# Business Plan Preparation for New Ventures

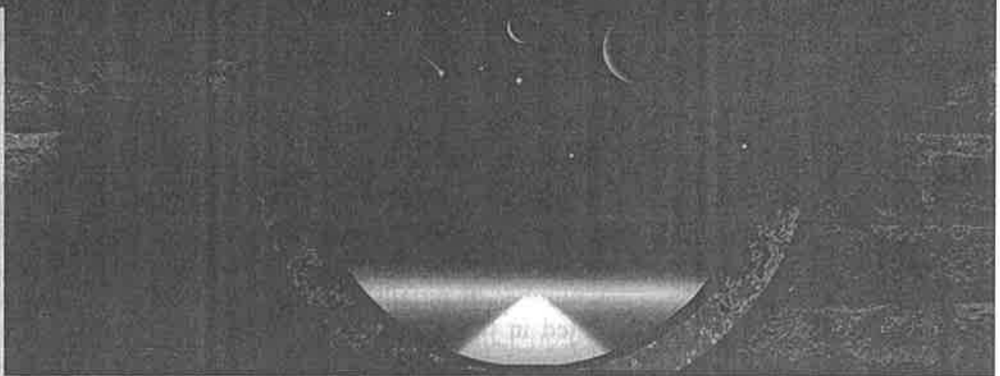
*Entrepreneurial Thought*

*It is well established that you can't raise money without a business plan... a business plan is a work of art in its own right. It's the document that personifies and expresses your company. Each plan, like every snowflake, must be different. Each is a separate piece of art. Each must be reflective of the individuality of the entrepreneur. Just as you wouldn't copy someone else's romancing techniques, so should you seek to distinguish your plan for its differences.*

— Joseph R. Mancuso *How to Write a Winning Business Plan*

Chapter

12



## *Chapter Objectives*

1 To define a business plan and demonstrate its value

2 To explore the planning pitfalls that plague many new ventures

3 To describe the benefits of a business plan

4 To set forth the viewpoints of those who read a business plan

5 To emphasize the importance of coordinating the business plan segments

6 To review key recommendations by venture capital experts regarding a plan

7 To present a complete outline of an effective business plan

8 To present some helpful hints for writing an effective business plan

9 To highlight points to remember in the presentation of a business plan

# What Is a Business Plan?

A **business plan** is the written document that details the proposed venture. It must describe current status, expected needs, and projected results of the new business. Every aspect of the venture needs to be covered: the project, marketing, research and development (R&D), management, critical risks, financial projections, and milestones or a timetable. A description of all of these facets of the proposed venture is necessary to demonstrate a clear picture of what that venture is, where it is projected to go, and how the entrepreneur proposes it will get there. The business plan is the entrepreneur's *road map* for a successful enterprise.[1]

In some professional areas, the business plan is referred to as a venture plan, a loan proposal, or an investment prospectus. Whatever the name, the business plan is the minimum document required by any financial source. The business plan allows the entrepreneur entrance into the investment process. Although it should be used as a working document once the venture is established, the major thrust of the business plan is to encapsulate the strategic development of the project in a comprehensive document for outside investors to read and understand.

The business plan describes to investors and financial sources all of the events that may affect the proposed venture. Details are needed for various projected actions of the venture, with associated revenues and costs outlined. It is vital to explicitly state the assumptions on which the plan is based. For example, increases/decreases in the market or upswings/downswings in the economy during the start-up period of the new venture should be stated.

The emphasis of the business plan always should be the final implementation of the venture. In other words, it's not just the writing of an effective plan that is important but also the translation of that plan into a successful enterprise.[2]

The comprehensive business plan, which should be the result of meetings and reflections on the direction of the new venture, is the major tool for determining the essential operation of a venture. It also is the primary document for managing the venture. One of the major benefits of this plan is that it helps the enterprise avoid common pitfalls that often undo all previous efforts. The following section describes these pitfalls.

# Pitfalls to Avoid in Planning

A number of pitfalls in the business plan process should be avoided. The five pitfalls presented in this section represent the most common errors committed by entrepreneurs. To make these danger areas more easily recognizable, certain indicators or warning signs are presented. We also include a possible solution to each pitfall that will help entrepreneurs avoid the particular trap that limits a new venture's opportunity to succeed.

## Pitfall 1: No Realistic Goals

Although this pitfall may sound self-explanatory, the following indicators demonstrate how common and well disguised it can be: lack of any attainable goals, lack of a time frame to accomplish things, lack of priorities, and lack of action steps.

One way to avoid this pitfall is to set up a timetable of specific steps to be accomplished during a specific period.

## Pitfall 2: Failure to Anticipate Roadblocks

One of the most common pitfalls occurs when the entrepreneur is so immersed in his or her idea that objectivity goes out the window. In other words, the person does not recognize the possible problems that may arise. Indicators are: no recognition of future problems, no admission of possible flaws or weaknesses in the plan, and no contingency or alternative plans.

The best way to avoid this pitfall is to list (1) the possible obstacles that may arise and (2) the alternatives that state what might have to be done to overcome the obstacles.

## Pitfall 3: No Commitment or Dedication

Too many entrepreneurs appear to lack real commitment to their ventures. Although ventures may have started from a hobby or part-time endeavor, entrepreneurs must be careful to avoid the impression that they do not take their ventures seriously. Indicators are: copying the latest social media craze, no interest in researching the idea, no desire to invest personal money, and the appearance of making a "fast buck" from an "app" or a "whim."

The easiest way to avoid this pitfall is to act quickly and to be sure to follow up all professional appointments. Also, be ready and willing to demonstrate a financial commitment to the venture.

## Pitfall 4: Lack of Demonstrated Experience (Business or Technical)

Many investors weigh very heavily the entrepreneur's actual experience in a venture, so it is important that entrepreneurs demonstrate what background they possess. Because too many beginners attempt to promote ideas they really have no true knowledge of, they are doomed to fail simply because they are perceived as ignorant of the specifics in the proposed business. Indicators are: no experience in business, no experience in the specific area of the venture, lack of understanding of the industry in which the venture fits, and failure to convey a clear picture of how and why the venture will work and who will accept it.

To avoid this pitfall, entrepreneurs need to give evidence of personal experience and background for the venture. If they lack specific knowledge or skills, they should obtain assistance from those who possess this knowledge or these skills. Demonstrating a team concept about those who help out also may be useful.

## Pitfall 5: No Market Niche (Segment)

Many entrepreneurs propose an idea without establishing who the potential customers will be. Just because the entrepreneur likes the product or service does not mean that others will buy it. Numerous inventions at the U.S. Patent Office never reached the marketplace because no customers were targeted to buy them—no market was ever established. Indicators are: uncertainty about who will buy the basic idea(s) behind the venture, no proof of a need or desire for the good or product proposed, and an assumption that customers or clients will purchase just because the entrepreneur thinks so.

The best possible way to avoid this pitfall is to have a market segment specifically targeted and to demonstrate why and how the specific product or service will meet the needs or desires of this target group. (See Chapter 10 for specific information on market research.)

The five pitfalls detailed here represent the most common points of failure entrepreneurs experience *before* their business plans ever gets reviewed. In other words, these critical areas must be carefully addressed before a business plan is developed. If these pitfalls can be avoided, the entire business plan will be written more carefully and thus will be reviewed more thoroughly. This preparation helps entrepreneurs establish a solid foundation on which to develop an effective business plan.

# Benefits of a Business Plan

The entire business planning process forces the entrepreneur to analyze all aspects of the venture and to prepare an effective strategy to deal with the uncertainties that arise. Thus, a business plan may help an entrepreneur avoid a project doomed to failure. As one researcher states, "If your proposed venture is marginal at best, the business plan will show you why and may help you avoid paying the high tuition of business failure. It is far cheaper not to begin an ill-fated business than to learn by experience what your business plan could have taught you at a cost of several hours of concentrated work."[3]

the entrepreneurial process

## Overlooked Research Sources for Business Plans

The first obstacle to overcome when preparing a business plan is a lack of in-depth research resources. The following sources are recommended for entrepreneurs to pursue when seeking some of the basic information needed to prepare the business plan.

*Track the Industry.* Begin by finding out what North American Industry Classification System (NAICS) code your company may fall under. Look up the appropriate NAICS or SIC code at http://www.census.gov/epcd/www/naics.html. You can now use this code to gain important information on your industry at sites such as Hoover's (http://www.hoovers.com) and ThomasNet (http://www.thomasnet.com/). These sites offer free access to essential statistics and comparisons with both public and private companies. Additional industry sites include Yahoo's finance guide (http://finance.yahoo.com), industry guide (http://biz.yahoo.com/industry), and their list of newspapers and magazines (http://dir.yahoo.com/News_and_Media/Newspapers/By_Region). Chambers of commerce are also a valuable source of information for specific markets. You can begin at the U.S. Chamber of Commerce to find a local chamber's site (http://www.uschamber.com).

*Check Your Competition.* The art of competitive research has really taken off. Specialized firms now charge exorbitant fees for in-depth research, but you can extract valuable information on your own just by browsing companies' web sites. You can gain insight on their strategies by perusing their job listings, finding strategic partnerships, and assessing customer relationships. Venture Consult also suggests scanning résumés of people who have worked for your competition; you can learn more about the strategies and weaknesses of the company from the job-hunter's accomplishments.

*Search Out Government Resources.* Start with FirstGov (http://www.firstgov.com) and the U.S. Small Business Administration (http://www. sba.gov). You also can buy the annual U.S. industry and trade outlook online (http://www.ntis.gov/products/industry-trade.aspx).

*Don't Forget Your Customers.* Private companies typically have the most in-depth research available; however, the majority of the research is not available to the public. Private associations, industry organizations, and trade shows can offer much of the valuable research that private companies spend thousands to gain. Locate the industry web site that covers your market, and you will find the top trade shows that cover your company's niche and market. It is often much less expensive to purchase a report than to commission research through a firm. A resource for tech companies worth checking out is InfoTech Trends (http://www.infotechtrends.com/marketshare.htm) The absolute best source of information is your current and prospective customers. Listen to what they want, and find out what problems they have with other companies and what they would like to see happen with your company.

*Check out Internet sources.* For example, the Gale web site (http://www.gale.cengage.com) includes several resources that could be of use. The company maintains over 600 databases online, in print, and in e-book form, offering business plan examples and market research for different industries. Fintel (http://fintel.us) is another resource that can be used to help with the financial issues of putting together a business plan. This site includes current industry reports, financial benchmarking, customized research options, and other resources. Marketresearch.com (http://www.marketresearch.com) is the world's largest collection of market research for different industries. This web site can provide information such as product trends and analysis of a given market. The American Factfinder web site (http://factfinder.census.gov/home/saff/main.html) is provided by the U.S. Census Bureau. This is a great resource for information regarding population, housing, economic, business, industry, and geographic data. Small Business Trends (http://www.smallbiztrends.com) is a site that provides updates on trends that affect small and medium-sized businesses. It features traditional web sites that contain small business data as well as a blog. LogoYes (http://www.logoyes.com) is a

*Continued*

leading provider of do-it-yourself logos for small businesses. Using this site, an entrepreneur can design a logo for his or her business (though downloading the logo may cost some money). Finally, the Claritas site (http://www.claritas.com/MyBestSegments/Default.jsp) defines the market for your business. It offers information on consumer segments as well as defined and described customer segmentation profiling. This site can help answer questions such as: What are these customers like? Where can I find them? How can I reach them?

*Source:* Adapted from Karen Klein, "Research Resources for Beginners," *BusinessWeek Online,* January 14, 2002, http://www.businessweek.com/smallbiz/content/jan2002/sb20020114_0616.htm?chan=search (accessed May 12, 2012) and Donald F. Kuratko and Jeffrey S. Hornsby, *New Venture Management: The Entrepreneur's Roadmap* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2009).

It is important that entrepreneurs prepare their own business plan. If an entrepreneurial team is involved, then all of the key members should be part of writing the plan; in this case, it is important that the lead entrepreneur understand the contribution of each team member. If consultants are sought to help prepare a business plan, the entrepreneur must remain the driving force behind the plan. Seeking the advice and assistance of outside professionals is always wise, but entrepreneurs need to understand every aspect of the business plan, because they are the ones who come under the scrutiny of financial sources. Thus, the business plan stands as the entrepreneur's description and prediction for his or her venture, and it must be defended by the entrepreneur—simply put, it is the entrepreneur's responsibility.[4]

Other benefits are derived from a business plan, for both the entrepreneur and the financial sources that read it and evaluate the venture. For the entrepreneur, the following benefits are gained:

- The time, effort, research, and discipline needed to put together a formal business plan force the entrepreneur to view the venture critically and objectively.
- The competitive, economic, and financial analyses included in the business plan subject the entrepreneur to close scrutiny of his or her assumptions about the venture's success.
- Because all aspects of the business venture must be addressed in the plan, the entrepreneur develops and examines operating strategies and expected results for outside evaluators.
- The business plan quantifies objectives, providing measurable benchmarks for comparing forecasts with actual results.
- The completed business plan provides the entrepreneur with a communication tool for outside financial sources as well as an operational tool for guiding the venture toward success.[5]

The financial sources that read the plan derive the following benefits from the business plan:

- The business plan provides the details of the market potential and plans for securing a share of that market.
- Through prospective financial statements, the business plan illustrates the venture's ability to service debt or provide an adequate return on equity.
- The plan identifies critical risks and crucial events with a discussion of contingency plans that provide opportunity for the venture's success.
- By providing a comprehensive overview of the entire operation, the business plan gives financial sources a clear, concise document that contains the necessary information for a thorough business and financial evaluation.
- For a financial source with no prior knowledge of the entrepreneur or the venture, the business plan provides a useful guide for assessing the individual entrepreneur's planning and managerial ability.[6]

## Developing a Well-Conceived Business Plan

Most investors agree that only a well-conceived and well-developed business plan can gather the necessary support that will eventually lead to financing. The business plan must describe the new venture with excitement and yet with complete accuracy.

### Who Reads the Plan?

It is important to understand the audience for whom the business plan is written. Although numerous professionals may be involved with reading the business plan—such as venture capitalists, bankers, angel investors, potential large customers, lawyers, consultants, and suppliers—entrepreneurs need to clearly understand three main viewpoints when preparing the plan.[7]

The first viewpoint is, of course, the entrepreneur's, because he or she is the one developing the venture and clearly has the most in-depth knowledge of the technology or creativity involved. This is the most common viewpoint in business plans, and it is essential. However, too many plans emphasize this viewpoint and neglect the viewpoints of potential customers and investors.

More important than high technology or creative flair is the marketability of a new venture. This type of enterprise, referred to as "market-driven," convincingly demonstrates the benefits to users (the particular group of customers it is aiming for) and the existence of a substantial market. This viewpoint—that of the marketplace—is the second critical emphasis that an entrepreneur must incorporate into a business plan. Yet, although the actual value of this information is considered high, too many entrepreneurs tend to deemphasize in-depth marketing information in their business plans.[8] Establishing an actual market (determining who will buy the product or use the service) and documenting that the anticipated percentage of this market is appropriate for the venture's success are valuable criteria for the business plan.

The third viewpoint is related to the marketing emphasis just discussed. The investor's point of view is concentrated on the financial forecast. Sound financial projections are necessary if investors are to evaluate the worth of their investment. This is not to say that an entrepreneur should fill the business plan with spreadsheets of figures. In fact, many venture capital firms employ a "projection discount factor," which merely represents the belief of venture capitalists that successful new ventures usually reach approximately 50 percent of their projected financial goals.[9] However, a three- to five-year financial projection is essential for investors to use in making their judgment of a venture's future success.

These three viewpoints have been presented in order of decreasing significance to point out the emphasis needed in a well-conceived business plan. If they are addressed carefully in the plan, then the entrepreneur has prepared for what experts term the **five-minute reading**. The following six steps represent the typical business plan reading process that many venture capitalists use (less than one minute is devoted to each step):

Step 1: Determine the characteristics of the venture and its industry.

Step 2: Determine the financial structure of the plan (amount of debt or equity investment required).

Step 3: Read the latest balance sheet (to determine liquidity, net worth, and debt/equity).

Step 4: Determine the quality of entrepreneurs in the venture (sometimes *the* most important step).

Step 5: Establish the unique feature in this venture (find out what is different).

Step 6: Read over the entire plan lightly (this is when the entire package is paged through for a casual look at graphs, charts, exhibits, and other plan components).[10]

These steps provide insight into how the average business plan is read. It may seem somewhat unjust that so much of the entrepreneur's effort is put into a plan that is given only a five-minute reading. However, that's the nature of the process for many venture capitalists. Other financial or professional sources may devote more time to analyzing the plan. But keep in mind that venture capitalists read through numerous business plans; thus, knowing the steps in their reading process is valuable for developing any plan. Related to the process of venture capitalists is this updated version of an old quote that links entrepreneurs and venture capitalists: "The people who manage people manage people who manage things, *but* the people who manage money manage the people who manage people."[11]

## Putting the Package Together

When presenting a business plan to potential investors, the entrepreneur must realize that the entire package is important. Presented next is a summary of key issues that the entrepreneur needs to watch for if his or her plan is going to be viewed successfully. A business plan gives financiers their first impressions of a company and its principals.

Potential investors expect the plan to look good, but not too good; to be the right length; to clearly and concisely explain (early on) all aspects of the company's business; and not to contain bad grammar and typographical or spelling errors.

Investors are looking for evidence that the principals treat their own property with care—and will likewise treat the investment carefully. In other words, form as well as content is important; investors know that good form reflects good content, and vice versa.

Among the format issues we think most important are the following:

**Appearance**—The binding and printing must not be sloppy; neither should the presentation be too lavish. A stapled compilation of photocopied pages usually looks amateurish, whereas bookbinding with typeset pages may arouse concern about excessive and inappropriate spending. A plastic spiral binding, holding together a pair of cover sheets of a single color, provides both a neat appearance and sufficient strength to withstand handling by a number of people without damage.

**Length**—A business plan should be no more than 20–25 pages long. The first draft will likely exceed that, but editing should produce a final version that fits within the 20-page ideal. Adherence to this length forces entrepreneurs to sharpen their ideas and results in a document that is likely to hold investors' attention.

Background details can be included in an additional volume. Entrepreneurs can make this material available to investors during the investigative period, after the initial expression of interest.

**The Cover and Title Page**—The cover should bear the name of the company, its address and phone number, and the month and year in which the plan is issued. Surprisingly, a large number of business plans are submitted to potential investors without return addresses or phone numbers. An interested investor wants to be able to contact a company easily to request further information or express an interest, either in the company or in some aspect of the plan.

Inside the front cover should be a well-designed title page on which the cover information is repeated and, in an upper or a lower corner, the "copy number" provided. Besides helping entrepreneurs keep track of plans in circulation, holding down the number of copies outstanding—usually to no more than 10—has a psychological advantage. After all, no investor likes to think that the prospective investment is shopworn.

**The Executive Summary**—The two to three pages immediately following the title page should concisely explain the company's current status, its products or services, the benefits to customers, the financial forecasts, the venture's objectives in three to seven years, the amount of financing needed, and how investors will benefit.

This is a tall order for a two-page summary, but it will either sell investors on reading the rest of the plan or convince them to forget the whole thing.

**The Table of Contents**—After the executive summary, include a well-designed table of contents. List each of the business plan's sections and mark the pages for each section.

An attractive appearance, an effective length, an executive summary, a table of contents, proper grammar, correct typing, and a cover page—all are important factors when putting together a complete package. These points often separate successful plans from unacceptable ones.

## Guidelines to Remember

The following points are a collection of recommendations by experts in venture capital and new-venture development.[12] These guidelines are presented as tips for successful business plan development. Entrepreneurs need to adhere to them to understand the importance of the various segments of the business plan they create, which will be discussed in the next section.

### KEEP THE PLAN RESPECTABLY SHORT

Readers of business plans are important people who refuse to waste time. Therefore, entrepreneurs should explain the venture not only carefully and clearly but also concisely. (Ideally, the plan should be no more than 20–25 pages long, excluding the appendix.)

### ORGANIZE AND PACKAGE THE PLAN APPROPRIATELY

A table of contents, an executive summary, an appendix, exhibits, graphs, proper grammar, a logical arrangement of segments, and overall neatness are elements critical to the effective presentation of a business plan.

### ORIENT THE PLAN TOWARD THE FUTURE

Entrepreneurs should attempt to create an air of excitement in the plan by developing trends and forecasts that describe what the venture *intends* to do and what the opportunities are for the use of the product or service.

### AVOID EXAGGERATION

Sales potentials, revenue estimates, and the venture's potential growth should not be inflated. Many times, a best-case, worst-case, and probable-case scenario should be developed for the plan. Documentation and research are vital to the plan's credibility. (See Table 12.1 for business plan phrases.)

### HIGHLIGHT CRITICAL RISKS

The critical-risks segment of the business plan is important in that it demonstrates the entrepreneur's ability to analyze potential problems and develop alternative courses of action.

### GIVE EVIDENCE OF AN EFFECTIVE ENTREPRENEURIAL TEAM

The management segment of the business plan should clearly identify the skills of each key person as well as demonstrate how all such people can effectively work together as a team to manage the venture.

### DO NOT OVER-DIVERSIFY

Focus the attention of the plan on one main opportunity for the venture. A new business should not attempt to create multiple markets or pursue multiple ventures until it has successfully developed one main strength.

### IDENTIFY THE TARGET MARKET

Substantiate the marketability of the venture's product or service by identifying the particular customer niche being sought. This segment of the business plan is pivotal to the success of the other parts. Market research must be included to demonstrate how this market segment has been identified.

### KEEP THE PLAN WRITTEN IN THE THIRD PERSON

Rather than continually stating "I," "we," or "us," the entrepreneur should phrase everything as "he," "she," "they," or "them." In other words, avoid personalizing the plan, and keep the writing objective.

**Table 12.1 Common Business Plan Phrases: Statement Versus Reality**

| Statement | Reality |
|---|---|
| We conservatively project... | We read a book that said we had to be a $50 million company in five years, and we reverse-engineered the numbers. |
| We took our best guess and divided by 2. | We accidentally divided by 0.5. |
| We project a 10 percent margin. | We did not modify any of the assumptions in the business plan template that we downloaded from the Internet. |
| The project is 98 percent complete. | To complete the remaining 2 percent will take as long as it took to create the initial 98 percent but will cost twice as much. |
| Our business model is proven... | ... if you take the evidence from the past week for the best of our 50 locations and extrapolate it for all the others. |
| We have a six-month lead. | We tried not to find out how many other people have a six-month lead. |
| We need only a 10 percent market share. | So do the other 50 entrants getting funded. |
| Customers are clamoring for our product. | We have not yet asked them to pay for it. Also, all of our current customers are relatives. |
| We are the low-cost producer. | We have not produced anything yet, but we are confident that we will be able to. |
| We have no competition. | Only IBM, Microsoft, Netscape, and Sun have announced plans to enter the business. |
| Our management team has a great deal of experience... | ... consuming the product or service. |
| A select group of investors is considering the plan. | We mailed a copy of the plan to everyone in *Pratt's Guide.* |
| We seek a value-added investor. | We are looking for a passive, dumb-as-rocks investor. |
| If you invest on our terms, you will earn a 68 percent internal rate of return. | If everything that could ever conceivably go right does go right, you might get your money back. |

*Source:* Reprinted by permission of *Harvard Business Review*. Adapted from William A. Sahlman, "How to Write a Great Business Plan" (July/August 1997): 106. 

## CAPTURE THE READER'S INTEREST

Because of the numerous business plans submitted to investors and the small percentage of business plans funded, entrepreneurs need to capture the reader's interest right away by highlighting the uniqueness of the venture. Use the title page and executive summary as key tools to capture the reader's attention and create a desire to read more.

### Questions to Be Answered

A well-written business plan is like a work of art: It's visually pleasing and makes a statement without saying a word. Unfortunately, the two are also alike in that they are worth money only if they're good. Researchers Donald F. Kuratko and Jeffrey S. Hornsby recommend the following key questions to consider when writing an effective business plan.

- *Is your plan organized so key facts leap out at the reader?* Appearances do count. Your plan is a representation of yourself, so don't expect an unorganized, less than acceptable plan to be your vehicle for obtaining funds.
- *Is your product/service and business mission clear and simple?* Your mission should state very simply the value that you will provide to your customers. It shouldn't take more than a paragraph.
- *Are you focused on the right things?* Determine what phase of the business you are really in, focus on the right tasks, and use your resources appropriately.
- *Who is your customer?* Does the plan describe the business's ideal customers and how you will reach them? Is your projected share of the market identified, reasonable, and supported?
- *Why will customers buy? How much better is your product/service?* Define the need for your product and provide references and testimonial support to enhance it. Try to be detailed in explaining how the customer will benefit from buying your product.
- *Do you have a competitive advantage?* Focus on differences and any unique qualities. Proprietary processes/technology and patentable items/ideals are good things to highlight as competitive strengths.
- *Do you have a favorable cost structure?* Proper gross margins are key. Does the break-even analysis take into consideration the dynamics of price and variable costs? Identify, if possible, any economics of scale that would be advantageous to the business.
- *Can the management team build a business?* Take a second look at the management team to see whether they have relevant experience in small business and in the industry. Acknowledge the fact that the team may need to evolve with the business.
- *How much money do you need?* Financial statements—including the income statement, cash-flow statement, and balance sheet—should be provided on a monthly basis for the first year and on a quarterly basis for the following two or three years.
- *How does your investor get a cash return?* Whether it's through a buyout or an initial public offering, make sure your plan clearly outlines this important question regarding a harvest strategy.[13]

These guidelines and questions have been presented to help entrepreneurs who are preparing to write a business plan. The following section analyzes the ten major segments of a business plan.

## Elements of a Business Plan

A detailed business plan usually includes anywhere from six to ten sections (depending on the idea, the industry, and the technical details). The ideal length of a plan is 25 pages, although—depending on the need for detail—the overall plan can range from 20 to more than 30 pages if an appendix is included.[14] Table 12.2 provides an outline of a typical

**Table 12.2 Complete Outline of a Business Plan**

Section I: Executive Summary

Section II: Business Description

A. General description of the business
B. Industry background
C. Goals and potential of the business and milestones (if any)
D. Uniqueness of product or service

**Table 12.2 Complete Outline of a Business Plan** *(Continued)*

Section III: Marketing

A. Research and analysis
   1. Target market (customers) identified
   2. Market size and trends
   3. Competition
   4. Estimated market share

B. Marketing plan
   1. Market strategy—sales and distribution
   2. Pricing
   3. Advertising and promotions

Section IV: Operations

A. Identify location: advantages
B. Specific operational procedures
C. Personnel needs and uses
D. Proximity to supplies

Section V: Management

A. Management team—key personnel
B. Legal structure—stock agreements, employment agreements, ownership
C. Board of directors, advisors, consultants

Section VI: Financial

A. Financial forecast
   1. Profit and loss
   2. Cash flow
   3. Break-even analysis
   4. Cost controls
   5. Budgeting plans

Section VII: Critical Risks

A. Potential problems
B. Obstacles and risks
C. Alternative courses of action

Section VIII: Harvest Strategy It stands for Initial Public Offering but it should be well understood.

A. Liquidity event (IPO or sale)
B. Continuity of business strategy
C. Identify successor

Section IX: Milestone Schedule

A. Timing and objectives
B. Deadlines and milestones
C. Relationship of events

Section X: Appendix or Bibliography

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*Source:* Donald F. Kuratko, *The Complete Entrepreneurial Planning Guide* (Bloomington: Kelley School of Business, Indiana University, 2013).

plan; the of this section describes the specific parts of the plan. A complete business plan for Hydraulic Wind Power appears in Appendix 12A at the end of this chapter.

## Executive Summary

Many people who read business plans (bankers, venture capitalists, investors) like to see a summary of the plan that features its most important parts. Such a summary gives a brief overview of what is to follow, helps put all of the information into perspective, and should be no longer than two to three pages. The summary should be written only after the entire business plan has been completed. In this way, particular phrases or descriptions from each segment can be identified for inclusion in the summary. Because the summary is the first—and sometimes the only—part of a plan that is read, it must present the quality of the entire report. The summary must be a clever snapshot of the complete plan.

The statements selected for a summary segment should briefly touch on the venture itself, the market opportunities, the financial needs and projections, and any special research or technology associated with the venture. This should be done in such a way that the evaluator or investor will choose to read on. If this information is not presented in a concise, competent manner, the reader may put aside the plan or simply conclude that the project does not warrant funding.

## Business Description

First, the name of the venture should be identified, along with any special significance (for example, family name, technical name). Second, the industry background should be presented in terms of current status and future trends. It is important to note any special industry developments that may affect the plan. If the company has an existing business or franchise, this is the appropriate place to discuss it. Third, the new venture should be thoroughly described, along with its proposed potential. All key terms should be defined and made comprehensible. Functional specifications or descriptions should be provided. Drawings and photographs also may be included.

Fourth, the potential advantages the new venture possesses over the competition should be discussed at length. This discussion may include patents, copyrights, and trademarks, as well as special technological or market advantages.

## Marketing Segment

In the **marketing segment** of the plan, the entrepreneur must convince investors that a market exists, that sales projections *can be achieved,* and that the competition can be beaten.

This part of the plan is often one of the most difficult to prepare. It is also one of the most critical, because almost all subsequent sections of the plan depend on the sales estimates developed here. The projected sales levels—which are based on the market research and analysis—directly influence the size of the manufacturing operation, the marketing plan, and the amount of debt and equity capital required.

Most entrepreneurs have difficulty preparing and presenting market research and analyses that will convince investors the venture's sales estimates are accurate and attainable. The following are aspects of marketing that should be addressed when developing a comprehensive exposition of the market.

## Market Niche and Market Share

A **market niche** is a homogeneous group with common characteristics—that is, all the people who have a need for the newly proposed product or service. When describing this niche, the writer should address the bases of customer purchase decisions: price, quality, service, personal contacts, or some combination of these factors.

Next, a list of potential customers who have expressed interest in the product or service—together with an explanation for their interest—should be included. If it is an existing business, the current principal customers should be identified and the sales trend should be discussed. It is important to describe the overall potential of the market. Sales projections should be made for at least three years, and the major factors affecting market growth (industry trends, socioeconomic trends, governmental policy, and population shifts) should be discussed. A review of previous market trends should be included, and any differences between past and projected annual growth rates should be explained. The sources of all data and methods used to make projections should be indicated. Then, if any major customers are willing to make purchase commitments, they should be identified, and the extent of those commitments should be indicated. On the basis of the product or service advantages, the market size and trends, the customers, and the sales trends in prior years, the writer should estimate market share and sales in units and dollars for each of the next three years. The growth of the company's sales and its estimated market share should be related to the growth of the industry and the customer base.

## COMPETITIVE ANALYSIS

The entrepreneur should make an attempt to assess the strengths and weaknesses of the competing products or services. Any sources used to evaluate the competition should be cited. This discussion should compare competing products or services on the basis of price, performance, service, warranties, and other pertinent features. It should include a short discussion of the current advantages and disadvantages of competing products and services, and why they are not meeting customer needs. Any knowledge of competitors' actions that could lead to new or improved products and an advantageous position also should be presented.

Finally, a review of competing companies should be included. Each competitor's share of the market, sales, and distribution and production capabilities should be discussed. Attention should be focused on profitability and the profit trend of each competitor. Who is the pricing leader? Who is the quality leader? Who is gaining? Who is losing? Have any companies entered or dropped out of the market in recent years?

## MARKETING STRATEGY

The general marketing philosophy and approach of the company should be outlined in the **marketing strategy**. A marketing strategy should be developed from market research and evaluation data and should include a discussion of (1) the kinds of customer groups to be targeted by the initial intensive selling effort; (2) the customer groups to be targeted for later selling efforts; (3) methods of identifying and contacting potential customers in these groups; (4) the features of the product or service (quality, price, delivery, warranty, and so on) to be emphasized to generate sales; and (5) any innovative or unusual marketing concepts that will enhance customer acceptance (for example, leasing where only sales were previously attempted).

This section also should indicate whether the product or service initially will be introduced nationally or regionally. Consideration also should be given to any seasonal trends and what can be done to promote contra-seasonal sales.

## PRICING POLICY

The price must be "right" to penetrate the market, maintain a market position, and produce profits. A number of pricing strategies should be examined, and then one should be convincingly presented. This pricing policy should be compared with the policies of the major competitors. The gross profit margin between manufacturing and final sales costs should be discussed, and consideration should be given to whether this margin is large enough to allow for distribution, sales, warranty, and service expenses; for amortization of development and equipment costs; and for profit. Attention also should be given to justifying any price increases over competitive items on the basis of newness, quality, warranty, or service.

## ADVERTISING PLAN

For manufactured products, the preparation of product sheets and promotional literature; the plans for trade show participation, trade magazine advertisements, and direct mailings; and the use of advertising agencies should be presented. For products and services in general, a discussion of the advertising and promotional campaign contemplated to introduce process

## Common Business Planning Mistakes

Entrepreneurs endure uncertainty in most everything they do. From hiring the right employees to finding reliable suppliers, building a business requires an entrepreneur to handle significant pressure on a daily basis. Given the variability inherent in any new venture, a business plan is crucial for effective management. In spite of the importance of business planning, few activities are more daunting for entrepreneurs than formalizing their thoughts on paper. In order for entrepreneurs to stay driven to succeed, they have to remain optimistic, so the fear of discovering some insurmountable obstacle while planning leads some management teams to avoid the process altogether. Whether the business is a startup or a well-established corporation, a business plan, when done correctly, serves as the company's blueprint to ensure that all parties involved are in agreement regarding the business's overarching purpose. In the business plan sections listed below we present some of the common mistakes that entrepreneurs make when developing their plan:

**Overall Mistakes**

- Entrepreneurs are unable to clearly articulate their vision in the plan.
- Entrepreneurs use acronyms and technical jargon without clearly explaining them early in the business plan.
- Entrepreneurs fail to provide sufficient details regarding the implementation of their strategy.
- Entrepreneurs ineffectively present the goals and objectives which are most important to the business's success.
- Entrepreneurs do not convincingly present the basis for their strategy.
- Entrepreneurs do not improve their plan based on the feedback from investors.

**Executive Summary**

- Entrepreneurs are not precise about their needs and capabilities.
- Entrepreneurs waste words with fillers and superfluous information.

**Management**

- Entrepreneurs forget to include their previous successes and or failures.
- Entrepreneurs dismiss the importance investors place on an experienced management team.

**Marketing**

- Entrepreneurs rely heavily on secondary market research rather than soliciting the opinions of their potential customers.
- Entrepreneurs claim the percent of the market their company will own without research support.

**Financials**

- Entrepreneurs overlook and, in turn, underestimate their cash-flow requirements.
- Entrepreneurs inflate or understate their margins in order to arrive at their ideal profitability.

*Source:* Adapted from Mark Henricks, "Build a Better Business Plan," *Entrepreneur* (February 2007). Retrieved June 21, 2008 from https://www.entrepreneur.com/startingabusiness/businessplans/article174002.html; Andrew J. Sherman, *Grow Fast, Grow Right: 12 Strategies to Achieve Breakthrough Business Growth* (Chicago: Kaplan Publishing, 2007), pp. 20–26; and Jay Snider, "Don't Make These 5 Business Plan Mistakes," *Up and Running Blog*, http://upandrunning.bplans.com/2012/04/20/dont-make-these-5-business-plan-mistakes/, accessed May 29, 2012.

the product and the kinds of sales aids to be provided to dealers should be included. Additionally, the schedule and cost of promotion and advertising should be presented; if advertising will be a significant part of the expenses, an exhibit that shows how and when these costs will be incurred should be included.

These five subsets of the marketing segment are needed to detail the overall marketing plan, which should describe *what* is to be done, *how* it will be done, and *who* will do it.

## Research, Design, and Development Segment

The extent of any research, design, and development in regard to cost, time, and special testing should be covered in this segment. Investors need to know the status of the project in terms of prototypes, lab tests, and scheduling delays. Note that this segment is applicable only if R&D is involved in the business plan.

To achieve a comprehensive section, the entrepreneur should have (or seek out) technical assistance in preparing a detailed discussion. Blueprints, sketches, drawings, and models often are important.

It is equally important to identify the design or development work that still needs to be done and to discuss possible difficulties or risks that may delay or alter the project. In this regard, a developmental budget that shows the costs associated with labor, materials consulting, research, design, and the like should be constructed and presented.

## Operations Segment

This segment always should begin by describing the location of the new venture. The chosen site should be appropriate in terms of labor availability, wage rate, proximity to suppliers and customers, and community support. In addition, local taxes and zoning requirements should be sorted out, and the support of area banks for new ventures should be touched on.

Specific needs should be discussed in terms of how the enterprise actually operates and the facilities required to handle the new venture (plant, warehouse storage, and offices), as well as any equipment that needs to be acquired (special tooling, machinery, computers, and vehicles).

Other factors that might be considered are the suppliers (number and proximity) and the transportation costs involved in shipping materials. The labor supply, wage rates, and needed skilled positions also should be presented.

Finally, the cost data associated with any of the operation factors should be presented. The financial information used here can be applied later to the financial projections.

## Management Segment

This segment identifies the key personnel, their positions and responsibilities, and the career experiences that qualify them for those particular roles. Complete résumés should be provided for each member of the management team. In this section, the entrepreneur's role in the venture should be clearly outlined. Finally, any advisors, consultants, or members of the board should be identified and discussed.

The structure of payment and ownership (stock agreements, consulting fees, and so on) should be described clearly in this section. In summary, the discussion should be sufficient so that investors can understand each of the following critical factors that have been presented: (1) organizational structure, (2) management team and critical personnel, (3) experience and technical capabilities of the personnel, (4) ownership structure and compensation agreements, and (5) board of directors and outside consultants and advisors.

## Financial Segment

The financial segment of a business plan must demonstrate the potential viability of the undertaking. Three basic financial statements must be presented in this part of the plan: the pro forma balance sheet, the income statement, and the cash-flow statement.

### THE PRO FORMA BALANCE SHEET

Pro forma means "projected," as opposed to actual. The pro forma balance sheet projects what the financial condition of the venture will be at a particular point in time. Pro forma balance sheets should be prepared at start-up, semiannually for the first years, and at the end of each of the first three years. The balance sheet details the assets required to support the projected level of operations and shows how these assets are to be financed (liabilities and equity). Investors will want to look at the projected balance sheets to determine if debt/equity ratios, working capital, current ratios, inventory turnover, and so on are within the acceptable limits required to justify the future financings projected for the venture.

### THE INCOME STATEMENT

The income statement illustrates the projected operating results based on profit and loss. The sales forecast, which was developed in the marketing segment, is essential to this document. Once the sales forecast (earnings projection) is in place, production costs must be budgeted based on the level of activity needed to support the projected earnings. The materials, labor, service, and manufacturing overhead (fixed and variable) must be considered, in addition to such expenses as distribution, storage, advertising, discounts, and administrative and general expenses (salaries, legal and accounting, rent, utilities, and telephone).

### THE CASH-FLOW STATEMENT

The cash-flow statement may be the most important document in new-venture creation, because it sets forth the amount and timing of expected cash inflows and outflows. This section of the business plan should be carefully constructed.

Given a level of projected sales and capital expenditures for a specific period, the cash-flow forecast will highlight the need for and the timing of additional financing and will indicate peak requirements for working capital. Management must decide how this additional financing is to be obtained, on what terms, and how it is to be repaid. The total amount of needed financing may be supplied from several sources: part by equity financing, part by bank loans, and the balance by short-term lines of credit from banks. This information becomes part of the final cash-flow forecast. A detailed cash flow, if understood properly, can direct the entrepreneur's attention to operating problems before serious cash crises arise.

In the financial segment, it is important to mention any assumptions used to prepare the figures. Nothing should be taken for granted. This segment also should include how the statements were prepared (by a professional certified public accountant or by the entrepreneur) and who will be in charge of managing the business's finances.

The final document that should be included in the financial segment is a break-even chart, which shows the level of sales (and production) needed to cover all costs. This includes costs that vary with the production level (manufacturing labor, materials, sales) and costs that do not change with production (rent, interest charges, executive salaries).

## Critical-Risks Segment

In this segment, potential risks such as the following should be identified: effect of unfavorable trends in the industry, design or manufacturing costs that have gone over estimates, difficulties of long lead times encountered when purchasing parts or materials, and unplanned-for new competition.

In addition to these risks, it is wise to cover the what-ifs. For example, what if the competition cuts prices, the industry slumps, the market projections are wrong, the sales projections are not achieved, the patents do not come through, or the management team breaks up?

Finally, suggestions for alternative courses of action should be included. Certainly, delays, inaccurate projections, and industry slumps all can happen, and people reading the business plan will want to know that the entrepreneur recognizes these risks and has prepared for such critical events.

## Harvest Strategy Segment

Every business plan should provide insights into the future harvest strategy. It is important for the entrepreneur to plan for a liquidity event as an exit strategy or for the orderly transition of the venture if the plan is to grow and develop it. This section needs to deal with such issues as management succession and investor exit strategies. In addition, some thought should be given to change management—that is, the orderly transfer of the company assets if ownership of the business changes; continuity of the business strategy during the transition; and designation of key individuals to run the business if the current management team changes. With foresight, entrepreneurs can keep their dreams alive, ensure the security of their investors, and usually strengthen their businesses in the process. For this reason, a harvest strategy is essential.

# in practice

## Straying from Your Business Plan?

A well-written, thoughtful business plan is an important tool for any entrepreneur; however, even the most conservative strategy can fail to address some obstacles that are encountered between the inception of a concept and the eventual harvest of the business. One example of such a hurdle is when a business encounters an economic downturn. What is the appropriate strategy when the general economy has begun to falter, leading consumers to tuck away dollars that they would have otherwise spent at your business?

The answer is that there is not one solution for dealing with an ailing economy. Despite the need for a business plan, entrepreneurs often find that strict adherence to their plan is as dangerous as not having one at all. The key is to know when to stray from your plan. Following are steps to take when your plan does not effectively address the environment in which you find your business:

**Partner together.** Partnering with companies that offer complimentary products to your own is an effective way to share the responsibility of building the market. Not only can advertising expenses be split but you can also introduce consumer incentives that encourage crossover purchasing from customers who otherwise would not have bought from your company. A common strategy is to determine what purchases your customers are currently making at other establishments that are closely associated with their purchases at your business. For instance, if you own a coffee shop and your customers are regularly walking in with pastry purchases from a local bakery, a partnership with the bakery could be a logical fit. The key is to take advantage of the existing behavior of your customers rather than try to change it.

**Communicate with customers.** When times are lean, your existing customers are your lifeblood, so keeping them happy becomes increasingly important. If your marketing budget will not allow for extravagant advertising, shift your focus to working closely with your current customers. Often you will find that your customers are more than willing to share their perspective on your business, which could lead to easy and cheap modifications that will build loyalty. By keeping track of prospective customers, you will be in a better position to follow-up with them when times are slow. For instance, if your business involves providing quotes to potential customers, make note of those who chose not to make a purchase. When speaking with them, you will get insight about why they went elsewhere, and your efforts might convince them to rethink doing business with you.

**Remain flexible.** When the economy slackens, consumers become more conservative with their purchases and are more inclined to base their shopping on price alone. The problem with cutting prices during an economic downturn is that consumers will expect them to remain low when the economy improves. One way to avoid having to resort to cost-cutting measures is by offering more for the same price. For instance, extending your business's hours to better accommodate your customers' schedules or offering free in-home estimates for service-related businesses are both quick measures to take that could help set your business apart from the competition.

**Build networks.** As an entrepreneur, the ability to network is an important skill, especially when your business begins to wane. One important forum for many new ventures is the local chamber of commerce. By interacting with local businesses, entrepreneurs can keep close tabs on what the local economic trends are as well as gain access to potential commercial customers. In addition, working with other businesses can help you locate resources in your community, such as local talent and sources of funding; moreover, having a group of fellow entrepreneurs can be useful for vetting ideas as well as for moral support.

This list is not meant to be exhaustive. The underlying theme is that entrepreneurs need to maintain the versatility that they had when first starting their businesses. Developing a strategy is important for entrepreneurs to effectively manage their

*Continued*

business, and formally documenting that strategy is important for ensuring the continuity of their business; however, entrepreneurs who depend solely on their business plan to direct their business decisions run the risk of locking themselves into a strategy that could quickly become obsolete due to a shift in the environment. Planning is crucial for your business, but knowing when to change your plan is equally important.

*Source:* Adapted from Rich Sloan, "Bad Economy? Time to Get Aggressive," *Fortune Small Business*, March 3, 2008, http://money.cnn.com/2008/03/03/smbusiness/startup_nation.fsb/index.htm (accessed May 12, 2012).

## Milestone Schedule Segment

The **milestone schedule segment** provides investors with a timetable for the various activities to be accomplished. It is important to show that realistic time frames have been planned and that the interrelationship of events within these time boundaries is understood. Milestone scheduling is a step-by-step approach to illustrating accomplishments in a piecemeal fashion. These milestones can be established within any appropriate time frame, such as quarterly, monthly, or weekly. It is important, however, to coordinate the time frame not only with such early activities as product design and development, sales projections, establishment of the management team, production and operations scheduling, and market planning but with other activities as well:

- Incorporation of the venture
- Completion of design and development
- Completion of prototypes
- Hiring of sales representatives
- Product display at trade shows
- Signing up distributors and dealers
- Ordering production quantities of materials
- Receipt of first orders
- First sales and first deliveries (dates of maximum interest because they relate directly to the venture's credibility and need for capital)
- Payment of first accounts receivable (cash in)

These items are the types of activities that should be included in the milestone schedule segment. The more detailed the schedule, the more likely the entrepreneur will persuade potential investors that he or she has thought things out and is therefore a good risk.

## Appendix and/or Bibliography Segment

The final segment is not mandatory, but it allows for additional documentation that is not appropriate in the main parts of the plan. Diagrams, blueprints, financial data, vitae of management team members, and any bibliographical information that supports the other segments of the plan are examples of material that can be included. It is up to the entrepreneur to decide which, if any, items to put into this segment. However, the material should be limited to relevant and supporting information.

Table 12.3 provides an important recap of the major segments of a business plan, using helpful hints as practical reminders for entrepreneurs. By reviewing this, entrepreneurs can gain a macro view of the planning process. Table 12.4 is a personal checklist that gives entrepreneurs the opportunity to evaluate their business plan for each segment. The step-by-step evaluation is based on coverage of the particular segment, clarity of its presentation, and completeness. While it is understood that business plans will vary in the titles and headings that are used (see Appendix 12A), it is still valuable to assess each of the complete segments to see if and how they are presented in the final business plan.

**Table 12.3 Helpful Hints for Developing the Business Plan**

I. Executive Summary

- No more than three pages. This is the most crucial part of your plan because you must capture the reader's interest.
- What, how, why, where, and so on must be summarized.
- Complete this part after you have a finished business plan.

II. Business Description Segment

- The name of your business.
- A background of the industry with history of your company (if any) should be covered here.
- The potential of the new venture should be described clearly.
- Any uniqueness or distinctive features of this venture should be described clearly.

III. Marketing Segment

- Convince investors that sales projections and competition can be met.
- Use and disclose market studies.
- Identify target market, market position, and market share.
- Evaluate all competition and specifically cover why and how you will be better than your competitors.
- Identify all market sources and assistance used for this segment.
- Demonstrate pricing strategy. Your price must penetrate and maintain a market share to produce profits; thus, the lowest price is not necessarily the best price.
- Identify your advertising plans with cost estimates to validate proposed strategy.

IV. Operations Segment

- Describe the advantages of your location (zoning, tax laws, wage rates). List the production needs in terms of facilities (plant, storage, office space) and equipment (machinery, furnishings, supplies).
- Describe the specific operations of the venture.
- Indicate proximity to your suppliers.
- Mention the need and use of personnel in the operation.
- Provide estimates of operation costs—but be careful: Too many entrepreneurs underestimate their costs.

V. Management Segment

- Supply résumés of all key people in the management of your venture.
- Carefully describe the legal structure of your venture (sole proprietorship, partnership, or corporation).
- Cover the added assistance (if any) of advisors, consultants, and directors.
- Give information on how and how much everyone is to be compensated.

VI. Financial Segment

- Give actual estimated statements.
- Describe the needed sources for your funds and the uses you intend for the money.
- Develop and present a budget.
- Create stages of financing for purposes of allowing evaluation by investors at various points.

*Continued*

**Table 12.3 Helpful Hints for Developing the Business Plan** *(Continued)*

**VII. Critical-Risks Segment**

- Discuss potential risks before investors point them out—for example:
  - *Price cutting by competitors*
  - *Any potentially unfavorable industry-wide trends*
  - *Design or manufacturing costs in excess of estimates*
  - *Sales projections not achieved*
  - *Product development schedule not met*
  - *Difficulties or long lead times encountered in the procurement of parts or raw materials*
  - *Greater than expected innovation and development costs to stay competitive*
  - *Provide some alternative courses of action.*

**VIII. Harvest Strategy Segment**

- Outline a plan for a liquidity event—IPO or sale.
- Describe the plan for transition of leadership.
- Mention the preparations (insurance, trusts, and so on) needed for continuity of the business.

**IX. Milestone Schedule Segment**

- Develop a timetable or chart to demonstrate when each phase of the venture is to be completed. This shows the relationship of events and provides a deadline for accomplishment.

**X. Appendix or Bibliography**

*Source:* Donald F. Kuratko, *The Complete Entrepreneurial Planning Guide* (Bloomington: Kelley School of Business, Indiana University, 2013).

**Table 12.4 Business Plan Assessment: A Complete Evaluation Tool**

**The Components**

Presented here are ten components of a business plan. As you develop your business plan, you should assess each component. Be honest in your assessment, because the main purpose is to improve your business plan and increase your chances of success. For instance, if your goal is to obtain external financing, you will be asked to submit a complete business plan for your venture. The business plan will help a funding source to more adequately evaluate your business idea.

**Assessment**

**Directions:** The brief description of each component will help you write that section of your plan. After completing your plan, use the scale provided to assess each component.

| 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|
| **Outstanding** | **Very Good** | **Good** | **Fair** | **Poor** |
| thorough and complete in all areas | most areas covered but could use improvement in detail | some areas covered in detail but other areas missing | a few areas covered but very little detail | no written parts |

**Table 12.4 Business Plan Assessment: A Complete Evaluation Tool** *(Continued)*

**The Ten Components of a Business Plan**

1. **Executive Summary.** This is the most important section because it has to convince the reader that the business will succeed. In no more than three pages, you should summarize the highlights of the rest of the plan. This means that the key elements of the following components should be mentioned.

   The executive summary must be able to stand on its own. It is not simply an introduction to the rest of the business plan but rather discusses who will purchase your product or service, what makes your business unique, and how you plan to grow in the future. Because this section summarizes the plan, it is often best to write it last.

Rate this component:

| 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|
| Outstanding | Very Good | Good | Fair | Poor |

2. **Description of the Business.** This section should provide background information about your industry, a history of your company, a general description of your product or service, and your specific mission that you are trying to achieve. Your product or service should be described in terms of its unique qualities and value to the customer. Specific short-term and long-term objectives must be defined. You should clearly state what sales, market share, and profitability objectives you want your business to achieve.

| Key Elements | Have you covered this in the plan? | Is the answer clear? (yes or no) | Is the answer complete? (yes or no) |
|---|---|---|---|
| a. What type of business will you have? | | | |
| b. What products or services will you sell? | | | |
| c. Why does it promise to be successful? | | | |
| d. What is the growth potential? | | | |
| e. How is it unique? | | | |

Rate this component:

| 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|
| Outstanding | Very Good | Good | Fair | Poor |

3. **Marketing.** There are two major parts to the marketing section. The first part is research and analysis. Here, you should explain who buys the product or service—in other words, identify your target market. Measure your market size and trends, and estimate the market share you expect. Be sure to include support for your sales projections. For example, if your figures are based on published marketing research data, be sure to cite the source. Do your best to make realistic and credible projections. Describe your competitors in considerable detail, identifying their strengths and weaknesses. Finally, explain how you will be better than your competitors.

   The second part is your marketing plan. This critical section should include your market strategy, sales and distribution, pricing, advertising, promotion, and public awareness efforts. Demonstrate how your pricing strategy will result in a profit. Identify your advertising plans, and include cost estimates to validate your proposed strategy.

*Continued*

**Table 12.4 Business Plan Assessment: A Complete Evaluation Tool** *(Continued)*

| Key Elements | Have you covered this in the plan? | Is the answer clear? (yes or no) | Is the answer complete? (yes or no) |
|---|---|---|---|
| a. Who will be your customers? (*target market*) | | | |
| b. How big is the market? (*number of customers*) | | | |
| c. Who will be your competitors? | | | |
| d. How are their businesses prospering? | | | |
| e. How will you promote sales? | | | |
| f. What market share will you want? | | | |
| g. Do you have a pricing strategy? | | | |
| h. What advertising and promotional strategy will you use? | | | |

Rate this component:

| 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|
| Outstanding | Very Good | Good | Fair | Poor |

4. **Operations.** In this segment, you describe the actual operations and outline their advantages. Specific operational procedures, proximity to supplies, and personnel needs and uses should all be considered in this section.

| Key Elements | Have you covered this in the plan? | Is the answer clear? (yes or no) | Is the answer complete? (yes or no) |
|---|---|---|---|
| a. Have you identified a specific location? | | | |
| b. Have you outlined the advantages of this location? | | | |
| c. Any specific operational procedures to be considered? | | | |
| d. What personnel needs are there? | | | |
| e. Will your suppliers be accessible? | | | |

Rate this component:

| 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|
| Outstanding | Very Good | Good | Fair | Poor |

**Table 12.4 Business Plan Assessment: A Complete Evaluation Tool** *(Continued)*

5. **Management.** Start by describing the management team, their unique qualifications, and your plans to compensate them (including salaries, employment agreements, stock purchase plans, levels of ownership, and other considerations). Discuss how your organization is structured; consider including a diagram illustrating who reports to whom. Also include a discussion of the potential contribution of the board of directors, advisors, or consultants. Finally, carefully describe the legal structure of your venture (sole proprietorship, partnership, or corporation).

| Key Elements | Have you covered this in the plan? | Is the answer clear? (yes or no) | Is the answer complete? (yes or no) |
|---|---|---|---|
| a. Who will manage the business? | | | |
| b. What qualifications do you have? | | | |
| c. How many employees will you have? | | | |
| d. What will they do? | | | |
| e. How much will you pay your employees and what type of benefits will you offer them? | | | |
| f. What consultants or specialists will you use? | | | |
| g. What legal form of ownership will you have? | | | |
| h. What regulations will affect your business? | | | |

Rate this component:

| 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|
| Outstanding | Very Good | Good | Fair | Poor |

6. **Financial.** Three key financial statements must be presented: a balance sheet, an income statement, and a cash-flow statement. These statements typically cover a one-year period. Be sure you state any assumptions and projections made when calculating the figures.

   Determine the stages at which your business will require external financing and identify the expected financing sources (both debt and equity sources). Also, clearly show what return on investment these sources will achieve by investing in your business. The final item to include is a break-even analysis. This analysis should show what level of sales will be required to cover all costs.

   If the work is done well, the financial statements should represent the actual financial achievements expected from your business plan. They also provide a standard by which to measure the actual results of operating your business. They are a very valuable tool to help you manage and control your business.

| Key Elements | Have you covered this in the plan? | Is the answer clear? (yes or no) | Is the answer complete? (yes or no) |
|---|---|---|---|
| a. What is your total expected business income for the first year? Quarterly for the next two years? (*forecast*) | | | |
| b. What is your expected monthly cash flow during the first year? | | | |
| c. Have you included a method of paying yourself? | | | |

*Continued*

**Table 12.4 Business Plan Assessment: A Complete Evaluation Tool** *(Continued)*

| Key Elements | Have you covered this in the plan? | Is the answer clear? (yes or no) | Is the answer complete? (yes or no) |
|---|---|---|---|
| d. What sales volume will you need to make a profit during the three years? | | | |
| e. What will be the break-even point? | | | |
| f. What are your projected assets, liabilities, and net worth? | | | |
| g. What are your total financial needs? | | | |
| h. What are your funding sources? | | | |

Rate this component:

| 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|
| Outstanding | Very Good | Good | Fair | Poor |

7. **Critical Risks.** Discuss potential risks before they happen. Examples include: price-cutting by competitors, potentially unfavorable industry-wide trends, design or manufacturing costs that could exceed estimates, and sales projections that are not achieved. The idea is to recognize risks and identify alternative courses of action. Your main objective is to show that you can anticipate and control (to a reasonable degree) your risks.

| Key Elements | Have you covered this in the plan? | Is the answer clear? (yes or no) | Is the answer complete? (yes or no) |
|---|---|---|---|
| a. What potential problems have you identified? | | | |
| b. Have you calculated the risks? | | | |
| c. What alternative courses of action exist? | | | |

Rate this component:

| 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|
| Outstanding | Very Good | Good | Fair | Poor |

8. **Harvest Strategy.** Establishing an exit out of a venture is hard work. A founder's protective feelings for an idea built from scratch make it tough to grapple with issues such as management succession and harvest strategies. With foresight, however, an entrepreneur can either keep the dream alive and ensure the security of his or her venture or establish a plan for a liquidity event such as an IPO or the sale of the venture. Thus, a written plan for succession of your business is essential.

| Key Elements | Have you covered this in the plan? | Is the answer clear? (yes or no) | Is the answer complete? (yes or no) |
|---|---|---|---|
| a. Have you planned for the orderly transfer of the venture assets if a liquidity event is established such as an IPO or a sale? | | | |

**Table 12.4 Business Plan Assessment: A Complete Evaluation Tool** *(Continued)*

| Key Elements | Have you covered this in the plan? | Is the answer clear? (yes or no) | Is the answer complete? (yes or no) |
|---|---|---|---|
| b. Is there a continuity of business strategy for an orderly transition if the venture is not looking for an exit? | | | |

Rate this component: 5 Outstanding — 4 Very Good — 3 Good — 2 Fair — 1 Poor

9. **Milestone Schedule.** This section is an important segment of the business plan because it requires you to determine what tasks you need to accomplish to achieve your objectives. Milestones and deadlines should be established and monitored on an ongoing basis. Each milestone is related to all others, and together all of them provide a timely representation of how your objective is to be accomplished.

| Key Elements | Have you covered this in the plan? | Is the answer clear? (yes or no) | Is the answer complete? (yes or no) |
|---|---|---|---|
| a. How have you set your objectives? | | | |
| b. Have you set deadlines for each stage of your growth? | | | |

Rate this component: 5 Outstanding — 4 Very Good — 3 Good — 2 Fair — 1 Poor

10. **Appendix.** This section includes important background information that was not included in the other sections. It is where you would put such items as résumés of the management team, names of references and advisors, drawings, documents, licenses, agreements, and any materials that support the plan. You may also wish to add a bibliography of the sources from which you drew information.

| Key Elements | Have you covered this in the plan? | Is the answer clear? (yes or no) | Is the answer complete? (yes or no) |
|---|---|---|---|
| a. Have you included any documents, drawings, agreements, or other materials needed to support the plan? | | | |
| b. Are there any names of references, advisors, or technical sources you should include? | | | |
| c. Are there any other supporting documents? | | | |

Rate this component: 5 Outstanding — 4 Very Good — 3 Good — 2 Fair — 1 Poor

*Continued*

**Table 12.4 Business Plan Assessment: A Complete Evaluation Tool** *(Continued)*

**Summary: Your Plan**

**Directions:** For each of the business plan sections that you assessed earlier, circle the assigned points on this review sheet and then total the circled points.

| **Components** | | | **Points** | | |
|---|---|---|---|---|---|
| 1. Executive summary | 5 | 4 | 3 | 2 | 1 |
| 2. Description of the business | 5 | 4 | 3 | 2 | 1 |
| 3. Marketing | 5 | 4 | 3 | 2 | 1 |
| 4. Operations | 5 | 4 | 3 | 2 | 1 |
| 5. Management | 5 | 4 | 3 | 2 | 1 |
| 6. Financial | 5 | 4 | 3 | 2 | 1 |
| 7. Critical risks | 5 | 4 | 3 | 2 | 1 |
| 8. Harvest strategy | 5 | 4 | 3 | 2 | 1 |
| 9. Milestone schedule | 5 | 4 | 3 | 2 | 1 |
| 10. Appendix | 5 | 4 | 3 | 2 | 1 |

Total Points: ______________________

*Scoring:*

50 pts. — **Outstanding!** The ideal business plan. Solid!

45–49 pts. — **Very Good.**

40–44 pts. — **Good.** The plan is sound, with a few areas that need to be polished.

35–39 pts. — **Above Average.** The plan has some good areas but needs improvement before presentation.

30–34 pts. — **Average.** Some areas are covered in detail, yet other areas show weakness.

20–29 pts. — **Below Average.** Most areas need greater detail and improvement.

Below 20 pts. — **Poor.** Plan needs to be researched and documented much better.

*Source:* Donald F. Kuratko, *The Complete Entrepreneurial Planning Guide* (Bloomington: Kelley School of Business, Indiana University, 2013).

## Updating the Business Plan

The business plan should serve as a planning tool to help guide the start-up and execution of a new venture. Once the venture is started, the business plan is still a vital tool for planning continued growth and/or profitability. There are several reasons to update the business plan, including:

- **Financial Changes.** Update your plan on at least a yearly basis to project financials and plan for fiscal needs.

- **Additional Financing.** If continued capital is needed, an updated business plan needs to reflect the current numbers and not the ones projected before the venture was started.
- **Changes in the Market.** Changes in the customer base and competition should be tracked and strategized with regard to how they might affect your venture.
- **Launch of a New Product or Service.** Updating the business plan is an essential method to assess the feasibility of any proposed new product or service and determine its viability.
- **New Management Team.** Any new members of the management team should develop their own plan to initiate strategies for growth.
- **Reflect the New Reality.** Business plans are written based on estimated numbers and projections that may not be accurate after the venture has started. Business plans should be updated to reflect the new reality that the entrepreneur experiences.[15]

## A Practical Example of a Business Plan

As we have stressed in this chapter, every new venture should have a business plan; however, many entrepreneurs have no idea about the details required for a complete business plan. An example of an actual business plan prepared for potential and business plan funding competitions is included in Appendix 12A at the end of this chapter. The plan—entitled "Hydraulic Wind Power"—was prepared for actual financial support and also was presented at five national business plan competitions. Specific parts of a business plan discussed earlier in the chapter are illustrated in this detailed example. By carefully reviewing this business plan, you will gain a much better perspective of the final appearance that an entrepreneur's plan must have.

# Presentation of the Business Plan: The "Pitch"

Once a business plan is prepared, the next major challenge is presenting the plan to either a single financial person or, in some parts of the country, a forum at which numerous financial investors have gathered.[16] The oral presentation—commonly known as an "**elevator pitch**" (because of the analogy of riding an elevator and having only two minutes to get your story told to another person in the elevator)—provides the chance to sell the business plan to potential investors.

The presentation should be organized, well prepared, interesting, and flexible. Entrepreneurs should develop an outline of the significant highlights that will capture the audience's interest. Although the outline should be followed, they also must feel free to add or remove certain bits of information as the presentation progresses—a memorized presentation lacks excitement, energy, and interest.

An entrepreneur should use the following steps to prepare an oral presentation:

- Know the outline thoroughly.
- Use keywords in the outline that help recall examples, visual aids, or other details.
- Rehearse the presentation to get a feel for its length.
- Be familiar with any equipment to be used in the presentation—use your own laptop.
- The day before, practice the complete presentation by moving through each slide.

## Suggestions for Presentation

Entrepreneurs are naturally anxious to tell (and sell) their story. However, most venture capitalists agree that the content should be focused and the delivery should be sharp. In the content of the presentation, it is important to be brief and to the point, to summarize the critical factor or unique "hook" of your venture up front, and to use no more than 12–15 PowerPoint slides. Following are some key suggestions about the actual delivery of the pitch to prospective investors:

- Focus on the "**pain**" for which your venture will be the solution. Investors want to know exactly what problem is being solved by your venture. Pinpoint the target of your solution.

- Demonstrate the **reachable market**. Instead of a dramatic *potential market*, outline the immediate reachable group of customers that will be targeted.
- Explain the **business model**. How this venture is designed to make money is critical to investors. Demonstrating a clear method of getting to the market for sales will indicate a successful beginning to the new venture.
- Tout the **management team**. Every investor wants to know the skills and ability of the venture's team to deliver and operationalize the concept. Emphasize the experienced people on your team as well as any technical advisors who are on board.
- Explain your **metrics**. Rather than using generic assumptions such as the famous "1% rule" (when someone claims that he or she will simply get 1% of a huge market with no research to back the claim up), highlight the metrics that were used to calculate any revenue projections.
- *Motivate* the audience. The entire purpose of a venture pitch is to move the audience to the next step: another meeting to discuss everything in detail. Therefore, you must remember that enthusiasm is hugely important. The investors must believe that you are excited before they can be excited.
- Why *you* and why *now*? The final point must answer the daunting questions in the minds of the investors: Why are you the right venture, and why is this the right time for it to be launched? Be confident in yourself and your team. Always demonstrate a timeline to show the speed with which your venture plans to capture a significant market.[17]

## What to Expect

Entrepreneurs should realize that the audience reviewing their business plan and listening to their pitch is usually cynical and sometimes antagonistic. Venture capital sources often pressure entrepreneurs to test their venture as well as their mettle. Thus, entrepreneurs must expect and prepare for a critical (and sometimes skeptical) audience of financial sources. When you make your pitch and submit your business plan, the venture capitalist will listen and then glance at the plan briefly before beginning any initial comments. No matter how good you think your venture plan is, an investor is not going to look at it and say, "This is the greatest business plan I've ever seen!" Do not expect enthusiastic acceptance or even

**Table 12.5 What to Do When a Venture Capitalist Turns You Down: Ten Questions**

1. *Confirm the decision:* "That means you do not wish to participate at this time?"
2. *Sell for the future:* "Can we count you in for a second round of financing, after we've completed the first?"
3. *Find out why you were rejected:* "Why do you choose not to participate in this deal?" (Timing? Fit? All filled up?)
4. *Ask for advice:* "If you were in my position, how would you proceed?"
5. *Ask for suggestions:* "Can you suggest a source who invests in this kind of deal?"
6. *Get the name:* "Whom should I speak to when I'm there?"
7. *Find out why:* "Why do you suggest this firm, and why do you think this is the best person to speak to there?"
8. *Work on an introduction:* "Who would be the best person to introduce me?"
9. *Develop a reasonable excuse:* "Can I tell him that your decision to turn us down was based on ______________________________?"
10. *Know your referral:* "What will you tell him when he calls?"

*Source:* Joseph R. Mancuso, *How to Write a Winning Business Plan* (Englewood Cliffs, NJ: Prentice Hall, 1985), 37. Reprinted with the permission of Simon & Schuster Adult Publishing Group. Copyright © 1985 by Prentice Hall, Inc.

polite praise. It's highly likely that the remarks will be critical, and even if they aren't, they'll seem that way. Don't panic. Even if it seems like an avalanche of objections, bear in mind that some of the best venture capital deals of all time faced the same opposition. Never expect results in 20 minutes. Each pitch will be a learning experience that will build your confidence for the next one.

Entrepreneurs must be prepared to handle questions from the evaluators and to learn from their criticism. They should never feel defeated but rather should make a commitment to improving the business plan for future review. Table 12.5 outlines some of the key questions that an entrepreneur might ask when his or her business plan is turned down. Entrepreneurs should use the answers to these questions to revise, rework, and improve their business plan. Remember that you are starting out on a journey more similar to a marathon than a sprint. The goal is not so much to succeed the *first* time as it is to *succeed*.[18]

## *the* global perspective

### Getting Ahead of the Curve

The best method, albeit a difficult one, for being at the forefront of a burgeoning market is to be well positioned before the market develops. Sometimes the opportunities seem to find the entrepreneurs, but having the foresight to understand where the market is headed positions some entrepreneurs ahead of the rest. In the case of Moukhtar Dzhakishev, a 44-year-old entrepreneur from Moscow, he saw opportunity in the uranium industry when everyone else had given up on it.

Kazatomprom, Dzhakishev's mining group, controls the world's largest uranium deposit outside of Australia, which is located in Kazakhstan. He took control of the country's mining industry when the Soviets abandoned it in 1991. They left behind 600 million tons of nuclear waste, along with one of the largest uranium deposits in the world. Until Dzhakishev's arrival, Kazakhstan's mines were largely forgotten. Nuclear power had fallen out of favor after the incidents at Chernobyl and Three Mile Island, which led to the cost of mining uranium far outweighing its market price.

When Dzhakishev first reopened the mines, he could book only 3 percent of his production. He initially was forced to accept whatever terms he could get, which involved allowing the Russians to barter for their uranium with butter. Less than ten years later, Kazatomprom posted profits of $500 million. Whereas most countries that are rich in resources but lack infrastructure are forced to compromise with more developed countries, Dzhakishev has managed to build joint ventures in which his company owns approximately half of the enterprise. He provides the uranium, and his partners provide the management skill and processing technology.

The rebirth of Kazakhstan's uranium mining industry can be attributed to the shift in the perception of nuclear energy. Carbon fuels are now cited as the leading cause of global warming, which has led nuclear power to be seen as a cleaner, more efficient form of energy rather than a toxic mistake. With mounting pressure on world powers to eliminate the widespread use of coal and other carbon fuels, a nuclear renaissance has begun. Thirty-four reactors are under construction and 280 have been proposed, which leads to the next obvious question: Where will countries find the uranium needed to power the influx of new plants? Dzhakishev has the answer.

As with any opportunity that arises, luck will invariably play a part; however, those entrepreneurs savvy enough to be in the right place when the market shifts in their favor will stand the best chance of reaping the rewards.

Adapted from Abrahm Lustgarten, "Nuclear Power's White-Hot Metal," *Fortune*, March 27, 2008, http://money.cnn.com/2008/03/26/news/international/uranium_kazakhstan.fortune/index.htm (accessed May 12, 2012).

## Summary

This chapter provided a thorough definition and examination of an effective business plan. The critical factors in planning and the pitfalls to be avoided were discussed. Indicators of these pitfalls and ways to avoid them also were presented.

Next, the benefits for both entrepreneurs and financial sources were reviewed. Developing a well-conceived plan was presented from the point of view of the audience for whom the plan is written. The typical six-step reading process of a business plan was presented to help entrepreneurs better understand how to put the business plan together. Ten guidelines in developing a business plan were provided, collated from the advice of experts in venture capital and new-business development.

The next section illustrated some of the major questions that must be answered in a complete and thorough business plan. The business plan was outlined, and every major segment was addressed and explained.

The chapter then presented some helpful hints for preparing a business plan, along with a self-analysis checklist for doing a careful critique of the plan before it is presented to investors.

Finally, the chapter closed with a review of how to present a business plan to an audience of venture capital sources. Some basic presentation tips were listed, together with a discussion of what to expect from the plan evaluators.

## Key Terms and Concepts

business model
business plan
elevator pitch
five-minute reading
management team
market niche
marketing segment
marketing strategy
metrics
milestone schedule segment
pain
reachable market

## Review and Discussion Questions

1. What is a business plan?
2. Describe each of the five planning pitfalls entrepreneurs often encounter.
3. Identify an indicator of each pitfall named in question 2. What would you do about each?
4. Identify the benefits of a business plan (a) for an entrepreneur and (b) for financial sources.
5. What are the three major viewpoints to be considered when developing a business plan?
6. Describe the six-step process venture capitalists follow when reading a business plan.
7. What are some components to consider in the proper packaging of a plan?
8. Identify five of the ten guidelines to be used for preparing a business plan.
9. Briefly describe each of the major segments to be covered in a business plan.
10. Why is the summary segment of a business plan written last? Why not first?
11. What are five elements included in the marketing segment of a business plan?
12. What is the meaning of the term *critical risks*?
13. Describe each of the three financial statements that are mandatory for the financial segment of a business plan.
14. Why should a business plan be updated?
15. Outline some of the critical points to capture in an elevator pitch.

## Experiential Exercise

### PUTTING TOGETHER A BUSINESS PLAN

The ten major segments of a business plan are listed in the following left column. Identify the order in which each segment will appear in the plan by placing a *1* next to the first part, a *2* next to the second part, and so on (through *10*).

Then match each of the 20 items or descriptions on the right with the segment in which it would appear. For example, if an item would appear in the first segment, put a *1* next to this description. Two items or descriptions are listed for each segment of the report.

Answers are provided at the end of the exercise.

**Segments of the Report**

_______ 1. Financial segment
_______ 2. Marketing segment
_______ 3. Management segment
_______ 4. Summary
_______ 5. Operations segment
_______ 6. Business description segment
_______ 7. Critical-risks segment
_______ 8. Appendix
_______ 9. Harvest strategy segment
_______ 10. Milestone schedule segment

**Contents of the Segments**

_______ a. Describes the potential of the new venture
_______ b. Discusses the advantages of location
_______ c. Discusses price-cutting by the competition
_______ d. Provides strategy for an initial public offering
_______ e. Most crucial part of the plan
_______ f. Describes any prototypes developed
_______ g. Analyzes case if any sales projections are not attained
_______ h. Shows the relationship between events and deadlines for accomplishment
_______ i. Provides résumés of all key personnel
_______ j. Contains support material such as blueprints and diagrams
_______ k. Discusses pricing strategy
_______ l. Should be written after the business plan is completed
_______ m. Provides a budget
_______ n. Explains proximity to suppliers
_______ o. Sets forth timetables for completion of major phases of the venture
_______ p. Provides industry background
_______ q. Explains costs involved in testing
_______ r. Identifies target markets
_______ s. Describes legal structure of the venture
_______ t. Provides balance sheet and income statement

Answers: 1. 6, 2. 3, 3. 5, 4. 1, 5. 4, 6. 2, 7. 7, 8. 10, 9. 8, 10. 9. a. 2, b. 4, c. 7, d. 8, e. 1, f. 2, g. 7, h. 9, i. 5, j. 10, k. 3, l. 1, m. 6, n. 4, o. 9, p. 2, q. 4, r. 3, s. 5, t. 6

## Taking Steps to Build a Business Plan

### CRAFTING THE FINAL PLAN

It's now time to review the details of all previous steps taken in building the plan for your business, ensuring that your business plan describes the current status of your venture both in terms of expected needs and projected results. The final version of your plan should be a clear demonstration of what your venture is, where it is projected to go, and how you propose to get there. Representing, as it does, your entrée into investment process, it should encapsulate the strategic aims of your project in a comprehensive document that outside investors can read and understand.

Depending on the preferences of instructor, you may be asked to self-assess your work or evaluate sections of your plan in teams, using the assessment framework (Table 12.4) provided in the chapter. After a complete evaluation, you may be asked to revisit your plan's executive summary, marketing operations, financial projections, project milestones, or other pieces of your plan to polish off any sections that remain in draft form or that were identified as possible weaknesses.

Business planning tools, such as LivePlan, make it easy to update your work and track actual performance against expected results once your business is operational. Regardless of the format and tools used to develop your plan, take care to save your final version and return to it often. The future of your business depends on it.

## Notes

1. See Jeffrey A. Timmons, Andrew Zacharakis, and Stephen Spinelli, *Business Plans That Work* (New York: McGraw-Hill, 2004); Jan Brinckmann, Dietmar Grichnik, and Diana Kapsa, "Should Entrepreneurs Plan or Just Storm the Castle? A Meta-Analysis on Contextual Factors Impacting the Business Planning–Performance Relationship in Small Firms," *Journal of Business Venturing* 25, no. 1 (2010): 24–40; and Anne Chwolka, and Matthias G. Raith, "The Value of Business Planning Before Start-up—A Decision-Theoretical Perspective," *Journal of Business Venturing* 27, no. 3 (2012): 385–99.
2. James W. Henderson, *Obtaining Venture Financing* (Lexington, MA: Lexington Books, 1988), 13–14; see also Stephen C. Perry, "The Relationship Between Written Business Plans and the Failure of Small Businesses in the U.S.," *Journal of Small Business Management* 39, no. 3 (2001): 201–8; Gavin Cassar, "Are Individuals Entering Self-Employment Overly Optimistic? An Empirical Test of Plans and Projections on Nascent Entrepreneur Expectations," *Strategic Management Journal* 31, no. 8 (2010): 822–40; and Gerard George and Adam J. Bock, "The Business Model in Practice and its Implications for Entrepreneurship Research," *Entrepreneurship Theory & Practice*, 35, no. 1 (2011): 83–111.
3. Joseph R. Mancuso, *How to Write a Winning Business Plan* (Englewood Cliffs, NJ: Prentice Hall, 1985), 44.
4. See Donald F. Kuratko, "Demystifying the Business Plan Process: An Introductory Guide," *Small Business Forum* (Winter 1990/1991): 33–40.
5. Adapted from Henderson, *Obtaining Venture Financing*, 14–15; and Mancuso, *How to Write*, 43.
6. Henderson, *Obtaining Venture Financing*, 15.
7. Stanley R. Rich and David E. Gumpert, "How to Write a Winning Business Plan," *Harvard Business Review* (May/June 1985): 156–66; see also Colin Mason and Matthew Stark, "What Do Investors Look for in a Business Plan?" *International Small Business Journal* 22, no. 3 (2004): 227–48.
8. Gerald E. Hills, "Market Analysis in the Business Plan: Venture Capitalists' Perceptions," *Journal of Small Business Management* (January 1985): 38–46; see also Gerald E. Hills, Claes M. Hultman, and Morgan P. Miles, "The Evolution and Development of Entrepreneurial Marketing," *Journal of Small Business Management* 46, no. 1 (2008): 99–112.
9. Rich and Gumpert, "How to Write," 159.
10. Mancuso, *How to Write*, 52; see also Bruce R. Barringer, *Preparing Effective Business Plans: An Entrepreneurial Approach* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2009).
11. Mancuso, *How to Write*, 65.
12. These guidelines are adapted from Jeffrey A. Timmons, "A Business Plan Is More Than a Financing Device," *Harvard Business Review* (March/April 1980): 25–35; W. Keith Schilit, "How to Write a Winning Business Plan," *Business Horizons* (September/October 1987): 13–22; William A. Sahlman, "How to Write a Great Business Plan," *Harvard Business Review* (July/August 1997): 98–108; and Donald F. Kuratko, *The Complete Entrepreneurial Planning Guide* (Bloomington: Kelley School of Business, Indiana University, 2013).
13. Donald F. Kuratko and Jeffrey S. Hornsby, *New Venture Management: The Entrepreneur's Roadmap* (Upper Saddle River, NJ: Pearson/Prentice Hall, 2009).

14. See Donald F. Kuratko, "Cutting Through the Business Plan Jungle," *Executive Female* (July/August 1993): 17–27; Andrew Burke, Stuart Fraser, and Francis J. Greene, "The Multiple Effects of Business Planning on New Venture Performance," *Journal of Management Studies* 47, no. 3 (2010): 391–415; and Kuratko, *Complete Entrepreneurial Planning Guide.*

15. Kuratko and Hornsby, *New Venture Management.*

16. For example, the Massachusetts Institute of Technology sponsors a business plan forum in Boston, and Plug and Play Tech Center in Silicon Valley provides numerous forums where new ideas are "pitched."

17. For more on venture "pitch" presentations, see Barringer, *Preparing Effective Business Plans*; and Andrew J. Sherman, *Start Fast and Start Right* (New York: Kaplan Publishing, 2007).

18. For excellent resources on business plan preparation and presentations, see Garage Technology Ventures at http://www.garage.com/resources.