

## INTRODUCTION TO THE BUSINESS PLAN & CONCEPT

Before starting a new business or expanding an existing business, you should develop a Business Plan. The Business Plan will serve many purposes. First, it will help you define the purpose of your business and organise it. It also helps you determine the business's growth patterns and any consequent problems before they arise thus enabling you to deal with them more effectively. The Business Plan is an agreement on how your management team plans to carry out certain functions to achieve business results and serve as a means of measuring the enterprise's performance. Lastly, the Business Plan is a document that will assist when raising capital from banks, private investors, or other sources. The Business Plan should strongly communicate the Business Concept, its viability, the business model and the management structure that will be used to reach the business objectives (Thompson 2003c; Thompson 2003b).

Outlined within this appendix is a road map, or checklist, to guide you in the Business Plan writing process. Although every business plan should reflect the opportunities, concepts and entrepreneurial team that fit a particular business, it is important to consider the full range of issues you and your potential investors are likely to face. A Business Plan will often build and refine the key concepts developed within the Proof of Business Concept (Feasibility Study) that you conducted to formally justify the business concept prior to committing the resources needed to develop a formal Business Plan (Thompson 2003b; Thompson 2003a).

## FUNCTION OF A BUSINESS PLAN

The best Business Plans are both management guides and selling tools.

- Writing a business plan should help you think through most of the issues you will face in starting a business. While you will not prevent all surprises, at least you should be able to plan for the more likely eventualities, freeing yourself to respond creatively to the true surprises.
- Communicating a business plan to partners - including investors, major customers or suppliers, and key employees - should generate useful feedback on all aspects of the business.

- Finally, the Business Plan should serve as a useful tool - along with personal contact - for convincing such partners to sign on to your vision.

Before the Business Plan is completed also ensure the format of the document effectively addresses the following issues:

- What core competencies and values will the business possess?
- What need does the venture fill?
- What is the enterprise's basic value proposition?

## THE BUSINESS PLAN STORYLINE

A strong Business Plan will communicate a compelling narrative about how a particular business venture will grow to take advantage of a promising commercial market opportunity. There are five key sections of most plans (Thompson 2003b):

- Executive Summary – This section is written last but presented first. This is the most critical component of the report because many stakeholders will only review the executive summary and will not proceed unless they are engaged.
- Product-Oriented – This section profiles the scope of the business venture and describes in detail the nature of the products (and services).
- Market-Oriented – This section provides a bridge of reasoning between the product and market. It identifies the market niche that best supports consumer demand and looks at the shape and size of the market. This section should be strongly supported by evidence and business market analysis.
- Financial and Operational - This section demonstrates the fiscal viability of the business venture. It identifies the operating capital requirements and communicates any financial assumptions that have been made.
- Exit Strategy – This section communicates how and when the entrepreneur will exit the business. It may also discuss ROI.



## OUTLINE OF A BUSINESS PLAN

### Cover Sheet

### Executive Summary

### Table of Contents

### Main Contents

Introduction

Business Description/Background

Product/Service

Technology

Market Environment

Competition

Industry

Business Model

Marketing and Sales Strategy

Production/Operating Plan

Management and Personnel

Governance and Reporting

Intellectual Property

Regulations/Environmental Issues

Critical Risk Factors

Operational Schedule

Executive Financial Highlights

Financial Statements & Narrative

Conclusion

### Appendices (Example Only)

Management Resumes

IP Statements i.e. Copies of patents, trademarks.

Promotional Materials.

Visualisation of Product or Service.

Management Milestones (table format).

Business Feasibility Study

Supporting Analysis and/or Research

References and other documentation

Accountants Financial Certification

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## EXECUTIVE SUMMARY

The Executive Summary is a summary of all key sections of the Business Plan and should work as a separate, standalone document. Investors and lenders read this document first and perhaps glance at the financial section when making a decision. Therefore it is considered the most important component of a business plan. Often investors decide whether to schedule a meeting with the entrepreneur based solely on the Executive Summary. While the Executive Summary is often written last, it is placed first, either after or before the Table of Contents (Thompson 2002; Thompson 2003b).

Key points to consider for your executive summary:

- An Executive Summary should explain why you wrote the report, emphasise your conclusions and recommendation and include only the essential information used to support those conclusions.
- Executive summaries are usually organised according to the sequence of information presented in the full report, so follow the order of your report as you discuss the reasons for your conclusions.
- Executive summaries are usually proportional in length to the larger work they summarise - typically 5%. Most executive summaries are 1-2 pages maximum.
- Write the executive summary after you have completed the report and decided on your recommendations. Look at the first and last sentences of paragraphs to begin to outline your summary. The executive summary should have continuity through the use of key words from within the main report. Make the summary concise, but be sure to show why you've arrived at your conclusions.
- You cannot introduce any new information that is not in your report.
- Executive summaries should communicate independently of the report. That is, tell the whole story by themselves. Ask someone not familiar with the report's examples to read your executive

summary to see if it makes sense.

- In taking a simplified approach the executive summary should generally consist of three paragraphs, and communicate the **PROBLEM** (i.e. introduction, mission, purpose, approach); the **SOLUTION** (i.e. analysis, facts and recommendations); and the **SO WHAT** (i.e. outcome, success, risk, conclusion).

Remember to spell-check and proof read. Don't trust the spellchecker. The Executive Summary is often the only contact that people may have with your report/proposal and as these first impressions are significant, get it right the first time. A poor executive summary can adversely affect an otherwise great report.

## TABLE OF CONTENTS

Table of Contents are an essential part of the Business Plan. Ensure you list sections, appendices, and if necessary, figures, tables. If using Microsoft Word make use of the auto index feature that will save you considerable time when you update the master plan document.

## MAIN CONTENTS NARRATIVE

### INTRODUCTION

The introduction is an important prelude to what the actual Business Plan report is about; what its purpose is; who the report has been prepared for; who the report has been prepared by; what approach has been taken; and what has been addressed. The introduction should only will take a few paragraphs, which at their conclusion lead into the Business Description section.

### BUSINESS DESCRIPTION/BACKGROUND

Briefly cover the following topics:

- When the enterprise was formed, by whom, why the entrepreneurs started the business and the enterprise's mission.
- Which product or products the enterprise will initially focus on. (One to two sentences. Details belong in the product section.).

- Initial target market(s). (One sentence.)
- Industry. (One sentence.)
- Investment profile - who has invested how much when.
- Growth, size, and market share objectives, strategy to achieve these, and time frame.
- Intended value adding strategies
- Desired exit strategy (sale of enterprise, IPO, etc.) if any, and time frame.
- Milestones achieved to date. For instance:

**"To date, the enterprise has completed a business concept-market feasibility study, has a patent pending in Australia, and is in the process of developing a manufacturing system. It has also raised \$100,000.00 from private investors in a first round of seed financing."**

### PRODUCT/SERVICE

- Describe the enterprise's product or service in lay terms. Give a product mix if the enterprise will initially be focusing on more than one product.
- Describe how the customer uses the product or service, e.g. Can they use it themselves or would they need to rely on the enterprise in some way.
- Describe key components or raw materials that will be used in the product, how the enterprise will source these and how available they are.
- State the stage of product design and development. For instance: "The designs and specifications for the first product have been completed, and the prototype will be ready within the next six months."
- Describe plans to test the product to ensure it works as planned and is sufficiently durable, rugged, secure, etc. (i.e. consumer product validation test)
- Describe plans to upgrade product or expand product line in response to perceived market demand.

**TECHNOLOGY**

- As necessary, provide further technical information about the product or service.
- Describe additional or ongoing research and development needs.
- Describe the reliability of the technology in terms of prior history, serviceability, upgradeability and marketability.
- Describe the uniqueness of the technology and how it will contribute to the competitive advantage of the business.

**MARKET ENVIRONMENT**

Target Market:

- Define and describe the target market(s). Distinguish between end users and customers.
- Be clear how end users and customers benefit, and why they would buy the product or service.
- What is the unmet need your product(s) or service(s) fulfil so beautifully? How big is the opportunity?

For Business-to-Business Markets:

- Estimated market size, the industry the target market is in, key players, frequency of product purchases, replacement needs vs. expansion, purchasing process (i.e. uses preferred vendor lists, approval process, etc.).
- Initial targeted geographic area.
- Enterprise's targeted market share.
- Estimated length of sales cycle.

For Business-to-Consumer Markets:

- Demographic factors, such as income level, age range, gender, educational level, and ethnicity.
- Psychographic factors.
- Behavioural factors such as frequency of product purchase and shopping behaviour.

**COMPETITION**

- Describe direct and indirect competition (as it pertains to the target markets only).
- For key competitors give market share, resources, product and market focus, goals, strategies, strengths and weaknesses.
- List all key barriers to entry.
- Describe what is unique about the enterprise's product/service compared to the competition. Make sure this is consistent with the unmet need of the target market(s).
- State how difficult it will be for competitors to copy the enterprise's product/service. Provide an estimated length of enterprise's lead time (from enterprise's product launch to competitive launch of a copied product).
- Describe how competitors will most likely react to the enterprise's product launch and the enterprise's response strategy.

**INDUSTRY**

- Clearly define and describe the industry in which the enterprise operates. Include the size, growth rate, and outlook. Define key industry segments and state where enterprise fits in.
- Describe demand and supply factors and trends.
- Describe the larger forces that drive the market - innovation, cultural change, regulation, etc.

**BUSINESS MODEL**

- Describe the enterprise's business model. How will the enterprise generate revenue (i.e. sell the product; charge licensing, subscription or advertising fees; earn commissions from e-commerce; etc.)? Will there be recurring revenue?
- If an exit strategy is communicated within the Business Plan, the business model must be aligned with this and where possible a business valuation model discussed in order to identify projected return on investment.

**MARKETING AND SALES STRATEGY**

- Lay out the marketing and sales strategies.
- How have you identified your target market through existing product alignment, survey methodology or an existing customer base?
- Discuss any strategic partnerships the enterprise has or is planning to form. Do they provide critical market access or other resources? What are their rights and responsibilities?
- Describe the distribution strategy (sell direct to customers through sales force, direct mail, Internet or sell through manufacturers' representatives, wholesalers, distributors or retailers). Provide a typical profit margin or mark-up expectations, commissions, and other expected compensation (co-op advertising, slotting fees, etc.)
- Describe the pricing strategy and justification. Include the expected gross profit margins.
- Describe typical payment terms for customers. For example;
  - Customers: 60 days from invoice.
  - Vendors: 30 days from invoice.
- Other issues and their impact (e.g. warranties, liabilities, contracts).
- Quantify the marketing budget for at least the first year.
- Describe how and with what technology sales and customer relationship will be tracked and managed.

**PRODUCTION/OPERATING PLAN**

Describe how and where the enterprise will manufacture, source or create and deliver the final product or service.

If production and storage will be in-house:

- Give location, size, age, condition, capacity of planned production and warehouse facilities and number of shifts planned.

- Will space be owned or leased? Will renovations be required? If so at what cost?
- How complex is the manufacturing process?
- Describe equipment needed and costs.

If enterprise will outsource production or distribute others' materials:

- Describe supply sources. Are sources of supply readily available? Give purchase lead times.
- Outline the relevant contract terms, manufacturer's capacity, minimum order and tooling requirements, reputation, size or financial condition.
- Describe the enterprise's plan to protect its proprietary processes, trade secrets and quality control.

If enterprise is providing a service:

- How will the service be designed, delivered, monitored and improved?
- What partners will the enterprise use? What will be the terms of the contract? Are there substitute partners?
- Describe the relevant accounting, inventory, management information systems, and operating systems.
- Describe relevant risk management strategies for general business risks (e.g. worker's compensation; liability, property, casualty and business interruption insurance; and contingency plans).

### **MANAGEMENT AND PERSONNEL**

- Describe your people philosophy.
- List key managers, titles, responsibilities, relevant background, experience, skills.
- Briefly describe:
  - How key decisions will be made.
  - How will conflict in the process be addressed.
- Discuss plans to fill open positions.

- Sketch personnel requirements. What people will be needed now, in a year and two years? Include skills and qualifications required.
- If the business plan is in support of a new and unproven business, then a detailed profile (resume) of each key manager should be included in appendices.

### **GOVERNANCE AND OUTSIDE ADVISORS**

- Describe the ownership structure, including who will be responsible for major decisions about strategy and resource allocation.
- Board of Directors or Board of Advisors. If there is or will be one, describe briefly its composition (including internal and external seats), structure, meeting frequency, etc.
- A clear (visual) representation of the management and business entity model should be attached as an appendix and referred to when required in the main report.
- List professional advisors including roles, experience, qualifications and firms.

### **INTELLECTUAL PROPERTY**

- Briefly describe patents, copyrights, and trademarks obtained and in process. Give all names that are on issued patents. If IP has not yet been established outline what your intentions are in this area and incorporate a timeline.
- Summarise results of patent searches. What, if any professional IP advice has been sought and the opinion offered.
- If enterprise is operating under a licensing agreement or patent assignment, give name of licensor/assignor, describe key terms (i.e. exclusivity, rights, and responsibilities) and give termination or renewal date.

- If the business concept is a science (research orientated) business, the intellectual property is extremely important. The protocols in managing them, particularly at the initial planning stage are critical. For example, if a researcher has published their research findings in an industry journal or on the internet prior to ensuring intellectual ownership through copyright or patent, then the knowledge is considered in the open domain and therefore cannot be considered restricted. What quality control measures have been used to manage the intellectual property process?

### **BUSINESS REGULATIONS/ENVIRONMENTAL ISSUES**

- Key government regulations and the enterprise's plans for compliance.
- Inspections required, including type and frequency. Outline any environmental problems on the property, plans to address the problems and associated costs.
- How the enterprise plans to dispose of any waste materials.
- Any other regulatory or political issues.

### **FINANCIAL SUMMARY**

Within the business plan narrative provide a summary of the financial section, highlighting key assumptions, significant logic, general projections (e.g. income, expenses, and profit all in graph form), break even analysis, funding needs and timing of those needs. Put the details - projections, assumptions, etc. - in an appendix. Ensure you link these statements to the main report content section.

### **CRITICAL RISK FACTORS**

Describe critical risks faced by the firm (both current or in the future). Examples include internal characteristics, uniqueness, investment, external characteristics, sales growth, product availability, customer availability, technical obsolescence, etc. Be sure to describe how you will mitigate each risk.

## MILESTONES

Describe the enterprise's milestones, the major events in life of venture by listing the timetable/deadlines for completion of phases of venture. Be sure to demonstrate the relationship of events and to keep the milestones, financial requirements, personnel requirements, etc. consistent. The format presenting the milestones will vary but include a brief description in the main content and then followed by a detailed schedule as an attached appendix.

## FINANCIAL STATEMENTS & NARRATIVE

### FINANCIAL NARRATIVE

- Highlighting key assumptions underlying and logic governing your projections. Include financial history, if any (e.g. equity and debt) and likely financing stages, including information about funding sources and uses.
- Provide a page or two of footnotes for each financial spreadsheet attached explaining the assumptions behind each major line item.
- The format of the financials may vary in consideration of the business proposal. The financial recommendations should provide one to three year perspectives for projected financials but it is not uncommon to have projected financials for up to the first five years of business.
- Unless the entrepreneur has a proven history of commercial success to support investor confidence or has sufficient capital assets to sustain a capital borrowing, it is recommended that the entrepreneur have the Business Plan, and in particular the financial , verified and validated by an external accounting professional. Known as an Accountants Financial Certification (AFC), it involves the investigation and analysis by the accounting professional of the accuracy and reliability of the financial projections within the context of the Business Plan (Neff 2003; Thompson 2003c; Thompson 2003b).

**BALANCE SHEET PROJECTIONS**

- Three years, if possible.
- Highlight inflows of capital.

## Income Statement Projections

- Year 1: Monthly or quarterly.
- Years 2 and 3: Annually

## Cash Flow Projections

- Year 1: Monthly or quarterly.
- Years 2 and 3: Annually

## Break-even Analysis

- When will the firm begin to turn a profit?
- When will investors begin to see a return? (linkage to any exit strategy is important).

**COST BENEFIT ANALYSIS**

- It is important that the cost benefit analysis be conducted within the feasibility study to consider the overall viability of the business concept and model.
- The cost benefit analysis is usually attached as an appendix either as part of the feasibility study or as a separate business plan appendix.
- The cost benefit analysis will often be referred to in the business concept introduction component of the business plan and again in the conclusion if a conclusion is warranted.

## APPENDICES

- Management resumes/bios.
- Copies of patents.
- Promotional materials.
- Visualisation of product or service.
- Management Milestones – table format.
- Business Concept Study or components thereof.
- Supporting analysis and/or research
- References and other documentation
- Accountant's Financial Certification

## SPECIAL NOTE: PROOF OF BUSINESS CONCEPT (FEASIBILITY STUDY) VS BUSINESS PLAN

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Traditionally a Business Feasibility Study (Proof of Business Concept) is conducted prior to the Business Plan being completed. A Business Feasibility Study determines the financial and business viability of the proposed business. However it is often the case that no feasibility study is conducted, and the business manager, owner or entrepreneur will go directly to the Business Plan preparation. It is important that in such cases the business plan also contain key components of the Business Feasibility Study so that the business plan not only communicates the management model but also provided evidence of the justification (validation) of the business itself (Truitt 2002; Thompson 2003b; Thompson 2003a).

For further information refer Chapter Seven – Business Feasibility Study, and Chapter Eight - Business Planning.

## REFERENCES

- Neff, C. (2003). *Corporate Finance, Innovation and Strategic Competition*. New York, Springer.
- Thompson, A. (2002). *A Practical Guide To How To Write Executive Summaries*. Perth, Murdoch University.
- Thompson, A. (2003a). *Business Feasibility Studies: Dimensions of Business Viability*. Perth, Best Entrepreneur.
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- Thompson, A. (2003c). *Understanding the Proof of Business Concept*. Perth, Best Entrepreneur.
- Truitt, W. (2002). *Business Planning: A Comprehensive Framework and Process*. London, Quorum Books.