5
Developing an Effective Business Plan

PowerPoint Presentation by
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Looking Ahead

After studying this chapter, you should be able to:

1. Answer the question “What is a business plan?”
2. Explain the need for a business plan from the perspectives of the entrepreneur, the investor, and the lenders.
3. Describe what determines how much planning an entrepreneur and a management team are likely to do.
4. List practical suggestions to follow in writing a business plan and outline the key sections of a business plan.
5. Identify available sources of assistance in preparing a business plan.
What Is a Business Plan?

• Business Plan
  ▪ A document that sets out the basic idea underlying a business and related start-up considerations
    • Identifies the nature and context of the business opportunity
    • Presents the entrepreneur’s approach to exploiting the opportunity
    • Identifies factors affecting the venture’s success
    • Serves as the entrepreneur’s tool for raising capital

Writing a business plan is an ongoing process, not just the means to an end product or outcome
The Need for a Business Plan

• Primary Functions
  - To provide a clearly articulated statement of goals and strategies for internal use
    • Imposes discipline on the entrepreneur and management team
  - To serve as a selling document to be shared with outsiders
    • Provides a credible overview for prospective customers, suppliers, and investors
    • Helps secure favourable credit terms from suppliers
    • Opens approaches to lenders and other sources of financing
Users of Business Plans

Exhibit 5-1

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Chapter 5

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Common Business Plan Flaws

- Overly optimistic financial projections, inadequate competitive analysis and/or weak environmental assessments
- Vague marketing strategies
- Lack of research
- Unprofessional presentation
- Hazy timelines, vague risk assessment
The Investor’s Perspective

• Plans that speak the investors’ language:
  ▪ Are concise, not extremely long in written length.
  ▪ Have an attractive overall appearance.
  ▪ Are well-organized with a table of contents and numbered pages.
  ▪ Are market-oriented in meeting customer needs; are not product-oriented.
  ▪ Show evidence of customer acceptance of the proposed product or service.
Features of Plans that will Repel Investors

• Plans that create unfavourable reactions:
  ▪ Show an infatuation with the product or service and downplay market needs or acceptance.
  ▪ Are based on financial projections at odds with accepted industry norms.
  ▪ Have unrealistic growth projections.
  ▪ Contain a need for custom or applications engineering, which makes substantial growth difficult.
Business Plans that Attract Investors

• Recognize the investors’ needs for required rates of return on investments.
• Demonstrate evidence of focus on a limited number of products or services
• Have a proprietary market position through patents, copyrights, and trademarks
The Lender’s Perspective

• Bankers assess business plans on the following 5 Cs of Credit:
  – Collateral       assets to put toward credit
  – Capacity        strength of cash flow
  – Capital         personal investment in business
  – Conditions      industry risk and conditions
  – Character       competence and credit history
Factors affecting the extent of a business plan:
- Cost in time and money to prepare the plan
- Preferences of the management team
- Complexity of the business
- Competitive environment
- Level of uncertainty
Preparing a Business Plan

- Two issues critical in preparing a business plan:
  - The basic format and effectiveness of the written presentation.
    - Clear writing that presents the concept in an accurate, comprehensible and enthusiastic way
  - The content of the plan.
    - Factual support for the concept in the form of strong supporting evidence
Deciding on the Content of a Business Plan

- The People
  - Those involved in starting and running the venture
- The Opportunity
  - The business’ profile—products, customers, expected growth, profitability, and anticipated challenges and problems
- The Context
  - The big picture—the firm’s competitive environment
- Risk and Reward
  - Assessment of potential problems and responses
Business Plan Overview

- Title Page
- Table of Contents
- Executive Summary
  - Synopsis
  - Narrative
- Mission Statement and Goals
- Company Overview
- Products and/or Services Plan
- Marketing Plan
- Operating Plan
- Financial Plan
- Appendix of Supporting Documents
Specialized Plans within the Business Plan

• Products and/or Services Plan
  ▪ Describes the product and/or service to be provided and explains its merits

• Marketing Plan
  ▪ Describes the user benefits of the product or service and the type of market that exists

• Management Plan
  ▪ Describes the new firm’s organizational structure and the backgrounds of its key players

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Specialized Plans within the Business Plan

• Operating Plan
  ▪ Offers information on how the product will be produced or a service provided, including descriptions of the new firm’s facilities, labour, raw materials, and processing requirements

• Financial Plan
  ▪ Provides an account of the new firm’s financial needs and sources of financing and a projection of its revenues, costs, and profits
    • Pro forma statements—Reports that project a firm’s financial condition
Resources for Business Plan Preparation

- Computer-Aided Business Planning
  - Word-processing
  - Spreadsheets
- Specialized Business Plan Software Packages (BizPlan)
- Professional Assistance
  - Lawyers
  - Marketing specialists
  - Engineering and production experts
  - Accounting firms
  - Incubator organizations
  - Small business development agencies
A Business Plan Checklist

• Executive Summary
• Marketing Section
• Operations Section
• The Management Team
• The Financial Section
• Appendixes
Research to Support the Plan

• Both primary and secondary research must be carried out by the writer of the business plan.

• Secondary Research
  – secondary published sources
  – books, published reports, newspaper, journal articles, statistics databases, and Internet sites

• Primary Research
  – derived directly from people
  – experts in the field, professionals such as lawyers and accountants, industry contacts such as trade association representatives or suppliers and potential customers