

CHAPTER 11

THE BUSINESS PLAN

Author's Note

Once you know you have a feasible business concept and have determined the conditions under which you are willing to go forward with the new venture, it's time to write a business plan. The business plan is an execution document that describes the plan for creating a company to implement the business concept. The business plan expands the work of the feasibility analysis and adds operational and growth plans as well as full financial statements.

Learning Objectives

This chapter will give students an understanding of:

- The difference between a feasibility analysis and a business plan
- The types of business plans
- The business plan components
- How to put a business plan together
- How to conduct a presentation of the plan both visually and orally

Supplemental Lecture Material

10 Mistakes that Entrepreneurs Make

1. No compelling story. They don't answer the questions, *Why you? Why now? How will you change the world?* In other words, they don't give the investor a reason to be interested.
2. Business plan is too long and too wordy. You must capture the listener's attention in the first 30 seconds or you have lost the opportunity. The business plan should be no longer than 20 pages plus appendices. Shorter is better if you have covered all the bases.
3. The plan has no focus. Often the entrepreneur tries to do too much—too many markets, too many products, etc. Entrepreneurs also forget to define the value proposition. You need to focus on the core concept, the entry strategy, and the business model, providing evidence and support for all of them.
4. Not enough market research. Entrepreneurs often fail to prove that the market exists and that they have an effective strategy for reaching it. Rather, they spend too much time proving the obvious. Tell us what the customer said.
5. No cockpit gauges. In other words, the entrepreneur has no direction and no way to measure progress. What are the metrics for the business? How will you know when you have achieved success?
6. Fuzzy business model. Entrepreneurs are often careless about carefully defining how they will make money and how then intend to arrive at a profit. A good business model contains a timeline, milestones, and multiple sources of revenue. Can you demonstrate that the company has the ability to grow to the desired size?

7. Weak competitive analysis. Everyone has competition, so you need to emphasize how you will distinguish yourself from the competition. You also need to know your competitor's business as well as you know your own.
8. Weak founding or management team. Investors invest in the team first and everything else is second. You must prove you can execute this business concept. You also need to understand the gaps in your management team and suggest a solution.
9. Poorly defined leverage points. Who is going to help you reach your goals? Who has a vested interest in your success? One of those leverage points should be the customer.
10. No timeline to success. You must present milestones that will take the company to value creation. You also need a capital acquisition plan and trigger points that move the company from milestone to milestone.

Films to Rent

Formulating a Business Plan

This program has three modules that consider the process of creating a business plan from three perspectives: the market, the financial feasibility, and potential investors.

www.films.com

30 minutes

Item: **BVL10841**

Format: **VHS**

List Price: **\$129.95**

Rental Price: **\$75.00**

Planning

The director of the Pennsylvania Small Business Development Center at the Wharton School looks at planning in businesses and how a business plan should be developed.

www.films.com

25 minutes

Item: **BVL2003**

Format: **VHS**

List Price: **\$89.95**

Cases Relevant to This Chapter

Overnite Express

Answers to Issues to Consider

1. *Why is the business planning process an excellent exercise for any entrepreneur contemplating the start-up of a new venture?*

It helps you test your idea early before you have expended a large amount of time and capital. It also helps you understand your business better and prepare for contingencies. Preparing gives you more credibility in the eyes of potential investors and lenders.

2. *What is the difference between a feasibility study and a business plan?*

A feasibility study gives you a way to test a new concept in the marketplace. By contrast, a business plan is a more comprehensive analysis that includes, in addition to the market research, a discussion of the operational and financial management and controls of the new business. The business plan focuses on the execution of the concept and of the company.

3. *How might the business plan change if the reader were an investor versus a potential management hire?*

An investor is looking at how the business will provide an excellent return on the investment and an exit strategy to realize the return, while the potential management hire is looking at how he or she fits into the big picture for the business and how likely is the chance for advancement.

4. *How do traditional business plans differ from e-commerce plans?*

In point of fact, the fundamentals of the e-commerce plan are the same as the traditional business plan. It still has to demonstrate that the business is creating value, has customers, and will make a profit. It must have a solid business model. It must also demonstrate the concept's compelling story and the ability to scale up to a size that will attract investors.

5. *When might you need to include a personal financial statement in the appendix?*

You might need a personal financial statement when you are dealing with an investor or lender. They believe that your personal financial health is a good indicator of your potential business financial health.

6. *What are three key elements of a successful business plan presentation?*

Three key elements are answering the fundamental questions, catching the audience's attention in the first 60 seconds, and keeping the presentation under a half hour.

Suggestions for Experiencing Entrepreneurship

1. *Interview an "angel," someone who invests in small businesses, about what they look for in a business plan. Based on your discussion, what will you need to remember when you write your business plan?*

Answers will vary depending on the interests of the "angel" but, in general, the angel will be very interested in the expertise and track record of the founding team. He or she will also be interested in the growth potential for the business.

2. *Go to <http://www.bplans.com/> and select a business plan to review. Using the guidelines for an effective plan from this chapter, evaluate the plan. What were its strengths and weaknesses?*

Evaluations will vary based on students' understanding of the key factors to present in a business plan. Answering the *why you, why now, how will you change the world* questions and offering an effective business model should be the minimum requirements.