Basics of Writing a Business plan

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Introduction:

This note goes beyond discussing elements of a business plan. It encourages the reader to explore the reasons for writing the business plan and the lays down a very practical roadmap on how to go about creating the business plan. After this initial discussion, various components of a business plan are individually explored.

This is meant as an indicative canvas only and does not pretend to show the one and only way to make the ideal business plan. Each business is unique and will have a customized approach best suited for it.

When to Use:

This may be used during a workshop on Business Plans or Entrepreneurship in general.

This can be used during any course in entrepreneurship combined with adequate theoretical inputs.

Writing a Business plan:

A business plan is a written description of your intended business. This is where you put down what you intend to do and how you intend to do it. Sometimes you may also add 'why' you want to do it too. Business plans can help perform a number of tasks for those who write and read them. They're used by investment-seeking entrepreneurs to convey their vision to potential investors. They may also be used by firms that are trying to attract key employees, prospect for new business, deal with suppliers or simply to understand how to manage their companies better. Putting you goals and ideas down on paper helps you organize your thinking. Your employees and other stakeholders understand what you plan for the business and it helps keep the organization focused on the big picture. Simply stated, a business plan conveys your business goals, the strategies you'll use to meet them, potential problems that may confront your business and ways to solve them, the organizational structure of your business (including titles and responsibilities), and finally, the amount of capital required to finance your venture. Preparing a business plan can be a time-consuming and daunting task. However, the importance of a business plan to achieve funding and growth goals cannot be ignored. So one should get down to it and start composing a business plan.

1. Decide why you're writing your plan

- Raising money
- Clarifying the company's future
- Launching a new venture
- Searching for partners
- Plotting against the competition.
- Recruiting

Whatever your reason, the business plan will serve its purpose better if it is spelt out in the very beginning

2. Study business plans

Before accumulating mountains of research and information, take a look at other business plans. Your goal is to get a feel for what a business plan is, what it isn't and what to expect from your business plan. With this new insight, prepare an outline that includes the major sections and subsections that you believe should appear in your business plan.

3. Collect Information

Dig through every computer file, box and file cabinet you have to unearth the information that's already available to you. You'll surprise yourself with what you find and with how nicely this step will move you forward. Consider marketing pieces you've prepared, press releases, related articles, industry journals, historical financials, important web sites and notes or ideas you've accumulated over time. Don't rate the quality of this information - just gather it. At this point quantity is the name of the game, and the more you can find the better.

4. Put it down on paper

Start typing thoughts, ideas, words, questions and to-dos into each section of your business plan outline. Put rough thoughts on paper and empty your brain. Don't worry about complete sentences or proper grammar - just type. Approach this step like a brainstorming session, the more powerful the storm, the more potent your business plan. Jot down any ideas that demand further consideration, areas that present a challenge and topics that require the input of others. Strive to place your thoughts in the most appropriate section of your business plan outline and rearrange the outline if it will be more logical for your readers.

5. Prepare your rough draft.

Now it's time to take your outline, the information you've got handy and your brainstormed ideas and shape them into a useable rough draft. Move through your entire outline, section by section and begin writing complete sentences and paragraphs. As you work, start a To-Do List to keep track of topics that require in-depth research, statistics or back-up information. Go through your draft several times, revising lightly as you go. Your plan should be rather sparse, but when you've completed this step, you've truly made progress.

6. Its research time

Now is the time to think like a lawyer and build a case for your business plan. Your goal is to compile information and research to support the claims and assertions you make in your plan. In short, talk to anyone and everyone that might be able to help you collect information for your business plan. This is when you also decide which sections of your business plan get highlighted more. It should be those sections, which help present your case in better light.

7. Start thinking about the numbers. It is advisable to begin developing your pro-forma financial statements at this point. If you prepare your financial statements at this stage, your numbers have a much better chance of matching and supporting the text in the body of your business plan. For example, if you mention a specific advertising medium in your marketing section, you'll need to include the corresponding costs somewhere in your financials.

8. Write a final draft and finish the numbers

Finishing is probably the hardest part. Make sure you have included all you want in the business plan. Check the language and the spelling. Make sure it is systematic and not haphazardly put together. Even small errors can leave a negative impression and in many cases your business plan is the first chance significant business associates have of getting to know you and your business

9. Set a deadline

To ensure that you complete your plan, set a deadline for yourself that you can't ignore. We suggest calling a few people you respect to ask if they would be willing to read your plan and offer suggestions. Make this arrangement with someone whom you are not particularly close with, possibly a professional acquaintance, so it's more difficult and uncomfortable to call and delay. Ask for feedback and make it clear that honesty is what you are after. Record their feedback, evaluate what they have said and if necessary, make the changes.

10. Polish your plan to perfection

The comments you receive from your readers will help you to beef-up the sections of your plan that need attention. Track down any additional information you may need, incorporate the ideas that your readers offered and clarify sections or points that were not clearly conveyed. Put together an appendix if necessary, create a clean cover page and table of contents and include a non-disclosure form. Lastly, prepare a one-page executive summary that encapsulates the highlights of your entire business plan and place it up front. A business plan consists of the following sections:

1. Executive summary
2. Business description
3. Market strategies
4. Competitive analysis
5. Design and development plan
6. Operations and management plan
7. Financial factors

EXECUTIVE SUMMARY

Clearly state what you're asking for in the summary. The statement should be kept short and businesslike, probably no more than two pages. Often the potential investor will decide to read the rest of the business plan only if he likes the summary. In some cases, the summary is all that the investor will read of the business plan. Within that space, you'll need to provide a synopsis of your entire business plan.

Key elements that should be included are:

1. Business concept: Describes the business, its product and the market it will serve. It should point out just exactly what will be sold, to whom and why the business will hold a competitive advantage.
2. Financial features: Highlights the important financial points of the business including sales, profits, cash flows and return on investment.
3. Financial requirements: Clearly states the capital needed to start the business and to expand. It should detail how the capital will be used, and the equity, if any, that will be provided for funding. If the loan for initial capital will be based on security instead of equity, you should also specify the source of collateral.
4. Current business position: Furnishes relevant information about the company, its legal form of operation, when it was formed, the principal owners and key personnel.
5. Major achievements: Details any developments within the company that are essential to the success of the business. Major achievements include items like patents, prototypes, location of a facility, any crucial contracts that need to be in place for product development, or results from any test marketing that has been conducted.

BUSINESS DESCRIPTION

Begin with a short description of the industry. When describing the industry, discuss the present outlook as well as future possibilities. You should also provide information on all the various markets within the industry, including any new products or developments that will benefit or adversely affect your business. Base all of your observations on reliable data and be sure to mention sources of information. This is important if you're seeking funding; the investor will want to know just how dependable your information is, and won't like to risk money on assumptions or shaky data. When describing your business, the first thing you need to concentrate on is its structure. By structure we mean the type of operation, i.e. wholesale, retail, food service, manufacturing or service-oriented. Also state whether the business is new or already established. In addition to structure, legal form should be reiterated once again. Detail whether the business is a sole proprietorship, partnership or a limited company, who its principals are, and what they will bring to the business. You should also mention who you will sell to, how the product will be distributed, and the business's support systems. Support may come in the form of advertising, promotions and customer service. Once you've described the business, you need to describe the products or services you intend to market. The product description statement should be complete enough to give the reader a clear idea of your intentions. You may want to emphasize any unique features or variations from concepts that can typically be found in the industry. Be specific in showing how you will give your business a competitive edge. It could be a better service, a wider range, better after sales or a host of other things.

MARKET STRATEGY

Market strategy is a result of meticulous market analysis. A market analysis forces the entrepreneur to become familiar with all aspects of the market so that the target market can be defined and the company can be positioned in order to garner its share of sales. A market analysis also enables the entrepreneur to establish pricing, distribution and promotional strategies that will allow the company to become profitable within a competitive environment. In addition, it provides an indication of the growth potential within the industry, and this will allow you to develop your own estimates for the future of your business. Begin your market analysis by defining the market in terms of size, structure, growth prospects, trends and sales potential. Once the size of the market has been determined, the next step is to define the target market. The target market narrows down the total market by concentrating on segmentation factors that will determine the total addressable market--the total number of users within the sphere of the business's influence. The segmentation factors can be geographic, customer attributes or product-oriented. For instance, if the distribution of your product is confined to a specific geographic area, then you want to further define the target market to reflect the number of users or sales of that product within that geographic segment. Once the target market is detailed, the total feasible market needs to be defined. It’s important to understand that the total feasible market is the portion of the market that can be captured provided every condition within the environment is perfect and there is very little competition. In most industries this is simply not the case. There are other factors that will affect the share of the feasible market a business can reasonably obtain. These factors are usually tied to the structure of the industry, the impact of competition, strategies for market penetration and continued growth, and the amount of capital the business is willing to spend in order to increase its market share. For a market plan, you need to estimate market share for the time period the plan will cover. While doing so you need to consider the projected growth of the market and the expected conversions from the competitors. Here you must also discuss the pricing of your product. Pricing strategy and computation will have to be mentioned in detail Distribution includes the entire process of moving the product to the customer. The type of distribution set up chosen will depend on the structure of the industry and the size of the business.

Various promotional plans will have to be initiated over a period of time. You will have to list your choices and give the reasons to go ahead with them. You may decide to have advertising campaigns, seasonal discounts or improved packaging.

COMPETITOR ANALYSIS

The purpose of the competitor analysis is to determine the strengths and weaknesses of the competitors within your market, strategies that will provide you with a distinct advantage, the barriers that can be developed in order to prevent competition from entering your market, and any weaknesses that can be exploited within the product development cycle You can start to analyze their strategies and identify the areas where they're most vulnerable. This can be done through an examination of your competitors' weaknesses and strengths. A competitor's strengths and weaknesses are usually based on the presence and absence of key assets and skills needed to compete in the market. You can also look at the reasons behind successful as well as unsuccessful firms this involves defining the elements. According to theory, the performance of a company within a market is directly related to the possession of key assets and skills. Therefore, an analysis of strong performers should reveal the causes behind such a successful track record. This analysis, in conjunction with an examination of unsuccessful companies and the reasons behind their failure, should provide a good idea of just what key assets and skills are needed to be successful within a given industry and market segment. Strategies primarily revolve around establishing an endurable competitive advantage that will set your product or service apart from your competitors or strategic groups. You need to establish this competitive advantage clearly so the reader understands not only how you will accomplish your goals, but also why your strategy will work.

OPERATIONS AND MANAGEMENT PLAN

The operations plan will highlight the logistics of the organization such as the various responsibilities of the management team, the tasks assigned to each division within the company, and capital and expense requirements related to the operations of the business. In fact, within the operations plan you'll develop the next set of financial tables that will supply the foundation for the "Financial Components" section. This section will describe the operational procedures, manufacturing equipment, level of production required, locations, licensing and other aspects related to providing the product or service. The organizational structure of the company is an essential element within a business plan because it provides a basis from which to project operating expenses. This is critical to the formation of financial statements, which are heavily scrutinized by investors;

therefore, the organizational structure has to be well defined and based within a realistic framework given the parameters of the business.

Four stages for organizing a business:
1. Establish a list of the tasks using the broadest of classifications possible.
2. Organize these tasks into departments that produce an efficient line of communications between staff and management.
3. Determine the type of personnel required to perform each task.
4. Establish the function of each task and how it will relate to the generation of revenue within the company.

Once you've structured your business, however, you need to consider your overall goals and the number of personnel required to reach those goals One of the most important elements of your business plan is the section describing the experience, qualification and skills of you and your management team. The investors want to feel confident that you will be able to handle the various challenges in running the business and you need to assure them of that.

FINANCIAL STATEMENTS

The three common financial statements are the cash flow statement, profit and loss account and the balance sheet. Together they can give a very accurate and revealing picture of the enterprise. You may need to give the projected financial statements for the next three years and in case your firm is an existing one you will need to give past years' financial statements too. All the three statements are interlinked with changes in one affecting the others. The profit and loss statement is the scorecard that tells how much money does the business earn over a given period of time. The cash flow statement is an information tool telling how much cash is needed to meet obligations, when will it be needed and where is it coming from. The balance sheet is a summary of all the financial data giving a macro view of the company at a given point of time. In addition to these statements, you may find it prudent to include a break even analysis and a pay back schedule. Break – even can be calculated on sales volume, capacity utilisation or sometimes as time till break – even. Additionally, an NPV or IRR calculation indicates the envisioned continued fair state of the business.