

Entrepreneurial Management

Chapter 6

The Business Plan: Visualizing the Dream

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An Overview of the Business Plan

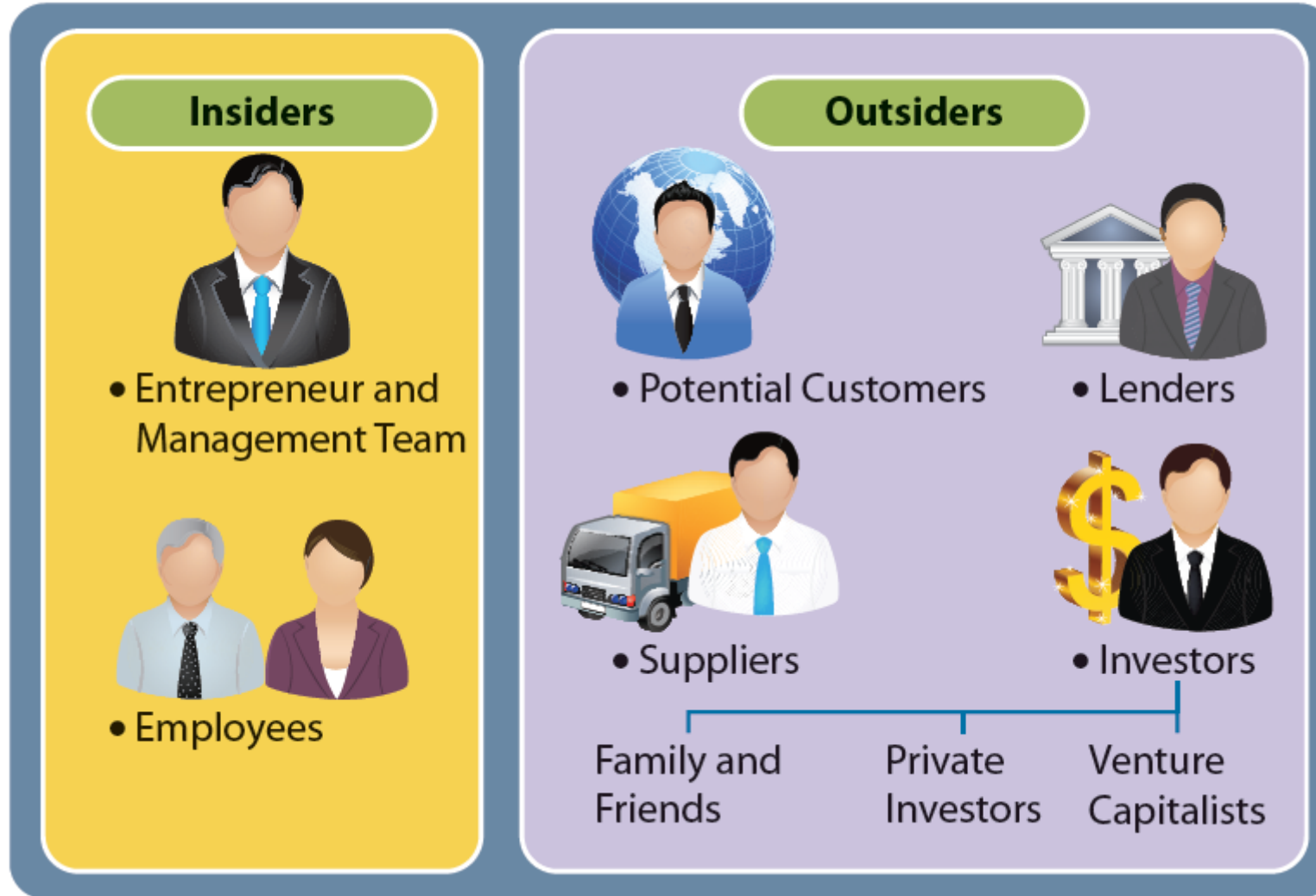
- Business Plan

- Outlines the basic concept underlying a business—what problem will be solved—and describes how the business will execute its plan to solve the problem

- Key Elements of a Business Plan

- A logical statement of a problem and its solution
- A significant amount of cold, hard evidence
- Candor about the risks, gaps, and assumptions that might be proved wrong.

6.1 Users of Business Plans



Will Writing a Plan Make a Difference?

- Primary Functions

- To provide a clearly articulated statement of goals and strategies for internal use

- ❖ Imposes discipline on the entrepreneur and management team

- To serve as a selling document to be shared with outsiders

- ❖ Provides a credible overview for prospective customers, suppliers, and investors

- ❖ Helps secure favorable credit terms from suppliers

- ❖ Opens approaches to lenders and other sources of financing

The Balance Between Planning and Executing

- Factors affecting the extent of a business plan:
 - Cost in time and money to prepare the plan
 - Management style and ability
 - Preferences of the management team
 - Complexity of the business
 - Competitive environment
 - Level of uncertainty



Types of Business Plans

- The Short Plan
 - An abbreviated form of a traditional business plan that presents only the most important issues and projections.
- The Comprehensive Plan
 - A complete that provides an in-depth analysis of the critical factors that will determine a firm's success or failure, along with all the underlying assumptions.



Preparing a Business Plan

- Issues critical in preparing a business plan:
 - The content and basic format of the plan
 - ❖ Factual support for the concept in the form of strong supporting evidence
 - The effectiveness of the written presentation
 - ❖ Clear writing that effectively communicates



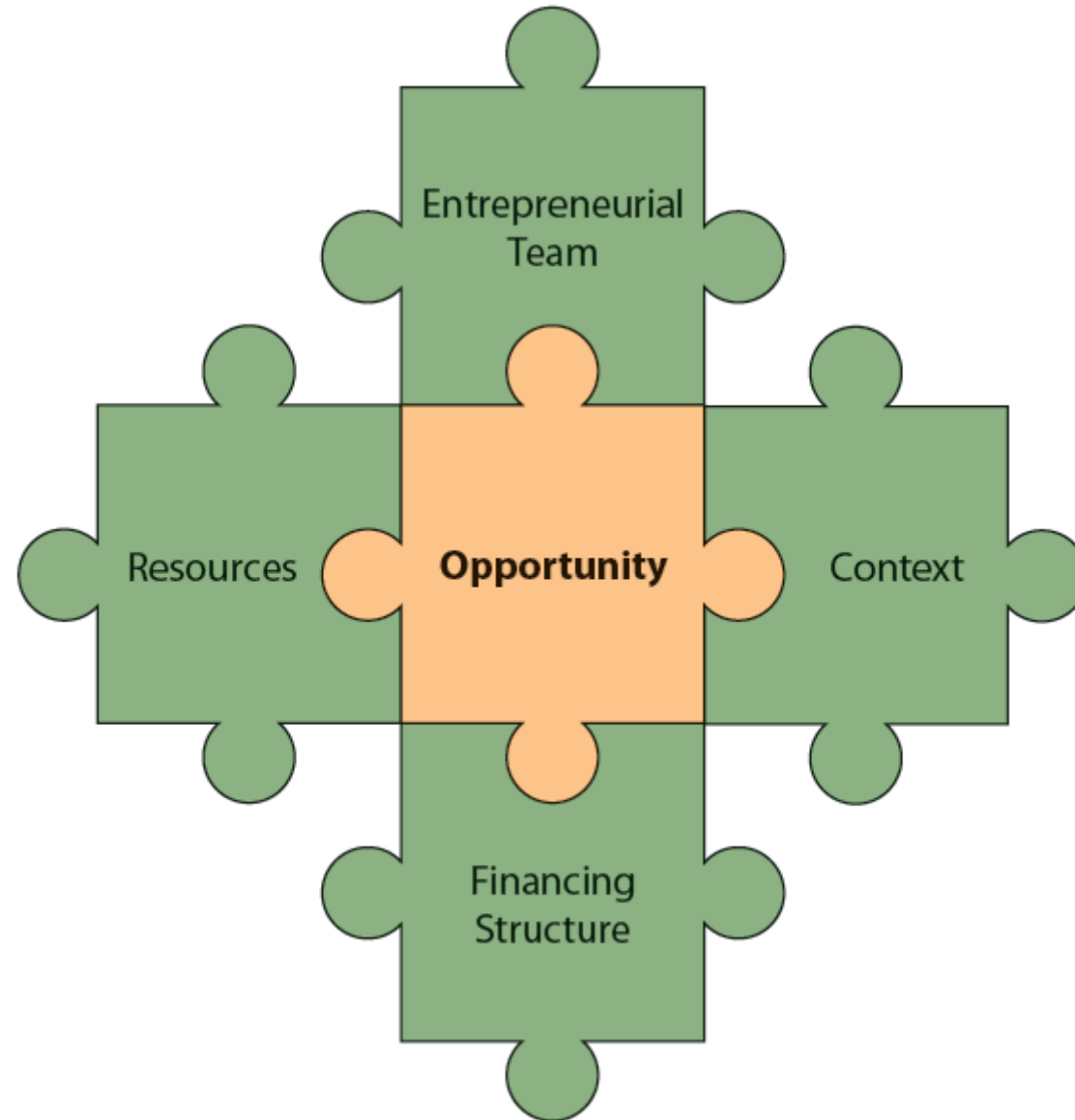
Content of a Business Plan

- Factors that help determine the content of a business plan for a startup:
 - The opportunity
 - Critical resources
 - The entrepreneurial team
 - The financing structure
 - The context
(or external factors)





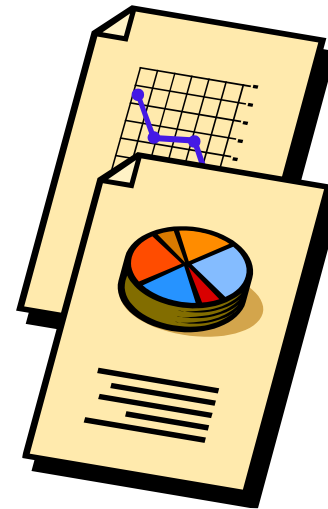
A Business Plan Identifies the Key Factors for Success



Major Sections of Business Plans

Section Headings

- Cover Page
- Table of Contents
- Executive Summary
- Industry, Target Customer, and Competitor Analysis
- Company Description
- Product/Service Plan
- Marketing Plan
- Operations and Development Plan
- Management Team
- Critical Risks
- Offering
- Exit Strategy
- Financial Plan
- Appendix of Supporting Documents



Abbreviated Business Plan Outline

| Section Heading | Information Provided |
|--|---|
| Cover Page | Company name, logo, tagline, contact information, copy number, date prepared, and disclaimer (if needed) |
| Table of Contents | Listing of the key sections of the business plan |
| Executive Summary | One- to three-page overview of the significant points, intended to motivate the reader to continue reading |
| Industry, Target Customer, and Competitor Analysis | Key characteristics of the industry, including the different segments, and the niche where you plan to compete |
| Company Description | Company objectives, the nature of the business, its primary product or service, its current status (startup, buyout, or expansion) and history (if applicable), and the legal form of organization |
| Product/Service Plan | Justification for why people will buy the product or service, based on its unique features |
| Marketing Plan | Marketing strategy, including the methods of identifying and attracting customers, selling approach, type of sales force, distribution channels, types of sales promotions and advertising, and credit and pricing policies |
| Operations and Development Plan | Operating or manufacturing methods, operating facilities (location, space, and equipment), quality-control methods, procedures to control inventory and operations, sources of supply, and purchasing procedures |
| Management Team | Description of the management team, outside investors and/or directors, and plans for recruiting and training employees |
| Critical Risks | Any known inherent risks in the venture |
| Offering | How much capital the entrepreneur needs and how the money will be used (section used to attract investors) |
| Exit Strategy | Ways an investor—and the entrepreneur—may be able to harvest their business investment |
| Financial Plan | Contemplated sources of financing; any historical financial statements, if available; pro forma financial statements for three to five years, including income statements, balance sheets, cash flow statements, and cash budgets |
| Appendix of Supporting Documents | Various supplementary materials and attachments to expand the reader's understanding of the plan |

The Content of a Business Plan

- Cover Page

- Company name, address, phone number, fax number, and website
- Tagline and company logo
- Name and contact information of contact person
- Date on which the business plan was prepared
- Confidentiality disclaimer
- Number of the copy

- Table of Contents

- Provides a sequential listing of the sections of the plan, with page numbers

6.4 Table of Contents for BlueAvocado Business Plan

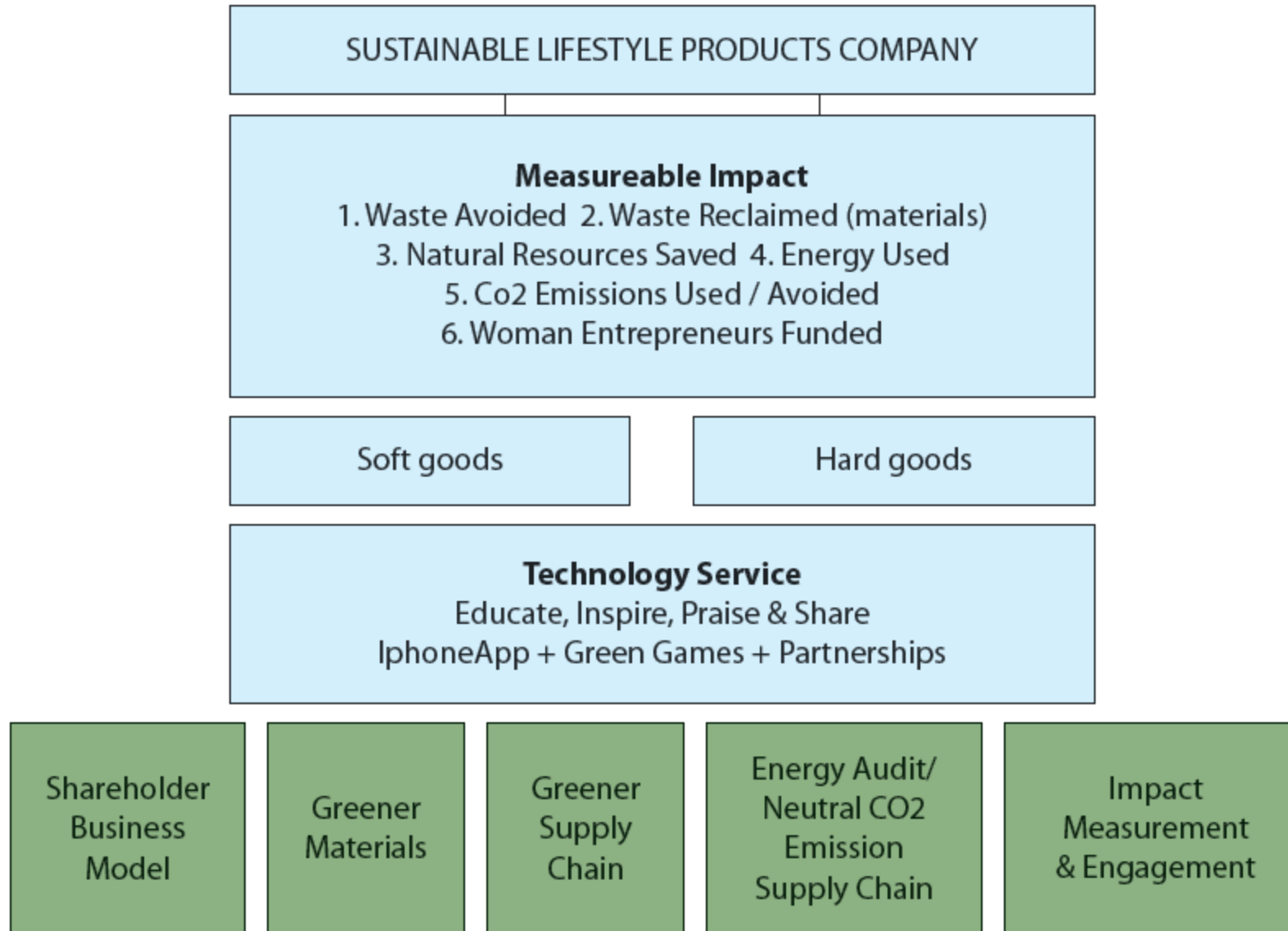
| Table of Contents | |
|-------------------|---------------------------|
| 1.0 | Introduction |
| 2.0 | The Company |
| 3.0 | Market Opportunity |
| 4.0 | Product Overview |
| 5.0 | Lauren Conrad Partnership |
| 6.0 | Technology Initiatives |
| 7.0 | Supply Chain |
| 8.0 | Marketing/Sales Plan |
| 9.0 | Financial Overview |
| 10.0 | People |
| 11.0 | Sustainability Issues |
| 12.0 | Conclusion/Contact |
| | Appendices |

The Content of a Business Plan (cont'd)

- Executive Summary (Overview/Synopsis/Narrative)
 - Description of the opportunity
 - Explanation of the business concept
 - Industry overview
 - Target market
 - Competitive advantage to be achieved in the market
 - Economics of the opportunity
 - Management team description
 - Amount and purpose of the money being requested (the “offering”) if seeking financing



BlueAvocado Overview



The Content of a Business Plan (cont'd)

- Industry Description

- Broader industry in which the firm will compete
 - ❖ Industry size, growth rate, trends, and competitors
- Different segments of the industry
- Niche in which the firm plans to participate

- Target Customers

- Demographics and psychological variables—values, attitudes, and fears

- Competitor Analysis

- Product or service attributes that are or are not provided by competitors

The Content of a Business Plan (cont'd)

- Company Description

- When and where was this business started?
- What is the history of the company?
- What are the firm's objectives?
- What changes in structure and/or ownership?
- In what stage of development is the firm?
- What has been achieved to date?
- What is the firm's distinctive competence?
- What are the nature and activity of the business?
- What is its primary product or service?
- What customers will be served?
- What is the firm's form of organization?
- What are the projected economic states of the industry?
- How is ownership of the firm to be structured?

The Content of a Business Plan (cont'd)

- **Product/Service Plan**

- Describes the product and/or service to be provided and explains its merits

- **Marketing Plan**

- Describes the user benefits of the product or service and the type of market that exists

- **Operations and Development Plan**

- How product will be produced or service provided

- **Management Team**

- Describes the firm's organizational structure and the backgrounds and qualifications of key personnel

The Content of a Business Plan (cont'd)

- **Critical Risks**

- Identifies the potential risks that may be encountered by an investor

- **Offering**

- Indicates to an investor how much money is needed and when, and how the money will be used

- **Exit Strategy**

- Lists the possible options for equity investors to recover their principal investment and any returns through cashing out of their investment.

The Content of a Business Plan (cont'd)

- Financial Plan

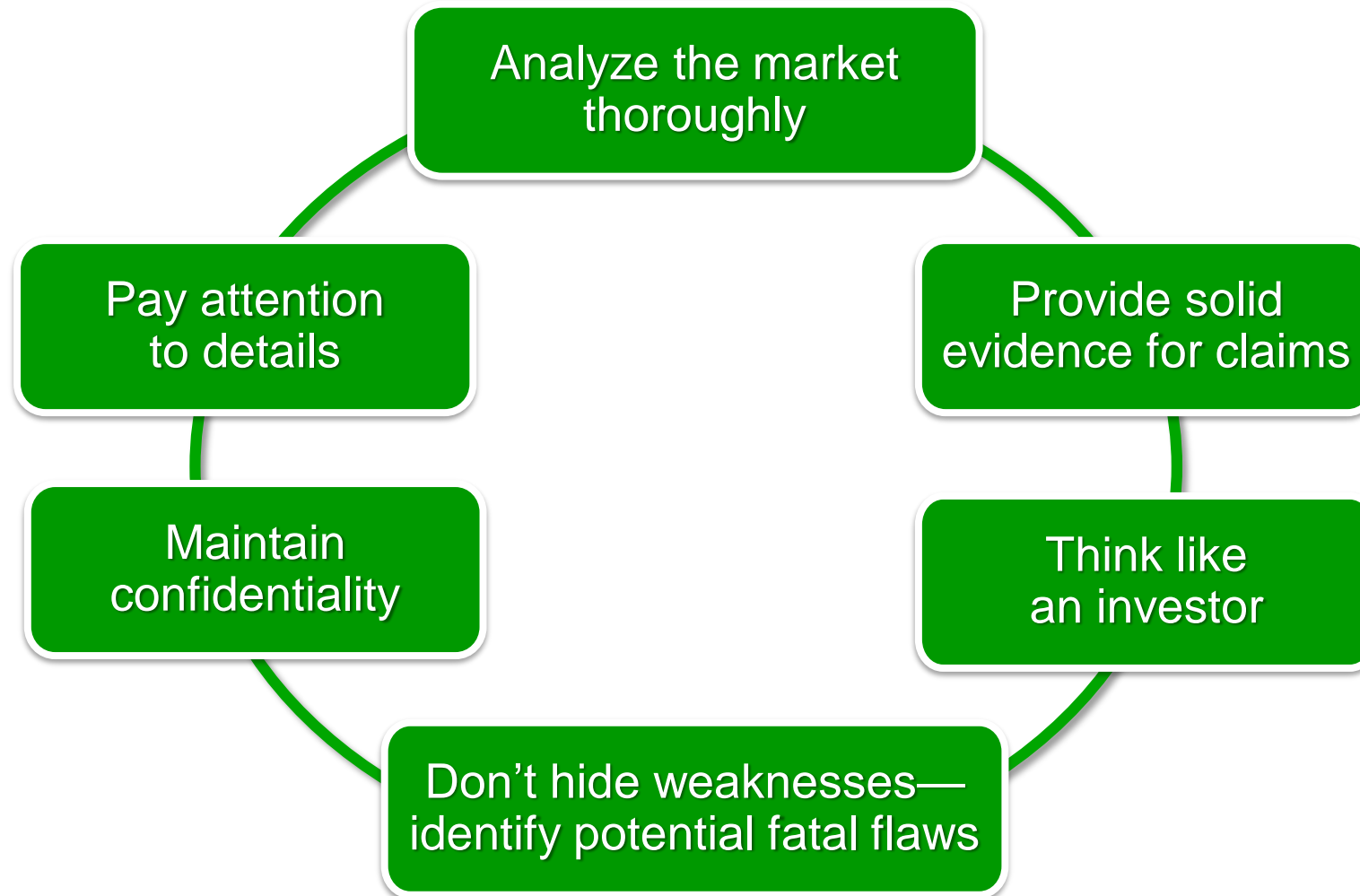
- Projects the company's financial position based on well-substantiated assumptions and explains of how the figures have been determined
- Pro forma statements
 - ❖ Projections of a company's financial statements for up to five years, including balance sheets, income statements, and statements of cash flows, as well as cash budgets.



The Content of a Business Plan (cont'd)

- Appendix of Supporting Documents
 - Supplementary materials and attachments to expand the reader's understanding of the plan:
 - ❖ Résumés of key investors and owners/managers
 - ❖ Professional references
 - ❖ Photographs of products, facilities, and buildings
 - ❖ Marketing research studies
 - ❖ Pertinent published research
 - ❖ Signed contracts of sale

Advice for Writing a Business Plan



Advice for Writing a Business Plan

- Analyze the Market Thoroughly
 - What is the target market?
 - How large is the target market?
 - What problems concern the target market?
 - Are any of these problems greater than the one you're addressing?
 - How does your product or service fix the problem?
 - Who will buy your product or service?
 - How much are they willing to pay for it?
 - Why do they need it?
 - Why would they buy from you?
 - Who are your competitors?
 - What are their strengths and weaknesses?

What Not to Do

- Mistakes to avoid in preparing a business plan:
 - Failing to provide solid data.
 - Failing to describe the product in lay terms.
 - Failing to thoroughly analyze the market.
 - Including financial statements that are overly detailed or incomplete.
 - Hiding weaknesses.
 - Overlooking the fatal flaw.
 - Using bad grammar.
 - Making the overall plan too long.

Presenting Business Plan to Investors

- Understanding the Investor's Perspective
 - Entrepreneurs are optimists; investors are skeptics.
 - Investors seek to maximize return through cash flow while minimizing exposure to risk.
 - Bad information and poor preparation cause investors to lose interest quickly.
- The Investor's Short Attention Span
 - A business plan must be an effective marketing document that quickly captures investor interest.

Plan Features that Attract Investors

- Plans that speak the investors' language:
 - Are market-oriented in meeting identifiable customer needs; are not product-oriented.
 - Show evidence of target customer acceptance of the proposed product or service.
 - Present credible and not overly optimistic financial projections.
 - Are not a formal prospectus or offering memorandum.



Making an Effective Written Presentation

- Use good grammar
- Limit the presentation to a reasonable length
- Go for an attractive, professional appearance
- Provide solid evidence for any claims
- Describe the product in lay terms
- Emphasize the qualifications of the management team
- Analyze the market thoroughly
- Include financial statements that are neither overly detailed nor incomplete
- Don't hide weaknesses—identify potential fatal flaws
- Maintain and insist on confidentiality

Suggestions for Writing a Business Plan

- Provide table of contents and section tabs.
- Use a loose-leaf binder in case of revisions.
- Use visual aids—graphs, exhibits, and tabular summaries.
- Indicate that all information is confidential.
- Number copies of the plan and require written receipts.
- Be careful about divulging competitive information or proprietary designs/technology.
- Ask other entrepreneurs to review the plan.

Understanding the Business Model

- Business Model

- Analysis of how a firm plans to create profits and cash flows given its revenue sources, its cost structures, required size of investment, and sources of risk.

- Business Model Elements

1. *The revenue model* defines the nature and types of a firm's sources of revenues
2. *The cost structures* that drive the company's costs and expenses
3. *The maximum investment* that will be required to make the business profitable and cash flows positive
4. *Business model risk* identifies risks in the model and how the model can adjust to them

The Business Model: Revenues

- Revenue Streams

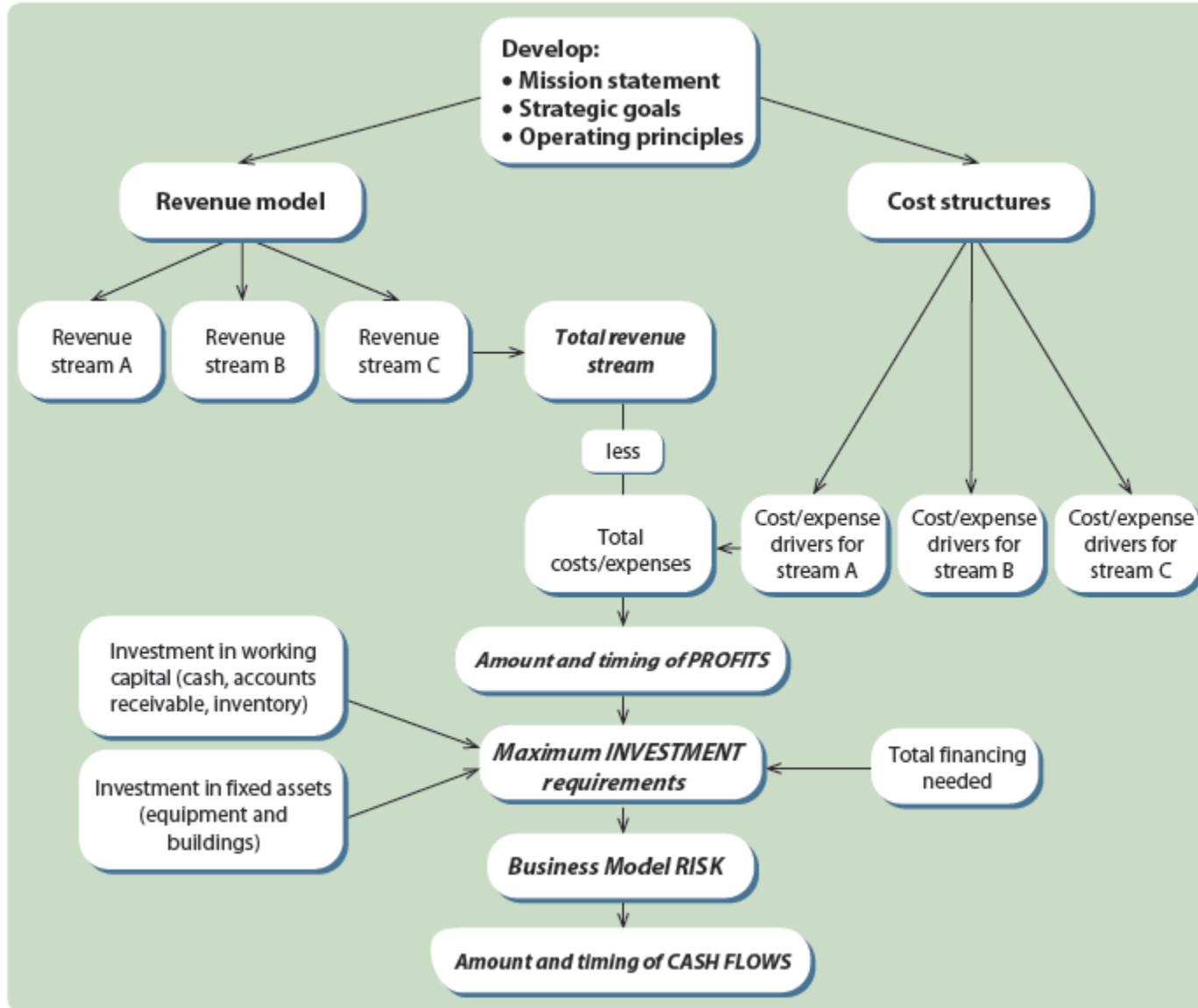
- Single stream
- Multiple streams
- Interdependent streams
- Loss leader

- Revenue Model Types

- Volume or unit-based revenue model
- Subscription/membership revenue model
- Advertising-based revenue model
- Licensing revenue model



Basic Business Model Framework



Forecasting Future Revenues

1. Who are your most likely customers?
2. How are they different from the general population?
3. What events will trigger the need or desire for your type of product or service?
4. When will this trigger occur? Can it be predicted?
5. How will customers make decisions on whether or not to buy your product or service?
6. What will be the key decision factors?
7. How will your product or service compare to that of the competition on these key factors?
8. Will these differences be meaningful to the customer?
9. Are these differences known to the customer?
10. How can the product or service be exposed to potential customers?

Cost Structures

- Fixed Costs

- Costs that do not vary at all with volume, such as rent expenses.

- Variable Costs

- Expenses that vary directly and proportionately with changes in the activities of the firms.

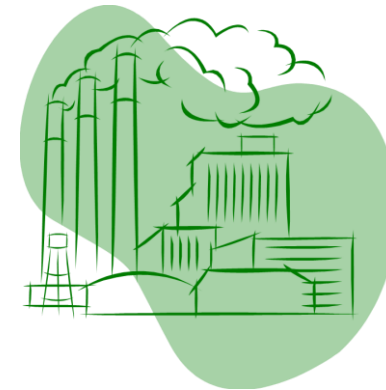
- Semi-variable Costs

- Expenses that include both variable costs and fixed costs which vary, but not proportionately, with increased or decreased activities of the firm.

Maximum Investment

- Maximum Investment

- Provides estimates of the types and amounts of investment required to achieve positive profits and cash flows.
 - ❖ Hard assets (equipment and buildings)
 - ❖ Amount of working capital in the form of operating cash
 - ❖ Accounts receivable
 - ❖ Inventory



Managing Business Model Risk

- Business Model Risk

- A component of the business model that identifies risks in the model (e.g., changing economic circumstances) and how the model can adjust to them.



Resources for Business Plan Preparation

- Computer-Aided Business Planning
 - Word-processors
 - Spreadsheets
 - Specialized business plan software packages
- Professional Assistance
 - Accountants
 - Marketing specialists
 - Attorneys
 - Investment banker
 - Financial intermediary
- Professional Assistance (cont'd)
 - Small business development centers (SBDCs)
 - Incubator organizations
 - Regional and local economic development offices.
 - Service Corps of Retired Executives (SCORE)
 - FastTrac Entrepreneurial Training Program

Keeping The Right Perspective

- Good business plans don't ensure success.
 - Effective implementation is what succeeds.
- Writing a business plan is an ongoing process and only secondarily the means to an outcome.
 - The process is just as important as—if not more so than—the finished product.
 - The plan represents what is has been anticipated; a good entrepreneur adapts the plan to fit the unexpected.