**COMSATS University Islamabad, Virtual Campus**

**MGT 403 Entrepreneurship**

**Lecture 30 Handouts**

**The Business Plan**

**A business plan** is a written summary of an entrepreneur’s proposed business venture, its operational and financial details, its marketing opportunities and strategy, and its managers’ skills and abilities. There is no substitute for a well-prepared business plan, and there are no shortcuts to creating one. The plan serves as an entrepreneur’s road map on the journey toward building a successful business. As a small company’s guidebook, a business plan describes the direction the company is taking, what its goals are, where it wants to be, and how it’s going to get there. A business plan is an entrepreneur’s best insurance against launching a business destined to fail or mismanaging a potentially successful company. A business plan serves two essential functions.

* First, it guides the company’s operations by charting its future course and devising a strategy for following it. The plan provides a battery of tools—a mission statement, goals, objectives, budgets, financial forecasts, target markets, and strategies—to help the entrepreneur lead the company successfully.
* The second function of the business plan is to attract lenders and investors. A business plan  
  must prove to potential lenders and investors that a venture will be able to repay loans and produce an attractive rate of return.

**A Plan Must Pass Three Tests**

* **The Reality Test (Proving that)**

The external component of the reality test revolves around proving that a market for the product or service really does exist. It focuses on industry attractiveness, market niches, potential customers, market size, degree of competition, and similar factors.

* **Competitive test (Evaluates)**

The external part of the competitive test evaluates the company’s relative position to its key competitors.

* **VALUE TEST (Proving that)**

To convince lenders and investors to put their money into the venture, a business plan must prove to them that it offers a high probability of repayment or an attractive rate of return.

**Why takes the time to build a Business Plan?**

Although building a plan does not guarantee success, it does increase your chances of succeed in business. A plan is like a road map that serves as a guide on a journey through unfamiliar, harsh, and dangerous territory.

**Strategic Guide**

1. Where Do You Want to Go?
2. How Are You Going to Get There?
3. What Market Niches?
4. How Much is it Going to Cost?
5. Greatest Profit Opportunity

**Lender Expectations**

Lender is the person who is providing loan to the investors. Lender is interested in knowing your previous business track records, how good you were being in paying back the loan and your current and future ability to repay. You can also pledge your assets as the collateral securities for the sake of receiving loans.

**Investor’s Expectations**

Investors are interested in knowing that how much your product is competitive? How much saturated markets that do you have? The way you are going to market your product and services and they will be more interested if you will offer them the obscene level of returns and exit level strategies.

**Entrepreneurs Start Businesses**

Entrepreneurs start their businessesto Capitalize on an Invention, to pursue a Passion**,** for independent autonomy, to be their own boss, to get rich.

**Exit Strategies**

There are few entrepreneurs who are interested in starting a business who get themselves established in their businesses and sell their business for earning profits and with that capital they are interested in investing the business in other industries. You can also transfer the business to your family members, taking the company to go in stock exchanges for offering your shares at different price levels, being acquired by a larger firms and companies.

**Funding Sources**

* Savings
* Friends and Family
* Financial Institutions / Banks
* Angel Investors
* Venture Capital

**Business Plan Content**

* The Cove (Front cover)
* Executive Summary
* Company Description (Company profile)
* Product/Services Description
* Industry Overview (Industry analysis)
* Market Analysis
* Competitors
* Customers
* Marketing and Sales Plans
* Development
* Operations
* Management
* Personnel (Traditional name of Human Resource Management)
* Financial Summary
* Financials
* Offering
* Appendices (Extra Documents)

1. **Cover page and table of contents**

A business plan should contain a title page with the company’s name, logo, and address as well as the names 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. Sometime a disclaimer statement is written for the sake of declaration or any written statement that he would not conceal the company information. Disclaimers help companies protect themselves against legal claims.

1. **The Executive Summary**

To summarize the presentation for each potential financial institution or for investors, the entrepreneur should write an executive summary. It should be concise—a maximum of two pages—and should summarize all of the relevant points of the proposed business. After reading the executive summary, anyone should be able to understand the entire business concept and what differentiates the company from the competition. The executive summary is a synopsis of the entire plan, capturing its essence in a condensed form. It should explain the basic business model and the problem the business will solve for customers, briefly describing the owners and key employees, target market(s), financial highlights (e.g., sales and earnings projections, the loan or investment requested, how the funds will be used, and how and when any loans will be repaid or investments cashed out), and the company’s competitive advantage.

1. **Company overview**

It include brief company introduction i.e.

* Mission statement

A mission statement expresses an entrepreneur’s vision for what his or her company is and what it is to become.

* Location, size, history

The owner of an existing small business should prepare a brief history of the operation, highlighting the significant financial and operational events in the company’s life.

* Market and products

An entrepreneur should describe the company’s overall product line, giving an overview of how  
customers use its goods or services. Drawings, diagrams, and illustrations may be required if the  
product is highly technical.

* Overview of company capabilities
* Objectives

Objectives are short-term, specific performance targets that are specific, measurable, and assignable. Every objective should reflect some general business goal and include a technique for  
measuring progress toward its accomplishment.

1. **Products/Services**

An entrepreneur should describe the company’s overall product line, giving an overview of how customers will use its goods or services. Drawings, diagrams, and illustrations may be required if the product is highly technical. It is best to write product and service descriptions so that laypeople can understand them. The emphasis of this section should be on defining the benefits customers get by purchasing the company’s products or services, rather than on just a “nuts and bolts” description of the features of those products or services.

1. **Industry Overview**

If one goal of creating a plan to raise funding, the entrepreneur should include a section that acquaints lenders and investors with the industry in which a company competes. This section should provide readers with an overview of the industry or market segment in which the new venture will operate. Industry data such as key trends or emerging developments within the industry, market size and its growth or decline, and the relative economic and competitive strength of the major firms in the industry set the stage for a better understanding of the viability of a new business. This part of the plan also should describe significant industry trends and key success factors as well as an overall outlook for its future. Information about the evolution of the industry helps the reader comprehend its competitive dynamics.

1. **Market Analysis**

Market is place of mechanism where buyers and sellers come together to sale and purchase the products and services. A business plan must identify and describe a company’s target customers and their characteristics and habits. Defining the target audience and its potential is one of the most important—and most challenging—parts of building a business plan.  
– **Primary Market**

The markets where customers directly make purchases through companies and businesses.   
**– Secondary Markets**

The markets where companies and businesses do not sale the products and services to the customer and buyers directly.

• **Market Size and Trends**  
Assessing the size of the market is a critical step. How large is the potential market? Is it growing or shrinking? Why? Are customers’ needs changing? Are sales seasonal? Is demand tied to another product or service?

1. **Competitors**

An entrepreneur should describe the new venture’s competition and the ways in which the chosen business strategy will position it effectively against key competitors. Failing to assess competitors realistically makes entrepreneurs appear to be poorly prepared, naive, or dishonest, especially to potential lenders and investors. The plan should include an analysis of each significant competitor and how well the competing business is meeting the important criteria that target customers are currently using to make their purchase decisions among the various companies. This section of the plan should focus on demonstrating that the entrepreneur’s company has an advantage over its competitors and address these questions:  
Who are the company’s key competitors?  
What are their strengths and weaknesses?  
What are their strategies?  
What images do they have in the marketplace?  
How successful are they?  
What distinguishes the entrepreneur’s product or service from others already on the market,  
and how will these differences produce a competitive edge?

**Indirect competitors**

Businesses whose products or services are not the same but that could satisfy the same consumer need.

1. **Customers**

A sound business plan entails the details about customer characteristics including:

Who are they?

Why do they buy?

Need satisfied by the product/service, how is the need currently filled?

What are the alternatives?

Who makes the decision to buy?

How frequently do they purchase?

1. **Marketing Strategies**

One of the most important tasks a business plan must fulfill is proving that a viable market exists for a company’s goods or services. The business modeling process helped to identify and describe a company’s target customers and their characteristics and habits. Defining the target audience and its potential is one of the most important—and most challenging—parts of the business planning process.

1. **Development**

* R & D Plan

Objective, Milestones and current status, Difficulties and risks, Staffing, R & D Budget and assumptions.

1. **Operations**

Manufacturing/Production Plan for assessing the operations of business plan includes objectives, facilities, staffing, subcontractors, quality control, budget /operating expenses.

1. **Management**

Company/organization including company profile. Management team including groups and group’s norms & values, Administrative and operation expenses.

1. **Management teams**

It includes

President, VP Finance, VP Sales, VP Marketing, VP Manufacturing, Board of Advisors.

1. **Personnel**

Human Resource Plan, Staffing Objectives, recruiting, selecting, training and development, performance management, career management and counseling, human resource development, Employee discipline and grievance management, labor and unions management, labor laws and legislation enactment acts.

**15. Organizational Structure**

organizational chart and organogram,   
– 3-5-year growth plan  
– Budget

1. **Summary of Financials**

**Financial Objectives**  
Time to Cash Flow Positive, Time to profitability  
• **Financial Assumptions**

Projections that interest rate will be higher, loan and interest payments.   
**• Capital Requirements  
• Exit Scenario**

Scenarios that would entail the leaving, diluting and dissolving the business.

**Financials**

* Pro-forma Cash Flow Projection

Assumptions of cash flow from operating activities, financial activities and investing activities.

* Pro-forma Profit & Loss Statements

Assumptions of gross profits, gross margins, net profits and new loss

* Pro-forma Balance Sheet

Assumptions of current assets, non-current assets, liabilities, capital and owner equity.

1. **Appendices**

* Resumes of Key Management
* Patent Information
* Customer List
* Testimonials
* Supplemental Financial Spreadsheets
* References

**Guidelines for Preparing a Business Plan**

Remember: No one can create your plan for you.  
• Potential lenders want to see financial projections, but they are more interested in the strategies for reaching those projections.  
• Show how you plan to set your business apart from competitors; don’t fall into the “me too” trap.  
• Identify your target market and offer evidence that customers for your product or service exist.

**Tips on Preparing a Business Plan**

* Make sure your plan has an attractive cover. (First impressions are crucial.)
* Rid your plan of all spelling and grammatical errors.
* Make your plan visually appealing.
* Include a table of contents to allow readers to navigate your plan easily.
* Make it interesting
* Your plan must prove that the business will make money (not necessarily immediately, but eventually).
* Use spreadsheets to generate financial forecasts.
* *Always* include cash flow projections.
* Keep your plan “crisp” – between 25 and 50 pages  
  long.
* Tell the truth – *always*.