

# Entrepreneurship: Successfully Launching New Ventures

Sixth Edition, Global Edition



## Chapter 6

### Writing a *Business Plan*

# What Is a Business Plan?

- Business Plan
  - A business plan is a **written narrative** (hence a thread is needed, internal consistency must be a "must"), typically 25 to 35 pages long, that describes **what** a new business intends to accomplish and **how** it intends to accomplish it.



# Who Reads the Business Plan—and What Are They Looking For?

There are two primary audiences for a firm's business plan

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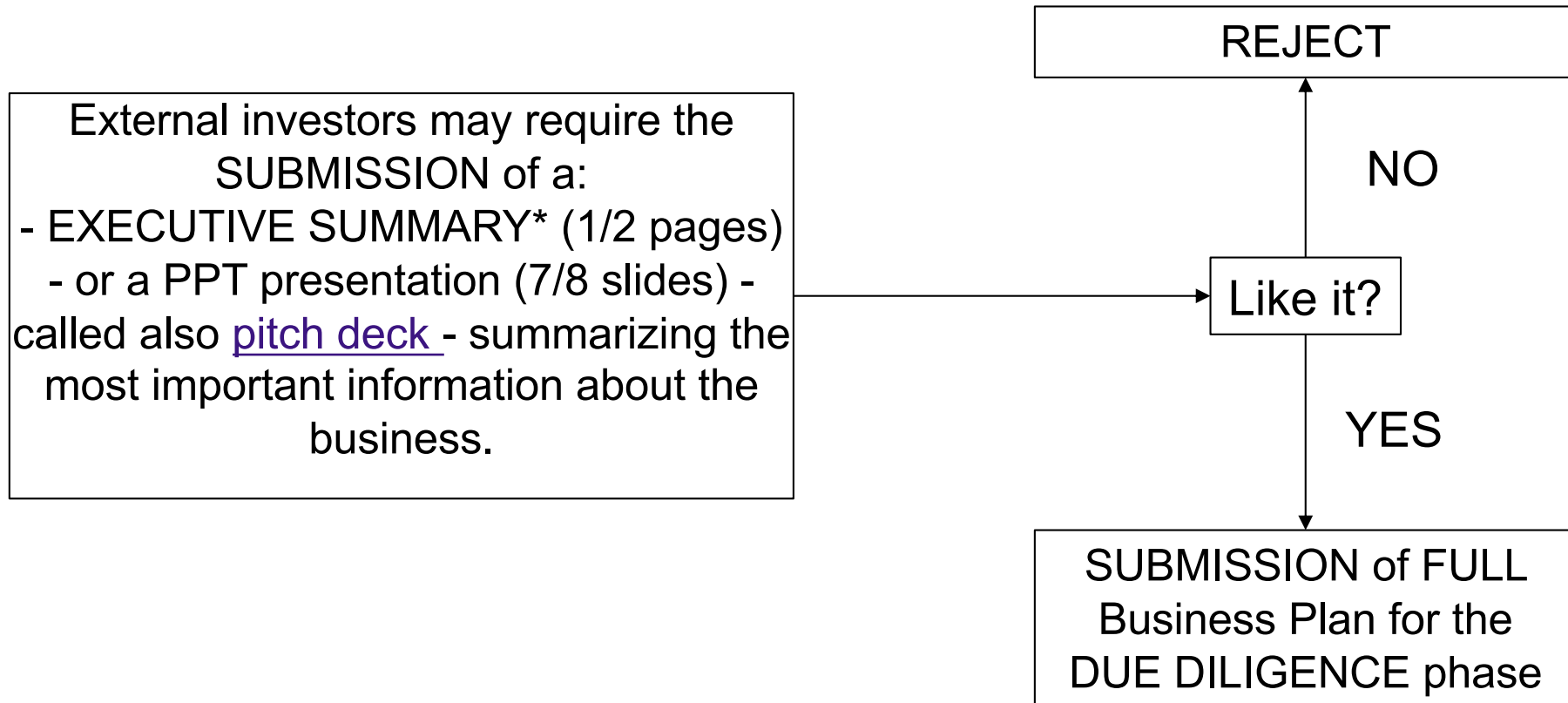
<b>Audience</b>	<b>What They are Looking For</b>
1. A Firm's Employees ( <b>Internal</b> use of BP)	A clearly written business plan helps the employees of a firm operate in sync and move forward in a consistent and purposeful manner.
Investors and other external stakeholders ( <b>External</b> use of BP)	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 others.

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# Guidelines for Writing a Business Plan

- Structure of the Business Plan
  - To make the best impression, a business plan should follow a **conventional structure** (see later).
  - Although some entrepreneurs want to demonstrate creativity, departing from the basic structure of the conventional business plan can be a mistake (investors have **expectations about the format** and share a **precise vocabulary**).
  - Further, investors expect a plan where they can easily find critical information or could ask for different “versions” of a BP (See next slide)

# The «stages» of Business Planning



\*An executive summary is NOT AN INTRODUCTION to the whole BP. It is a summary of it.

# WANNA BE REJECTED? DO THIS!

**TABLE 6.1 Red Flags in Business Plans**

Red Flag	Explanation
Founders with none of their own money at risk	If the founders aren't willing to put their own money at risk, why should anyone else?
A poorly cited plan	A plan should be built on hard evidence and sound research, not guesswork or what an entrepreneur "thinks" will happen. The sources for all primary and secondary research should be cited.
Defining the market size too broadly	Defining the market for a new venture too broadly shows that the true target market has not been clearly identified. For example, saying that a new venture will target the music industry isn't helpful. The market opportunity needs to be better defined. Obviously, the new venture will target a segment or a specific market within the industry.
Overly aggressive financials	Many investors skip directly to this portion of the plan. Projections that are poorly reasoned or unrealistically optimistic lose credibility. In contrast, sober, well-reasoned statements backed by sound research and judgment gain credibility quickly.
Sloppiness in any area	It is never a good idea to make a reader wade through typos, balance sheets that don't balance, or sloppiness in any area. These types of mistakes are seen as inattention to detail and hurt the entrepreneur's credibility.
We're competing in a Blue Ocean	No competitors identified because: "Our technology has no equal in the market" or "Our company compete in a Blue Ocean market". While the both could be somehow true, basic needs are difficult to change and can be satisfied with different products, services, technologies and business strategies



# Guidelines for Writing a Business Plan

## Summary Business Plan

10–15 pages  
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

It is not an executive summary, but a shorter version of a FULL BP

## Full Business Plan

25–35 pages  
Works best for new ventures that are at the point where they need funding or financing; serves as a “blueprint” for the company’s operations

It is the traditional FULL BP (it can ALSO have internal use)

## Operational Business Plan

40–100 pages  
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

It has chiefly INTERNAL USE and specify actions to be implemented in various areas (operations, marketing, etc.)

**TABLE 6.2 Business Plan Outline**

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**Cover Page**

**Table of Contents**

<b>I.</b> Executive Summary	
<b>II.</b> Industry Analysis	
Industry Size, Growth Rate, and Sales Projections	
Industry Structure	
Nature of Participants	
Key Success Factors	
Industry Trends	
Long-Term Prospects	
<b>III.</b> Company Description	
Company History	
Mission Statement	
Products and Services	
Current Status	
Legal Status and Ownership	
Key Partnerships (if any)	
<b>IV.</b> Market Analysis	
Market Segmentation and Target Market Selection	
Buyer Behavior	
Competitor Analysis	
Estimates of Annual Sales and Market Share	
<b>V.</b> The Economics of the Business	
Revenue Drivers and Profit Margins	
Fixed and Variable Costs	
Operating Leverage and Its Implications	
Start-up Costs	
Break-Even Chart and Calculation	
<b>VI.</b> Marketing Plan	
Overall Marketing Strategy	
	Product, Price, Promotions, and Distribution
	Sales Process (or Cycle)
	Sales Tactics
<b>VII.</b> Design and Development Plan	
Development Status and Tasks	
Challenges and Risks	
Projected Development Costs	
Proprietary Issues (Patents, Trademarks, Copyrights, Licenses, Brand Names)	
<b>VIII.</b> Operations Plan	
General Approach to Operations	
Business Location	
Facilities and Equipment	
<b>IX.</b> Management Team and Company Structure	
Management Team (Including a Skills Profile)	
Board of Directors	
Board of Advisors	
Company Structure	
<b>X.</b> Overall Schedule	
<b>XI.</b> Financial Projections	
Sources and Uses of Funds Statement	
Assumptions Sheet	
Pro Forma Income Statements	
Pro Forma Balance Sheets	
Pro Forma Cash Flows	
Ratio Analysis	
	Appendices



## Section... 0: Cover Page

- Cover Page should contain BASIC contact information like the start-up name, website (if any), email, landline/mobile numbers, email, (skype, etc.), PLUS some information regarding the confidential nature of the information included (“confidential”, “do not disclose”, etc.)
- N.D.A. (Non-Disclosure Agreements) can be required

# Section 1: Executive Summary

- Executive Summary
  - The executive summary is a short overview of the entire business plan.
  - It provides a busy reader with everything that needs to be known about the new venture's distinctive nature.
  - An executive summary shouldn't exceed two single-spaced pages.
  - Even though the executive summary appears at the beginning of the business plan, **it should be written last.**
    - The plan may evolve as it's written; a good summary can be written just at the end.

# Section 1: Executive Summary

## Key Insights

- REMEMBER: In many instances an investor will first ask for a copy of the firm's deck or executive summary and will request of a copy of the full business plan only if the PowerPoint deck or executive summary is sufficiently convincing.
- The executive summary, then, is probably **one of the most important section of a business plan**

## Section 2: Industry Analysis

- Items to include in this section:
  - Industry size, growth rate (life-cycle), and sales projections.
  - Industry structure (concentrated, fragmented).
  - Nature of participants (actual competitors, indirect competitors (same need, different product), future potential competitors (new entrants)).
  - Key success factors (resources and capabilities needed to succeed in the industry -> threshold R&C and differentiating R&C).
  - Industry trends (macrotrends ->PESTEL) and long-term prospects (logically deriving from the trends).

# Back to Chapter 5 for a minute

**TABLE 5.3 Industry Structure and Opportunities**

Industry Type	Industry Characteristics	Opportunities	Examples of Entrepreneurial Firms Exploiting These Opportunities
Emerging industries	Recent changes in demand or technology; new industry standard operating procedures have yet to be developed	First-mover advantage	<ul style="list-style-type: none"> <li>■ Prynt's method of instantly printing smartphone photos</li> <li>■ Wiivv's 3D printed insoles</li> <li>■ Owlet Baby Care's process of monitoring a baby's heart rate and respiration</li> </ul>
Fragmented industries	Large number of firms of approximately equal size	Consolidation	<ul style="list-style-type: none"> <li>■ Chipotle Mexican Grill in fast-casual restaurants</li> <li>■ 1-800-GOT-JUNK? in junk removal</li> <li>■ Riffraff in women's clothing</li> </ul>
Mature industries	Slow increases in demand, numerous repeat customers, and limited product innovation	Process and after-sale service innovation	<ul style="list-style-type: none"> <li>■ Justin's in peanut butter</li> <li>■ Rover.com in dog care</li> <li>■ Zagster in bike sharing</li> </ul>
Declining industries	Consistent reduction in industry demand	Leaders, niche, harvest, and divest	<ul style="list-style-type: none"> <li>■ Nucor in steel</li> <li>■ JetBlue in airlines</li> <li>■ Cirque du Soleil in circuses</li> </ul>
Global industries	Significant international sales	Multinational and global	<ul style="list-style-type: none"> <li>■ Uber in providing rides</li> <li>■ d.light in solar-powered lanterns</li> </ul>



# Section 3: Company Description

- Company Description
  - This section begins with a general description of the company.
  - Items to include in this section:
    - **Company description and history** (origin of the idea -> important for passion, background and reliability).
    - Mission statement (what we wanna accomplish).
    - Products and services (description and how they differ from existing ones in the market -> **P.O.D.**)
    - Current status of development (for new projects)
    - Legal status (Ltd?) and ownership (who are the shareholders and how much they invested already).
    - Key partners (if any).

# Section 4: Market Analysis

- Items to include in this section:
  - Market segmentation (also “**quantification**”, not just “qualification”->description of the “customer persona”) and target market selection (market segments targeted and geographical markets).
  - Buyer behavior description (The more a start-up knows about the consumers in its target market, the more it can tailor its products or services appropriately)
  - Estimate of the firm’s annual sales and market share (just these basic info)

# Section 5: The Economics of the Business

- The Economics of the Business
  - This section addresses the basic logic of how profits are earned in the business and how many units of a business's profits must be sold for the business to “break even” and then start earning a profit.
  - Items to include in this section:
    - Revenue model and expected profit margins.
    - Fixed and variable costs.
    - Break-even chart and calculations.
    - Operating leverage (debt) and its implications (financial, economical).
    - Start-up costs.

# Section 5: The Economics of the Business

## Key Insights

- Two companies in the same industry may make profits in different ways. One may be a high-margin, low-volume business, while the other may be a low-margin, high-volume business. It's important to check to make sure the approach you select is sound.
- Computing a break-even analysis is an extremely useful exercise for any proposed or existing business (you can use our simulation tool to do that)

# Section 6: Marketing Plan

- Marketing Plan
  - The marketing plan focuses on how the business will market and sell its product or service.
  - Items to include in this section:
    - Overall marketing strategy (in part already defined with STP->segmentation, targeting and positioning. Add branding strategy and clarify P.O.D.)
    - Product, Price, Promotions, and Place (=distribution).
    - Sales process (or cycle; to know more see <https://www.nutshell.com/blog/build-sales-process-guide-1/> ).
    - Sales tactics (discount % on first move or industry leader; tactical discounts on new clients, recurring promotions, etc.)



# Section 7: Product (or Service) Design and Development Plan

- Design and Development Plan – in case the company is developing a completely new product or service (as science-based start-ups), it is needed to include a section on the status of the development efforts.
  - Items to include in this section:
    - Development status (Work Packages) and tasks (Who is in charge of what)
    - Main challenges and risks ahead.
    - Projected development costs (forecast).
    - Proprietary issues (patents, trademarks, copyrights, licenses, brand names).

# Section 8: Operations Plan

- Operations Plan
  - Outlines how **the business** will be **run** and how product or service will be produced.
  - A useful way to illustrate how your business will be run is to describe it in terms of “backstage” (or back-end; unseen to the customer) and “frontstage” (or front-end; seen and “touched” by the customer) activities.
  - Items to include in this section:
    - “Make or buy” decision (what is done internally and what is bought from suppliers)
    - Business location (where products and services are produced)
    - Facilities and equipment (how production is managed and at which costs)

# Section 9: Management Team and Company Structure

- Management Team and Company Structure
  - The management team of a new venture typically consists of the founder or founders and a handful of key management personnel.
  - Items to include in this section:
    - Management team (**education, background, passions** if relevant to the business).
    - Board of directors (if you have one).
    - Board of advisors (if you have one).
    - Company structure.

# Section 9: Management Team and Company Structure

## Key Insights

- This is a critical section of a business plan.
- Many investors and others who read the business plan look first at the executive summary and then go directly to the **management team** section to assess the strength of the people starting the firm and the possess of critical skills and knowledge.

# Section 10: Overall Schedule

- Overall Schedule
  - A schedule should be prepared that shows the major events required to launch the business.
  - The schedule should be in the format of milestones critical to the business's success.
  - Examples of milestones:
    - Incorporating the venture.
    - Completion of prototypes.
    - Rental of facilities.
    - Obtaining critical financing.
    - Starting production.
    - Obtaining the first sale.
  - Being precise with the schedule allow a better estimation of economic and financial aspects



# Section 10: Overall Schedule

## Key Insight

- An effectively prepared and presented schedule can be extremely helpful in convincing potential investors that the management team is **aware of what needs** to take place to launch the venture and has a plan in place to get there (**realism**).

# Section 11: Financial Projections

- Financial Projections
  - The final section of a business plan presents a firm's pro forma (or projected) financial projections.
  - Items to include in this section:
    - Assumptions sheet.
    - Pro forma income statements (or profit & loss).
    - Pro forma balance sheets.
    - Pro forma cash flows.
    - Ratio analysis.

# Presenting the Business Plan to Investors (1 of 2)

- The Oral Presentation
  - The first rule in making an oral presentation is to follow directions. If you're told you have X minutes (from 3 to 20), **don't talk for more than the allotted time.** It shows poor planning of your presentation
  - The presentation should be smooth and well-rehearsed.
  - The slides should be sharp and not cluttered.
  - Never read your slides! Your audience can read as well! Say something different or something more
- Expect Questions and Feedback from Investors. Be humble in accepting the feedback and prepared in answering their questions.

# Presenting the Business Plan to Investors (2 of 2)

Twelve PowerPoint Slides to Include in an Investor Presentation

1. Title Slide
2. Problem
3. Solution
4. Opportunity and target market
5. Technology
6. Competition
7. Marketing and sales
8. Management team
9. Financial projections
10. Current status
11. Financing sought
12. Summary

# Let's look at some pitch



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