

What is a Business Plan?

A business plan is essentially a written description of a business's future. It provides an in depth report on the environment in which the company functions, what the company plans to do in the near future and predictions on its performance. 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 and keep it going until it breaks even.

A good business plan follows generally accepted guidelines for both form and content. There are three primary parts to a business plan:

1. The first is the *business concept*, where you discuss the industry, your business structure, your particular product or service, and how you plan to make your business a success.
2. The second is the *marketplace section*, in which you describe and analyze potential customers: who and where they are, what makes them buy and so on. Here, you also describe the competition and how you'll position yourself to beat it.
3. Finally, the *financial section* contains your income and cash flow statement, balance sheet and other financial ratios, such as break-even analyses. This part may require help from your accountant and a good spreadsheet software program.

Breaking these three major sections down even further, a business plan consists of six key components:

1. Executive summary
2. Business description
3. Marketing Plan
4. Production Plan
5. Operations and Management plan
6. Financial Analysis

Executive Summary

Within the overall outline of the business plan, the Executive Summary will follow the title page. The Executive Summary should get straight to the point and in a nut shell convey the value of your proposition.

Most B-Plan Competitions have a screening round where entries are judged on the basis of their Executive Summary. It is therefore extremely important to write an effective and impressive summary.

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 and prospects.* Provides an overview of the market in which the startup is to function. In brief, it focuses on the proposed strategy to beat the competition.
5. *Future Predictions* as to the targeted market share, profitability and return on investment.

Statement of Purpose

The Executive Summary is followed by the Statement of Purpose. When writing your statement of purpose, don't waste words. Convey what you expect from a VC funding the venture and indicate what you hope to achieve.

The Statement of Purpose may be done away with for Business Plan Competitions.

Business Description

The business description is an extended version of the Executive Summary, where you must convey the crux of your proposition and provide some depth of knowledge regarding the plan to the VC.

The business description usually begins 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 footnote sources of information as appropriate.

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.

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. The revenue model you propose must also be touched upon in the business description.

A very major part of the Business Description is detailed information about the team. The individuals who form a part of the startup add credibility to the entire idea, and up to a very large extent the decision is based on whether the evaluator feels that the team is capable of implementing the idea or not.

Marketing Plan

The Marketing Plan is the result of a 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. The total aggregate sales of your competitors will provide you with a fairly accurate estimate of the total potential market.

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.

Competition Analysis

The competition analysis is a statement of the business strategy and how it relates to the competition. The purpose of the competitive 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.

The first step in a competitor analysis is to identify the current and potential competition. There are essentially two ways you can identify competitors. The first is to look at the market from the customer's viewpoint and group all your competitors by the degree to

which they contend for the buyer's dollar. The second method is to group competitors according to their various competitive strategies so you understand what motivates them.

Once you've grouped your competitors, you can start to analyze their strategies and identify the areas where they're most vulnerable. The aim is to get a competitive advantage over the competition.

Analysis could be carried out on the following four parameters:

1. The reasons behind successful as well as unsuccessful firms
2. Prime customer motivators
3. Major component costs
4. Industry mobility barriers

Having done this analysis, the strategy for capturing the market share may be based on the following parameters:

1. Product
2. Distribution
3. Pricing
4. Promotion
5. Advertising

Projecting Market Share

Arriving at a projection of the market share for a business plan is very much a subjective estimate. It's based on not only an analysis of the market but on highly targeted and competitive distribution, pricing and promotional strategies.

For a business plan, you must be able to estimate market share for the time period the plan will cover. In order to project market share over the time frame of the business plan, you'll need to consider two factors:

1. Industry growth which will increase the total number of users. The industry sales scenarios should be based on leading indicators of industry sales, which will most likely include industry sales, industry segment sales, demographic data and historical precedence.
2. Conversion of users from the total feasible market. This is based on a sales cycle similar to a product life cycle where you have five distinct stages: early pioneer users, early users, early majority users, late majority users and late users. Using conversion rates, market growth will continue to increase your market share during the period from early pioneers to early majority users, level off through late majority users, and decline with late users.

Defining the market is but one step in your analysis. With the information you've gained through market research, you need to develop strategies that will allow you to fulfill your objectives.

Positioning Your Business

When discussing market strategy, it's inevitable that positioning will be brought up. A company's positioning strategy is affected by a number of variables that are closely tied to the motivations and requirements of target customers as well as the actions of primary competitors.

Before a product can be positioned, you need to answer several strategic questions such as:

1. How are your competitors positioning themselves?
2. What specific attributes does your product have that your competitors' don't?
3. What customer needs does your product fulfill?

Once you've answered your strategic questions based on research of the market, you can then begin to develop your positioning strategy and illustrate that in your business plan. A positioning statement for a business plan doesn't have to be long or elaborate. It should merely point out exactly how you want your product perceived by both customers and the competition.

Pricing

How you price your product is important because it will have a direct effect on the success of your business.

There are many methods of establishing prices available:

1. **Cost-plus pricing.** Used mainly by manufacturers, cost-plus pricing assures that all costs, both fixed and variable, are covered and the desired profit percentage is attained.
2. **Demand pricing.** Used by companies that sell their product through a variety of sources at differing prices based on demand.
3. **Competitive pricing.** Used by companies that are entering a market where there is already an established price and it is difficult to differentiate one product from another.
4. **Markup pricing.** Used mainly by retailers, markup pricing is calculated by adding your desired profit to the cost of the product. Each method listed above has its strengths and weaknesses.

Distribution

Distribution includes the entire process of moving the product from the factory to the end user. The type of distribution network you choose will depend upon the industry and the size of the market. A good way to make your decision is to analyze your competitors to

determine the channels they are using, then decide whether to use the same type of channel or an alternative that may provide you with a strategic advantage. Some of the more common distribution channels include Direct Sales, Retailers, Wholesalers, etc. As we've mentioned already, the distribution strategy you choose for your product will be based on several factors that include the channels being used by your competition, your pricing strategy and your own internal resources.

The marketing plan focuses on the Distribution system adopted. However the actual implementation of the Distribution system is covered in the Operations Plan.

Promotion

With a distribution strategy formed, you must develop a promotion plan. The promotion strategy in its most basic form is the controlled distribution of communication designed to sell your product or service. In order to accomplish this, the promotion strategy encompasses every marketing tool utilized in the communication effort. This includes advertising, packaging, public relations, sales promotions, etc.

Production Plan

The purpose of the production plan section is to provide a detailed overview of how the actual production will be carried out in the case of a manufacturing concern, or the service performed in the case of a service industry.

The production plan is very crucial for a manufacturing concern. In the case of a service company, it may be done away with and the relevant issues would be covered in the Operations and Management Plan.

The major issues to be covered by the Production Plan would include:

1. Production Process Adopted
2. Capacity Planning and Task Scheduling
3. Estimate of the factors of production required
4. Cost Estimation

Operations and Management Plan

The operations and management plan is designed to describe just how the business functions on a continuing basis. 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.

There are two areas that need to be accounted for when planning the operations of your company. The first area is the organizational structure of the company, and the second is the expense and capital requirements associated with its operation.

Organizational Structure

The organizational structure of the company is an essential element within a business plan. It varies greatly from company to company. Generally startups do not start of with a very hierarchical organization structure, and have a relatively flat structure. Whatever be the case, the work breakdown structure and responsibilities assigned must be mentioned.

Another aspect to be considered is that of outsourcing. If you plan to outsource a particular section of business, it must be mentioned in the organization structure.

Cost Estimation

Depending on the organization structure, the personnel requirements at various levels of the organization are estimated. In addition to this, the cost of support services required for the functioning of the organization are estimated. These costs are then used to compute the overheads which are used in the calculations involved for the financial statements.

Financial Analysis

The financial analysis is obviously extremely important. It is in most cases the decisive factor. Any person evaluating the plan gives great importance to the profitability promised by the business. At the same time, they examine if the business as it stands is sustainable from the point of view of its cash flow. The financial predictions should be on the conservative side and convincing.

Business plans must typically contain the Income Statement, the Balance Sheet and the Cash Flow Statement. The common practice is to provide the Balance Sheet and Income Statement for 2 to 3 years, while the Cash Flow Statement is provided on a monthly basis for 6 months and on an annual basis for 2 to 3 years.

Having provided these financial statements, a break even analysis as to when the business will breakeven must be performed. The breakeven analysis is very important for an investor, because it indicates the period for which he would have to invest.

A detailed methodology for the investor to exit the venture must also be provided. This could be through various options such as an IPO, Debt Financing, etc.

NOTE: The structure provided is a general one. The fact remains that a business plan is meant to sell your business proposition. The business plan must be customized for the proposition at hand, so as to do justice to the strengths of the idea.

Relevant Articles

Beware!!

When writing a business plan here are some things to avoid:

1. Form over substance. If it looks good but doesn't have a solid basis in fact and research, you might as well save your energy.
2. Empty claims. If you say something is so, back it up in the next sentence with a statistic or fact or quote from a knowledgeable source that supports the claim.
3. Rumors about the competition. If you know for sure one is going out of business you can allude to it, but avoid listing their weaknesses or hearsay. Stick to facts.
4. Superlatives and strong adjectives. Words like major, incredible, amazing, outstanding, unbelievable, terrific, great, most, best, and fabulous don't have a place in a business plan. Avoid "unique" unless you can demonstrate with facts that the product or service is truly "one of a kind". Your opportunity is probably not unique.
5. Long documents. Keep it under 25 pages total. Write whatever you want to write, but keep it at home. If they want details, they will ask.
6. Over estimating on your financial projections. Sure you want to look good, but resist optimism here. Use half of what you think is reasonable. Better to underestimate than set expectations that aren't fulfilled.
7. Overly optimistic time frames. Ask around or do research on the Internet. If it takes most companies 6-12 months to get up and running, that is what it will take yours. If you think it will take 3 months to develop your prototype, double it. You will face delays you don't know about yet--ones you can't control.
8. Gimmicks. Serious investors want facts, not hype. They may eat the chocolate rose that accompanies the business plan for your new florist shop, but it won't make them any more interested in investing in the venture.
9. Typos and misspelled words. Use your spell checker, hire an editor or have four people read the document from back to front, but get those errors out of there if you want to be taken seriously.

Guru's Speak!!

To write an effective business plan, here are some things you should know and do to improve your content and presentation:

Content

1. Know your competition. Be prepared to name them and tell what makes you different (and better) than each of them.
2. Know your audience. You'll probably want several versions of your business plan--one for bankers or venture capitalists, one for individual investors, one for companies that may want to do a joint venture with you rather than fund you, etc.
3. Have proof to back up every claim you make. If you expect to be the leader in your field in six months, you have to say why you think so. If you say your product will sweep the market by storm, you have to support it with facts. If you say your management team is fully qualified to make the business a success, be sure their resumes demonstrate the experience needed.
4. Be conservative in all financial estimates and projections. If you feel certain you will capture 50% of the market in the first year, then you can say why you think so and hint at what those numbers may be. But make your financial projections more conservative...for example, 10% market share is much more credible.
5. Be realistic with time and resources available. If you are working with a big company now you may think things will happen faster than they will once you have to buy the supplies and drive to the post office and write the checks and answer the phones yourself. Over-optimism with time and resources is a common error entrepreneurs make. Being realistic is important because it lends credibility to your presentation.
6. Be logical. Think like a banker and write what he/she would want to see, in an order that makes it easy to find the information.
7. Have a strong management team. Make sure they have good credentials and expertise. They don't have to have worked in the field, but you do need to draw parallels between what they have done and the skills needed to make your venture succeed. Don't have all the skills you need? Then consider adding an advisory board of people skilled in your field and use their resumes. Or discuss the shortcomings factually in the business plan, showing how and when you will address getting the right people on board to fill in the gaps in your management team.
8. Document why your idea will work. Have others done something similar that was successful? Have you made a prototype? Include all the variables that can have an

- impact on the result or outcome of your idea. Show why they don't apply to your situation or explain how you intend to overcome them or make them better.
9. Describe your facilities and location for performing the work. If you will need to expand, discuss when, where and why.
 10. Discuss payout options for the investors. Some investors want a hands-on role, some want to put associates on your Board of Directors, some don't want to be involved in the day-to-day. All investors want to know when they can get their money back and at what rate of return. Most want out within three to five years. Provide a brief description of options for investors, or at least mention that you are ready to discuss options with any serious prospect.

Presentation

1. Appearance counts. If you are in a technology business, don't use a typewriter. If you are pushing an artistic or imaginative idea, show some creativity (but not at the cost of keeping the document easy to skim and find facts).
2. Use informative headings in the document. Use lots of subtitles and let them sell your idea. Think of USA Today. Short paragraphs, headlines that convey information even if you don't read the article. Make it easy for your readers to find what they want to know. They won't read it from start to finish.
3. Answer the five W's. Good journalists tell who, what, where, when, why and how in their articles. Be sure your business plan does the same.
4. Keep it short. No matter how complex your technology or how abstract your concept, you need to get all the information the investor needs into 20-25 pages or less--including the financial projections.
5. Package it nicely. Two column documents are easier to read than full pages of text. Use charts or tables or graphics or illustrations to break up long passages of words. Add a spot of color on the pages if you have the option...a colored line on the pages or a colored logo or other ``spot" color. Readability studies say that adding a second color increases retention of the information.

Cash Is King

In these days of 'content is king' mantras and ballooning ad-budgets, it is easy to overlook rapidly declining cash balances in the bank. After all, the heady rush of seeing your name in the print, on hoardings, and on television is a once-in-a-life-time feeling for many - until the disquieting revelation of not having enough cash to pay suppliers and employees hits home.

For startups, cash is critical. Not profits, but cold hard cash in the bank is what matters. Low cash balances may adversely affect the investor's analysis of your company and this does not augur well for your valuation.

To ensure that there is adequate cash in the bank, a startup needs to follow some extremely prudent measures. Some of these are

Lease, not buy

Lease or hire capital equipment like computer systems, photocopiers, furniture etc wherever possible. Seemingly, it is more expensive over a 2-3 year time frame to lease equipment, but it favors the cash flow in the critical 12-18 months that matter - when you have to conserve cash to fund operations and sales and marketing. Imagine raising \$500,000 (or Rs 22.5 million) and spending \$100,000 (Rs 4.5 million) in the first 3 months on computer equipment, furniture, etc. On the other hand, consider leasing the equipment. You will probably spend something in the region of \$30,000 (Rs 1.35 million) over a 12-month period. You therefore have about Rs 3.15 million to spend on building the business. In addition, these assets will not weigh down your company's books, since profits are unlikely and taxation issues, depreciation benefits etc. are a mirage.

Conserve and Re-use

Your company may have received funding but it is no excuse for splurging. Creating a culture of ownership includes creating an environment where everyone in the company is concerned about costs as if it were their own. In fact, it is, since all are stakeholders in the venture. Re-using items like clips, paper (e.g. re-using the reverse side of obsolete printed matter for jotting down to-do notes) go a long way. After all, why should they be wasted? Conserve even water and electricity.

Anyone who's familiar with Yahoo and Amazon will tell you of the enormous focus on avoidable expenditure in these companies.

Closer home, companies like Wipro and Infosys have made it a mantra as well.

Don't Splurge

As CEO of a startup, do you travel business class? Do you drive a fancy car? Do you stay in 5-star hotels? Do you buy the latest branded equipment? What is the message that's being transmitted to others in the company? Do you have high business entertainment expenses? Does your office resemble the lobby of a star hotel? If the answer to these is yes, beware! You are on dangerous ground! Chances are that you won't be CEO of your startup for long! So, while you concentrate on building your business and brand, don't get carried away by the hype. Make sure you keep an eye on the bank balance and stay focused on cash. It may be a four letter word, but CASH IS KING!

Markets Rule!

Evaluating markets and customers is probably the single most critical activity in which an entrepreneur's metal is tested to the hilt.

The fundamental thing to keep in mind here is that it is advisable to first evaluate a market and customers and then tailor a solution to serve the needs of the market-customers rather than to develop a solution and search for markets-customers. If you are determined to only make a hammer, you will necessarily see the entire world as nails. Not a good idea.

Markets and customers are inextricably linked. You cannot serve one without the other. The usual business model strategy for a startup suggests that you focus on a niche, dominate it and then rapidly build concentric circles around it by way of expanded sales, support, distribution, etc., while creating barriers to entry. The first task then is to identify a market niche in which your startup's technology and product can play. And to do that, requires that you know your markets and customers.

You must have a sense of who your first customers will be. It is naïveté to say that everyone will be your customer. You can't be all things to all people. Markets are specialized and customers want solutions that provide the exact benefits that they seek, else they will go to somebody else who will. You must have a realistic specific target audience - a niche.

Talk to these potential customers ("Who are my customers?") and listen to what they have to say.

Will our solution be useful to you? If so, why? If not, why not?

How much do you think this solution should cost? How much do you think you can pay for this?

When do you need delivery?

What are your concerns?

What are the alternatives if you don't buy our product?

This is the classical market research style to evaluating. This still holds true in most industries. In the Internet age, market research is done in real time and on the fly i.e., by putting up a site with about 50% of the validation done and then doing the remaining validation through customer feedback in real time. For example, The Netscape model, where the browser was downloadable from the site and multiple versions of the browser were released incorporating customer feedback. Whichever way, you choose to do it; assumptions need to be validated and corrective steps taken. You need to answer the question: Will customers buy my solution? In VC speak: Will the dog eat the dog food?

Next, you need to look at markets in terms of their growth and characteristics. The market segment you choose must be a high growth one for it to be attractive to VCs. Who are the competitors and what are their characteristics? You signal poor analysis when you say "I have no competition". There will always be competition. How do you stack up against them? What are the competitive advantages of your solution? Are there

entrenched 800-pound gorillas in the business? (VCs are unlikely to fund startups that want to go in direct competition with Microsoft and Intel). What are the risks?

Learn to distinguish between marketing and sales. Sales deals directly with customers, while marketing deals with what products to sell to whom, at what price and how, in the midst of competition. Develop a marketing strategy that answers questions like:

What are the market gaps that are not being serviced by anyone?
How will the product be priced, discounted and sold?

How should the product be advertised? How will leads be generated? "Build it and they will come" is not an acceptable answer.

How will you attract, maintain and expand markets? What will be the geographical expansion?

Here is a useful model to analyse the situation in which the startup functions.

New Market	A Marketing Driven (new use for existing product)	B Missionary approach, technology push
Existing Market	Entrenched competition: not a good place for a startup	Market-driven technology fuelled market pull. Good place for a startup.
	C Existing Product	D New Product

In quadrant A, the startup needs to have superior sales and marketing to create a new demand for an existing product. Web based email is an example. Email technology and email products were around for a long time but a new market of web-based users was defined by this category.

Quadrant B is the classic and yet very difficult path taken by pioneering technology driven entrepreneurs. WebTV would be a good example here. Deep pockets are required to be the pioneer and educate the market about the wonders of the technology and the different uses/markets it can serve.

Quadrant C is not recommended for a startup. An example would be to create another portal! Clearly, a bad idea for a startup. Not necessarily a bad idea for an entrenched player.

Quadrant D is the safest place for a startup. Here, technology can be leveraged to produce an advanced new product/service delivering more benefits at a lower cost to customers in a market that is receptive to the new development. Application Service Providers fall into this segment

Resources

1. www.jumstartup.net
2. www.bplans.com
3. www.redherring.com
4. www.entrepreneur.com
5. www.bizplanet.com

Do visit the Abhiyan website (<http://dilbert.iiml.ac.in/~abhiyan/resource>) for more information on business plans and related stuff.