

## 8

## Business Plans: Seeing Audiences and Your Business Clearly

Source: *Entrepreneurial Small Business*, Katz & Green, 2e  
McGraw-Hill/Irwin

## Chapter 8

- Focus on Small Business: **Global Fromage**
- Gourmet and specialty cheeses sold at a **premium price**
- Steady flow of sales
- Came up **short** at the end of every month
- Never worked out **costs** of running their business
- Markup should have been closer to **200%**

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## Chapter 8

### Business Plan Background

- **Business plan:** document designed to detail major characteristics of a firm
- 2 circumstances when a business plan is necessary:
  - External legitimacy
  - Internal understanding

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## Chapter 8

- **External legitimacy:** extent to which a small business is taken for granted, accepted, or treated as viable by organizations or people outside the small business or the owner's family
- **Internal understanding:** extent to which employees, investors, and family members in the business know the business's purposes and operations

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## Chapter 8

### Starting Small and Building Up



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## Chapter 8

- **The Vision Statement**
  - 5-10 word sentence or tagline
    - **Tagline:** memorable catchphrase that captures the key idea of a business
    - Good way to present a vision statement
  - **Microsoft:** "A computer on every desk, running Microsoft software."

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## Chapter 8

- **The Mission Statement**
  - A paragraph that **describes** the firm's goals and competitive advantages
  - Talks in terms of how it will make a **difference** in for the customer or the industry
  - **Fantastic Gift Baskets**: "The family at Fantastic Gift Baskets puts the same care and love into designing our gourmet gift baskets as you would...if you had the time!"

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- **The Elevator Pitch**
  - A 30-second action-oriented description of a business designed to sell the idea of the business to another
  - Leads with the **hook**, follows up with **purpose** of the service, ends with where **business** is now
  - What makes firm unique or superior?
  - Sounds like a sales pitch

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## Chapter 8

### Example

#### The 30-Second Business Plan

- "Elevator pitch"--a carefully prepared, well-rehearsed summary of who you are, what you do and why you are better at it than anyone else
- Verbal equivalent of your business card, but it needs to say much, much more, and it needs to say it very quickly
- Practice, practice, practice - You never know when you will need your elevator pitch

<http://www.entrepreneur.com/money/financing/article68946.html>

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- **The Executive Summary**
  - Key component of the written business plan
  - One- to two-page (250-500 word) **overview**
  - Product, market, competitive advantages, management, business, finances
  - Single **most important** written part of plan
    - Most widely distributed
    - Readers typically start with executive summary

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## Chapter 8

#### The Classic Business Plan

- **Full (or classic) business plan**: 25 single-spaced pages of text and 15 pages of financials and appendices

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## Chapter 8

TABLE 8.2 Business Plans Outline <sup>TM</sup>	
1.	Cover letter (1 p., not to separate from plan)
2.	Title page (1 p.)
3.	Table of contents (1 p.)
4.	Executive summary (1-2 pp.)
5.	The company
5a.	Company description (1-2 pp.)
5b.	Vision statement
5c.	Mission statement
5d.	Objectives statement
5e.	Company background
5f.	Products and industry (1-6 pp.)
5g.	Product/service description
5h.	Industry description
6.	The market
6a.	Market and target customer (1-2 pp.)
6b.	Competition and competitive advantage (1-2 pp.)
6c.	Marketing strategy (1-2 pp.)
6d.	Channel strategy
6e.	Sales plan
6f.	Competitive plan
6g.	Research and development or growth plan
7.	The organization
7a.	Legal and organizational structures (1/2-1 p.)
7b.	Key personnel (1/2-2 pp.)
7c.	Related service providers (1/2-1 p.)
7d.	Locations (1/2 p.)
8.	The financials
8a.	Critical risks (1 p.)
8b.	The start-up costs (2 months)
8c.	Income statement (2 pp.)
8d.	Cash flow projection (2 pp.)
8e.	Balance sheet (1 p.)
8f.	Start-up needs (1 p., if needed)
8g.	Assumptions (1 p.)
8h.	Schedule (1 p.)
9.	The appendices (optional)
9a.	Owner's résumé
9b.	Examples of other popular appendices: Product or service pictures or specifications; customer/industry statistics; marketing studies or pilot sales efforts; industry reports; price lists; floor plans; advertising copy; customer or spokesperson testimonials; letters of opinion.

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## Chapter 8

### Business Plan Outline

- **Cover letter:** one page document on business stationery
  - Introduces business plan and owner
  - Indicates why recipient is being asked to read the plan

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## Chapter 8

- **Title Page:** contains introductory information
  - Company name
  - Contact information
  - Date this version of the plan was completed
  - Proprietary statement to protect your ideas
  - Possible items:
    - Securities disclaimer
    - Name of person who prepared the business plan
    - Notice of copyright for the plan, or brands/logos

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- **Table of contents:**
  - Lists major section headings
    - Boldface type
  - Sections underneath major sections
    - Normal type
  - Put page numbers on every page of the business plan

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## Chapter 8

- **The Company:**
  - **Company description:** 1-2 pp.
    - Vision statement / mission statement
    - Specific goals
    - **Company background:** brief description of the company, the firm's current status, and the history of the business
    - Business' competitive **advantage**

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## Chapter 8

- **The Company:**
  - **Product/service and industry:** 1-8 pp.
    - Describe firm's product or service
    - Include pictures
    - Explain how the customer uses the product
    - Proprietary technology
    - Industry descriptions

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- **The Market:**
  - **Market and target customer:** 1-3 pp.
    - Total population of people or firms you plan to sell to
    - Target customer section: focuses attention on who would buy
      - Demographics' relation to the product, how often they buy, and past experience
      - Common to have multiple target audiences

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## Chapter 8

- **The Market:**
  - Competition and competitive advantage: 1-2 pp.
    - **Table:** 1 p.
      - Major competitors
      - Competing product or service: market share, price, competitive advantages and disadvantages
    - **Text:** 1 p.
      - what makes product or service unique

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## Chapter 8

- **The Market:**
  - **Marketing strategy:** 1-3 pp.
    - Overall strategy your firm pursues in the market
    - Sales plan that shows specific ways you apply strategy to secure sales from your customers
    - Longer-term competitive plan that shows how you protect your firm from efforts of the competition to unseat you

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- **The Organization:**
  - **Legal and organization structures:** 1/2-1 p.
    - Legal form of the business
    - Organizational structure of the firm
    - Makes clear how many employees there are and whether they are full time or part time, permanent or seasonal, family or non-family

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## Chapter 8

- **The Organization:**
  - **Key personnel:** 1/2-3 pp.
    - Sell the most important single element in the business plan – you!
    - Who are your key personnel?
    - Talk about accomplishments rather than just experience
    - Do not limit yourself to business

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## Chapter 8

- **The Organization:**
  - **Related service providers:** 1/2-1 p.
    - Identify your bank and banker, attorney and legal firm, accountant or bookkeeper, other consultants
    - Major relationships established with well-known suppliers or customers
    - Board of directors / board of advisors

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- **The Organization:**
  - **Location:** 1/2 p.
    - Description of the facility
    - How it meets strategic and sales goal of the business
    - Own, lease, or rent the property
    - Plan to expand the facilities

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## Chapter 8

- **The Financials:**
  - Page 1: Critical assumptions
  - Page 2: The deal (if the plan is going to investors)
  - Page 3: Income statement for Year 1, by month; assumptions marked by footnotes
  - Page 4: Income statement for Year 2, by month, and Year 3 (and later if needed) by year; assumptions marked with footnotes

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## Chapter 8

- **The Organization:**
  - Page 5: Cash flow statement for Year 1, by month; assumptions marked with footnotes
  - Page 6: Cash flow statement for Year 2 by month, and Year 3 (and later if needed) by year; assumptions marked with footnotes
  - Page 7: Balance sheet for years 1-3 (or 1-5) by year; assumptions marked with footnotes
  - Page 8: Start-up cost budget
  - Page 9: Assumptions page for financial statements

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- **The Appendices:**
  - Most popular appendix: one-page version of owner's resume
  - Product or service pictures or specifications
  - Copies of signed contracts
  - Results from marketing studies or pilot sales efforts
  - Industry reports
  - Price lists for products or services
  - Advertising copy

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### Example

#### College Business Plans that Made the Grade

- Student Ian Leopold was just one class away from graduating when his economics professor failed his business plan assignment
- Earned his degree and in his spare time turned his business plan into a reality, entering Northwestern's Kellogg School in the fall
- On the side, he was making thousands of dollars each week putting together ads for his *Unofficial Student Guide*
- In five years, Leopold had turned his failed assignment into a successful company with nearly \$3 million in revenue

<http://www.entrepreneur.com/startup/business/businessplans/article152008.html>

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## Chapter 8

### Focusing Your Business Plan

- **Pioneering business:** product is truly new
- **New entrant business:** product or service already exists
  - Firm is first of its kind in your market
- **Existing business:** entrepreneurs start a business before they write a plan for it
- **Business with significant government involvement:** zoning, environmental impact

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## Chapter 8

- **Screening plan:** basic overview of the firm and detailed look at the financials
- **Information plans:** gives potential customers or suppliers information about the company and its product or service
- **Proof-of-concept website:** internet-based type of plan designed to solicit information on customer interest

8-30

## Chapter 8

- **Invention plan:** provides information to potential licensees
- **Operational plans:** used as working document within a business
  - Includes detailed specifications of the major techniques, methods, recipes, formula, and sources used by the firm to do its work

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## Chapter 8

### Critical Risks

- Overstated numbers
- Uncertain sales (especially conversion rates)
- Overlooked competition
- Experience deficits
- Inadequate cushion
- Inadequate payback

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## Chapter 8

- **Circle of advisors:**
  - Review the plan and help identify the critical risks and your coverage of them
- Service Corps of Retired Executives
- Small Business Development Center
- Ibis Associates
- Kauffman Foundation's Business EKG website
- BizStats

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## Chapter 8

### Presenting Your Plan

- Plan presentations usually last **10-15 minutes**
  - 15 or more minutes for questions
- **Key things:**
  - Your passion for your business
  - Your expertise about the business and the plan
  - How professional you are in your work
  - How easy it would be to work with you

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## Chapter 8

# Summary

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