# Chapter 5 The Business Plan

*Entrepreneurial Finance: Fundamentals of Financial Planning and Management for Small Business,* First Edition. M. J. Alhabeeb.



## 5.1 What is a Business Plan?

Research has shown that entrepreneurs who put some effort into preparing a sensible business plan are most likely to succeed in the subsequent business stages such as acquiring patents, securing capital, assembling the right team, launching their business, and actually achieving a measure of success. The comparison is made to those entrepreneurs who do not care much about preparing and writing a detailed business plan. A recent study by the Small Business Administration (SBA) confirmed the conclusion that the early planners tend to be doers. A **business plan** is a written document that presents a proposed business idea and details the process of turning the idea into a real business project. The details include description of the product and market; production process; management; marketing and sales; projected expenses and earnings; funding; and the way to pay for loans.

## Types of Business Plan

The main purpose of any business plan would determine the nature of its audience. In other words, business plan type would lead to knowing to whom it should be submitted and by whom it should better be judged. Table 5.1 shows the common types of plans as listed against those who would be the best to judge their merits.

It should be noted that these types descend from top down according to importance, risk, and their percentage out of all plans. So, the first is the more critical, riskier, and the one that constitutes the smallest percentage out of all types of plans. These characteristics would change as we go down the list so that the personal financial plan is the least critical and least risky since it is related to only one individual or a family.

Some experts classify business plans based on their range and context, into three types.

## The Startup Business Plan

This is a brief version of a plan the main purpose of which is to propose a business idea, test its feasibility, and check how marketable the concept is among investors and lenders. It is about ten pages in length but has the potential to be expanded to a full plan. The mini format requires the plan to be concentrating on the main objectives, the product, market, and projected sales and profits for only a year.

## Table 5.1 Types of Business Plans and Where They Should be Submitted to

| Order | Type | Submitted to |
|---|---|---|
| 1 | Equity finance plan | Private investment firms, venture capitalists, and angel investors |
| 2 | Debt finance plan | Banks, private and institutional lenders |
| 3 | Corporate financing plan | Corporate executive committee |
| 4 | Business financial planning | Private consultants, peer review |
| 5 | Personal financial planning | Self, financial counselor |

## The Working Business Plan

This is the full version of a plan the ultimate purpose of which is to establish and run a business. It would have a regular length (20–40 pages), presenting a full range of topics with some significant details from the vision of the company to the last appendix, including description of the management team and the projected financials for 3–5 years.

## The Internal Business Plan

This is a specialized plan that is normally written within an established business for the purpose of expansion, launching a new product, or any growth, downsizing, or reorienting project. It could be either for a specific department or relevant to the whole company. Since it is emerging internally, many sections that would normally be included in the regular plan can be skipped. Examples for that are description of the company, its history, management, vision, and general strategies. Also, the financial projection can be limited to serve the specific purpose of the plan.

Clearly, a business plan, especially the working type is not just a formally written document. Its major rationale is to provide a road map for the venture's performance both internally and externally. For the internal purpose, a business plan should articulate all the goals and strategies and spell out the way to achieve them, and in that, it would be a guide and a monitoring tool for the entrepreneurs and managers to perform the best they can. It must also be a living and breathing document that would respond to the realities of the application and adjust accordingly. In that sense, it would also become a tool of accountability. As for the external function, a business plan is supposed to attract and persuade business partners, investors, and financial backers to see the worth of business and raise their enthusiasm and interest into making capital contributions.

## Importance and Rationale

A business plan is needed

1. to articulate the business idea and present it in a convincing way in order to
    a. attract investors and collect funds as well as lure interested business partners and qualified work team.

   b. conform with the related rules and regulations and satisfy the formal requirements, especially those of the SBA and most creditors.

2. to serve as a general guideline during the following two stages.
   a. In the forming and startup stage, where a business plan would help test the feasibility of ideas and practicality of procedures.
   b. In the operation stage, where a business plan would help activate the planning adaptability and examine the project's ability to survive and thrive.

## 5.2 Contents of the Plan

Table 5.2 shows a list of the most common and important components of a business plan. Generally, there is no specific number and order for these components to be included in any business plan, but it would be very useful to know that this list includes most of what any business plan needs to have. However, it should be modified according to the nature of the business, the purpose of the plan, and availability and importance of information. This adjustment can be done by either omitting what is not needed or adding what is more needed or both. Any business plan can be distinguished by the way it is presented verbally and graphically. This element of distinction could play a major role into the acceptance of the plan, if done properly. 67

## Table 5.2 Major Contents of a Business Plan

I. **Title page**

II. **Confidentiality statement**

III. **Table of contents**

1. **Executive summary**
2. **Vision, mission, and elevator pitch**
3. **Business description**
    - a. Background
    - b. Product
    - c. Market
        - i. Consumer
        - ii. Suppliers and service providers
        - iii. Competition
        - iv. Rules and regulations
        - v. Business impact
        - vi. Critical risk
4. **Functional plans**
    - a. Operational plan
    - b. Management plan
    - c. Scheduling and milestone
    - d. Marketing plan
    - e. Financial plan
        - i. Funding
        - ii. Cash flow
        - iii. Capital assets
        - iv. Break even
        - v. Profit and loss
        - vi. Balance sheet
5. **Appendix**

The following is a brief description to each item of the components:

## Title Page

A title page can be either on the external or internal cover or on both. It should include the following information.

- Title of the business project;
- Name, logo, and web address of the company;
- Name, title, address, phone number(s), faxes, email, and other contact information of the owner(s) or any designated contact person with whom all the communication would occur;
- To where the plan is submitted and the related contact information;
- Date of submission.

## Confidentiality Statement

Since a good detailed plan is going to reveal the innovative business idea and expose the entrepreneur's strategy to all who would examine the plan, there may be a certain risk of having the business idea and its execution plan be appropriated by others. Including a confidentiality statement may seem to be a wise attempt to thwart any potential appropriation short of a full legal protection of the existing intellectual property laws if they are not applicable. A confidentiality statement, if chosen, should appear on the page following the title page. Leach and Melicher (2009) suggest the following wording as an example for a confidentiality statement:

*“This business plan contains information that (this firm) considers proprietary. By accepting this business plan, the recipient acknowledges the proprietary nature of this information contained herein, and agrees to keep confidential all such information.”*

## Table of Contents

It is essential for the business plan to contain a table of contents on the page following the confidentiality statement page. It should be comprehensive to all the information contained in the plan, and should be typed and ordered according to the standard way of listing the major sections and subsections, each with the page number on which they appear. It should be done in a way to assure easy access to any part of the text. It is recommended that this page be reviewed and revised as the last check before submitting the plan. The purpose of this last check is to account for all the changes and modifications that may have been done since the time when the table of contents was written as a general guideline to govern the writing process.

## Executive Summary

This is probably the most crucial section of the business plan simply because it is an overview section that is most likely to be read first by everyone who examine the plan. On 2–3 pages, the executive summary should provide brief description of the entire contents of the plan, and should explain the business idea, product, market, operation, management, finances, importance and impact of the business project, all in a clear, abbreviated, and concise way. It could be written either in a synopsis style in concentrated bullet points, or in a narrative style where the several sections address the whole plan and follow the order of its contents. In either way, the writing of the executive summary has to be careful and thoughtful and it should exhibit a sense of suspense. Although it is going to be thorough, it should also be luring the reader and exciting him to read and know more about the business. This aspect of suspense is very important in the cases when the executive summary is being sent alone for initial impression. Having to give enough information about the business and at the same time succeeding to raise the enthusiasm for more would increase the chance of receiving a request to send the entire pan. Although the executive summary comes in the beginning of the plan, it should be written last in order to recap all of the components and present them in a comprehensive and coherent manner.

## Vision, Mission, and Elevator Pitch

A **vision statement** is a very short expression consisting of a few words which summarizes what the company is all about and what it would ultimately want to achieve. The vision statement often spells out the company's ultimate goal in a slogan, tagline, or mantra. Naming this statement a “vision” implies a look into the future and a long-term goal that is better to be inspiring and overreaching to everyone. It would also express the deeply run beliefs, values, and enthusiasm of the entrepreneur and provide motivation and direction for the employees and put them on the determination road to achieve that ultimate goal. One of the mostly cited vision statements is what Bill Gates and Paul Allen declared at the establishing of Microsoft, “A computer with Microsoft software on every desk.” To be able to formulate this goal at a time the concept of personal computers was in its infancy meant that these men were visionaries, especially that their hard work and perseverance ushered a revolutionary era in the world of computers.

A **mission statement** is a simple and direct description of how the working team would translate the company's vision into feasible goals and how to achieve them. So, after knowing where the company is going, the mission statement would spell out how to get there. It implies utilizing the company's philosophy and values to draw the right strategy to learn how to turn the ideas into reality. This would require specifying the company's identity and character, which would allow working in harmony, and communicating effectively among all elements: owners, managers, stockholders, suppliers, consumers, competitors, and community.

# Table 5.3 Breakdown of the Elevator Pitch

| Elevator Pitch | | |
|---|---|---|
| What you describe | Time (seconds) | Words |
| 1 Product and market | 15 | 37 |
| 2 What distinguishes product from others | 15 | 38 |
| 3 Expected sales, revenues, and profits | 10 | 25 |
| 4 Personal qualifications | 7 | 18 |
| 5 Capital needed | 5 | 12 |
| 6 What investors get | 8 | 20 |
| The whole business idea | 60 | 150 |

An **elevator pitch** is a quick but very effective description of the business idea and the ways to achieve it. It is designed carefully to make a strong impact and leave a memorable impression. The name "elevator pitch" came from the assumption that the explanation of the whole business can be told during the time an elevator ride would take. So, for any person who has to prepare an elevator pitch, he or she has to imagine having the opportunity to pitch for a new business to a big investor, with whom an elevator ride may happen to be shared. The little time of the elevator ride would require an ability to deliver the best and fastest description of the proposed business. The concept of the elevator pitch would most effectively work in the verbal presentation of the business plan, where it is supposed to be good enough to parallel the presentation of the executive summary. However, an elevator pitch may not be included in the written business plan, but having it in mind would be a wise idea. Table 5.3 shows that an efficient elevator pitch would tell a great deal in only one minute during which approximately 150 words would be spoken to describe 6 major items, each would take an average of 10 seconds and would be told by an average of 25 words.

## Business Description

This section is where an entrepreneur gets the opportunity to tell everything about the proposed business, clearly and briefly. The objective is to answer all of the major questions that may come in anybody's mind, reader or listener. Basically, this section should be able to answer the typical questions of what, where, when, how, and why. All of these answers may be organized in subsections as follows.

## Background

This is where the story is told in a very brief description. It should answer all the important questions such as:

– Who is (are) the entrepreneur(s), and what is (are) their background(s) and interests?
– What is the main idea and how and when it started?

- How would the project fit into the industry and market trends?
- What is the business type: manufacturing, service, retail, wholesale?
- What is the legal form of business: sole proprietorship, partnership, limited liability company (LLC), or corporation?
- Where would the business be located, its layout and design, the strategic advantages and disadvantages of the location and its impact on consumers, suppliers, and community? Whether to build, buy, lease, or renovate the buildings that would house the business, and the cost and benefits for each option. Also, maps, diagrams, and pictures may be included in the appendix but referred to here in this section.

## Product

This section would present a full description of the product or service the business is intending to introduce to the market. It should focus on what the product has to offer, why it is valuable and what is unique about it, as compared to existing products in the market, and if it is expected to fill any void in the industry. This section may be enhanced with drawings, illustrations, or pictures to show the product and show its unique features or demonstrate the way it works for the plans that are proposing a new product, it would also be essential to talk about the history of the idea, research, development, and design of the project. Cost of development and design, prototypes and testing, and the technical assistance and support obtained, all have to be addressed and detailed too in order to validate the product and give it the attention it should have. In the written format of the business plan, this information may be introduced in this section but is included in the appendix. In the presentation of the plan, the product or its pictures may be shown directly when this section is presented. This information may also include any patents, trademarks, or copyrights.

## Market

In this section, the objective would be to show that the proposed product or service has been well researched in terms of the ability to capture its own market and stand well against the competition. The section should explain how large the market would be, and if it is potentially growing or shrinking, and in what frame of time. Also, who the customers are and how they are going to be reached, and would the market be real or online or both. Further information should be given briefly on the way the business would secure its supplies, deal with the competition, comply with the rules and regulations, understand and deal with the potential risk, and assess the impact of the business on the community.

## Functional Plans

From this point on, the business plan would introduce, in a little more detailed manner, the major functions of the business in order to achieve its objectives. These functions are: operations of the business, its management, marketing, and finances.

## Operational Plan

This plan is all about producing the proposed product and the service delivery. The objective is to show the manner in which the proposed business plan will be able to deliver with a level of efficiency for the day-to-day operations, while keeping an eye on the strategic plan. This may require an explanation of the type of facilities needed, space requirements, capital equipment, labor force, and technological capacity. It may also address storage and inventory control, purchasing plan, work shifts, shutdowns, as well as legal requirements for licensing and permits. An organizational chart to show all needed tasks and who performs them and at what time may be helpful to include here in order to show that all things have been considered.

## Management Plan

This section would demonstrate the plan's validity through exposing who is going to implement it, and how the presented concepts are going to be realized and turned into a market success. Some experts claim that most investors and bankers who are going to be in charge of approving the funding may pay attention to the quality of management and type of leadership in the proposed project more than to the product or service that are being proposed. Therefore, this section must take the opportunity to reveal who is going to manage and lead the project, and how they are going to proceed. The quality of the management team, its qualifications, experience, and professionalism must be articulated. There should not be any doubt left about the capability and competency of the management team to lead the project toward the desired success. Form of legal ownership, the organizational structure, and the compensation system are all to be identified in this section too. The emphasis must be placed, not only on coming up with the right managerial system, but also on how the managing team is fit to their tasks, especially with its integration and harmony with a complete support system. An example of a support system that a management team must have proper access to is the professional team consisting of an attorney, accountant, banker, financial advisor, insurance, and a real estate agent. Last but not least, this section should refer to the availability of the formal resumes for key people in the lead and management team, and have copies of those resumes placed in the appendix.

## Marketing Plan

This part of business plan is where an entrepreneur presents an adequate description of how the proposed business is going to succeed in moving the product from the production phase to consumption or from the firm to consumers through the market. It is basically the plan that would identify who the consumers are, what they like, what they are willing to buy, and how to attract them into buying this specific product. Also, who else has been attracting them, and how to beat such a competitor, if any. The efficient answers to these questions can be given by arranging the information into two parts.

1. Market analysis that discusses the target market, market size and trends, market share, market claims, and market competition.

2. Market strategy that addresses product pricing, product distribution and sales, advertising and promotion, and public relations.

**Target market** is defined as a group of consumers who share a lot in common in terms of their ability and willingness to buy and therefore would constitute a portion of the whole market that would be suited for the proposed business to pursue as the main consumers of its product. The firm then can identify its **market niche** which would be that focused and targetable segment of consumers who may be convinced to see the proposed business and its product as the best source to satisfy their needs. If the firm succeeds in gaining the trust and loyalty of these consumers, it can carve for itself a certain percentage of the market called **market share**. Target market can basically be identified by answering the following questions.

– Who are the customers and what would their profile look like (gender, age, income, education, tastes and preferences)?
– Where would they normally buy what they need?
– What would their expectations be, and if their future needs can be predicted?
– What has been their experience with the existing market?
– Would this identified target market, and the related markets, be growing or declining in the near future?

Market size and trends can be studied using the census data, maps of customer concentrations, transportation and traffic reports, zoning documents, consumer research, and marketing studies. A good marketing plan would stay away from generalizations and oversimplification in presenting its market claims of the growth of business and market share. All estimations and predictions should be made based on market research and business prototyping, and away from any guesswork and hasty conclusions.

Discussing the existing and potential competition in the market, especially in light of the competitive advantages for the proposed business, is essential to show how realistic, grounded, honest, and prepared the business plan is. Investors and financial backers are usually eager to know this part of the proposed business to make sure that it answers one of their major concerns and worries. The section of competition should present as much information as possible on each and every competitor in the market. The following information is typical to be obtained from a variety of sources such as the industry literature and reports; trade association publications and websites; market surveys and research; sales representatives; customers; and federal, state, and local agencies; as well as Chambers of Commerce and Better Business Bureau.

- Who, where, and how significant are the competitors?
- What are their strengths and weaknesses?
- What are their products and services?
- What are their market shares?
- What are their market strategies (production, pricing, distribution, advertising, and promotion)?

- How the proposed business is going to complete, succeed, and survive among these competitors.

**Pricing strategy** would refer to the firm's plan to how much it will charge customers for its product and services in light of its cost structure, profit margins, the value that the product offers to consumers, and the prices of other competing products. All of these factors would be determining the proposed price for the firm's product, given the size and nature of the demand on the product. Pricing strategy would also guide the firm to decide if the price of its product is going to be better, if it starts lower or higher than the competing prices, and if the product needs to be differentiated more than the competing products to allow charging a higher price. This strategy would also address the customers' responses for any change in the price.

Sales and distribution is also part of the marketing plan. A successful plan would address the potential size of sale to calculate the expected revenue and build many other elements of predicted variables, all based on the projected sales and revenue. A well-thought-out plan should also employ the sales staff effectively, and consider their incentives. Estimating the sales requires addressing a well-designed distribution system and knowing the channels of its network from the direct sale, to the direct mail, to online, and to door to door, as well as choosing the most fitting channel.

Advertising and promotion is the core part of the marketing plan that would help reach the target customers and convince them to buy the product. Central to the advertising and promotional campaign is knowing what media is going to be more efficient and at what cost and benefits.

Building and promoting a certain image that stays in the customer's hearts and minds and gain their trust and loyalty is a major objective of the advertising and promotional campaign. Equally important is keeping that image truthful and honest. While advertisements and promotions seek to increase the sales of products, public relations would widen the connection with the customers and suppliers and increase the product's publicity that may indirectly help increase the sales. In conclusion, a marketing plan may use an effective **marketing mix** that would best meet the needs of the target market. Marketing mix refers to the four P's strategy: product, price, place, and promotion. As for small businesses in particular, it is important for the marketing plan to explore what the government contracts have to offer to market the product and help secure a certain revenue. There are many federal and state contracting programs that are suited for small businesses such as those programs which give preference to the under-represented groups.

## Financial Plan

Most experts, investors, and bankers say that the financial plan is by far the most important section of the business plan. It is the “money talk in numbers” that may make or break the whole business plan. The financial section would serve the business plan by providing

- the means to judge the proposed business performance and the health of its elements;

- the tools to show how and when the proposed business is going to generate its expected returns;
- the evidence to assure investors of getting back their money with a satisfying rate of return;
- the evidence to assure lenders of repaying the borrowed funds with their interests.

The major purpose of the financial plan is to show the full potentials of the new venture and prove its economic viability, while controlling the business performance by its benchmarks and timetable. This section would depend on a set of pro forma statements which are projected financial statements for a usual period of 3 years in future. This set would usually include the following.

- An **income–expense statement** or as it sometimes called a **profit and loss report or PL-statement**. This statement would show the firm's potential financial feasibility through detailing expected sales and revenue, production cost, administrative expenses, and cost of distribution, advertising, inventory and storage, and reaching to a reasonably projected profits.
- A cash flow statement would illustrate the amounts and timing of two streams of cash: cash inflow and cash outflow. It would also show if there would be any need to obtain additional financing, and the way to get them, whether through equity, loans, short-term line of credit, and how each would be paid back, and in what terms.
- A balance sheet statement which would show that debt-to-equity ratios, working capital, and inventory turnover. They are all within the desired or acceptable limits to make way for any need for additional funding. It puts all the projected assets of the firm against all the projected liabilities and shows the firm's projected net worth.

It would be worthwhile here to point out the key differences between income statement and the cash-flow statement since both may deal with some of the same elements.

- While the income statement includes the interest paid on debt, the cash flow statement would include both the principal amount borrowed and the interest paid in repaying the principal.
- While the income statement includes depreciation, the cash flow statement does not consider depreciation as cash expense, and would put it back in.
- While the income statement includes the values of the starting and ending inventory in the cost of goods sold, the cash flow statement would treat bought inventory as paid bills.

- And last but not least, the sales get included in the income statement as they occur while the cash flow statement considers sales value only when payments are received.

- A break-even analysis that would show when the business is going to be able to cover all costs and start making profits. The break-even point is when the firm can collect revenue equal to all costs incurred. It would be beyond this point that the sales continue to increase raising up the revenue above the cost which would allow the earning of profits. The break-even can be measured by quantity of product, dollars of revenue, as well as by time.

- A **start-up cost budget**. This is specifically needed for a business plan written for starting up a new venture. It is a statement containing all of the expenses incurred to initiate the business and make it up and running.

The following remarks will be helpful to consider when preparing the financial plan:

– It would be wise to make all the estimations and projections realistically and leaning on the conservative side. Being overly optimistic or overstating the estimation would most likely undermine the confidence in the plan.

– It would be better to stay away from stuffing the plan with too many tables and calculations that may not be essential to the plan. They would most likely complicate the plan and add unwanted confusion. It has been said that it is much better to submit less but sure to be explained well, than to submit more of the unexplainable stuff.

– It would be important to state all the assumptions under which the estimates and projections were made, and also to provide an explanation of the way the estimates were derived. It is a good idea to include the assumptions and the explanation as endnotes at the final page of the financial section.

– It is recommended that the pro forma statement sets cover 3 years ahead. Where the first year is presented on a monthly basis, the rest of the years are presented on a quarterly basis. As for the new venture, if the break-even analysis shows that the profit stream would start after 2 or 3 years, the pro forma statement should be for 3 years beyond the break-even point. In this case, the projection of data may continue to 5 or 6 years total.

## Appendix

The appendix would contain all the supporting material and documentations that were not contained but referred to in the main text. They are important for enhancing the knowledge of the plan and making it real, also for increasing the confidence in the people who submit the plan and give the impression that they are doing the right thing. Depending on the nature of business and the purpose of the plan, the following list of items is to be included in the appendix, in general. Some of them may or may not be needed for any specific plan.

- Resume of the entrepreneur or the key people in the proposed business
- Tax return forms for at least the last 3 years
- Business registration form or business license
- Loan application

- Signed contracts such as franchise contract or a supplier's or service provider's commitment contracts
- Lease or purchase-sale agreements of assets
- Drawings, illustrations, photos, videos of product, service, prototype, or a certain equipment that needs to be shown in terms of their technical specifications and performances
- Floor plan, building design, and maps for facilities and main buildings
- Pilot studies report, marketing research, testing results, and customer survey and testimonials
- Logos, trademarks, patents, copyright, and intellectual property protection documents
- Industry reports

## 5.3 Other Elements of the Plan

The following are some optional elements that can be included in the business plan as one feels necessary.

## Milestone Chart

This is a technique of organization that requires dividing business work into a series of goals and stages so that each target goal or milestone can be reached at a certain time with a certain budget. All designated milestones can be arranged in a timetable or chart similar to a **Gantt Chart**. This addition to the business plan would provide a sense of order to both the entrepreneur and to the investors and it would help convey that the whole plan is real and practically achievable.

## SWOT Analysis

SWOT stands for strengths, weaknesses, opportunities, and threats. It is an evaluation analysis used particularly for assessing the internal and external determinants of starting up a business venture, although it can be used for any other purposes. The analysis is based on identifying, listing, and comparing the major factors that would be for and against the process of starting up and maintaining a business.

As shown in **Table 5.4**, both strengths and weaknesses address the internal front while opportunities and threats address the external front of the business. The factors of strengths could be what stand out as comparative advantages such as in the innovative business idea, the product uniqueness, management style, location, marketing advantages, solid finances, and the like. Weakness includes the areas of inadequate advantages or some disadvantages or even in areas where the firm needs some improvement. Examples of that could be inadequate funding, old or outdated equipment, inconvenient location, lack of training, unfitting management, not fully developed product, or inadequate service, and so on. As for the factors that surround the business, or are part of its environment, the list would include the opportunities, current and projected, such as the economic growth generally and in the immediate business region, consumer's income, their tastes, and their propensity to consume. These external factors also include the current and potential threats that the firm should count for. Examples of these threats are the market competition that could be fierce at that location, or local codes and regulations that put extra costs and burdens on the business. So, in general, a SWOT analysis sheet can arrange all the factors for, and against the business, and either label them with plusses and minuses, or even rank them according to a certain score system. Comments on planned treatment for each factor may be added on an additional column on the sheet.

## Table 5.4 SWOT Components

| Internal Factors | | External Factors | |
|---|---|---|---|
| Strengths | Weaknesses | Opportunities | Threats |
| • Available and appropriate resources<br>  • Land, equip<br>  • Initial finances<br>  • Knowledge and experience<br>• Manufacturing competition advantages<br>• Innovative capabilities<br>• Strategic location<br>• Product quality<br>• Firm accreditation<br>• Information technology | • Outreach capacity<br>• Enough cash<br>• Design capability<br>• Management training | • Industrial trend<br>• Expansion opportunity<br>• Large Distribution<br>• Good network of suppliers<br>• Good partnership<br>• Scale efficiency | • Market competition<br>• Local codes<br>• Environmental restrictions<br>• High taxes<br>• Political unrest<br>• Rapidly changing weather |

## Critical Risks

Every business project may come with a lot of what can go wrong or at least what deviates from the plan, and may not give the expected and hoped for results. Some experts recommend that a list of all of the potentially critical risks should be included in the business plan, but we believe they would be better identified before and during the preparation of the business plan so that at least some of them could be addressed earlier. The other reason for our recommendation of not including them in the plan is to avoid giving an unnecessary and premature impression on the plan that could be understood as gloomy, unenthusiastic, or unconfident. Such a possible impression could contribute in motivating those who usually hunt for mistakes and shortcomings, and encourage them to stick to their knack for clinging on any minor slip-up, and forgetting the substance. However, recognizing all these risks in the review process would be more positive and productive.

## Measures of Control

It is obvious that any successful plan should focus on doing what would achieve the desired results, and also knowing that those wanted results are actually achieved as planned. However, it is equally important knowing if these planned results are not achieved and why. The process of control, as it was defined earlier, involves three steps.

1. Adopting and establishing a certain standard of performance.
2. Following the actual performance to see if it deviates from the recognized standard.
3. Devising a series of corrective action to line up the actual with the standard performance.

Some experts recommend that smart entrepreneurs should keep this notion of control in mind when writing a business plan. They should anticipate where potential deviations from the plan may occur and they should have the right measure of control to correct it. Some of the typical areas that may need this type of monitoring is the product and service quality control, inventory control, cash control, collection of accounting receivable control, and various emergency controls.

## Succession Plan

Some experts emphasize that a business plan should also include a succession plan, especially for businesses that are sole proprietorships, family owned, or a partnership type. A succession plan would detail and probably include a legal document to show who would take over the ownership of the business in case the primary owner or entrepreneur dies or becomes unable to function in cases of illness, accidents, or any disability. Although there are probably some legal clauses already written in other documents, such as the purchase and sale agreements or the partnership contracts, but highlighting the succession issue in the business plan may become a necessary item for lenders and investors because of their enthusiasm to see what would happen to their debt or investment after the primary responsible party is no longer there.

## Environmental Impact

The inclusion of this section in the business plan may become essential for some related lines of business where a significant impact on the surrounding environment may be brought about by the introduction of that business. Nowadays it is becoming increasingly popular for most consumers to encourage and support companies which pay attention to and respect the environment. Popular customer support is typically going now for those firms which are proactive in promoting socially responsible and sustainable lines of business. Most popular these days are projects that have a green impact on society by rationing the use of scarce resources and considering sensible treatment to negative economic externalities of business such as pollution, where recycling and other green technologies are becoming increasingly desirable. Also, the positive economic and social externalities of business such as the impact on employment, community development, and tax revenues should be addressed too. This may bring up other negative impacts such as the problems of outsourcing and using the offshore labor force. Discussing a section such as this within a business plan for a relevant business proposal may win the hearts and minds of many business constituents.

## 5.4 Reviewing the Plan

It is essential to carefully review and evaluate the entire written plan before sending or presenting it to its target audience. In addition to making sure that it contains the right necessary elements and sections which can be easily done by following a checklist like the one shown in **Table 5.5**, it is even more important to contemplate the contents and quality of these sections and make sure that they are clear in representing the idea and goals and in directly and succinctly answering all the anticipated questions, which may come to the mind of whoever receiving the plan and making decisions about it. The following points are examples to check the validity of the plan contents.

- Are the sections organized and flowing in an easy-to-read-and-follow sequence?
- Are the sections going right to their points or do they go around it in a meaningless or confusing prose and jargon?
- Are the sections focusing on the core of what you want to achieve? And are they capable of reaching their target audience and effectively convince them?
- Are your estimation methods, numbers, figures, analysis, as well as your drawings and photos telling the truth without any over or underestimation?
- Did you also consider, in addition to the business and economic sides, the ethical, social, legal, and environmental ramifications of the plan and the unintended results of the business decisions and actions?
- Is the general approach of the plan consistent with the type of business whether it is a startup of a new venture, an expansion of an existing business, a pioneering in a certain line of industry, or just innovative in a certain technology for an existing product?
- Last but not least, did the plan effectively explain how and why the product would attract its new consumers, and did the plan explain how financial and human resources are going to be obtained and be adequate to achieve success?

During this general review of the plan and while preparing the checklist, it would be wise to think of two more essential issues, the potential risk that may accompany launching the business, and the potential sources of funding that an entrepreneur should carefully contemplate and evaluate.

## Table 5.5 Business Plan Checklist

| | Yes | | No | |
|---|---|---|---|---|
| Items Covered | Good coverage | Needs revision | Needs to be covered | Not needed |
| 1. Title page | | | | |
| • Business or project title | | | | |
| • Company | | | | |
| – Name | | | | |
| – Mailing address | | | | |
| – Web address | | | | |
| – Logo | | | | |
| • Entrepreneur(s) | | | | |
| – Name(s) | | | | |
| – Title(s) | | | | |
| – Address(es) | | | | |
| – Email(s) | | | | |
| – Phone(s) | | | | |
| – Fax(es) | | | | |
| • Submission destination | | | | |
| – Name | | | | |
| – Mailing address | | | | |
| – Web address | | | | |
| – Phone | | | | |
| – Email | | | | |
| • Date of submission | | | | |
| 2. Confidentiality statement | | | | |
| 3. Table of contents | | | | |
| 4. Executive summary | | | | |
| 5. Vision, mission, and elevator pitch | | | | |
| 6. Business description | | | | |
| • Main idea and type of business | | | | |
| • History of line of business/industry | | | | |
| • Legal form of business | | | | |
| • Location of business | | | | |
| • Product or service | | | | |
| • Market | | | | |
| 7. Functional plans | | | | |
| • Operational plan | | | | |
| – Space requirements | | | | |
| – Facilities | | | | |
| – Equipment | | | | |
| – Technical capacity | | | | |
| – Storage | | | | |
| – Purchase plan | | | | |
| – Work shifts | | | | |
| – Shutdowns | | | | |
| – Legal requirements | | | | |
| – Organizational chart | | | | |
| – Permit and licenses | | | | |

- Management plan
- Marketing plan
  - Marketing analysis
- Target market
- Market size and trends
- Market share
- Market claims
- Market competition
  - Market strategy
- Product pricing
- Product distribution and sale
- Advertising and promotion
- Public relations
- Financial plan
  - Income–expense statement
  - Cash-flow statement
  - Balance sheet statement
  - Break-even analysis
  - Startup cost budget
  - Remarks

8. Milestone chart
9. SWOT analysis
   - Strengths
   - Weaknesses
   - Opportunities
   - Threats
10. Critical risks
11. Measures of control
12. Succession plan
13. Environmental impact
14. Other items

    . . . . . .

    . . . . . .
15. Appendix
    - Resume(s)
    - Tax return forms
    - Business registration or license
    - Loan application form
    - Contract(s)
    - Purchase/sale agreement(s)
    - Photos, illustrations, drawings
    - Floor plan(s)
    - Logo
    - Reports and studies

## 5.5 Anticipating and Preparing Responses to Potential Risks

As it was mentioned before, we tend to lean more toward anticipating and counting for any potential risk that may come during establishing and running the business than listing those risks as problems in the plan's main text. We believe that the right time and place to think about these potential risks and prepare the right answers for them is here, as part of the review and check process. This does not mean that we are going to neglect addressing the risks or going to be too late to identify, treat, and control their impact. It is just a matter related more to the strategic order of the contents of the plan. Thinking about the potential risks carefully here would make the plan presenter(s) ready to effectively respond to any question related to the risk although there is no risk section in the plan text. To cover all or most of the questions about the potential risks, an entrepreneur and his associates should engage in brainstorming to come up with as many as possible of the expected questions. A typical question related to the business's critical risk may come in a form such as “How are you prepared in cases of”:

- Running out of cash either before securing or after getting your initial order of material?
- Facing difficulty in or failing to raise the needed capital?
- Collecting much less revenues than anticipated?
- Facing higher costs of designing, developing, and manufacturing your product?
- Facing unforeseen delay in any planned scheduling such as product development timetable?
- Facing much more severe competition that will not hesitate to cut your prices and undermine your opportunity to sell?
- Facing unexpected industry trends that may shift consumer taste away from your product?
- Facing a much longer lead time in the procurement of parts and raw material?
- Failing to get the needed bank credit?
- Facing unforeseen economic, social, and political problems that may impede your operations?
- Discovering a shocking incompetency or lack of faithfulness with the people you rely on in the upper management?

Each and every one of these anticipated questions should be discussed with close, knowledgeable, and experienced people so as to prepare the right response and stand ready to answer any question in confidence and comfort to show that it is a well thought out plan and not just a wishful thinking written hastily.

# 5.6 Financing the Plan

Among the core principles for any entrepreneur here is to be able to decide the way the business plan is going to secure the needed funds. Also, to be able to know the difference between debt financing and equity financing, and whether the plan is going to rely on one of these financing approaches or both, and if both, in what combinations? In **debt financing**, the funds needed would be obtained from lenders who could be banks, financial firms, or individuals. Lenders grant loans so that they earn interest, and that is what they primarily would be concerned about, and that is why the borrower plans to repay the principal debt with interests. Lenders need to be convinced that the borrower is worthy and trusted, his business is legitimate and reliable enough to bring earnings and help the borrower to pay his loan back. In addition to the financing sources, such as personal savings and family gifts, loans from friends and relatives may be needed and loans from credit card companies, banks, and other lenders may be used too. Some governmental agencies may help endorsing business loans to encourage and help small business to grow. The US Chamber of Commerce and SBA are examples of those agencies that would help by acting as a grantor, where the loans from lenders will be paid back. The following are the programs related to the SBA:

- The SBA 7(a) which is a multipurpose small business loan program.
- The SBA 504 which is primarily a loan program to get capital assets such as machinery or building construction or expansion.
- The SBA Microloan which is to help profitable businesses that would not normally qualify for traditional loans.
- Microloan Technical Assistance Program which is to help organizations which provide small businesses with technical assistance.
- SBA Patriot Express Pilot Loan Initiative which is geared specifically to help veterans and their current or widowed spouses in their efforts to establish small businesses.

As for **equity financing**, the funds needed would be obtained from investors who get partial ownership of the business which would be equal to their shares. Investors are naturally interested in seeing the business succeed and grow for they have a high stake in it. They get their rewards in a form of dividends when the business performs profitably. Equity financing can also be partially done by what the firm retains of earnings for the purposes of reinvestment and growth. Individual investors can also be an important source of equity financing if the business plan succeeds in attracting them and gain their enthusiasm to fund the proposed project. Among these individual investors are:

## Venture Capitalists

They could be individual investors operating independently and could also be a venture capital firm with its own structure and policies. Generally, these investors are attracted to businesses that have been established and earned some measure of success. They often join the investment team at a later stage after they have a chance to examine the company records and make sure that their investment would earn them a significant reward.

## Angel Investors

Unlike the venture capitalists who will not invest but in an already established business with good track records, angel investors are usually people who are wealthy and committed to see more of business success stories, especially in their communities and locations of their choice. They would provide what is called seed money to start up businesses they are interested in. Their investment contributions may reach up to a quarter of a million dollars for one project. They may also help with some consultations and mentoring. One would be very lucky to have one or more of these angel investors financing his project. It is probably the ideal type for obtaining big funds although they also require the proper returns on their investment.

Another type of financing sources is the **business grant** which is often given to serve certain purpose and may be granted if certain qualifications are met. The most important aspect of business grants is that they neither constitute a loan nor do they constitute an investment in terms of the condition to have any monetary return to the grantor. In other words, grant money is not required to be paid back. They, however, are considered moral investment for they serve a specified economic, social, political, or religious purpose. Most of the qualified recipients of these grants are organizations rather than individuals. As for small businesses to be recipients of these business grants, there are certain qualifications and conditions on size, type of business, number of employees, maximum amount of the grants and other conditions that have to be met.

## 5.7 Presenting the Plan

Submitting a well written and balanced plan may only get the entrepreneur to the door, but that would be half the needed distance or even less. The way to present the plan and the presenter's personality and his/her ability to “sell” the proposed project is what may make or break the story of success for that business. The chance to present to lenders and investors and other interested audience is a golden opportunity, given the fact that only 10% of all submitted business plans get to be invited back for a formal presentation. People who interact face to face are usually much more effective than communicating through the written words. This would confirm that the greatest written plan may not be so valuable if it is presented poorly or in a way that would turn off the audience and make them skip the qualities of the plan as written. The major purpose of the presentation is to sell the idea of the proposed project through persuasion. It would require a presenter who can be accurate, articulate, eloquent, thoughtful, likeable, and efficient. Efficiency is essential, especially for the short time that is often given to the presentation. Professional presentations of a business plan can be allowed to take anywhere between 10 and 30 minutes. Typical allotted time is

20 minutes. Experts recommend that a successful presentation should cover at least five major sections during this short time given to the presentation.

- **Introduction:** The introduction includes greetings, a short thank you for the opportunity, the name of the presenter and his/her position, name of the company and participants, if any, and the type of project. Also, the vision and mission of the firm.
- **Product and Market:** This section includes introducing the product or service, show photos or illustrations and describe what it would do, how unique, how different from the alternative, and how it would solve any problems, the market in which the product would succeed, and how.
- **The Functional Plans:** This should include a clear and effective summary of the four functional plans: operational, management, marketing, and financial. Key figures and illustrations should be shown. This section may take the most time, relative to other sections because it covers four plans.
- **Other Information:** This section would include all of the information that may be considered important for presentation for that specific plan. It could include SWOT analysis, critical risks, environmental impact, succession plan, etc.
- **Conclusion:** This section would briefly emphasize the worth of the proposal project and how it is going to get the returns to pay back investors and lenders and make a decent profit for the entrepreneur or the owner. This would be the final pitch to sell the idea before giving the thanks again and calling for questions. Also important is to let the audience know that the presenter would be available to answer all questions that may remain beyond the presentation time.

The following are the most cited tips for the successful presentation. A good presenter should:

– Repeatedly rehearse the presentation ahead of time and preferably in front of a mocked audience. The purpose is to be well informed and to practice good time management, also to explore potential questions and prepare the best answers for them. Rehearsal would also allow the presenter to know the most important parts of the written plan to be selected for coverage in the time given.
– Show a great knowledge of the contents, be articulate and clear, professional, enthusiastic but not overemotional.
– Display a friendly and cooperative attitude to explain and clarify any inquiry as opposed to be defensive and apprehensive over questions that may be interpreted as to check his prowess and experience.

- Make the audience feel comfortable to identify with the idea and eager to be part of it and motivated to invest in the project.
- Focus on the core and be succinct in the explanation and avoid being caught up by the computational details and technical jargon.
- Use the visual aids at the right amount, form, and timing. Too much visuals and flashy forms may take away from the seriousness of the plan and its substance.

- Depend on highlight points to emphasize the uniqueness of the project, its efficiency in problem solving, and the proofs, if any. For example, a good presentation should show how the proposed product is helpful, clean, cheap, durable, and all of these can be proven by demonstration or consumer surveys. In other words, a good presentation should show and sell the benefits.
- Pay special attention not to go over the allotted time. It is recommended that a presenter should have somebody else in the audience to remind him/her of time progress. It is also important for the presenter to leave some time at the end for questions and announce that one would be available for more questions and discussion after the presentation.
- Last but not least, a good presenter should not just present and leave or wait for contacts. One should be proactive in following up on the submitted plan and should initiate the contacts, and if rejected, to re-strategize, learn the lessons, follow what needs to be changed, and try again.

## 5.8 Updating the Plan

One of the biggest misconceptions among entrepreneurs and new business comers is that the business plan exists only for the purpose of getting funds and starting up the project. In reality, a business plan's role should not end when the project is initiated. To the contrary, the role of a business plan should continue through the different phases of the project. As it was explained earlier, the business plan should be considered a road map that would guide the progress of the project throughout its life span for the following reasons:

- Its milestones can always serve as a reminder to stay on schedule.
- Its vision and mission must not be lost to any other direction.
- Its functional plans can be followed to achieve the stated goals.

In such a case, a business plan may be reviewed and revised any time a need for that arises so that it can be possible to keep up with all the new developments, internally within the business, and externally in the market and the surrounding environment. In other words, a business plan should not stay static throughout time. It has to move along with all the dynamic changes to accommodate the new reality of change in the fields of consumer, market, technology, and in the economy, in general. Keeping up with the new reality would also allow the entrepreneur to seek more investors, and explore more opportunities for improvement and expansion. Therefore, the revised plan has to reflect the necessary changes, present new set of projections, new treatments and solutions, and moving up to a higher level in the venture's progress.

## 5.9 Grooming the Plan

We all agree that the substance is in the contents of the plan rather than in the way it looks. We may also agree on the saying that a book should not be judged by its cover. However, most of us might agree too that the appearance usually creates the first impression. It is, therefore, a good opportunity to make that impression good enough to attract readers and listeners to the substantive contents of the plan. The following are some tips to help make an effective appearance for both the written and presented plans.

## The Written Text

It is recommended that you use the following:

- White or off-white good quality paper.
- One-inch margins on all sides. The right margin can be 1.5 inches to allow for the readers' remarks.
- A regular font such as Times New Roman, size 12, for the main text.
- No full justification, no indenting.
- Single-spaced text with double spaces between paragraphs.
- One side print only.
- Bulleted points as much as possible.
- Use consistent system to set the size and format of the titles and subtitles and section headings.
- Consistent system of order so that the text contents should follow the order in the table of contents.
- Neat professional binding. Do not use staples in their regular use, especially on the upper left corner.
- A spell checker.

You should also try as much as possible to avoid

- long running text;
- inserting tables and graphs in the middle of the text. Put them on separate pages as much as possible;
- using colored text.

## The PowerPoint Slides

**It is recommended that you use**

- a maximum of 40 words per slide;
- regular clear fonts such as Arial and Helvetica, with size 22 points for text and 32 points or larger for titles;
- harmonized colors with a dark background and light text. It would also be better to keep the same color scheme throughout the presentation instead of changing from one color to another;
- a spell checker and proper capitalization.

You should also try as much as possible to avoid using

- any large text with fine prints;
- bright colors;
- too much animation or graphics or unconventional ways to advance slides.

Finally, try to stand in a way to be able to look at both audience and screen, and appear to talk to audience more than to read the screen.

## 5.10 Summary

Chapter 5 was dedicated to the business plan. It explained its nature and listed its types as well as pointed to its importance and rationale. Three types of plans were defined: the startup plan, the working plan, and the internal plan. As for the rationale of having a plan, two major reasons were given: to articulate the business idea, and to be a general guideline throughout the project life. Contents of the plan were detailed on a formal table of contents, and each item on the table was explained with details, starting from a description of the title page and ending with a description of the appendix.

Other elements of the business plan were discussed too. Those elements were as important as the main contents of the plan. They were: the milestone chart; SWOT analysis; critical risk; measures of control; succession plan; and environmental impact. The chapter also went over reviewing the plan after finishing up the first draft, and how to check its contents using a comprehensive checklist, as well as how to anticipate and prepare for the most expected questions from those who will be in charge to approve or disapprove the plan. The next discussion was financing the plan, types of financing, and types of financiers. The last two topics in this chapter were presenting the plan, which went over the proper presentations systematically and finally updating and grooming the plan, which recommended some tips on how to make the plan look visually appropriate.

## Key Concepts

Startup plan    Working plan    Internal plan
Confidentiality statement    Executive summary    Vision
Mission    Elevator Pitch    Critical risk
Operational plan    Management plan    Marketing plan

Financial plan Milestone Chart Marketing mix
PL statement Gantt chart SWOT analysis
Control measures Succession plan Environmental impact
Debt financing Equity financing Venture capitalist
Angel investor Business grant Plan grooming