

6.1 What Is a Business Plan?

OBJECTIVES

- Explain the purpose of a business plan
- Describe the types of business plans
- Identify the parts of a business plan
- Understand how to put together a business plan

VOCABULARY

- business plan
- executive summary



Think about this question:

If I were going to do something important, would I plan before I did it?

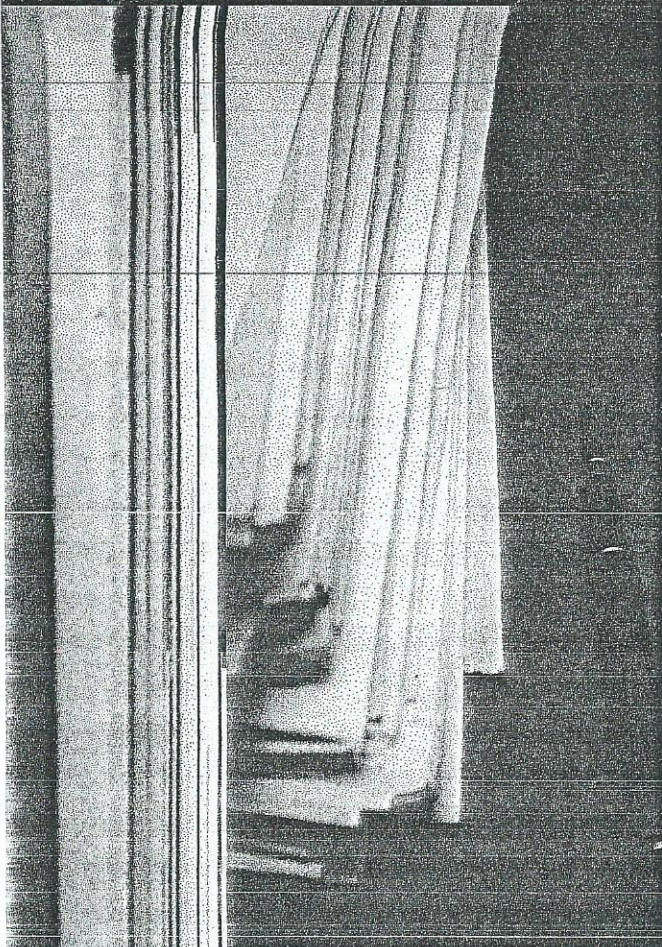
Write your answer (yes or no) on a piece of paper. Be prepared to discuss your answer in class.

Purpose of a Business Plan

Creating a business could be one of the most important things you do in your life. So it would only make sense to spend time planning it. Most entrepreneurs initially develop a business plan as a way of describing their business precisely. A **business plan** is a statement of your business goals, the reasons you think these goals can be met, and how you are going to achieve them.

If you start your business without a plan, you will soon be overwhelmed by questions you haven't answered. A business plan forces you to figure out how to make your business work. A well-written business plan will show investors that you have carefully thought through what you intend to do to make the business profitable. The more explanation you offer investors about how their money will be used, the more willing they will be to invest. Your plan should be so thoughtful and well written that the only question it raises in an investor's mind is "How much can I invest?"

A well-written plan will also guide you every step of the way as you develop your business. It becomes a decision-making tool. An entrepreneur uses the business plan to track whether the company is meeting its goals. From time-to-time, the business plan needs to be revised to keep up with the changing nature of the business.



▲ Professional investors often receive hundreds of business plans a year

established industries, might do it every three years. Still others, in developed or high-tech areas, may need to do it monthly or even weekly.

If your company is for-profit, your business plan will typically focus on your financial goals. If you are a nonprofit, your plan will typically focus on your mission and services in support of that mission. (As you know from previous chapters, a nonprofit company can make a profit, but the funds must remain in the company and be used in pursuing its mission.)



What is a business plan?

Types of Business Plans

Business plans have no set format. A plan is developed based on the type of business that is intended. However, it is also based on the audience. Businesses need different types of plans for different audiences. There are four main types of plans for a start-up business:

- **Quick Summary.** This is a synopsis lasting from thirty seconds to three minutes. It's used to interest potential investors, customers, or strategic partners. It may seem strange to consider this a type of business plan, but it is. In some cases, the quick summary may be a necessary step toward presenting a more fully developed plan. (Examples of this type of summary are the elevator pitch and the twitpitch, described later in this section.)



- **Oral Presentation.** This is a relatively short, colorful, and entertaining slideshow with a running narrative. It is meant to interest potential investors in reviewing the detailed business plan.

- **Investor's Business Plan.** Anyone who plans to invest in your start-up business (banks, investors, and others) needs to know exactly what you are planning. They need a detailed business plan that is well written and formatted so all the information can

Figure 6-1 ▶

Oral Presentation

Be sure to maintain the interest of your audience when making an oral presentation.

Communicating. *What are some of the ways you could maintain the interest of an investor when presenting a business plan?*

- **Be easily understood.** When entrepreneurs talk about a business plan, this is typically the type of plan they mean.
- **Operational Business Plan.** Often a start-up business will develop an *operational* plan that is meant for use within the business only. This plan describes in greater detail than the investor's business plan how the company will meet its goals. It is also often less formal than an investor's business plan.

Although there is no set format for a business plan, each type of plan will address The Three C's.

The Three C's

- **Concept.** What is your product or service and how is it different from similar products or services?
- **Customer.** Who will be buying your product or service and why?
- **Capital.** How will you locate the money your business will need? What will be your costs and what kind of profit can you expect?

READING CHECKPOINT

What are the four main types of business plans for a start-up?

Parts of a Business Plan

In this course you will be focusing on developing an investor's business plan. Bankers and other professional investors will need to see your business plan before they lend you money. You may have a brilliant idea, but if you do not explain it fully in a well-written business plan, no professional investor will be interested.

Professional investors typically see many business plans each year and make very few investments. They will immediately reject an incomplete or poorly written plan. Investors are busy people and don't have time to read an overly long business plan. Your plan, including the financials,

Standard Business Plan

Part of Business Plan	Section of Book	Key Question
Business Idea	1.2	What skills do I have to start this business?
	2.1	What factors will influence the demand for my product or service?
	3.1	What type of business will I start?
	3.2	What type of business ownership is right for me?
	5.2	How is my business socially responsible?
Opportunity & Market Analysis	6.2	Is my idea for a business a real business opportunity?
	7.1	How should I conduct market research?
	7.2	Who are my competitors?
	7.2	What is my competitive advantage?
	8.1	What is my marketing plan?
	8.1	What are my product and pricing strategies?
	8.2	How do I promote my product?
	9.1	How do I sell my product?
Financial Strategies	9.2	How do I estimate sales?
	10.1	What are my business costs?
	10.2	How do I measure the economics of one unit?
	11.1	How do I develop an income statement and track cash flow?
	11.2	How do I develop a balance sheet?
	12.1	Are my financial ratios good?
	12.2	What is my break-even point?
	13.1	What types of financing are available?
	13.2	Should I obtain financing?
	14.1	What records should I keep?
	14.2	What kind of accounting system should I use?

- be easily understood. When entrepreneurs talk about a business plan, this is typically the type of plan they mean.
- **Operational Business Plan.** Often a start-up business will develop an *operational* plan that is meant for use within the business only. This plan describes in greater detail than the investor's business plan how the company will meet its goals. It is also often less formal than an investor's business plan.

Although there is no set format for a business plan, each type of plan will address The Three C's.

The Three C's

- **Concept.** What is your product or service and how is it different from similar products or services?
- **Customer.** Who will be buying your product or service and why?
- **Capital.** How will you locate the money your business will need? What will be your costs and what kind of profit can you expect?



What are the four main types of business plans for a start-up?

Parts of a Business Plan

In this course you will be focusing on developing an investor's business plan. Bankers and other professional investors will need to see your business plan before they lend you money. You may have a brilliant idea, but if you do not explain it fully in a well-written business plan, no professional investor will be interested.

Professional investors typically see many business plans each year and make very few investments. They will immediately reject an incomplete or poorly written plan. Investors are busy people and don't have time to read an overly long business plan. Your plan, including the financials

Executive Summary

- Mission Statement
- Business Name & Location
- Date Business Will Begin
- Owner's Name, Function, & Contact Information
- Opportunity
- Products or Services
- Economics of One Unit (EOU)
- Future Plans

business opportunity is not quite the opportunity you thought. You might need to abandon the idea or tweak it to make it more viable. It is better to discover that the business won't work on paper before you invest significant time and money.

Developing a business plan is not a simple, straightforward process. You don't start at the beginning and move to the end. Each new piece of information or financial calculation could cause you to reexamine, and possibly change, everything you have done up to that point.

You will need to consider two basic questions early in the process of developing your business plan (both were discussed in Chapter 3):

- What type of business will you form (manufacturing, wholesaling, retailing, or service)?
- What type of ownership will it have (sole proprietorship, partnership, corporation, or cooperative)?

The remainder of this book will provide what you need to know to

will use. Recently, in this part of the business plan, you have begun to describe how their business is going to be managed.

- **Opportunity & Market Analysis.** Your description of the market should include an account of the market, its size, its trends and characteristics, and its growth rate. Describe your market research. List your competitors and describe your competitive advantage. Provide your marketing plan, your product and pricing strategies, and your plans for promotion.
- **Financial Strategies.** This section shows any historical financial data, as well as projected figures including estimated sales and expenses (typically extending for five years). This section also describes any financing required by the business.
- **Organizational Structures.** In this part of the business plan you discuss the organizational structure of the company. You can provide profiles of key managers and, if appropriate, information about your board of directors. You can also describe how you plan to train and motivate your employees, if appropriate.
- **Legal Structures.** In this part of the business plan you describe any intellectual property or contract issues. You also talk about how your business will be protected by insurance, the affect of taxes on your business, and any relevant government regulations that affect the business.
- **Business Management.** Describe how the business will be managed (focusing on production, distribution, operations, purchasing, and inventory).
- **Plan for Growth.** Here you describe your plans to grow the business and the challenges it may face. You may also describe your plans to franchise or license the business, if that is part of its plan for growth.

To ensure that investors understand the key points of your idea, the plan should include an **executive summary**, a one- or two-page summary of highlights, including the key selling points of the investment opportunity. (See the description of an executive summary on the following page.)

The Internet offers many sources of information about business plans. One of the best is the Website of the Small Business Administration (www.sba.gov), which has links to other organizations that provide business planning help. Another good source for help with business plans is www.entrepreneur.com.

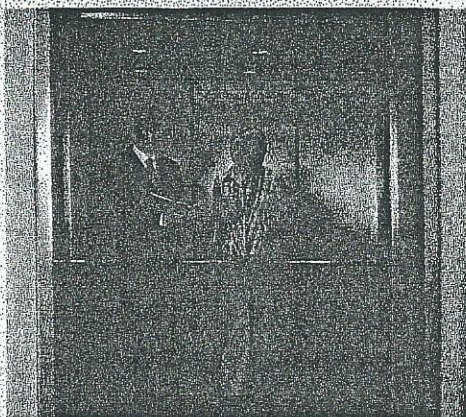


What seven parts do most business plans include?

Putting Your Plan Together

You will be putting together your own business plan for investors. In the process, you may discover that what you thought was a good

Elevator Pitches



Entrepreneurs often need funds from outside sources to start their businesses. To obtain financing, entrepreneurs have to explain the idea for a new business to a bank loan officer, a venture capitalist, or other potential investor. This is called a “pitch.”

Entrepreneurs often don’t have much time to make their case. This has led to the “elevator pitch” (so named because the pitch has to be succinct enough to be delivered during an elevator ride). In an elevator pitch, an entrepreneur has only 30 seconds. He or she must

communicate in fewer than 150 words what the product does and how the consumer will benefit. Venture capitalists may ask entrepreneurs for an elevator pitch to weed out bad ideas immediately.

Now, with the advent of micro-blogging Websites such as Twitter—in which readers post updates of 140 characters or less—the “twitpitch” is the newest type of elevator pitch. Entrepreneurs post two-sentence business ideas to their accounts, efficiently getting through to time-crunched consultants and venture capitalists.

THINKING CRITICALLY

Applying Concepts. Think of a new idea for a small business. Can you communicate that idea in 30 seconds? How about in 140 characters or less? Start by practicing an elevator pitch in a small group and then take turns writing your own twitpitches and sharing them with the class.

To read more about pitches, including elevator pitches and twitpitches, go to “Entrepreneurship Issues” on the Student Center at entrepreneurship.pearson.com.

ASSESSMENT 6.1

Reviewing Objectives

1. What is a business plan?
2. What are the four main types of business plans?
3. What are the seven parts of a business plan?
4. What two questions do you need to consider early in the process of developing a business plan?

Critical Thinking

5. **Comparing/Contrasting.** Why do the business plans for nonprofit organizations differ from those of for-profit businesses?
6. **Drawing Conclusions.** How would the business plan for a one-person service operation run from a home differ from that of a manufacturing business requiring 100 employees, equipment, and a building?

Working Together

Working in groups of four, use the Internet to research three business plan models. Record the parts of each plan and the order in which the parts are presented. Compare these business plans with the one outlined in this chapter. What are the differences between the plan in the text and the plans you researched? What are the similarities?

Language Arts

Summarizing a Business Plan

Select six existing businesses: two manufacturing, two retailing, and two service. For each business, identify the concept and the customer in one sentence.