Developing an Effective Business Plan
1. Answer the question “What is a business plan?”

2. Explain the need for a business plan from the perspectives of the entrepreneur, the investor, and the lenders.

3. Describe what determines how much planning an entrepreneur and a management team are likely to do.

4. List practical suggestions to follow in writing a business plan and outline the key sections of a business plan.

5. Identify available sources of assistance in preparing a business plan.
What Is a Business Plan?

• Business Plan
  - A document that sets out the basic idea underlying a business and related start-up considerations
    - Identifies the nature and context of the business opportunity
    - Presents the entrepreneur’s approach to exploiting the opportunity
    - Identifies factors affecting the venture’s success
    - Serves as the entrepreneur’s tool for raising capital

Writing a business plan is an ongoing process, not just the means to an end product or outcome
The Need for a Business Plan

• 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 favourable credit terms from suppliers
    • Opens approaches to lenders and other sources of financing
Users of Business Plans

Exhibit 5-1

New Venture Business Plan

Insiders

Firm's Management

Employees

Outsiders

Customers

Suppliers

Investors

Bankers or Other Lenders

Exhibit 5-1
Common Business Plan Flaws

- Overly optimistic financial projections, inadequate competitive analysis and/or weak environmental assessments
- Vague marketing strategies
- Lack of research
- Unprofessional presentation
- Hazy timelines, vague risk assessment
The Investor’s Perspective

- Plans that speak the investors’ language:
  - Are concise, not extremely long in written length.
  - Have an attractive overall appearance.
  - Are well-organized with a table of contents and numbered pages.
  - Are market-oriented in meeting customer needs; are not product-oriented.
  - Show evidence of customer acceptance of the proposed product or service.
Features of Plans that will Repel Investors

• Plans that create unfavourable reactions:
  ▪ Show an infatuation with the product or service and downplay market needs or acceptance.
  ▪ Are based on financial projections at odds with accepted industry norms.
  ▪ Have unrealistic growth projections.
  ▪ Contain a need for custom or applications engineering, which makes substantial growth difficult.
Business Plans that Attract Investors

- Recognize the investors’ needs for required rates of return on investments.
- Demonstrate evidence of focus on a limited number of products or services
- Have a proprietary market position through patents, copyrights, and trademarks
The Lender’s Perspective

• Bankers assess business plans on the following 5 Cs of Credit:
  – Collateral        assets to put toward credit
  – Capacity          strength of cash flow
  – Capital           personal investment in business
  – Conditions        industry risk and conditions
  – Character         competence and credit history
Business Planning Needed and Influencing Factors

• Factors affecting the extent of a business plan:
  ▪ Cost in time and money to prepare the plan
  ▪ Preferences of the management team
  ▪ Complexity of the business
  ▪ Competitive environment
  ▪ Level of uncertainty
Preparing a Business Plan

• Two issues critical in preparing a business plan:
  ▪ The basic format and effectiveness of the written presentation.
    • Clear writing that presents the concept in an accurate, comprehensible and enthusiastic way
  ▪ The content of the plan.
    • Factual support for the concept in the form of strong supporting evidence
Deciding on the Content of a Business Plan

• The People
  ▪ Those involved in starting and running the venture

• The Opportunity
  ▪ The business’ profile—products, customers, expected growth, profitability, and anticipated challenges and problems

• The Context
  ▪ The big picture—the firm’s competitive environment

• Risk and Reward
  ▪ Assessment of potential problems and responses
Business Plan Overview

• Title Page
• Table of Contents
• Executive Summary
  ▪ Synopsis
  ▪ Narrative
• Mission Statement and Goals
• Company Overview
• Products and/or Services Plan
• Marketing Plan
• Operating Plan
• Financial Plan
• Appendix of Supporting Documents
Specialized Plans within the Business Plan

• Products and/or Services 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

• Management Plan
  ▪ Describes the new firm’s organizational structure and the backgrounds of its key players

...continued
Specialized Plans within the Business Plan

• Operating Plan
  ▪ Offers information on how the product will be produced or a service provided, including descriptions of the new firm’s facilities, labour, raw materials, and processing requirements

• Financial Plan
  ▪ Provides an account of the new firm’s financial needs and sources of financing and a projection of its revenues, costs, and profits
    • Pro forma statements—Reports that project a firm’s financial condition
Resources for Business Plan Preparation

• Computer-Aided Business Planning
  ▪ Word-processing
  ▪ Spreadsheets
• Specialized Business Plan Software Packages (BizPlan)
• Professional Assistance
  ▪ Lawyers
  ▪ Marketing specialists
  ▪ Engineering and production experts
  ▪ Accounting firms
  ▪ Incubator organizations
  ▪ Small business development agencies
A Business Plan Checklist

- Executive Summary
- Marketing Section
- Operations Section
- The Management Team
- The Financial Section
- Appendixes
Research to Support the Plan

Both primary and secondary research must be carried out by the writer of the business plan.

Secondary Research
- secondary published sources
- books, published reports, newspaper, journal articles, statistics databases, and Internet sites

Primary Research
- derived directly from people
- experts in the field, professionals such as lawyers and accountants, industry contacts such as trade association representatives or suppliers and potential customers