**Chapter Three**

**Business Planning**

**3.1 The Concept of Business Planning**

One of the most important steps in setting up any new business is to develop a business plan. However, business planning is not a result or an outcome but an ongoing process. To be useful, the development of a business plan must become part of the very foundation of the entrepreneur’s business venture. There is no substitute for a well-prepared business plan, and there are no shortcuts to creating one! The business plan may be the most important business document that he/she will ever prepare for his/her business venture and it will also probably be the most difficult.

A business plan is a written document that sets out the basic idea underlying a business and related start-up considerations.

A business plan is a comprehensive set of guidelines for a new venture. It is also called a feasibility plan that encompasses the full range of business planning activities. A business plan (feasibility plan) is an outline of potential issues to address and a set of guidelines to help an entrepreneur make better decisions. This plan would present basic business idea and all related operating, marketing, financial and managerial considerations. It should layout the idea and describes where we are, where we want to go, and how we propose to go there.

The business plan is also the “blue print” for creating a new venture for the entrepreneur activity, in essence, it is a bridge between an idea and reality without first mentally visualizing the desired end result, the entrepreneur is not likely to see the venture become reality.

For anything, such as to build a house or a business, there is always a need for written plan. The role of the business plan is to provide a clear visualization of what the entrepreneurs intends to do. A business plan may also address major expansion of an existing firm. For example, an entrepreneur who has started a small local business may propose opening additional branches or extending the business success in other ways, or a business may use to plan, a plan as a response to opportunities. Therefore, writing a business plan should be thought of as ongoing process and as the means to an end product.

**Purpose of Business Plan**

1. It can help the owner/manager to crystallize and focus his ideas
2. It can help the owner/manager set objectives and give him a yardstick against which to monitor performance
3. It can also act as a vehicle to attract any external finance needed by the business
4. It can convince investors that the owner/manager has identified high growth opportunities, and that he has the entrepreneurial flair and managerial talent to exploit that opportunity effectively
5. It entails taking a long term view of the business and its environment
6. It emphasizes the strengths and recognizes the weakness of the proposed venture
7. It offers a sound basis for operation of a business plan that can be used at different times

**When Business Plans are produced?**

1. **At the start up of a new business**

After the initial stage of developing ideas and feasibility study are over, a new business may start up through a detailed planning stage of which the main output is the business plan.

2. **Business purchase**

Buying an existing business does not negate the need for an initial business plan. A detailed plan tests the sensitivity changes to key business variables. This helps to understand the level of risk that are accepted and the likelihood of rewards being available for the buyers.

3. **Ongoing process**

Ongoing review of progress, against the objectives of either a new business or a small business purchase is important in a dynamic environment. A periodic review with the business plan is required in the constantly changing environment. A business plan should be the live, strategic, and technical planning focusing on how a small business responds to the inevitable changes around it.

4. **Major decisions**

Even if planning is not carried out on a regular basis, it is usually instigated at a time of major change.

**Who makes the business plans?**

Three types of people are interested in a business plan:

1. the managers who run the business on a day to day basis
2. the owners, or prospective equity investors
3. the lenders, who are advancing loans for the enterprise

1. **Managers**

They are involved in small business planning both as producers and recipients of the plan. The management of a small enterprise is the only people likely to be sufficiently knowledgeable to produce a business plan. Business plans are also written to aid small business managers.

2. **Owners**

The managers of a small enterprise may also be the owners and take a keen interest in the planning process. A plan may be intended for prospective equity partners, either a sleeping partner looking for an investment, or an active partner looking to join an existing small business. Owners may also be lenders, who take an equity stake in return for providing loans.

3. **Lenders**

Banks are the main recipients of business plan. They encourage the production of business plans to justify overdrafts and loans offering literature and advice and putting together business plans. Other lenders of money, from private individuals to venture capital companies, will also expect to make their investment decision after the presentation of a formal business plan.

**Users of a Business Plan**

Who do you think are the users of a business plan? The users of a business plan will vary based on its function. The business plan has two major functions. First, it provides a clearly articulated statement of goals and strategies for the entrepreneur and called as internal users. Second, it serves as a selling document to be shared with outsiders such as investors, government officials and interested parties.

1. **Internal users of the Business plan**

Any activity begins without adequate preparation tends to be disorganized. This is particularly true of such a complex process as initiating a new business. Although planning is a mental process, it must go beyond the realm of speculation. Thus, the established new business becomes rigorous as rough ideas crystallize and are quantified.

A written plan is essential to ensure systematic coverage of all the important features of a new business. By identifying the variables that can affect the success of the business, the business plan becomes a road that helps the entrepreneur focus on important issues and activities of the new venture.

Insiders Outsiders

Investors

Suppliers

Customers

Firm’s management

Employees

New venture business plan

Preparing a formal written plan imposes needed discipline on the entrepreneur and the management team. In order to prepare a written statement about marketing strategy, for example, the entrepreneur and the team must perform some type of market research; likewise, a study of financial needs requires a review of projected receipts and expenditures, month by month. Otherwise, even a good opportunity is likely to fail because of negative cash flows. In short, business plan preparation forces an entrepreneur to exercise the discipline that managers must possess if their venture is to succeed.

A business plan should also be effective in selling the new venture to those within the company. It provides a structure for communicating the entrepreneur’s mission to current and prospective employee of the firm.

1. **External users of business plan**

On the other hand, by enhancing a firm’s credibility, the business plan can serve as an effective selling tool to use with prospective customers and suppliers, as well as investors. Suppliers, Since both investors and lenders use the business plan to better understand the new venture, the type of product or service it offers, the nature of the market, and the qualifications of the entrepreneur, as well as the management team. A venture capital firm or other sophisticated inventors would not consider investing in a new business before reviewing a properly prepared business plan. The plan can also be externally helpful in establishing a good relationship for a new firm with banks. Particularly if you need to use a business plan to raise capital it is important that you understand the investor’s basic perspective. You must see the world as the investor sees it. For most entrepreneurs however, this is more easily said than done, as entrepreneurs normally focus on the positive potential of the start-up that is what will happen if everything goes right.

The prospective investor, on the other hand, plays the role of the skeptic thinking more about what could go wrong. An entrepreneur’s failure is not only to understand but also to appreciate this difference in perspectives almost certainly ensures rejection by an investor.

At the most basic level, the prospective investor has a single goal, to maximize potential return on an investment while minimizing personal risk exposure. Even venture capitalists, who are thought to be great risk takers, want to minimize their risk. Like any informed investors, they will look for ways to evaluate risks to the entrepreneur.

Given such fundamental differences in perspective between the investors and the entrepreneur the important questions become “How do I write a business plan that will capture a prospective investors interest?” should come to your mind, of course, there is no easy answer but at least two things are certain.

1. Investors have a short attention span: Because they receive many business plans. They can not read them in detail. Therefore, business plan should be designed to communicate effectively and quickly
2. Certain features appeal to investors, while others distinctly unappealing. The business plan must be the “right” plan that is; it must speak the investor’s language. You must know what is important and what is not to investors and how to present your idea or concept clearly to get creditability and potential sources of financing.

Nevertheless, investors are more market oriented than product oriented, realizing that even most patented inventions never can earn a dime for the investor. The essence of the entrepreneur’s process is to identify new product, but only of they meet an identifiable customer need. Thus, it is essential for the entrepreneur to appreciate investors market orientation and more importantly, to join investors in their concern about market prospects.

**3.2 Assessing the Feasibility of the Business or Project**

A project feasibility analysis includes market analysis, technical analysis, financial analysis and social profitability analysis. *A market analysis* is a method of screening project ideas as well as means of evaluating a project’s feasibility in terms of the market. *The technical analysis* of a project feasibility study establishes whether the project is technically feasible or not, and whether it offers a basis for the estimation of costs. *In the financial analysis*, the emphasis is on the preparation of the financial statements, so that the project may be evaluated in terms of the different measures of commercial profitability and the magnitude of financing required may be determined.

* 1. **The Business Plan**

All business plans include eight common elements that are contained in the feasibility model. This model is generally adaptable to most types of new ventures.

Executive summary Venture defined, products or services identified, market characteristics summarized, founders introduced, and financial structure profiled

Business concept Purpose of the venture and the major objectives of its founders; description of the distinct competency of the firm

Product or service Function and nature of products and services, proprietary interests, attributes and technical profile

Market research and analysis Customer scenario, markets, venture’s niche, industry structure, expected competition, and sales forecast

Market plan Market strategy to compete, pricing, promotion, distribution, service and warranties, and sales leadership

Manufacturing or operations Facilities, location, inventory and materials needed, human resources, operational processes, technology, security, insurance, and safety

Entrepreneurial team Profile of founders, key personnel, investors and management roles

Financial documentation Financial statements for income and expenses, cash flow; assets and liabilities, break-even projections, and start-up underwriting needed