

TOPIC - BUSINESS PLAN

MEANING AND NATURE OF BUSINESS PLAN

Business Plan is a written document that describes the business idea and all the relevant internal and external elements involved in launching a new venture. It describes the nature and context of the business opportunities and the plans to exploit the opportunity. It is usually an integration of functional plans in finance, marketing, manufacturing, and human resources. It serves as a road map for the entrepreneur. The business plan is prepared by the entrepreneur in consultation with lawyers, accountants, consultants, engineers, etc.

Investors, venture capitalists, bankers, and suppliers read the business plan. Each group reads it for a different purpose. The focus and contents of the business plan will differ from one venture to another depending on its nature and size.

Three main perspectives must be considered in every business plan.

- (1) The perspective of the entrepreneur who must articulate what the venture is all about.
- (2) Marketing perspective.
- (3) Investors perspective.

Business plan is the blue print that provides a clear view of what the entrepreneur wants to do and key variables influencing success. It must describe where you are, where you want to go and how you propose to get there.

A business plan is a blue print or roadmap for building a business. It is a word picture of what the entrepreneurial dream is, why the dream can be economically viable for those involved and how the dream will be realized. A business plan is an operating document. Starting a new enterprise is highly risky. If the venture fails, it can spoil career, wealth, reputation, family and even life. Therefore, through thinking and planning is needed before starting.

IMPORTANCE OF BUSINESS PLAN

The business plan is a valuable document for the entrepreneur, potential investors and even for the employees. The business plan is important to these people due to the following reasons:

1. It helps determine the viability of the venture in a target market.
2. It guides the entrepreneur in starting the enterprise.

3. The thinking involved in the preparation of the business plan makes the entrepreneur aware of the issues that could impede the venture's success.
4. It serves as a guide to investors and thereby helps in obtaining finance.
5. Writing the business plan forces the founders to think about all aspects of the venture.
6. A clear business plan articulates the vision and goals of the founders.
7. A business plan communicates to all stakeholders. They can judge the venture's future on the basis of the business plan.
8. The business plan helps identify the important variables that will determine the success or failure of the firm.
9. The business plan is used as a selling document to outsiders.

SIGNIFICANCE OF WRITING THE BUSINESS PLAN/PROJECT PROPOSAL

Business Plan is a formal documentation which contains the set of business goals which are attainable for the business. It can be regarded as significant because of the following reasons:

- 1. Helps in Setting Objectives for Managers:** A detailed business plan helps in setting short and long range objectives for the business. Specific objectives can be set and appropriate strategies can be built around within a limited time frame.
- 2. Managing Workforce:** With business plans the managers have the luxury to pre-determine the requirements of the organizations in terms of the total manpower required. The rationale for hiring people should be there in the business plan.
- 3. Creating a New Business:** A business plan is a must have document when an entrepreneur is planning to have an entirely new business in place. What could be the right steps in starting a business, what are the pre-requisites and what are the resources which need to be arranged should be necessary part of a business plan.
- 4. Providing Credibility:** A good business plan converts a good business into a credible, understandable and attractive business.

- 5. Makes Prospects Familiar:** The business world is dynamic and diverse at the same time. A good business plan brings in familiarity for people who do not know much about the business.

CONTENTS OF BUSINESS PLAN /PROJECT PROPOSAL

The content of business plan depends upon the objectives and goals set for the business undertaking. A business plan should include a market plan, financial plan, human plan, resource plan, etc.

- 1. Title Page and Table of Contents:** A business plan is a professional document and should contain a title page with the company's name, logo, and address as well as the name and contact information of the company's founders. Many entrepreneurs also include the copy number of the plan and the date on which it was issued on the title page.
- 2. Executive Summary/Management Summary:** It will usually contain a brief statement of the problem or proposal covered in the major documents, background information, concise analysis and main conclusions. It is intended as an aid to decision making by managers. Executive summary should be concise a maximum of two pages and should summarize all of the relevant points of the business venture.
- 3. Business Description, Vision & Mission Statement:** Business description summarizes the key technology, concept, or strategy on which the business is based. The mission statement clearly states the company's long- term mission. In the mission statement the use words should be such that which would help direct the growth of the company. For example McDonald's mission statement reads like this- "To provide the fast food customer food prepared in the same high-quality manner would world-wide that has consistent taste, serving time, and price in a low-key décor and friendly atmosphere.
- 4. Business and Industry Profile:** In industry analysis future outlook and trends of the industry needs to be looked into. A proper analysis of the competitors in the market and industry should also be carried out properly and the results should reflect in the business plan drafted.

- 5. Description of the Company's Product or Service:** The business plan should include the overall description of what the company is going to offer to its customers in terms of product/services on offer. Product/service detail should be written in a terminology-free style so that it is easy for others to understand.

- 6. Market Analysis:** The most important section in the business plan, the market analysis section should include conclusive information of how the company will react to changes in the market, generate sales, and explain why the company should be invested in. The market analysis section should include:
 - (a)Market opportunity
 - (b)Competition analysis
 - ©Marketing strategy
 - (d)Market research
 - (e)Sales forecasts

- 7. Management Team:** The management team section should share in detail the management team, as investors usually invest in people not their ideas. Included within this section should be:
 - (a) Management Talent and Skills
 - (b)Organizational chart
 - (c) Policy and strategy for employees
 - (d)Board of Directors and Advisory Board

- 8. Managerial and Structural Aspects:** In this the entrepreneur needs to decide which kind of organization structure should be adopted. Further, the authority responsibility relationship also needs to be planned out. It is also necessary for the organization to specify the type of business process being followed.

- 9. Technical Analysis:** In technical analysis the results of the technical feasibility carried out earlier is drafted. In this generally the requirements of the plant and machinery, plant capacity utilization, location of the plant etc. is analyzed and drafted.

- 10. Production Analysis:** In this a comprehensive budgetary proposal with sub-budgets for all necessary elements is drafted. In addition to this the

quality control system of the organization and inventory control systems detail should be there in the business plan.

11. Financial Plan: In this the source of capital whether it be fixed or working capital is elaborated. Secondly, the capital structure in a broad based manner should also be a part of the financial plan. Thirdly, schemes and strategies to ensure financial control and financial discipline needs to be drafted firsthand. Other details such as agreements or Memorandum of Undertakings (MOU) with banks, financial institutions, underwriters etc. should also be a part of the financial plan.

12. Human Resource Plan: The manpower planning and the need of human resource for the organization should be analyzed and assessed. Business would do well to draft the procedures for recruitment, selection, placement, career advancement plans, training and development programmes, system of personnel compensation etc. in the business plan to draw in clarity about the priorities of the business.

BUSINESS PLAN FORMAT

Every business plan is unique, reflecting its own elements and circumstances. However, certain elements are universal and commonly followed.

1. Executive Summary (should not exceed 2 pages)
 - A. Name, Address, Contact Information of the Company,
 - B. Contact details of key people of the organization
 - C. Description of the business, its products and services, and the customer problems being solved
 - D. Description of the market for the products and services on offer
 - E. Overview of the venture's competitive advantages
 - F. Mentioning the brief description of managerial and technical expertise of key people
 - G. Highlighting financial forecasts through charts and graphs
2. Vision and Mission Statement
3. Company history (if venture is existing)
4. Business and Industry Profile

A. Industry Analysis

- Industry background and overview
- Significant trends
- Rate of growth
- Essential success factors in the industry

B. Outlook of the Future stages of growth

C. Goals and objectives of the venture

- Operational Goals
- Financial Goals
- Other Goals

5. Business Strategy

A. Desired Image and Position in the Market

B. SWOT Analysis

- Strengths
- Weaknesses
- Opportunities
- Threats

C. Competitive Strategy

- Cost Leadership
- Differentiation
- Focus

6. Company Products and Services

A. Description

B. Patent or Trademark Protection

C. Description of Production Process

D. Future Product Offerings

7. Marketing Strategy

- A. Target Market
 - B. Customers motivation to buy
 - C. Market Size and Trends
 - D. Advertising and Promotion
 - E. Pricing
 - F. Distribution Channel
8. Location and layout of the Plant (if applicable)
 9. Analysis of the Competitor
 10. Management Team Description
 11. Plan of Operation
 12. Financial Forecasts
 13. Loan or Investment proposal
 14. Appendices (supporting documents etc.)

ERRORS TO BE AVOIDED IN WRITING A WRITING PLAN

1. Submitting a “rough copy”, perhaps with coffee stains on the pages and crossed out words in the text, tells the banker that the owner does not take his idea seriously.
2. Outdated historical financial information, or industry comparisons will leave doubts about the entrepreneur’s planning abilities.
3. Unsubstantiated assumptions can hurt a business plan, the business owner must be prepared to explain the “whys” of every point in the plan.
4. Too much “blue sky”- a failure to consider prospective pitfalls- will lead the banker to conclude that the idea is not realistic.

5. A lack of understanding of the financial information is a drawback. Even if an outside source is used to prepare the projections, the owner must fully comprehend the information.
6. Absence of any consideration of outside influences is a gap in a business plan. The owner needs to discuss the potential impact of competitive factors as well as the economic environment prevalent at the time of request.
7. No indication that the owner has anything at stake in the venture is a particular problem. The lender will expect the entrepreneur to have some equity capital invested in the business.
8. Unwillingness to personally guarantee any loans raises a question: If the business owner is not willing to stand behind his or her company, then why should the bank?
9. Introducing the plan with a demand for unrealistic loan terms is a mistake. The lender wants to find out about the viability of the business before discussing loan terms.
10. Too much focus on collateral is a problem in a business plan. Even for a cash-secured loan, the banker is looking towards projection profits for repayment of the loan. The emphasis should be on cash flow.