TABLE 10.4 BUSINESS PLAN ASSESSMENT: COMPLETE EVALUATION OF EACH COMPONENT

The Components

There are ten components of a business plan. As you develop your plan, you should assess each component. Be honest in your assessment since the main purpose is to improve your business plan and increase your chances of success. For instance, if your goal is to obtain external financing, you will be asked to submit a complete business plan for your venture. The business plan will help a funding source to more adequately evaluate your business idea.

Assessment

Directions: The brief description of each component will help you write that section of your plan. After completing your plan, use the scale provided to assess each component.

5	4	3	2	1
Outstanding	**Very Good**	**Good**	**Fair**	**Poor**
thorough and complete in all areas	most areas covered but could use improvement in detail	some areas covered in detail but other areas missing	a few areas covered but very little detail	no written parts

The Ten Components of a Business Plan

1. **Executive Summary.** This is the most important section because it has to convince the reader that the business will succeed. In no more than three pages, you should summarize the highlights of the rest of the plan. This means that the key elements of the following components should be mentioned.

   The executive summary must be able to stand on its own. It is not simply an introduction to the rest of the business plan, but rather discusses who will purchase your product or service, what makes your business unique, and how you plan to grow in the future. Because this section summarizes the plan, it is often best to write it last.

Rate this component:

5	4	3	2	1
Outstanding	**Very Good**	**Good**	**Fair**	**Poor**

2. **Description of the Business.** This section should provide background information about your industry, a history of your company, a general description of your product or service, and your specific mission that you are trying to achieve. Your product or service should be described in terms of its unique qualities and value to the customer. Specific short-term and long-term objectives must be defined. You should clearly state what sales, market share, and profitability objectives you want your business to achieve.

Key Elements	Have you covered this in the plan?	Is the answer clear? (yes or no)	Is the answer complete? (yes or no)
a. What type of business will you have?			
b. What products or services will you sell?			
c. Why does it promise to be successful?			
d. What is the growth potential?			
e. How is it unique?			

Rate this component:

5	4	3	2	1
Outstanding	**Very Good**	**Good**	**Fair**	**Poor**

(continued)

TABLE 10.4 *Continued*

3. **Marketing.** There are two major parts to the marketing section. The first part is research and analysis. Here, you should explain who buys the product or service—in other words, identify your target market. Measure your market size and trends, and estimate the market share you expect. Be sure to include support for your sales projections. For example, if your figures are based on published marketing research data, be sure to cite the source. Do your best to make realistic and credible projections. Describe your competitors in considerable detail, identifying their strengths and weaknesses. Finally, explain how you will be better than your competitors.

   The second part is your marketing plan. This critical section should include your market strategy, sales and distribution, pricing, advertising, promotion, and public awareness efforts. Demonstrate how your pricing strategy will result in a profit. Identify your advertising plans, and include cost estimates to validate your proposed strategy.

Key Elements	Have you covered this in the plan?	Is the answer clear? (yes or no)	Is the answer complete? (yes or no)
a. Who will be your customers? (*target market*)			
b. How big is the market? (*number of customers*)			
c. Who will be your competitors?			
d. How are their businesses prospering?			
e. How will you promote sales?			
f. What market share will you want?			
g. Do you have a pricing strategy?			
h. What advertising and promotional strategy will you use?			

Rate this component:

5	4	3	2	1
Outstanding	Very Good	Good	Fair	Poor

4. **Operations.** In this segment you describe the actual operations and outline their advantages. Zoning, taxes, access to transportation, and proximity to supplies should all be considered in this section.

Key Elements	Have you covered this in the plan?	Is the answer clear? (yes or no)	Is the answer complete? (yes or no)
a. Have you identified a specific location?			
b. Have you outlined the advantages of this location?			
c. Any zoning regulations or tax considerations?			
d. Will there be access to transportation?			
e. Will your suppliers be conveniently located?			

Rate this component:

5	4	3	2	1
Outstanding	Very Good	Good	Fair	Poor

TABLE 10.4 *Continued*

5. **Management.** Start by describing the management team, their unique qualifications, and your plans to compensate them (including salaries, employment agreements, stock purchase plans, levels of ownership, and other considerations). Discuss how your organization is structured; consider including a diagram illustrating who reports to whom. Also include a discussion of the potential contribution of the board of directors, advisors, or consultants. Finally, carefully describe the legal structure of your venture (sole proprietorship, partnership, or corporation).

Key Elements	Have you covered this in the plan?	Is the answer clear? (yes or no)	Is the answer complete? (yes or no)
a. Who will manage the business?			
b. What qualifications do you have?			
c. How many employees will you have?			
d. What will they do?			
e. How much will you pay your employees and what type of benefits will you offer them?			
f. What consultants or specialists will you use?			
g. What legal form of ownership will you have?			
h. What regulations will affect your business?			

Rate this component:

5	4	3	2	1
Outstanding	Very Good	Good	Fair	Poor

6. **Financial.** Three key financial statements must be presented: a balance sheet, an income statement, and a cash-flow statement. These statements typically cover a one-year period. Be sure you state any assumptions and projections made when calculating the figures.

Determine the stages where your business will require external financing and identify the expected financing sources (both debt and equity sources). Also, clearly show what return on investment these sources will achieve by investing in your business. The final item to include is a break-even analysis. This analysis should show what level of sales will be required to cover all costs.

If the work is done well, the financial statements should represent the actual financial achievements expected from your business plan. They also provide a standard by which to measure the actual results of operating your business. They are a very valuable tool to help you manage and control your business.

Key Elements	Have you covered this in the plan?	Is the answer clear? (yes or no)	Is the answer complete? (yes or no)
a. What is your total expected business income for the first year? Quarterly for the next two years? *(forecast)*			
b. What is your expected monthly cash flow during the first year?			

(continued)

TABLE 10.4 *Continued*

Key Elements	Have you covered this in the plan?	Is the answer clear? (yes or no)	Is the answer complete? (yes or no)
c. Have you included a method of paying yourself?			
d. What sales volume will you need to make a profit during the three years?			
e. What will be the break-even point?			
f. What are your projected assets, liabilities, and net worth?			
g. What are your total financial needs?			
h. What are your funding sources?			

Rate this component: 5 (Outstanding) — 4 (Very Good) — 3 (Good) — 2 (Fair) — 1 (Poor)

7. **Critical Risks.** Discuss potential risks before they happen. Here are some examples: price cutting by competitors, potentially unfavorable industry-wide trends; design or manufacturing costs that could exceed estimates; sales projections that are not achieved. The idea is to recognize risks and identify alternative courses of action. Your main objective is to show that you can anticipate and control (to a reasonable degree) your risks.

Key Elements	Have you covered this in the plan?	Is the answer clear? (yes or no)	Is the answer complete? (yes or no)
a. What potential problems have you identified?			
b. Have you calculated the risks?			
c. What alternative courses of action exist?			

Rate this component: 5 (Outstanding) — 4 (Very Good) — 3 (Good) — 2 (Fair) — 1 (Poor)

8. **Harvest Strategy.** Ensuring the survival of a venture is hard work. A founder's protective feelings for an idea built from scratch make it tough to grapple with issues such as management succession and harvest strategies. With foresight, however, an entrepreneur can keep the dream alive, ensure the security of his or her venture, and usually strengthen the business in the process. Thus a written plan for succession of your business is essential.

Key Elements	Have you covered this in the plan?	Is the answer clear? (yes or no)	Is the answer complete? (yes or no)
a. Have you planned for the orderly transfer of the venture assets if ownership of the business is passed to this corporation?			
b. Is there a continuity of business strategy for an orderly transition?			

Rate this component: 5 (Outstanding) — 4 (Very Good) — 3 (Good) — 2 (Fair) — 1 (Poor)

TABLE 10.4 *Continued*

9. **Milestone Schedule.** This section is an important segment of the business plan because it requires you to determine what tasks you need to accomplish to achieve your objectives. Milestones and deadlines should be established and monitored on an ongoing basis. Each milestone is related to all others, and together all of them provide a timely representation of how your objective is to be accomplished.

Key Elements	Have you covered this in the plan?	Is the answer clear? (yes or no)	Is the answer complete? (yes or no)
a. How have you set your objectives?			
b. Have you set deadlines for each stage of your growth?			

Rate this component:

5	4	3	2	1
Outstanding	Very Good	Good	Fair	Poor

10. **Appendix.** This section includes important background information that was not included in the other sections. It is where you would put such items as résumés of the management team, names of references and advisors, drawings, documents, licenses, agreements, and any materials that support the plan. You may also wish to add a bibliography of the sources from which you drew information.

Key Elements	Have you covered this in the plan?	Is the answer clear? (yes or no)	Is the answer complete? (yes or no)
a. Have you included any documents, drawings, agreements, or other materials needed to support the plan?			
b. Are there any names of references, advisors, or technical sources you should include?			
c. Are there any other supporting documents?			

Rate this component:

5	4	3	2	1
Outstanding	Very Good	Good	Fair	Poor

Summary: Your Plan

Directions: For each of the business plan sections that you assessed earlier, circle the assigned points on this review sheet and then total the circled points.

Components	Points				
1. Executive summary	5	4	3	2	1
2. Description of the business	5	4	3	2	1
3. Marketing	5	4	3	2	1
4. Operations	5	4	3	2	1
5. Management	5	4	3	2	1
6. Financial	5	4	3	2	1
7. Critical risks	5	4	3	2	1
8. Succession planning	5	4	3	2	1
9. Milestone schedule	5	4	3	2	1
10. Appendix	5	4	3	2	1

Total Points: _____

(continued)

TABLE 10.4 *Continued*

Scoring:	**50 pts.**	— **Outstanding!** The ideal business plan. Solid!
	45–49 pts.	— **Very Good.**
	40–44 pts.	— **Good.** The plan is sound with a few areas that need to be polished.
	35–39 pts.	— **Above Average.** The plan has some good areas but needs improvement before presentation.
	30–34 pts.	— **Average.** Some areas are covered in detail yet other areas show weakness.
	20–29 pts.	— **Below Average.** Most areas need greater detail and improvement.
	Below 20 pts.	— **Poor.** Plan needs to be researched and documented much better.

Source: Donald F. Kuratko, Jeffrey S. Hornsby, and Frank J. Sabatine, *The Breakthrough Experience* (Muncie, IN: The Midwest Entrepreneurial Education Center, Ball State University, 1999): 59–64.

plan is, he's not going to look at it and say, "This is the greatest plan I've ever seen!" so don't go in looking for praise. It's highly likely that his remarks will be critical, and even if they aren't, they'll seem that way. Don't panic. Even if it seems like an avalanche of objections, bear in mind that Digital Equipment Corporation (DEC) was turned down by everyone before American Research & Development (AR&D) in Boston decided to take a $70,000 chance on them. That might not seem like much now, but at the time it made all the difference. And Fred Adler didn't put $25,000 into Data General until all of the other established venture capitalists had turned down the deal. These are two of the best venture capital deals of all time and they almost didn't happen, so don't expect results in the first twenty minutes.[19]

Entrepreneurs must be prepared to handle the questions from the evaluators and learn from the criticism. They should never feel defeated but rather should make a commitment to improving the business plan for future review. Table 10.5 outlines some of the key questions that might be asked when a business plan is turned down. Entrepreneurs should use the answers to these questions to revise, rework, and improve their business plan. The goal is not so much to succeed the *first* time as it is to *succeed.*

▶SUMMARY

This chapter provided a thorough examination of an effective business plan. The critical factors in planning and the pitfalls to be avoided were discussed. Indicators of these pitfalls and ways to avoid them were also presented.

Next, a business plan was defined, and benefits for both entrepreneurs and financial sources were discussed. Developing a well-conceived plan was presented from the point of view of the audience for whom the plan is written. The typical six-step reading process of a business plan was presented to help entrepreneurs better understand how to put the business plan together. Ten guidelines in developing a business plan were provided, collated from the advice of experts in venture capital and new-business development.

The next section illustrated some of the major questions that must be answered in a complete and thorough business plan. The business plan was outlined with every major segment addressed and explained.

19. Mancuso, *How to Write,* 34.