonic conversation.
 - This kind of data is collected by companies to determine the satisfaction level of a product feature or service quality.
 - Since this requires direct communication with customers on a one-to-one basis, collecting primary data is a time consuming exercise involving higher costs. The various means of collecting primary data are :
 - (1) Personal interviews
 - (2) Mailer interviews
 - (3) Telephonic interviews
 - (4) Interviewer observation
 - Secondary data is collected from the internal and external sources of the company. Internal sources include annual reports, sales reports, Memorandum of association and articles of association etc.
 - External sources include any information which has been published on the company in books, magazines or journals.
 - Collecting secondary data is a less time consuming task as information is readily available. But researchers need to ensure that the secondary data published is free from any kind of bias.

► (V) Analyzing Data and Preparing the Research Report

- After the data has been collected, the next task is to edit and tabulate the data. After this a number of statistical tools such as frequency distribution, dispersion and software like SPSS and SAS is used to arrive at conclusions.
- These conclusions should be used to prepare the research report which is then presented in front of the management team to take necessary action.
- Researchers should take care in presenting the report and it should be done in a way by which the marketing and management team can easily comprehend the findings and accordingly proceed with action.

► (VI) Decision Making

- After going through the report, the management team along with the marketing team decides on the strategy.
- This may lead to completely stop the launch of a product, increase marketing effort, diversify etc. But, there is a possibility that the team feels that the research results are not sufficiently clear and does not indicate anything, then the team may decide to delve deeper into the research and the process may be done again with some inclusions or exclusions.

► 3.4 BUSINESS PLAN - BENEFITS OF DRIVERS, PERSPECTIVES IN BUSINESS PLAN PREPARATION, ELEMENTS OF A BUSINESS PLAN; BUSINESS PLAN FAILURES.

GQ. What is a business plan?

GQ. Why is it necessary to have a business plan?

GQ. Briefly describe the process of creating a business plan.

- Successfully launching a new business requires careful planning and the outcome of careful business planning are captured in a business plan.
- Also, every business decision should be made on the strength of underlying business idea and hence the idea should be communicated simply and clearly in a well drafted business plan.
- A business plan describes the business's vision and objectives as well as the strategy and tactics that will be employed to achieve them.
- The business plan also provides the basis for operational budgets, targets, procedures and management control. To articulate business strategy, tactics, and operations in a written document requires rigorous analysis and clarity of thought.
- Hence, this acts a precursor to the business idea, if the strategy of the business cannot be clearly and convincingly described on paper the chances of it working in reality are slim.
- The business plan along with being a prerequisite for gaining access to finance, also provides a blueprint for running the business venture.
- Although, no two businesses are identical and no two business plans the same, but good business plans always contain some common themes. Every good business plan should be able to;
 - (1) Convey how the business will achieve its objectives in a clear and consistent manner.
 - (2) Clearly define the prospective market, its targeted customers, proposed suppliers, and most likely competitors.
 - (3) Elaborate the assumptions and forecasts.
 - (4) Describe as to how the business will achieve sustainable competitive advantage.
 - (5) Identify the potential risks and the likely course of action.
 - (6) Describe the experience and track record of the management.
 - (7) Identify the funding requirement, the use of those funds, and the likely rate of return.



3.4.1 Reasons for Preparing a Business Plan

- Before one gets down to writing a business plan it is necessary to appreciate the reasons for preparing one.
 - Although, every business plan should convey the above mentioned themes, the focus and level of detail will vary as per the decision the business plan has been designed to support.
- (1) **Securing Finance** : most business plans are prepared to secure some form of finance for the venture. In case of a totally new idea financiers place greater emphasis on going through the business plan. The business plan will elaborate on the financial feasibility, growth prospects, and the sources for competitive advantage for the business. The emphasis of a business plan aiming to secure finance will be strategic, tactical, financial projections, and returns to investors.
- (2) **Operational Management** : a detail business plan can form the basis for creation of business processes and job description.
- (3) **Budgeting** : business plans can provide operational budgets which can form the basis for monitoring and analysing performance.
- (4) **Communication** : business plan can be prepared to convey the vision, mission and goals of the business.

3.4.2 Contents of a Business Plan

The contents, style and length of a business plan will depend upon the activities the plan is designated to support and the audience for the plan. Although there is no set format a standard business plan will have the following contents :

- (1) Executive Statement – vision, mission, and objectives.
- (2) Basic Business Information – title and legal structure
- (3) Current Business Situation – corporate history and past financial performance
- (4) Strategic Analysis – political, economic, social and technological analysis
- (5) Strategic Plan – sources of sustainable competitive advantage
- (6) Marketing Plan – market size, segment, customer and customer needs
- (7) Production Plan – location, process, facilities, equipment and machinery
- (8) Management – management and organizational chart
- (9) Forecasts – sales and financial forecasts
- (10) Financing – current status and future requirement
- (11) Risk Analysis – risk overview
- (12) Business Controls – information technology controls over all functional areas.

3.4.3 Preparation of Business Proposal

- Steps in preparing a business proposal :

1. Research

Research the business idea thoroughly. Ask these three crucial questions :

- (i) Is there a demand for the product or service?
- (ii) Is anyone else doing it, or anything like it ?
- (iii) Can you deliver, consistently, in your present circumstances or would you need to create an environment ?

Steps in preparing a business proposal

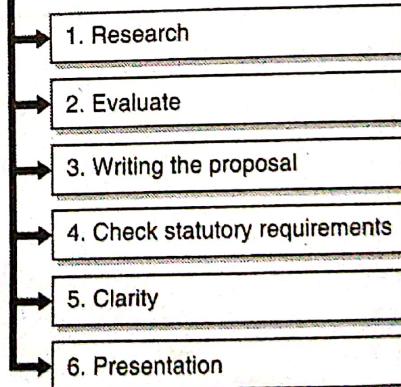


Fig. C 2.8 : Steps in preparing a business proposal



► 2. Evaluate

- If research suggests the idea has prospects, you will then need to evaluate, what your business idea will cost to set up and to run on going. How much do you expect to get paid? How much start-up capital will you need?
- Most new businesses do not make a profit initially, as they are recovering the start-up costs including loans, establishment, marketing, accountant and legal fees, licensing, etc. A cash flow and profit and loss forecast for the first 3 to 5 years is usually recommended.
- A good business idea, well executed, should start to show at least some profit within this timeframe.

► 3. Writing the proposal

A good business proposal should, at a minimum, have the following sections : an explanation of what your business idea is (and what suggested it to you), details of your market research (demand, competitors, likely customers etc), financial (profit and loss and cash flow projections), how you will deliver it (manpower, technology, location), marketing strategy (how will you sell/promote/brand), and a pricing strategy (how much will you sell it for).

► 4. Check statutory requirements

You may require some systems and processes to meet statutory obligations and these should also be detailed in your proposal.

► 5. Clarity

- Many a good idea has failed to gain support because the person reading the proposal didn't understand the proposal.
- Explain everything in your proposal as if you were presenting it to someone with no previous knowledge in the field. Especially when giving proposals to lending institutions.

► 6. Presentation

- Keep the proposal short, simple, and to the point. Useful graphs, illustrations of promotions, prototypes, etc and good document layout will make a good impression and look more professional.
- Get the proposal reviewed independently from a third party.
- Consider getting your proposal bound and always print in colour if you have charts and diagrams. Be prepared to give verbal presentations in support of your proposal.

Chapter Ends...

