



Eighth Edition

# Entrepreneurship

**The Business Plan:  
Creating and  
Starting the Venture**

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# Planning as Part of the Business Operation

- Plans provide guidance and structure in a rapidly changing market environment.
- Plans get finalized as the entrepreneur has a better sense of the market, the product or services, the management team, and the financial needs of the venture.
- They help meet short-term or long-term business goals.

# What is the Business Plan?

- A written document describing all relevant internal and external elements, and strategies for starting a new venture.
- It is an integration of functional plans; addresses short-term and long-term decision making for the first three years of operation.

# Who Should Write the Plan?

- The plan should be prepared by the entrepreneur in consultation with other sources.
- The entrepreneur should make an objective assessment of his or her own skills before deciding to hire a consultant.

# Scope and Value of the Business Plan—Who Reads the Plan?

- Who is expected to read the plan can often affect its actual content and focus.
- In preparing the plan it is important to consider the:
  - Entrepreneur's perspective.
  - Marketing perspective.
  - Investor's perspective.

# Scope and Value of the Business Plan—Who Reads the Plan? (cont.)

- Depth and detail in the business plan depend on:
  - Size and scope of the proposed new venture.
  - Size of the market.
  - Competition.
  - Potential growth.

# Scope and Value of the Business Plan—Who Reads the Plan? (cont.)

- The business plan is valuable because it:
  - Helps determine the viability of the venture in a designated market.
  - Guides the entrepreneur in organizing planning activities.
  - Serves as an important tool in obtaining financing.
- This process provides a self-assessment by the entrepreneur.

# How do Potential Lenders and Investors Evaluate the Plan?

- The business plan must reflect:
  - The strengths of management and personnel.
  - The product/service.
  - Available resources.
- Lenders are interested in the venture's ability to pay back the debt.
  - Focus on the four Cs of credit - Character, cash flow, collateral, and equity contribution.
- Banks want an objective analysis of the business opportunity and the risks.



# How do Potential Lenders and Investors Evaluate the Plan? (cont.)

- Investors, particularly venture capitalists, have different needs:
  - Place more emphasis on the entrepreneur's character.
  - Spend much time conducting background checks.
  - Demand high rates of return.
  - Focus on market and financial projections.

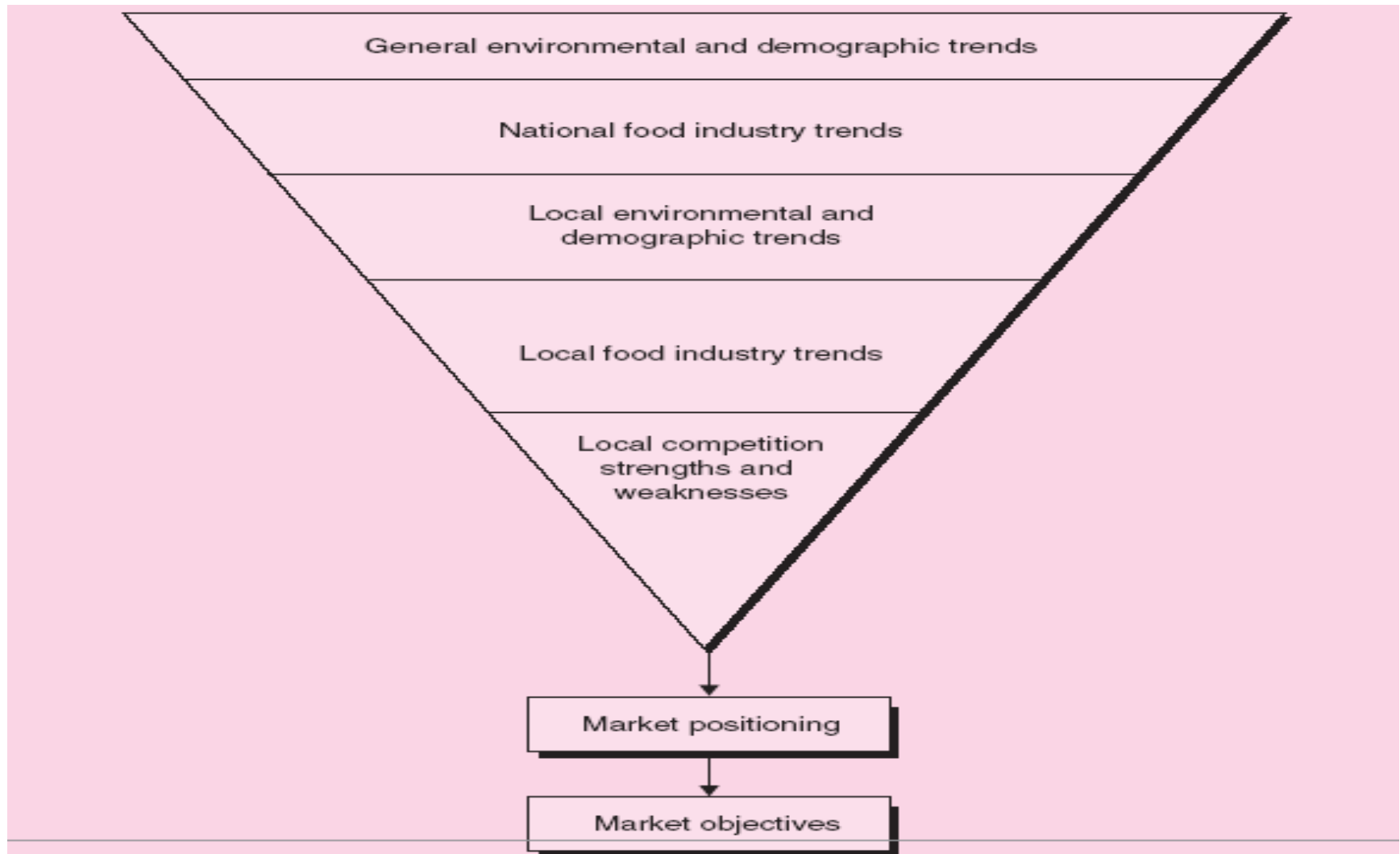
# Presenting the Plan

- The entrepreneur is expected to “sell” the business concept.
  - Focus on why this is a good opportunity.
  - Provide an overview of the marketing program; sales and profits.
  - Address risks and how to overcome them.
- Audience includes potential investors who may raise questions.
- Investors describe these presentations as elevator pitches.

# Information Needs

- Before creating a business plan, the entrepreneur must undertake a feasibility study.
- Information for a feasibility study should focus on marketing, finance, and production.
- Feasible, well-defined goals and objectives need to be established.
  - Based on this, strategy decisions can be established.

# Figure 7.1 - An Upside-Down Pyramid Approach to Gathering Market Information



# Information Needs (cont.)

- Operations Information Needs
  - Location.
  - Manufacturing operations.
  - Raw materials.
  - Equipment.
  - Labor skills.
  - Space.
  - Overhead.
  - Most of the information should be incorporated directly into the business plan.

# Financial Information Needs

- The entrepreneur has to prepare a budget of all possible expenditures and revenue sources, including sales and any external available funds.
- The budget includes capital expenditures, direct operating expenses, and cash expenditures for nonexpense items.
- Industry benchmarks can be used in preparing the final pro forma statements in the financial plan.

# Writing the Business Plan

- A business plan should be comprehensive enough to give any potential investor a complete picture and understanding of the new venture.
- It should help the entrepreneur clarify his or her thinking about the business.

# Writing the Business Plan (cont.)

- Introductory Page
  - Name and address of the company.
  - Name of the entrepreneur(s), telephone number, fax number, e-mail address, and Web site address.
  - Description of the company and nature of the business.
  - Statement of financing needed.
  - Statement of confidentiality of report.



# Writing the Business Plan (cont.)

- Executive Summary
  - About two to three pages in length summarizing the complete business plan.
- Environmental and Industry Analysis
  - The environmental analysis assesses external uncontrollable variables that may impact the business plan.
    - Examples: Economy, culture, technology, legal concerns, etc.
  - The industry analysis involves reviewing industry trends and competitive strategies.
    - Examples: Industry demand, competition, etc.

# Table 7.5 - Critical Issues for Environmental and Industry Analysis

1. What are the major economic, technological, legal, and political trends on a national and an international level?
2. What are total industry sales over the past five years?
3. What is anticipated growth in this industry?
4. How many new firms have entered this industry in the past three years?
5. What new products have been recently introduced in this industry?
6. Who are the nearest competitors?
7. How will your business operation be better than this?
8. Are the sales of each of your major competitors growing, declining, or steady?
9. What are the strengths and weaknesses of each of your competitors?
10. What trends are occurring in your specific market area?
11. What is the profile of your customers?
12. How does your customer profile differ from that of your competition?

# Table 7.6 - Describing the Venture

1. What is the mission of the new venture?
2. What are your reasons for going into business?
3. Why will you be successful in this venture?
4. What development work has been completed to date?
5. What is your product(s) and/or service(s)?
6. Describe the product(s) and/or service(s), including patent, copyright, or trademark status.
7. Where will the business be located?
8. Is your building new? old? in need of renovations? (If renovation is needed, state costs.)
9. Is the building leased or owned? (State the terms.)
10. Why is this building and location right for your business?
11. What office equipment will be needed?
12. Will equipment be purchased or leased?
13. What experience do you have and/or will you need to successfully implement the business plan?

# Table 7.7 - Production Plan

1. Will you be responsible for all or part of the manufacturing operation?
2. If some manufacturing is subcontracted, who will be the subcontractors? (Give names and addresses.)
3. Why were these subcontractors selected?
4. What are the costs of the subcontracted manufacturing? (Include copies of any written contracts.)
5. What will be the layout of the production process? (Illustrate steps if possible.)
6. What equipment will be needed immediately for manufacturing?
7. What raw materials will be needed for manufacturing?
8. Who are the suppliers of new materials and what are the appropriate costs?
9. What are the costs of manufacturing the product?
10. What are the future capital equipment needs of the venture?

# Writing the Business Plan (cont.)

- Operations Plan
  - All businesses (manufacturing or nonmanufacturing) should include an operations plan as part of the business plan.
  - It goes beyond the manufacturing process.
  - Describes the flow of goods and services from production to the customer.
  - The major distinction between services and manufactured goods is services involve intangible performances.

# Writing the Business Plan (cont.)

- Marketing Plan

- It describes market conditions and strategy related to how the product/service will be distributed, priced, and promoted.
- Marketing research evidence to support any of the marketing decision strategies as well as for forecasting sales should be described in this section.
- Potential investors regard the marketing plan as critical to the success of the new venture.

# Writing the Business Plan (cont.)

- Organizational Plan

- It describes the form of ownership and lines of authority and responsibility of members of new venture.
- In case of a partnership, the terms of the partnership should be included.
- In case of a corporation, the following should be included:
  - Shares of stock authorized and share options.
  - Names, addresses, and resumes of directors and officers.
  - Organization chart.

# Writing the Business Plan (cont.)

- Assessment of Risk
  - Identifies potential hazards and alternative strategies to meet goals and objectives.
  - The entrepreneur should indicate:
    - Potential risks to the new venture.
    - Impact of the risks.
    - Strategy to prevent, minimize, or respond to the risk.
  - Major risks could result from:
    - Competitor's reaction.
    - Weaknesses in marketing/ production/ management team.
    - New advances in technology.



# Writing the Business Plan (cont.)

- Financial Plan

- It contains projections of key financial data that determine economic feasibility and necessary financial investment commitment.
- It should contain:
  - Summarized forecasted sales and appropriate expenses for at least the first three years.
  - Cash flow figures for three years.
  - Projected balance sheet.

# Writing the Business Plan (cont.)

- Appendix

- It contains any backup material that is not necessary in the text of the document.
- It may include:
  - Letters from customers, distributors, or subcontractors.
  - Secondary data or primary research data used to support plan decisions.
  - Leases, contracts, or other types of agreements.
  - Price lists from suppliers and competitors.

# Using and Implementing the Business Plan

- The business plan is designed to guide the entrepreneur through the first year of operations.
- The strategy should contain control points to ascertain progress and to initiate contingency plans if necessary.
- Without good planning employees will not understand the company's goals.
- Businesses fail due to entrepreneur's inability to plan effectively.

# Using and Implementing the Business Plan (cont.)

- Measuring Plan Progress
  - Business plan projections are made on a 12-month schedule but the entrepreneur should frequently check on:
    - Profit and loss statement.
    - Cash flow projections.
    - Inventory control.
    - Production control.
    - Quality control.
    - Sales control.
    - Disbursements.
    - Web site control.

# Using and Implementing the Business Plan (cont.)

- Updating the Plan
  - Entrepreneurs must be sensitive to changes in the company, industry, and market.
  - Determine what revisions are needed if changes are likely to affect the business plan.
  - This helps entrepreneurs to:
    - Maintain reasonable targets and goals.
    - Keep the new venture on a course to high probability of success.

# Why Some Business Plans Fail

- Goals are unreasonable.
- Objectives are not measurable.
- Entrepreneur has not made a total commitment to the business or to the family.
- Lack of experience in the planned business.
- No sense of potential threats or weaknesses to the business.
- No customer need was established for the proposed product or service.

# Examples

<https://www.fastbusinessplans.com/sample-business-plans/sample-business-plans-it-business-plan.html>

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<https://www.bplans.com/information-technology-business-plan/>

<https://www.oberlo.com/blog/business-plan-examples>