

Chapter 6: Business Plan

Business Plan Basics

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Overview

- What is a business plan?
- What are the key elements of a business plan?
- What are the three tests must it pass?
- What are some free resources?



A Business Plan Is...

- a systematic evaluation of a venture's chances for success.
- a way to determine the risks facing a venture.
- a game plan for managing a business successfully.
- a tool for comparing actual and target results.
- an important tool for attracting capital.

The Business Plan: Two Essential Functions

- Business plan – a written summary of:
 - an entrepreneur's proposed business venture.
 - its operational and financial details.
 - its marketing opportunities and strategy.
 - its managers' skills and abilities.
- It serves two essential functions:
 - Guiding the company by charting its future course and defining its strategy for following it.
 - Attracting lenders and investors who will provide needed capital.

The Business Plan

- A plan is a reflection of its creator.
- Realization that a business idea just won't work.
- The real value is in the *process* of creating it.

Why Take the Time to Build a Business Plan?

- Although building a plan does not guarantee success, it *does* increase your chances of succeeding in business.
- A plan is like a road map.



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Key Elements of a Business Plan: The Executive Summary

- Summary of all the relevant parts of the business.
- Maximum of 2 pages.
- Anyone should be able to understand the entire business concept and the company's competitive advantage.
- "the elevator pitch"

Key Elements of a Business Plan: Mission Statement

- Entrepreneur's vision of what the company is, what it is to become, and what it stands for.
- Broadest expression of a company's purpose and defines the direction in which it will move.

Key Elements of a Business Plan: Business and Industry Profile

- Company's general business goals and its immediate objectives.
- Industry Analysis
- Ease of entry and exit, economies of scale/scope, economic trends
 - *Summary of Commentary on Current Economic Conditions.*
- Provide information on the existing and anticipated profitability of competing firms.

Key Elements of a Business Plan: Business Strategy

- Explain how you plan to gain a competitive edge in the market and what sets your business apart from the competition.
- How you plan to meet goals and objectives in the face of competition and government regulations.
- Identify the image the business will project.

Key Elements of a Business Plan: Description of Product/Service

- Explain how customers will use product or service.
- Indicate product's position in the product life cycle.
- Summary of patents, trademarks, or copyrights protecting the product/service.
- Focus on customer benefit, not just a detailed list of the product's features.

Key Elements of a Business Plan: Marketing Strategy

- Prove that a profitable market exists
 - Show customer interest
 - Document market claims
- Show customer interest
 - Prove that the target customers need or want the product/service and are willing and able to pay for them.

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Key Elements of a Business Plan: Competitor Analysis

- Provide information on competitors' market shares, products, and strategies.
- Demonstrate that your company has an advantage over its competitors.

Key Elements of a Business Plan: Owners' and Managers' Resumes

- Should include resume of anyone with at least a 20% ownership in the company.
- Show that the company has the right people organized in the right way.
- Ideally, lenders look for managers with at least 2 years of operating experience.

Key Elements of a Business Plan: Plan of Operation

- Construct an organizational chart.
- Describe incentives to keep key personnel.
- Describe firm's form of ownership and any leases, contracts, and other relevant agreements pertaining to the operation.

Key Elements of a Business Plan: Financial Forecasts

- Monthly pro forma financial statements for one year and by quarter for each of the next 2-3 years.
 - Income statement
 - Cash flow statement
 - Balance sheet
- Three sets of forecasts: optimistic, most likely, and pessimistic.
- Include break-even analysis.

Key Elements of a Business Plan: The Request for Funds

- State the purpose of the loan or investment, the amount requested, and the plans for repayment or cash-out.
- Financial projection must reflect the firm's ability to repay loans to lenders and to produce adequate yields for investors.
- Include an evaluation of the risks of the business.

Tips on Preparing a Business Plan

- Rid your plan of all spelling and grammatical errors.
- Make your plan visually appealing.
- Leave ample "white space" in margins.
- Make sure your plan has an attractive cover.
- Include a table of contents.
- Write in a conversational style and use "bullets."

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Tips on Preparing a Business Plan

- Support claims with facts and avoid generalizations.
- Avoid overusing industry jargon.
- Make it interesting!
- Use spreadsheets to generate financial forecasts.
- *Always* include cash flow projections.
- Keep your plan “crisp”

A Plan Must Pass Three Tests

- *The Reality Test* - proving that:
 - a market really does exist for your product or service.
 - you can actually build it for the cost estimates in the plan.
- *The Competitive Test* - evaluates:
 - a company’s position relative to its key competitors.
 - management’s ability to create a company that will gain an edge over its rivals.
- *The Value Test* - proving that:
 - it offers investors or lenders an attractive rate of return or a high probability of repayment.

Available Free Resources

- Indiana Secretary of State
 - **An Entrepreneur’s Guide to Starting A Business in Indiana**
 - www.in.gov/sos/business/corps/guide
- *AccessIndiana*
 - www.in.gov/ai/business/
- Small Business Administration
 - www.sba.gov
- Small Business Development Center
 - www.isbdc.org
- New Ventures Team (Purdue University)
 - www.agecon.purdue.edu/newventures/
- U.S. Business Advisor
 - <http://www.business.gov/>

