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Introduction

There is no single omission that bodes worse for a start-up's future than the lack of a business plan.

-David Anderson, management consultant

After research and analysis, i.e. all the activities of the development phase of the business plan it is **time to write the business plan**

Your ability to seize a particular opportunity for profit is directly related to the quality of your business plan.

Business plan for new ventures is a bit of a paradox:

- it needs to be **comprehensive**, yet it should not be so comprehensive that it impede the launch of the venture,
- it should be **long enough** to address major issues, yet it should not be too long,
- it should **capture the fundamental idea** that drives the creation of the venture, yet the plan may have to be changed dramatically after the venture is launched,
- it should be **prepared primarily as a roadmap** for the entrepreneur, yet other stakeholders will look to the plan to answer their most pressing questions.

First-time entrepreneurs frequently ask: **“How long does the plan have to be?”**

The length, depth, and breadth of the plan will depend on numerous factors. **“It has to be long enough to address the issues that will influence the venture’s success.”**

Anything less than that and it is just a concept paper. Anything much longer than that will mean that precious time has been taken that could have been invested in actually launching the venture. There is a time to plan—and then a time to act. Recognizing the difference between the two can have a dramatic effect on a new venture’s likelihood for success.

The Plan Must Fulfil Its Purpose

The plan serves as a **blueprint for building a new business**. Although the issues to be addressed in the business plan are fairly standard, the **depth that each area is addressed will vary, depending on the situation**.

The length of the plan will be directly related to how comprehensive it needs to be, as well as the need for specific details.

If the plan is expected to play a key role in attracting **investors**, securing a loan from a **bank**, gaining support from **suppliers** and/or **distributors**, or establishing an **alliance** with another firm, then it may need to be **tailored** to the expectations of each of the potential stakeholders.

Most business plans **should not exceed 40 to 50 pages of content**.

Supporting material may be provided in the **appendices**.

Most stakeholders are concerned about a few **salient** issues. They do not need to know every detail.

Venture capitalists, for example, want to know about the team, whether there is a proprietary position, and if the business has the potential to be harvested for significant **capital gain within a few years**.

Business plan should be clear, professional, and well balanced. It should be short and concise.

Most entrepreneurs fall in love with their **product/service/process offering**. Beware of the tendency for overinfatuation. The same applies to the tendency to exaggerate the **team's capabilities**, the superiority of the venture's product/service/process offering and competitive advantages, and **financial projections**.

Don't make claims that cannot be supported by sound data. Confidence supported by objective data can gain interest; arrogance and exaggeration, however, can turn off any interested stakeholder.

Components of the Business Plan

Most business plans follow **a common outline**, although there are **differences depending on the type of venture and entrepreneur's approach**.

Some plans go into more detail describing the marketing strategy; others go into more detail in describing operational protocol.

We will look now at a business plan outline that identifies most of the items that should be addressed in a business start-up.

The remainder part of the lecture is devoted to briefly profiling the major components of the business plan.

You can find slightly different table of content of business plan, but the scope of the issue addressed should cover the sections discussed below.

Business Plan Outline

Cover page
Confidentiality page
Executive summary
Financing request—if seeking a loan or investors
Table of contents

General Description of the Venture:

Venture objectives
Opportunity
Context
Industry
Overall strategy
 Target market(s)
 Competition
 Competitive advantage(s)
Management team (background, qualifications, experience, and organization chart)
Ownership structure
Funding structure
Advisors
 CPA
 Attorney
 Banker
Legal form
Alliances
Stages of growth

Business Plan Outline, cont.

Marketing Section:

Target market

Analysis of competition

Market offering/competitive advantage

- Product/service strategy

- Price strategy

- Promotion strategy

- Distribution strategy

Proprietary position

Market share

Financial Section:

Financial Projections

Sources and uses of funds

Stages of funding

- Initial funding

- Expansion funding

Operational Issues:

Timeline, key milestones, and critical path

Hours of service

Key logistics

Facilities

Equipment

Availability of labor

Business Plan Outline, cont.

Supplier Relations:

Risks and Responses:

Key risks

Contingency plans

Insurance

Succession plan

Exit/Harvest Strategy:

Conclusion:

Appendix:

Resumes of the management team, board of directors, and any other key personnel

Detailed financial projections

Supporting documentation

- Letters from potential suppliers

- Letters from potential customers

- Letters from potential distributors

Cover Page

The **cover page** identifies the **name of the venture**, the **name and address of the contact person** (usually the entrepreneur), and a **statement of confidentiality**

XYZ INC.

(A business plan for the creation of an electronic data storage company)

Prepared by

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May 25, 200X

Copy #X of 25 copies

Confidentiality: Non-Disclosure Agreement

You should make a deliberate effort to minimize the likelihood that anyone will use the contents of your business plan to compete against you or to aid a competitor.

A sheet should be attached to the front of the business plan that contains the *copy number* of that business plan and a statement that the **information provided in the report is confidential and proprietary.**

The recipient should sign and date the sheet.

The sheet should also note that **the plan is to be returned by a specific date.**

You should **keep a log of who has a copy of the plan, the date they received it, and whether it has been returned.**

It is not unusual for someone to request permission to have his or her financial advisor/accountant review the plan.

The sheet should indicate that permission has been granted for that individual to review the plan and that he or she acknowledges the confidentiality/non-compete conditions.

The sheet should also include a section for the **reader's signature and date of receipt.**

Confidentiality: Non-Disclosure Agreement, cont.

1. It is agreed to by the following party _____ that the information included in this plan (including, but not limited to, product plans, marketing strategies, trade secrets, costs, pricing information, performance features, studies, reports, objectives, customer information, dealings, arrangements, financial projections, and any other information about the venture) is considered confidential.
2. Any use or disclosure of the confidential information other than expressly provided in this Agreement shall be deemed a breach of this agreement.
3. Recipient agrees to maintain the confidential information in confidence, take reasonable steps to prevent disclosure of the confidential information to any third party, and not to copy, divulge, sell, or otherwise disclose the confidential information.
4. Exclusions: This agreement shall not apply to information for which the Recipient can substantiate, as evidenced by documentary proof that such information was known by the recipient prior to the time it was disclosed, the information was in the public domain at the time it was disclosed to the recipient, or becomes publicly known through no wrongful act of Recipient.

Consult you attorney so the agreement is written properly.

A venture capitalist, angel, investment banker, or prospective member of your management **may not be happy to sign the sheet**. Professionals by their very nature often have reservations about having to acknowledge anything other than the fact that they have received the plan. They feel that having to sign a non-disclosure and non-compete agreement **challenges their professional integrity, honesty**.

It is **hard to enforce the confidentiality/non-compete agreement unless you have tangible proof that a person violated the agreement**

The best practice is to **check the readers out in advance and to go with people who are trustworthy, even if they have a policy against signing the statement**.

Executive Summary

A business plan **begins with an executive summary**. The executive summary is one or two pages in length and captures the **essence of the proposed business venture**.

Even though it appears at the beginning of the plan, it is usually written after the rest of the plan has been completed.

The executive summary serves an important purpose. It **forces you to articulate the basic ingredients of your venture** and is often **called the *elevator pitch*** - what you would say if you had **30 seconds** (the length of an elevator ride) to tell someone about your business.

First-time entrepreneurs find describing their proposed venture to be **a real challenge**.

Some describe their ventures in **too general** terms ("I plan to start a business using leading edge information technology."). Others tend **to many details** in describing the product, service, or process. A more in-depth description can be provided in the text of the plan.

It is not unusual for bankers, potential investors, suppliers, or friends to ask you about your proposed venture. The executive summary provides **a concise description of your business**. It profiles the proposed business in terms of the management team, its legal form, the specific market(s) to be served, the business's competitive advantage(s), its projected rate of growth, how it will be financed, and the projected return to its owner(s).

The executive summary should contain the **vital facts** about your business and **reflects the research** that went into preparing your business plan. Done well it represents a solid business proposal; **anyone who reads it will want to read the entire business plan**

If the plan is being used to seek investors, then the executive summary should provide answers to their questions about why they should invest in the new venture.

Particular attention should be directed to **how the product/service is superior**, that a substantial **market exists**, that the **management team** has the ability to capture a significant market share, and that the **exit financials look good**.

SAMPLE DEAL

sampledeal@samplegroup.angelsoft.net

Business Summary: We buy, sell and produce goods and services that are bought, sold or produced. We sell all the goods and services that are bought or produced. We buy all the goods and services that are sold or produced, and we produce all the goods and services that can be bought or sold. We buy when prices are low, sell when prices are high and skim fees off the top of every transaction. This question allows up to 450 characters. I have used a total of 449.

Customer Problem: Consumers want or need to purchase goods and services that are produced. This requires a marketplace for vendors to provide these. This question has a limit of 210 characters. I have used a total of 203.

Product/Services: When someone wants to buy something, we provide them with the product and the vendor. When someone wants to sell something, we provide them with the consumer and the product. When a product is to exchange hands, we provide the consumer and the vendor. We buy when the prices are low, sell when our prices are high, and charge fees on each and every transaction that is made. This question allows up to 450 characters. I have used a total of 450.

Target Market: There are 6.1 billion consumers in the world. We create a potential marketplace for each and everyone one of them. Today we are reaching one hundred million people in the US, over one hundred fifty million people in Western Europe, and another 50 million people in Australia and New Zealand. We are confident that with your money we will be able to reach one billion people. This question allows up to 450 characters. I have used a total of 450.

Customers: Current customers are two hundred fifty million men, women, and children in the United States, Canada, and the European Union. This question has a limit of 210 characters. I have used a total of only 206.

Sales/Marketing Strategy: We advertise using extensive marketing campaigns on television, radio, billboards, magazines, the Internet, and by word of mouth. Our advertising campaign includes a catchy tune and an easy to remember slogan, accompanied by a well recognized logo. We are looking to expand our market into Asia, Africa, South America, Antarctica, and Greenland by the end of this year. This question allows up to 450 characters. I have used a total of 445.

Business Model: We charge a fee of ten percent on every transaction made, at each level of production, distribution, wholesale, and retail sale. This question has a limit of 210 characters. I have used a total of only 208.

Competitors: Current competitors include but are not limited to shopping malls; retail, wholesale, and second hand stores; manufacturers, buyers, sellers, resellers, and advertisers; law firms, doctors offices, banks, and consulting firms; black markets, importers, exporters, and mom and pop shops; restaurants, hotels, salons and resorts; high tech, low tech, and no tech companies. This question allows up to 450 characters. I have used a total of only 449.

Competitive Advantage: The current way of partnering consumers with vendors for the purposes of buying, selling, and producing goods and service is the age old marketplace. We provide the only alternative to that marketplace with our completely innovative model. We have intellectual property of patents, copyrights, and trademarks. We have recently cornered 80% of the potential market. This question allows up to 450 characters. I have used a total of only 445.



Company Profile:
 URL: www.SampleDeal.com
 Industry: Electronic Instruments & Controls
 Employees: 12
 Founded: 01/2006

Contact:
 Horace B. Gillywater
 sampledeal@fakeemail.com
 w 111-222-3333
 c 222-333-4444
 f 333-444-5555

Financial Information:
 Funding Stage: Product In Development
 Capital Raised: \$250,000
 Monthly Burn Rate: \$45,000
 Pre-Money Valuation: \$5,000,000
 Capital Seeking: \$1,000,000

Management:
 Horace B. Gillywater, CEO
 Jimmy J. Walterwash, CFO

Advisors:
 Lawyer: Dewey and Howe

Investors:
 Friends
 Family

Referred By:

Executive Summary

SAMPLE DEAL
 111 Elm Street
 Metropolis, AL 77777
 USA

Financials*	2005	2006	2007	2008	2009	2010	2011
Revenues	\$0	\$0	\$0	\$0	\$15,000	\$65,000	\$100,000
Expenditures	\$200	\$400	\$800	\$1,000	\$2,500	\$4,000	\$9,000
Net	(\$200)	(\$400)	(\$800)	(\$1,000)	\$12,500	\$61,000	\$91,000

Table of Contents

The table of contents **should identify each section** and corresponding page number.

It is not unusual for an interested stakeholder to **take a section of the plan and have someone else review it**.

Venture capitalists may have a **financial analyst check the financial statements for validity and accuracy**.

They may also have an **expert review the technology** if it is a critical component of the venture's proposed competitive advantage.

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General Description of the Venture

This part of the business plan **highlights some of the key points for the venture.**

The brief profiles at this point give the reader **more information than what was provided in the executive summary.**

If the profiles are appealing, then the reader may read the whole plan.

The general overview is designed to **identify unique points** about the venture as well as the **factors that will influence the venture's success.**

It will also need to provide **documentation that you are not alone, that vendors, distributors, prospective customers will do business with you.**

We will discuss components of this section in more detail.

Venture Objectives

The plan should indicate the **primary objective(s) for the venture**.

If the venture is being created to go the distance, then the plan should **indicate the vision for 5 to 10 years**.

Particular attention should be directed to **overall worth, capital appreciation**, and so forth.

If the venture is being started so the original investors can **cash out** in three to five years, then the plan should reflect how it will be positioned for **acquisition** by another firm, a **management buyout**, or even an **initial public offering (IPO)**.

The targeted cash-out value of the venture should also be noted.

In any event, the objectives should include a **time component** indicating when the vision should be accomplished.

The Business Opportunity

The business plan must **do an excellent job profiling the opportunity** because the business's success will be tied to the size and financial merit of the opportunity.

The plan should indicate

- **if the market is already established or if it is just emerging,**
- **how much the market is growing,**
- **how long it will last,**
- **whether it has numerous lucrative segments,** as well as
- **the extent and nature of competition.**

If you are seeking **investors**, then the plan must demonstrate **that the opportunity is attractive and compelling** (zniewalający).
“Investors look for large or rapidly growing markets mainly because it is often easier to obtain a share of a growing market than to fight with entrenched competitors for a share of a mature or stagnant market.”

Smart investors try hard to identify high-growth potential markets: That's **where the big payoffs are**. Many investors will not invest in a company that cannot reach a significant **scale** (\$50 million in annual revenues) within five years.”

If the venture will be trying to seize a **technology-based opportunity that tends to be short-lived**, then the plan should demonstrate **how the team can make a good return while the opportunity lasts**.

The opportunity section must analyse and demonstrate **how the opportunity can grow and the new venture can expand its range of products or services, its customer base, or geographic scope**.

It should also note if there is the **potential for highly profitable spin-offs**.

Context

New venture opportunities exist in context of

- the **economy** in general and
- the **specific marketplace** in particular.

The business plan should show **how the context supports the new venture**. Contextual factors include the state of **technology**, **government regulations**, **demographics**, and **economic conditions**.

The plan should also show how the **management** team plans to deal with the situation in a **proactive manner if the context changes**.

Industry

This section of the business plan should **profile the overall industry** your venture will be operating in.

It should profile whether a few firms **dominate the industry** as well as the **challenges** firms may face **in the next few years**.

Particular attention should be directed to **whether**

- it is directly **related to the business cycle**,
- the rate of **technological change**,
- the **major segments**, and
- the effect of **foreign firms**.

Industry **sales for the last three to five years** as well as the projected rate of **growth** should also be noted.

The description will be particularly important if it is an **emerging industry**. Investors may need to be **educated** about industry attributes.

The profile will also need to indicate the industry will provide a favourable environment for your new venture.

Overall Strategy

The plan should provide the following information about the strategy:

- a brief profile of the **target market**,
- the **competition**, and the
- firm's **competitive advantages**.

The marketing part of the plan will provide more detail.

Management Team

The plan must identify the **entrepreneurs and management team's strengths and qualifications**.

Particular attention should be directed to whether they have 1) **experience in that industry**, whether they have 2) **previous start-up experience**, and if they have 3) **worked together before**. Each of these factors represents a real plus for the venture. Each **key person's resume should be provided in the appendix**.

Experienced teams can hit the ground running. They should be able to handle the inevitable setbacks that can tear apart novice teams. **A strong team will give the venture considerable credibility**. It will also help the venture attract funding.

If you ask venture capitalists what are the three most important success factors for a high-growth venture their answer would be, "1) the lead entrepreneur and the quality of the team, 2) the lead entrepreneur and the quality of the team, and 3) all of the above."

Edward Welles noted, "Although venture capitalists may read just 2% of all business plans they see, they **always note who is running the company**."

Jeffrey Timmons also noted that **most successful entrepreneurs went through an apprenticeship**. They accumulated 5 to 10 years' or more of general management and industry experience prior to their first start-up.

Your resume and the resumes of the other key people should indicate some stability in each person's employment background.

People whose resumes indicate a propensity to jack **rabbit**—jump from one employer to the next—even if they were good jobs—may raise doubt whether they will stick around and see things through.

If the entrepreneur and team **do not have experience**, then the entrepreneur must find a way to **bring in experienced talent**.

The plan should include an **organization chart**. The chart should indicate who has already committed to join the venture as well as the positions that need to be filled. The plan should also indicate what the organization chart should look like **in three to five years**.

The plan should also indicate the **compensation packages** for the entrepreneur, management team, and any other key people.

Ownership Structure

The plan needs to indicate the **overall ownership structure** for the venture.

A table should profile the **number of shares owned**, the type of stock held, and corresponding ownership **percentage** of the venture.

The table should note the board of directors and any outside investors.

This section should also indicate **if there are any warrants, convertible debentures, and types of stock**.

This section should indicate eligibility for **stock options** as well as the number of shares available for future issuance.

The table **should also note if some of the stock has been issued or bartered in return for goods and/or services**.

Law firms, public relations firms, consultants, and other service providers may agree to charging lower fees in return for stock.

Accounting firms are prohibited from accepting stock in exchange for services.

Funding Structure

The plan should profile **how the venture will be financed**.

Attention will be directed to the **sources of debt** as well as the **amount to be invested** in the business.

Advisors

The plan should identify the **people and firms who will be serving as professional advisors** for the venture.

If an advisory committee is formed in addition to the board of directors, the plan should **indicate their responsibilities as well as their background**.

The plan should also **identify the bank that will be providing financial services for the company**.

End of Part 1 of the Lecture