

Writing a Business Plan

The Business Plan is a written summary of the overall activities of the business enterprise. Its creation forces management to separate achievable objectives from “pie-in-the-sky” conjecture. Detail is important here. Typically, entrepreneurs create business plans in which some sections are very detailed (i.e., the entrepreneur had given the material a lot of thought) while other, equally important, sections have little detail. You must not fall into this trap. The audience for a business plan is either a banker or a venture capitalist. These people thrive on details - who specifically is the competition? where specifically will the business operate? specifically how many staff will be employed? what specifically are the products? how specifically will the cash required be used?

A well prepared business plan:

- * Induces realism in the founders. When they are forced to sit down and really study and quantify the cost-volume-profit relationship, they frequently discover their own optimism;
- * Exposes management to the whole planning, budgeting, forecasting and reporting process, its method and its merits;
- * Identifies customers, competitors, marketing strategy, and conditions needed for success;
- * Provides the budget and break-even point which will be a useful barometer for an assessment of project feasibility and attainment;
- * Allows investigations of deviations from plan before conditions become irreparable;
- * Discloses timing and the amount of sources and uses of funds (especially the timing of capital expenditures and the need for working capital) and the need for short-term bank borrowing; and
- * Provides a measure of anticipated return on investment.

General Structure - While your actual structure will depend on type of business to be started, use this as the required outline for your business plan.

Executive Summary - one to two pages

Table of Contents - with page numbers and contents of appendices identified

Service/Market Description (Product/Market Description) - one page

For Product or Service description make sure it is thorough and complete. It sometimes helps to define the offering by talking about products or services not being offered. For the market, describe customers both in demographic and psychographic terms. Why do people want these products or services? For an e business one might add why customers want to acquire these products or services in this manner rather than from another traditional delivery medium.

Entrepreneur Profile - half page

Begin by describing the form of ownership (sole proprietorship, partnership, or corporation), percentage ownerships, and the initial cash investment planned. The key here is to explain how the entrepreneur brings value to the venture. Build both their general business credibility and credibility specific to this venture. For example, the entrepreneur might imagine a web site selling cheese to the world but if s/he doesn't make cheese, what value is s/he bringing to the venture?

Basis of Competitive Advantage - half page

Answer the question why are people buying from this business rather than a competitor? Most likely an organization only has one or two true competitive advantages which it can use to defeat the competition. A person reading the plan will try to determine whether these advantages truly are significant and sustainable.

Business and Personal Objectives - Quantitative

- Qualitative - half page for both

Probably no more than five major objectives. All objectives should be connected to a time frame and most should be measurable. While some can be qualitative, specific and measurable sales and profit objectives for the first three years allow the entrepreneur to determine if the business truly is successful. The personal objectives may tell a funder something about the commitment of the owner (for instance, the goal might be to do an IPO in five years – that is different than starting the business and keeping it small).

Market Analysis

Customers - Justify potential demand using secondary (historical) data and primary data (gathered locally from potential customers)

This is a major section of the plan and allows the writers to present their major evidence. This could include results of marketing research, general trends identified through secondary data, reports from industry insiders, etc. Usually one tries to estimate demand in two manners. Top down suggests one starts with a target population and then reduces that number based on market statistics to show that there are X number of consumers who want this product or service (with X normally being a very large number). An implication is that there are so many consumers this business cannot fail. For instance, start with the population of Canada and then reduce that number for adults between 21 and 65, and then reduce it for the number with access to computers, and then reduce it for people with the target income, and then reduce it for the percentage engaged in a specific activity, etc.

One might also present environmental trends in the top-down analysis. Is anything going on in the environment (technology, political/legal, social/cultural, and economic) which affects customers or, more importantly, is affecting their buying habits? If so, what impact will this have on the business?

Bottom up analysis suggests that one starts with the individual consumer and a measurement of their needs/wants through a very specific market survey. In this course, students typically design a two-page questionnaire containing roughly ten questions. The typical sample size is 30 to 50 people. Remember that I need to review and approve questionnaires before you execute a survey. To help you design a survey, there is a template document on the course website. The best way to get my approval is to send me the questionnaire as a Word document via e-mail and give me a couple of days to complete a review.

Remember to always begin discussing results from a survey by giving the reader some context: how many people were surveyed, when the survey was completed, where the survey was completed, how you chose the participants. It also helps to summarize any demographic variables at the start so people can picture the people you surveyed.

The power of bottom-up analysis is talking to potential customers in the geographic target market. You could learn that out of 50 consumers surveyed, 31 said they would definitely buy the products/service of this business. Scaling that number up would lead to some more conclusions about demand. It also allows you to confirm the data gathered from secondary sources.

At the end of this section, a reader should be convinced that a big market exists for the product or service and that this venture is the logical victor in any battle for customers.

Competition - Primary Competitors (no more than six with a half page summary of each) and Secondary Competitors

- In addition provide a summary table/chart
- Identify location, number of employees, age of business, volume of business, its customers, how aggressive each is, any sense of sales/profits, types of products/services offered

Who specifically are the most likely competitors? What is happening in these companies? Are they growing or shrinking? Getting more aggressive or less? What is each primary competitor's competitive advantage? Is anything going on which affects customers or, more importantly, is affecting their buying habits? If so, what impact will this have on the business?

This is another major section. The reader will evaluate whether any key competitors were overlooked. The detail presented is also critical. One cannot simply acknowledge a competitor but one must demonstrate strategic knowledge of its action. At the end of reading this section, the reader should be convinced that the new company has a sustainable competitive advantage that will lead to success.

Marketing Strategy

Distribution - hours of service, physical location, layout of space, etc.

Promotion, Advertising and Selling Tactics - specific details with costs

Pricing and Profit Margins

This starts to address some specific tactics to meet objectives. How will consumers become aware of the new business? How will they be convinced to try the services or products offered? What pricing strategies will be followed? How will products or services be distributed?

Manufacturing Analysis or Supplier Analysis (if applicable) - one to two pages

This is an optional section if the company is selling physical goods. How will inventory be generated? If production is being sub contracted, explain the deals in place and back up plans in case of failure. If one is retailing goods, talk about major suppliers, their quality assurances, billing practices, the order cycle, etc. Why has a certain supplier been chosen? What is the history of the supplier? Should some of this involve international trade, here is a good place to talk about currency challenges as well as customs barriers.

Information Technology Analysis (if applicable) - one to two pages

This is an optional section most applicable for an e business. There should be a description of the technology being installed. This shouldn't be too detailed but it should assure the reader about processes for hot back-ups in case of failure, handling of peak demand (say at Christmas time), what a web site will or won't do, key technology partners, etc.

Organization Structure and Personnel Requirements - include a chart and brief job descriptions

- one page

What staff are needed? Who has committed to the project and what openings remain to be filled? In the entrepreneur's mind, what positions are critical for success? For each box in the organizational chart, define the responsibilities, qualifications, and pay rate for that person. If a position is to be added after start-up but within a three year time horizon, use a dotted or dashed outline for the box. The reader will look to see that appropriate skill sets are present and levels of compensation appear appropriate. The reader will also look for a match with the entrepreneur's skills/talents.

Present Situation and Start-Up Requirements - half page

Right now, where is the business glint in the eye or a month from launch? Clearly the closer to reality, the greater the likelihood of funding. To write this section,

start by defining a target opening date. Work backward to define three to five steps to get from now to then. If a step has costs, list them and how they will be financed. Start-up requirements address the question of what is needed to get the business from where it is now to being open in the manner envisioned by the entrepreneur.

Financial Projections

- Assumptions
- Three Year Income Statements (Most Likely Scenario) Showing Return on Investment
- Quarterly Cash Flow Projections for Year 1
- Proforma Balance Sheet at end of Year 1
- Break-even Analysis
- Sensitivity Analysis on Three Year Income Statements - Pessimistic and Optimistic Scenarios - state any new/altered assumptions

Placing this last does not mean this is unimportant. Many readers won't even bother looking at financial projections if they aren't convinced that the business is likely offering quality products to a group of consumers who can't wait to buy. The reason for this is simple - projections can be made to show anything. A look at the business plan of an unsuccessful business does not show financial projections awash in red ink!

Normally this section begins with a list of key assumptions affecting the projections. This is followed by a three year income statement reflecting what the entrepreneur thinks is the most likely operating scenario for the business. This is followed by quarterly cash flow projections. A common mistake of many entrepreneurs is not being able to distinguish between cash flows and profits. Many profitable businesses are strangled by poor cash flows (especially if they are growing quickly).

Typically, this is followed by a pro forma balance sheet (usually created for the year end of the first operating year projected in the income statements). This is then followed by a break even analysis for the first year. Finally, there is some sensitivity analysis on the income statements usually demonstrating a pessimistic and optimistic scenario. Not only do these serve to paint the best and worst case that the entrepreneur can foresee but they also show the reader the effect of key variables on the business.