Chapter 4: Writing a Business Plan

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I. The Business Plan

A. What is a business plan?

1. A business plan is a written narrative, typically 25 to 35 pages long, that describes what a new business plans to accomplish and how it plans to accomplish it.

2. For most new ventures, the business plan is a dual-purpose document used both inside and outside the firm.
   a. Inside the firm, the plan helps the company develop a “road map” to follow in executing its strategies and plans.
   b. Outside the firm, it introduces potential investors and other stakeholders to the business opportunity the firm is pursuing and how it plans to pursue it.

A business plan is important for two major reasons.

A. Why a Business Plan is Important

<table>
<thead>
<tr>
<th>Audience</th>
<th>What They are Looking For</th>
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<tbody>
<tr>
<td><strong>A Firm’s Employees</strong></td>
<td>A clearly written business plan, which articulates the vision and future plans of the firm, helps the employees of a firm operate in sync and move forward in a consistent and purposeful manner.</td>
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<tr>
<td><strong>Investors and Other External Stakeholders</strong></td>
<td>A firm’s business plan must make the case that the firm is a good use of an investor’s funds or the attention of other external stakeholders. The key is to include facts generated through a properly conducted feasibility analysis. A business plan rings hollow if it is based strictly on what an entrepreneur or team of founders “thinks” will happen.</td>
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I. The Business Plan

B. Who Reads the Business Plan— And What Are They Looking For?

1. A Firm’s Employees. A clearly written business plan, which articulates the vision and future plans of a firm, is important for both the management team and the rank-and-file employees of a new venture.

2. Investors and Other External Stakeholders. External stakeholders, such as investors, potential business partners, potential customers, and key employees who are being recruited to join a firm, are the second audience for a business plan.

   A firm must validate the feasibility of its business idea, develop an effective business model, and have a good understanding of its competitive environment prior to presenting its business plan to others.

C. Guidelines for Writing a Business Plan

1. Structure of the business plan
2. Content of the business plan
3. Style or format of the business plan
I. The Business Plan

C. Guidelines for Writing a Business Plan

1. Structure of the Business Plan:
   a. To make the best impression, a business plan should follow a conventional structure
   b. Although some entrepreneurs want to demonstrate creativity in everything they do, departing from the basic structure of the conventional business plan format is usually a mistake
   c. Typically, investors are very busy people and want a plan where they can easily find critical information

   d. Software packages: many software packages available that employ an interactive, menu-driven approach to assist in the writing of a business plan. Some of these programs are very helpful. However, entrepreneurs should avoid creating a boilerplate plan that looks as through it came from a “canned” source.

   e. Sense of Excitement: along with facts and figures, a business plan needs to project a sense of anticipation and excitement about the possibilities that surround a new venture.
I. The Business Plan

C. Guidelines for Writing a Business Plan

2. Content of the Business Plan
   a. The business plan should give clear and concise information on all the important aspects of the proposed venture.
   b. It must be long enough to provide sufficient information yet short enough to maintain reader interest.
   c. For most plans, 25 to 35 pages is sufficient.
   d. Types of Business Plans
      i. Summary business plan
      ii. Full business plan
      iii. Operational business plan

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I. The Business Plan

C. Guidelines for Writing a Business Plan

<table>
<thead>
<tr>
<th>Summary Business Plan</th>
<th>Full Business Plan</th>
<th>Operational Business Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>10–15 pages</td>
<td>25–35 pages</td>
<td>40–100 pages</td>
</tr>
<tr>
<td>Works best for new ventures in the early stages of development that want to “test the waters” to see if investors are interested in their idea.</td>
<td>Works best for new ventures who are at the point where they need funding or financing; serves as a &quot;blueprint&quot; for the company’s operations.</td>
<td>Is meant primarily for an internal audience; works best as a tool for creating a blueprint for a new venture’s operations and providing guidance to operational managers.</td>
</tr>
</tbody>
</table>
I. The Business Plan

C. Guidelines for Writing a Business Plan

3. Style or Format of the Business Plan:
   a. The appearance of the plan must be carefully thought out.
   b. Should look sharp but not give the impression that a lot of money was spent to produce it.

A suggested outline of a business plan is shown on the next slides
   a. Most business plans do not include all the elements introduced in the sample plan; we include them here for the purpose of completeness.
   b. Each entrepreneur must decide which elements to include in his or her plan.
II. Outline of the Business Plan

A. Exploring Each Section of the Plan

1. Cover Page and Table of Contents
2. Executive Summary
3. The Business
4. Management Team
5. Company Structure, Ownership, and IP
6. Industry Analysis
7. Marketing Plan
8. Operations Plan
9. Financial Plan
10. Critical Risk Factors
11. Appendix
12. Critical Risk Factors
13. Putting it All Together

In many instances, an investor will first ask for a copy of the executive summary and will request a copy of the full business plan only if the executive summary is sufficiently convincing.
II. Outline of the Business Plan

A. Exploring Each Section of the Plan

3. The Business:
   a. The most effective way to introduce the business is to describe the opportunity the entrepreneur has identified— that is, the problem to solve or the need to be filled—and then describe how the business plans to address the issue.
   b. The description of the opportunity should be followed by a brief history of the company, along with the company’s mission statement and objectives.
   c. An explanation of the company’s competitive advantage and a brief description of the business model follow.

B. Management Team:
   Of the most important things investors want to see when reviewing the viability of a new venture is the strength of its management team. If it doesn’t “pass muster,” most investors won’t read further.
   a. Amount of money the management team has invested is often called “skin in the game.” Investors are wary if there’s no “skin”.
   b. Relevant information:
      i. relevant employment
      ii. professional experiences
      iii. significant accomplishments
      iv. educational background.
II. Outline of the Business Plan

A. Exploring Each Section of the Plan

5. Company Structure, Ownership, and Intellectual Property:
   a. This section should begin by describing the structure of the new venture, including the reporting relationships among the top management team members.
   b. The next part of the section should explain how the firm is legally structured.
   c. The third part of this section should discuss the intellectual property the firm owns, including patents, trademarks, and copyrights.

6. Industry Analysis:
   a. This section should begin by discussing the major trends in the industry in which the firm intends to compete, along with important characteristics of the industry, such as its size, attractiveness, and profit potential.
   b. This section should also discuss how the firm will diminish or sidestep the forces that suppress its industry’s profitability.
   c. The firm’s target market should be discussed next, along with an analysis of how it will compete in that market.
II. Outline of the Business Plan

A. Exploring Each Section of the Plan

6. Industry Analysis:
   d. For example, the health care industry in the U.S. is attractive to many investors because of the aging of the American population.
   e. After reading the industry analysis, an investor should have a good grasp on the future prospects of the industry (or industries) in which the firm intends to compete, along with an understanding of the target market the firm will pursue and how it will defend its position.

7. Marketing Plan:
   a. The marketing plan should immediately follow the industry analysis and should provide details about the new firm’s products and services.
   b. This section of the business plan typically is carefully scrutinized. It is very important to investors, in particular, to be confident that a new venture has a product that people will buy and has a realistic plan for getting that product to market.
   c. This section should begin with a fuller description of the product the firm will sell than has been provided in previous sections of the plan. The results of the feasibility analysis should be reported, including the results of the concept tests and the usability tests.
II. Outline of the Business Plan

A. Exploring Each Section of the Plan

7. Marketing Plan:
   d. After reading this section of the plan, an investor should be confident that the firm’s overall approach to its target market and its product strategy, pricing strategy, channels of distribution, and promotional strategy are in sync with one another and make sense.

8. Operations Plan:
   a. This section of the plan deals with the day-to-day operations of the company.
   b. An overview of the manufacturing plan (or service delivery plan) should be followed by a description of the network of suppliers, business partners, and service providers that will be necessary to build the product or produce the service the firm will sell.
   c. Any risks or regulations pertaining to the operations of the firm should be disclosed, such as non-routine regulations regarding waste disposal and worker safety.
II. Outline of the Business Plan

A. Exploring Each Section of the Plan

8. Operations Plan:
   d) An increasingly common feature of many business plans for start-ups is a reliance on outsourcing certain functions to third parties as a way of allowing the start-up to focus on its distinctive competencies.

9. Financial Plan:
   a. The financial section of a business plan must demonstrate the financial viability of the business. A careful reader of the plan will scrutinize this section.
   b. The financial plan should begin with an explanation of the funding that will be needed by the business during the next three to five years, along with an explanation of how the funds will be used. This information is called the “sources and uses of funds” statement.
   c. The next portion of the section includes financial projections, which are intended to further demonstrate the financial viability of the business.
II. Outline of the Business Plan

A. Exploring Each Section of the Plan

9. Financial Plan:
   d. The financial projections should include three to five years of pro forma income statements, balance sheets, and statements of cash flows.
   e. It is important to remember that the business plan should be based on realistic projections. If it is not and the company gets funding or financing, there will most certainly be a day of reckoning. Investors and bankers hold entrepreneurs accountable for the numbers in their projections.

B. Critical Risk Factors:
   a. Although a variety of potential risks may exist, a business should tailor this section to depict its truly critical risks.
   b. One of the most important things that a business plan should convey to its readers is a sense that the venture’s management team is on the ball and understands the critical risks facing the business.
II. Outline of the Business Plan

A. Exploring Each Section of the Plan

11. Appendix:
   a. Any material that does not easily fit into the body of a business plan should appear in an appendix. Examples of materials that might appear in the appendix include:
   b. Resumes of the top management team members, photos or diagrams of product or product prototypes, certain financial data, and market research projections.

12. Critical Risk Factors:
   a. Although a variety of potential risks may exist, a business should tailor this section to depict its truly critical risks.
   b. One of the most important things that a business plan should convey to its readers is a sense that the venture’s management team is on the ball and understands the critical risks facing the business.
II. Outline of the Business Plan

A. Exploring Each Section of the Plan

13. Putting It All Together:
In evaluating and reviewing the completed business plan, the writers should put themselves in the reader’s shoes to determine if the most important questions on the viability of their business venture have been answered.

II. Outline of the Business Plan

A. Exploring Each Section of the Plan

The 10 Most Important Questions a Business Plan Should Answer

- Is the business just an idea, or is it an opportunity with real potential?
- Does the firm have an exciting and sensible business model? Will other firms be able to easily copy it?
- Is the product or service viable? Does it add significant value to the customer? Was a feasibility analysis completed?
- Is the industry in which the product or service will be competing growing, stable, or declining?
- Does the firm have a well-defined target market?
II. Outline of the Business Plan

A. Exploring Each Section of the Plan

The 10 Most Important Questions a Business Plan Should Answer

- Is the management team experienced, skilled, and up to the task of launching the new firm?
- Is the firm organized in an appropriate manner? Are its strategy and business practices legal and ethical?
- Are the financial projections realistic, and do they project a bright future for the firm? What rate of return can investors expect?
- How will the firm’s competitors react to its entrance into their markets?
- What are the critical risks surrounding the business, and does the management team have contingency plans in place if risks become actual problems?

III. Presenting the Business Plan to Investors

C. The Oral Presentation of a Business Plan

1. When asked to meet with an investor, the founders of a new venture should prepare a set of PowerPoint slides that will fill the time slot allowed for the presentation portion of the meeting.
2. The first rule in making an oral presentation is to follow instructions. If an investor tells an entrepreneur that he or she has one hour and that the hour will consist a 30-minute presentation and a 30-minute question-and-answer period, the presentation shouldn’t last more than 30-minutes.
3. The presentation should be smooth and well-rehearsed. The slides should be sharp and not cluttered with material.
III. Presenting the Business Plan to Investors

C. Questions and Feedback to Expect from Investors

1. Whether in the initial meeting or on subsequent occasions, an entrepreneur will be asked a host of questions by potential investors. The smart entrepreneur has a good idea of what to expect and is prepared for these queries.

2. In the first meeting, investors typically focus on whether a real opportunity exists and whether the management team has the experience and skills to pull off the venture.

III. Presenting the Business Plan to Investors

C. Questions and Feedback to Expect from Investors

Ten PowerPoint Slides to Include in an Investor Presentation

1. Title slide
2. Problem
3. Solution
4. Business model
5. Management team
6. Industry and target market
7. Competition
8. Intellectual property
9. Financial projections
10. Current status, amount of money requested, and projected use of funds