Preparing Effective Business Plans

Why write a plan?
- Explains every aspect of a new business
- Experts recommend it
- Internally – as a road map of strategies
- Externally – informs investors and others to the business opportunity
- Part of a larger process
- Less than 40% of entrepreneurs do
- Shows others your preparedness

Guidelines for a Business Plan
- Follow basic structure
  - Make it easy for the reader to find critical information
- 25-35 pages
- Avoid boilerplate templates
  - Don’t make it looked canned
- Convey a sense of excitement

Guidelines for a Business Plan (cont.)
- Write it yourself
- It should look neat, but not too expensive
- Do not overuse design elements
  - Italics, bold, clipart, different fonts and colors
- Use a logo
- It must convey a clear and concise story
- Develop an elevator speech (45 seconds to 2 minutes)

4 Steps to an Elevator Speech
1. Describe the opportunity or problem that needs to be solved (20 seconds)
2. Describe how your product solves this problem (20 seconds)
3. Describe your qualification (10 seconds)
4. Describe your market (10 seconds)

Guidelines for a Business Plan (cont.)
- Avoid red flags
  - Founders have no money at risk
  - Poor citations
  - Broad market definitions
  - Overly aggressive financials
  - Hiding or avoiding weaknesses
  - Sloppiness
  - Too long

4 Types of Businesses
- Survival
  - Handyman, Lawn service, part-time childcare
- Lifestyle
  - Pizzeria, personal trainer, clothing boutique
- Managed Growth
  - Multi-unit Pizzeria, Web retailer, Multi-unit franchise
- Aggressive Growth
  - Software, medical equipment

Naming a Business
- An integral part of the branding process
  - Brand – a unique set of attributes that allow consumers to separate one company from another
  - It should complement the type of business
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- Customer-driven – Big and Tall Guys
- Product-driven – Whole Foods, Jiffy Print
- Industry-driven – Home Depot, GM
- Personality-driven – Ben & Jerry’s, Dell

9. **Naming a Business**
   - Legal issues
     - Must be unique in each state
     - Contact Secretary of State
     - Can’t be confusingly similar to another
     - Fedex and Fedextra
     - Obtain trademark with name and logo
       - [www.uspto.gov](http://www.uspto.gov)
     - Obtain URL

10. **Elements of a Business Plan**
    - Cover Sheet (1 page)
    - TOC (1 page)
    - Executive Summary (1 to 2 pages)
    - Company Description (1 to 2 pages)
    - Industry Analysis (2 to 4 pages)
    - Market Analysis (2 to 3 pages)
    - Marketing Plan (2 to 3 pages)
    - Management Plan (1 to 2 pages)
    - Operations Plan (2 to 3 pages)
    - Financial Plan (4 to 8 pages)

11. **Introductory Material**
    - Cover page
      - Name of company
      - Street address
      - Email address
      - Phone numbers
      - Date
      - Website
      - Logo

12. **Introductory Material**
    - Table of Contents
      - Main sections
      - Sub sections
      - Appendices
      - Corresponding page numbers
      - Tabs are optional
    - Always double check page numbers to ensure they correspond

13. **Introductory Material**
    - Executive Summary
      - Must interest the reader
      - 2 single-spaced pages
      - Section by section overview of the entire plan
      - Completed last

14. **Content of Executive Summary**
    - Each section should be crisp and concise
    - Section headings bolded
    - Tone should convey excitement
    - Factual, showing research was conducted
    - Avoid technical jargon
    - Connect on an emotional level

15. **Company Description**
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- Provide an overview of the business and the reason it is starting
- Demographic info
  - Names of the founders
  - Address of headquarters
  - Contact information

16 Company Description
- 5 Elements
  - Company history
  - Mission statement
  - Products & services
  - Current status
  - Legal status & ownership

17 Company History
- Be brief
- Where did the idea come from?
- Tell how you will meet a compelling need

18 Mission Statement
- Explains why a company exists
- Describes your reason for being
- Include a tagline in this section

19 Products & Services
- Explain your product or service
- How is your product or service unique?
- How is it positioned in the marketplace?
- Who are your customers?
- How did your product idea come about?
- Identify any IP

20 Current Status
- How far along are you in your development?
- Milestones completed?
- Milestones to be completed?
- Current management team
- Early customer reaction to your product or service
- Your financial status
  - Debt or equity commitments

21 Legal Status & Ownership
- Who owns the company?
- What agreements have been setup?
- What is your current form of ownership?

22 Industry Analysis
- A group of firms producing similar products or services – airplanes, music, restaurants
- Focus is on the industry
- Precedes the analysis of the target market and marketing strategy
Industry Analysis Contents

- Industry definition
  - Brief (just a few sentences)
  - SIC and NAICS codes
    - \[www.census.gov/epcd/www/naicstab.htm\]
  - Classify your business as narrow as possible
  - If operating in multiple industries, analyze all (e.g., software & healthcare)

Industry Analysis Contents

- Size
  - Displayed in dollars
  - Create table to show change over 3 – 5 years
  - Provide number of establishments

Industry Analysis Contents

- Break down industry into smaller segments
- 
- 
- Report contribution that the narrow industry contributes to broad industry (e.g., 32%)

Industry Analysis Contents

- Growth Rate and Sales Projections
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Industry Analysis Contents

- Industry Characteristics
  - Industry Structure
    - Concentrated
    - Fragmented
  - Industry Ratios
  - Key Success Factors

Industry Analysis Contents

- Trade journals, industry magazines, industry reports from research organizations
- Environmental Trends
  - Economic, Social, Technological, Regulatory, Political
  - Business Trends
    - Profit margins, Cost of goods
  - Long Term Prospects

Market Analysis

- Focus on describing a firm’s target market
- Why is it important?
  - Helps define the nature of your business
  - Size of the market
  - Sales projections
  - Defines potential of the market
  - Well thought out market
  - Understands the customers and competitors
  - Can generate sufficient sales
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30 Market Analysis
- Market Segmentation
  - Who are your customers and how will you appeal to them?
  - Dividing a market into subsets that have similar needs
    - Geographic (city, state, country)
    - Demographic (age, gender, family size, income)
    - Psychographic (lifestyle, values)
    - Combination of more than one

31 Market Analysis
- Determine if the segmentation is successful
- Homogeneity of needs within segment
- Heterogeneity of needs between segments
- Is it possible to determine size within segment?
- Is the segment large enough to make a profit?
- Segment by consulting with:
  - Trade associations
  - Industry journals
  - Suppliers, distributors, customers

32 Market Analysis
- Estimating size of target market selected
  - Your plan will be judged by:
    - Reasonableness of estimate
    - Degree to which estimate is anchored by facts
    - Extent to which a good faith effort expended
  - Estimate sales
    - How much of the target market can the business gain during the following years

33 Market Analysis
- Buyer Behavior
  - Deal directly with the behavior of the consumers in the target market
  - Explain why your customers will purchase your product or service
  - Describe how your product or service differs from the competitors

34 Market Analysis
- Competitor Analysis
  - Detailed analysis of the firm’s competition
  - Never say you don’t have any competitors
  - Direct competitors – offer a product very similar to yours
  - Indirect competitors – offer close substitutes that meet the same need
  - Future competitors – competitors that could become direct or indirect competitors

35 Market Analysis
- Competitor Analysis
  - Include Competitor Analysis Grid
    - Comparison of your firm to others
    - Shows how you stack up against others in key areas
    - Illustrates your source of competitive advantage
  - End this section with your conclusions to help the reader interpret the information

36 Market Analysis
- Estimate of Annual Sales
  - The final section of the market analysis
  - This information will also be presented in the financial plans
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- The estimate must be realistic and attainable

37 Market Analysis
- Estimate of Annual Sales
  Four methods to use
  1. Ask the trade association. Use "rules of thumb" if necessary: Sales per square foot; Average sales per employee.
  2. Find a comparable store. Use a store out of your trade area. Use common sense to adjust your numbers. Report your assumptions.
  3. Conduct internet searches to find stories about comparable businesses.
  4. Use the multiplication method.
  5.

38 Market Analysis
- Multiplication Method for calculating sales
  1. Determine total possible customers in market
  2. Multiply by percent that buy similar products
  3. Multiply by average buyer purchase per year
  4. Multiply by estimated market share

39 Market Analysis
- Multiplication Method

40 Marketing Plan
- Focuses on how you will find customers and close the sale
- Deals with the nuts and bolts of marketing
  - Product
  - Price
  - Place
  - Promotion
- Lay out specifically how you plan to make your target market aware of your existence

41 Marketing Plan
- Develop this section with the customer in mind
  - What they read
  - How much disposable income they have
  - The media they watch
  - Who will sale your product and what is the sales process
  - Direct sales force
  - Distribution or wholesales
  - Alliances with complementary products

42 Marketing Plan
- Elements
  1. Overall marketing strategy
  2. Pricing strategy
  3. Sales process
  4. Promotions mix
  5. Distribution
  6. Sales

43 Marketing Plan
- 1. Overall Marketing Strategy
  - This element sets the tone for the marketing plan
  - You must have an overall philosophy to marketing to enable you to deploy resources consistently
  - Positioning strategy
    - How a firm is positioned relative to the competitors
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- The position in the target market that the firm will own
- Study the features of your product or service
- Whichever position is selected is based on the owner’s judgment, its mission, the overall marketplace, and the competitive landscape

44 Marketing Plan
   1. Overall Marketing Strategy (cont.)
      - Points of differentiation
        - Select two or three points to highlight in this section
        - Make them memorable and distinct
        - Make sure the reader can see the value of these points
        - Use a Product Attribute Map

45 Marketing Plan
   2. Pricing Strategy
      - Price sends a message to the customer
      - Price determines how much money a company earns
      - Explain how you plan to price your product or service and the rationale behind the price
        - Cost – based
        - Value - based

46 Marketing Plan
   - Cost-Based Strategy
     - The price is determined by adding a mark-up percentage to the cost
     - Mark-up usually determined by industry average
     - Easy to justify price
     - Price is set based upon what the company thinks a good or service is worth, not what the market thinks

47 Marketing Plan
   - Value-Based Strategy
     - Determined by estimating what the market will pay, then backing off a little as a cushion
     - Determined by focus groups or through testing
     - Value is influenced by positioning, branding, and promotions
     - Produces a higher gross margin

48 Marketing Plan
   - Price-Quality Attribution
     - Consumers naturally assume a higher priced product is of better quality
     - Lower price products are perceived to be of a lower quality
     - The overall price you are able to charge is a function of
       1. Objective quality of the product
       2. Perceived value you create in the mind of the consumer

49 Marketing Plan
   3. Sales Process
      - The steps necessary to establish a relationship with customers and close the sale
      - This is an important section to the reader
      - A structured process to generate and close sales benefits the company
        - Enables a firm to fine tune its approach to sales and builds uniformity into the process
        - Helps a firm qualify leads, maximizing time and money on most likely buyers

50 Marketing Plan
   3. Sales Process (cont.)
      1. Gather sales leads
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2. Make initial contact
3. Qualify the lead
4. Make the sales presentation
5. Meet objections and concerns
6. Close the sale
7. Follow up
8.

Marketing Plan

4. Promotions Mix
   - The specific tactics used to communicate with potential customers
   - Advertising
     - To raise customer awareness of a product
     - Explain a product's features and benefits
     - Create an association between a product and a certain lifestyle
     - Multiple media
       - Direct mail, magazine, newspapers, radio, TV, billboards
       - Which media depends on the target market

Marketing Plan

4. Promotions Mix (cont.)
   - Advertising (cont.)
     - Conventional forms of advertising have drawbacks
       - Low credibility
       - High percentage of people will not be interested
       - Message clutter
       - Relatively costly
       - Perception that advertising is intrusive
       - A poorly crafted ad could irritate the target market

Marketing Plan

4. Promotions Mix (cont.)
   - Public Relations
     - Efforts to establish and maintain a firm's image
     - PR is free
     - Techniques
       - Press release
       - Media coverage
       - Articles about the firm
         - Create a human interest story
       - Blogging
       - Monthly newsletter
       - Civic, social, and community involvement

Marketing Plan

4. Promotions Mix (cont.)
   - Other Promotion-Related Activities
     - Give away free samples or trial memberships
     - Word-of-mouth advertising (Buzz)
     - Focus on the benefits of the product rather than the features
     - Identify specific budget amounts for promotional activities

Marketing Plan

5. Distribution
   - All the activities that move a firm's product from its place of origin to the consumer
   - A service company may not have this section
   - How will the firm get the product to the consumer?
     - Directly to consumer
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- Direct sales force
- Catalogue or Internet
- Intermediary
- Wholesaler, distributor, or manufacturer’s rep

56 Marketing Plan
- Sales Strategy
  - Own sales force
    - How many?
    - How will the force be ramped up upon growth?
    - How will they be compensated?
  - Through intermediary
    - How will they be chosen?
    - Training, tech support, shipping, point-of-sale advertising material

57 Management Plan
- Elements
  - Management Team
  - Board of Directors (BOD)
  - Board of Advisors
  - Other Professionals
  - Company Structure

58 Management Plan
1. Management Team
   - Management personnel
   - Brief profile of each member
     - Title, duties, industry experience, previous successes, education
   - Skill profile and management gaps
     - Identify any skill not covered by the management team
       - Create skill grid
     - Explain how the gaps will be filled
       - Professional, part-timer, advisor

59 Management Plan
1. Management Team (cont.)
   - Ownership and Compensation
     - Use table format for an easier read
     - Show ownership percentage, base compensation, and capital investment
     - Show options pool available for future employees

60 Management Plan
1. Management Team (cont.)
   - Avoid
     - Placing unqualified individuals in key management positions
     - A “one-man-team” philosophy
     - Hiring top managers without sharing ownership
     - Not disclosing management gaps
     - Not planning for filling critical gaps

61 Management Plan
2. Board of Directors
   - Panel of individuals elected by the shareholders to oversee management of the firm
   - Required if the firm is incorporated
   - Include a brief bio of each director
3. Board of Advisors
   - Panel of experts asked to provide counsel and advice
   - No legal responsibility
   - Include a brief bio of each advisor
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Management Plan
4. Other Professionals
   - Include when professionals assume important roles for the firm
   - Usually includes attorneys, bankers, and business consultants
   - The key is to show that relationships exist
5. Company Structure
   - Illustrate the firm’s structure and lines of authority
     - Organizational chart

Financial Plan
1. Startup Capital
2. Assumptions
   1. Labor hours/costs
   2. Sales expectations
   3. Detailed Expenses
3. 3 years of P&Ls
4. 1 year of Cash Budget