

GLOBAL
EDITION



Preparing Effective Business Plans

An Entrepreneurial Approach

SECOND EDITION



Bruce R. Barringer

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PEARSON

PREPARING EFFECTIVE BUSINESS PLANS

AN ENTREPRENEURIAL APPROACH

SECOND EDITION

GLOBAL EDITION

Bruce R. Barringer, Ph.D.

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Dedication

To my wife Jan, my best friend

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BRIEF CONTENTS

PART I STARTING THE PROCESS 19

Chapter 1 Why Write a Business Plan? 19

PART II WHAT TO DO BEFORE THE BUSINESS PLAN IS WRITTEN 39

Chapter 2 Developing and Screening Business Ideas 39

Chapter 3 The Litmus Test of a Plan 71

PART III PREPARING A BUSINESS PLAN 101

Chapter 4 Introduction, Executive Summary, and Company
Description 101

Chapter 5 Industry Analysis 121

Chapter 6 Market Analysis 143

Chapter 7 Marketing Plan 167

Chapter 8 Management and Organizational Structure 189

Chapter 9 Operations Plan and Product Development 209

Chapter 10 Analysis of Financial Projections 233

PART IV PRESENTING THE BUSINESS PLAN 259

Chapter 11 A Successful Business Plan Presentation 259

Name Index 281

Subject Index 282

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CONTENTS

Preface 13
About the Author 17

PART I STARTING THE PROCESS 19

CHAPTER 1 Why Write a Business Plan? 19

Introduction 19
Reasons for Writing a Business Plan 20
 Who Reads the Business Plan and What Are They Looking For? 24
 Guidelines for Writing a Business Plan 26
 Types of Businesses 31
 The Plan for the Book 32
Chapter Summary 35
Review Questions 36
Application Questions 37
Endnotes 38

PART II WHAT TO DO BEFORE THE BUSINESS PLAN IS WRITTEN 39

CHAPTER 2 Developing and Screening Business Ideas 39

Introduction 39
Three Most Common Sources of New Business Ideas 40
 Changing Environmental Trends 41
 Technological Advances 44
 Political Action and Regulatory Changes 45
 Unsolved Problems 46
 Gaps in the Marketplace 47
Techniques for Generating Ideas 51
 Brainstorming 51
 Focus Groups 52
 Library and Internet Research 53
First Screen 54
 Part 1: Strength of the Business Idea 55

■ 8 Contents

<i>Part 2: Industry-Related Issues</i>	56
<i>Part 3: Market- and Customer-Related Issues</i>	56
<i>Part 4: Founder- (or Founders-) Related Issues</i>	58
<i>Part 5: Financial Issues</i>	58

Chapter Summary	60
Review Questions	60
Application Questions	61
Endnotes	61
Appendix 2.1 First Screen	63
Appendix 2.2 Internet Resource Table	67

CHAPTER 3 The Litmus Test of a Plan 71

Introduction	71
Template for Completing a Feasibility Analysis	72
<i>Product/Service Feasibility Analysis</i>	74
<i>Industry/Target Market Feasibility Analysis</i>	79
<i>Organizational Feasibility Analysis</i>	83
<i>Financial Feasibility Analysis</i>	84
Chapter Summary	87
Review Questions	87
Application Questions	88
Endnotes	89
Appendix 3.1 Full Feasibility Analysis	90

PART III PREPARING A BUSINESS PLAN 101

CHAPTER 4 Introduction, Executive Summary, and Company Description 101

Introduction	101
Cover Page and Table of Contents	102
<i>Cover Page</i>	102
<i>Table of Contents</i>	103
Executive Summary	103
<i>Format</i>	103
<i>Content</i>	108
Company Description	109
<i>Company History</i>	109
<i>Mission Statement</i>	112
<i>Products and Services</i>	114
<i>Current Status</i>	115
<i>Legal Status and Ownership</i>	115
Selecting the Name for a Business	116
<i>Primary Consideration in Naming a Business</i>	116
<i>Legal Issues</i>	117

Chapter Summary	118
Review Questions	119
Application Questions	119
Endnotes	120

CHAPTER 5 Industry Analysis 121

Introduction	121
Industry Definition	123
Industry Size, Growth Rate, and Sales Projections	124
<i>Industry Size</i>	125
<i>Industry Growth Rate</i>	125
<i>Industry Sales Projections</i>	127
Industry Characteristics	129
<i>Industry Structure</i>	129
<i>Nature of Participants</i>	133
<i>Ratios</i>	134
<i>Key Success Factors</i>	134
Industry Trends	135
<i>Environmental Trends</i>	135
<i>Business Trends</i>	137
Long-Term Prospects	137
How the Industry Analysis Affects and Is Affected by Other Sections of the Plan	138
Chapter Summary	139
Review Questions	140
Application Questions	140
Endnotes	141

CHAPTER 6 Market Analysis 143

Introduction	143
Market Segmentation and Target Market Selection	144
<i>Market Segmentation</i>	147
<i>Selecting a Target Market</i>	149
<i>Target Market Size and Trends</i>	149
Buyer Behavior	153
Competitor Analysis	154
<i>Identification of Direct, Indirect, and Future Competitors</i>	156
<i>Competitive Analysis Grid</i>	157
Estimate of Annual Sales and Market Share	160
Chapter Summary	163

■ 10 Contents

Review Questions	164
Application Questions	164
Endnotes	165

CHAPTER 7 Marketing Plan 167

Introduction	167
Overall Marketing Strategy	170
<i>Positioning Strategy</i>	171
<i>Points of Differentiation</i>	171
Pricing Strategy	172
<i>Cost-Based Pricing versus Value-Based Pricing</i>	173
<i>Other Pricing-Related Issues</i>	174
Sales Process and Promotions Mix	177
<i>Sales Process</i>	178
<i>Promotions Mix</i>	178
Distribution and Sales	183
<i>Distribution and Sales Alternatives</i>	183
<i>Sales Strategy and Related Issues</i>	184
Chapter Summary	185
Review Questions	186
Application Questions	186
Endnotes	187

CHAPTER 8 Management and Organizational Structure 189

Introduction	189
Management Team	192
<i>Management Team Personnel</i>	195
<i>Management Team Ownership and Compensation</i>	196
<i>Common Mistakes to Avoid</i>	197
Board of Directors	197
<i>Provide Guidance</i>	198
<i>Lend Legitimacy</i>	200
Board of Advisors	201
Other Professionals	203
Company Structure	204
Chapter Summary	206
Review Questions	207
Application Questions	207
Endnotes	208

CHAPTER 9 Operations Plan and Product Development 209

Introduction	209
Operations Plan	210
<i>Operations Model and Procedure</i>	213
<i>Business Location</i>	216
<i>Facilities and Equipment</i>	218
<i>Operations Strategy and Plans</i>	220
Product (or Service) Development Plan	221
<i>Development Status and Tasks</i>	221
<i>Challenges and Risks</i>	226
<i>Costs</i>	227
<i>Intellectual Property</i>	227
Chapter Summary	229
Review Questions	230
Application Questions	231
Endnotes	232

CHAPTER 10 Analysis of Financial Projections 233

Introduction	233
Source and Use of Funds Statement	234
Assumptions Sheet	236
Pro Forma Financial Statements	237
<i>Pro Forma Income Statement</i>	238
<i>Pro Forma Balance Sheet</i>	243
<i>Pro Forma Cash Flow</i>	246
Ratio Analysis	255
Chapter Summary	256
Review Questions	257
Application Questions	257
Endnotes	258

PART IV PRESENTING THE BUSINESS PLAN 259**CHAPTER 11 A Successful Business Plan Presentation 259**

Introduction	259
Preparing for and Delivering an Effective Business Plan Presentation	260
<i>Preparing for the Presentation</i>	260
<i>Delivering an Effective Presentation</i>	262

■ 12 Contents

Preparing the Content of an Effective Business Plan Presentation	263
Sample Business Plan Presentation	264
Chapter Summary	277
Review Questions	278
Application Questions	279
Endnotes	279

Name Index 281

Subject Index 282

PREFACE

THE SURGE IN INTEREST IN ENTREPRENEURSHIP ON COLLEGE CAMPUSES AND BEYOND

There is tremendous interest in entrepreneurship on college campuses and around the world. In academia, some 2,000 colleges and universities in the United States, about two-thirds of the total, now offer a course in entrepreneurship. As a result, a growing number of students are forgoing traditional careers and starting their own business. Ordinary citizens are equally interested in starting entrepreneurial careers. According to the 2012 Global Entrepreneurship Monitor, in the United States a total of 13 percent of the adult population (ages 18–64) either is starting a business or has started a business in the past 3 ½ years. There are regions of the world where the percentage is even higher. For example, in Latin America and the Caribbean 17 percent of the adult population, on average, either is starting a business or has started a business in the past 3½ years.

NEW TO THIS EDITION

- Fresh material that explains the business startup process, from the original inception of a business idea to a fully fleshed-out business plan
- New or updated Business Plan Insight boxed features
- Revised and updated business plan for Prime Adult Fitness, the fictitious fitness center for people 50 years and older, that is completed step-by-step throughout the course of the book
- New and updated Application Questions at the end of each chapter
- New and updated examples, embedded in each chapter, that illustrate the issues that business plan writers grapple with
- An updated Internet Resource Table (Appendix 2.2), which provides students access to online resources to assist them in completing a First Screen analysis and a complete business plan

THE IMPORTANCE OF BUSINESS PLANS

An important tool that helps people who intend to start a new business is a business plan. A business plan is a written document that carefully explains every aspect of a new venture. Although many entrepreneurs and small business people do not write a business plan before they start their business, it's highly recommended. For most businesses, a business plan serves two functions. Inside the firm, the plan helps a company develop a "blueprint" to follow in executing its strategies and plan. Outside the firm, it introduces potential investors and other stakeholders to the business opportunity the firm is pursuing and how it plans to pursue it.

OBJECTIVES OF THE BOOK

The objectives of this book are twofold. The first objective is to help students and others learn how to write a business plan. This book provides step-by-step instructions for writing a plan. Second, the book immerses its reader in the process of thinking through the issues that are important in starting a business. This objective may be the most compelling advantage of the book. A full business plan is written, chapter-by-chapter, as an example through the course of the book. The issues that are considered in writing this plan provide a template for others to use as they consider their own business ventures and write their own business plan.

ORGANIZATION OF THE BOOK

The book is organized into four distinct parts:

<i>Part</i>	<i>Topic</i>	<i>Chapters in the Book</i>
1	Starting the Process	1
2	What to Do Before the Business Plan Is Written	2–3
3	Preparing a Business Plan	4–10
4	Presenting the Business Plan	11

DISTINGUISHING FEATURES

A number of distinguishing features set this book apart from other business plan books that are available.

FOCUS ON THE ENTIRE “FRONT END” OF THE ENTREPRENEURIAL PROCESS

Although the primary purpose of the book is to describe how to write a business plan, the entire “front end” of the entrepreneurial process is discussed and defined. The most effective business plans are part of a comprehensive process that includes (1) identifying a business idea, (2) screening the idea (or ideas) to determine their preliminary feasibility, (3) conducting a full feasibility analysis to see if proceeding with a business plan is warranted, and (4) writing the plan. Each step in this process is explained in the book.

FEASIBILITY ANALYSIS WORKSHEETS

Two worksheets are included to help students and others work through the feasibility analysis process. The first worksheet is called the “First Screen,” and helps determine the preliminary feasibility of a business idea. The second worksheet is a full feasibility analysis and is much more comprehensive. Combined, the worksheets represent a sequential way for students to determine the “feasibility” of their business ideas before they enter the business planning process.

SAMPLE BUSINESS PLAN

A business plan, for a fictitious company named Prime Adult Fitness, is built through the course of the book. Every aspect of the plan is described and discussed. This plan will give students and others a solid point of reference as they build their own business plans.

PRESENTING A BUSINESS PLAN

The final chapter in the book provides tips and suggestions for presenting a business plan with confidence and poise. Based on a 20- to 30-minute hypothetical presentation, a 12-slide PowerPoint presentation is provided with suggestions for what to include on each slide.

BUSINESS PLAN INSIGHT BOXED FEATURES

Each of the first ten chapters includes a boxed feature that provides special insights on writing a business plan or launching a new venture.

SUPPLEMENTS

At www.pearsonglobaleditions.com/barringer, the following supplements are available to adopting instructors for download. Registration is simple and gives you immediate access to new titles and new editions. If you ever need assistance, our dedicated technical support team is ready to help with the supplements that

■ 16 Preface

accompany this text. Visit <http://247.pearsoned.com/> for answers to frequently asked questions and toll-free user support phone numbers.

- Instructor's Resource Manual
- PowerPoint Presentation

COMPANION WEBSITE

A useful companion website, at www.pearsonglobaleditions.com/Barringer offers free access to teaching resources including additional activities, links to latest research, sample entrepreneurship curriculum and syllabi, teaching tips, and Web resource links.

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Dr. Barringer's research has been published in *Strategic Management Journal*, *Journal of Management*, *Journal of Business Venturing*, *Journal of Small Business Management*, *Journal of Developmental Entrepreneurship*, and in several other outlets. Dr. Barringer is the author or coauthor of five books, including *Entrepreneurship: Successfully Launching New Ventures*, *Preparing Effective Business Plans*, *The Truth About Starting a Business*, *What's Stopping You? Shatter the 9 Most Common Myths Keeping You From Starting Your Own Business*, and *Launching a Business: The First 100 Days*.

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C H A P T E R

WHY WRITE A BUSINESS PLAN?

INTRODUCTION

On college campuses and around the world, entrepreneurship garners tremendous interest. More than 2,000 colleges and universities in the United States, about two-thirds of the total, now offer a course in entrepreneurship.¹ Across the United States, interest in entrepreneurship is growing, among all demographic groups. According to the Kauffman Index of Entrepreneurial Activity, 320 out of every 100,000 adults created businesses in the United States in 2011. That number translates into approximately 543,000 new businesses being created each month during the year.² Interest in starting a business among young adults is at an all-time high. According to a recent survey, 54 percent of millennials (ages 18–34) either want to start a business or have already started one. That number is even higher for African Americans and Latinos. A total of 63 percent of African Americans and 64 percent of Latinos expressed a desire to start their own company.³

An important tool that helps people who intend to start a new business is a business plan. A business plan is a written document that carefully explains every aspect of a new business venture.⁴ Although some entrepreneurs simply “wing it” and start a business without the benefits of formal planning, experts recommend preparing a business plan. For most new ventures, the business plan is a dual-purpose document used both inside and outside the firm. Inside the firm, the plan helps the company to develop a “road map” to follow in executing its strategies and plans. Outside the firm, it introduces potential investors and other stakeholders to the business opportunity the firm is pursuing and how it plans to pursue it.

The most effective business plans are part of a comprehensive process that includes (1) identifying a business idea, (2) screening the idea (or ideas) to determine their preliminary feasibility, (3) conducting a full feasibility analysis to see if proceeding with a business plan is warranted, and (4) writing the plan. Many

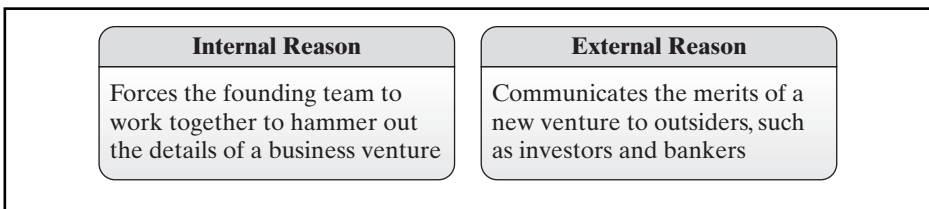
new businesses fail, not because the founders didn't work hard or weren't committed to the venture, but because the idea wasn't a good one to bring with. This process sets forth a specific path for investigating the merits of a business idea. Although the primary purpose of this book is to describe how to write an effective business plan, the second section of the book, titled "What to Do Before You Prepare Your Business Plan," focuses on how to identify and screen business ideas (Chapter 2) and how to test their feasibility (Chapter 3).

Although writing a business plan may appear at first glance to be a tedious process, a properly prepared business plan can save an entrepreneur a tremendous amount of time, money, and heartache by working out the kinks in a business concept before rather than after the business is started. A large percentage of entrepreneurs do not write business plans for their ventures. In fact, a 2010–2012 study of 350 entrepreneurs found that of those that had successful exits (i.e., an IPO or sale to another firm), about 70 percent did not start with a business plan.⁵ Similarly, in a 2002 study, *Inc.* magazine asked the founders of the firms that comprised the *Inc.* 500 that year whether they had written a formal business plan before they launched their companies. A total of 60 percent had not. These statistics should not deter an entrepreneur from writing a business plan. Ample evidence supports the notion that writing a business plan is an extremely good investment of an entrepreneur's time and money.⁶

REASONS FOR WRITING A BUSINESS PLAN

There are two primary reasons for writing a business plan, as depicted in Figure 1-1. First, writing a business plan forces the founders of a firm to systematically think through each aspect of their new venture. This is not a trivial effort—it normally takes several days or weeks to complete a well-developed business plan—and the founders will usually meet regularly to work on the plan during this period. Writing a business plan is also an immersion experience—many founders work late nights and on weekends to get their plan completed. An example of how much work is sometimes involved, and how a well-planned new business unfolds, is provided by Gwen Whiting and Lindsey Wieber, the cofounders of The Laundress (www.thelaundress.com), a company that sells specially formulated laundry detergents and other fabric care products. Wieber and Whiting met at Cornell University

FIGURE 1-1 Two Primary Reasons for Writing a Business Plan



while studying fabrics, and after graduating, the pair decided to start a business together. The following vignette comes from an interview they gave to Ladies Who Launch (www.ladieswholaunch.com), a Web site that highlights the accomplishments of female entrepreneurs:

Gwen: Lindsey and I went to college and studied textiles at Cornell together and always wanted to be in business together. We knew it was going to happen. We always talked about ideas. We were talking about this concept, and it was the right time for us. The first thing we did was the business plan and then a cash flow analysis. We wanted to do as much research as possible before developing the products.

Lindsey: We spent Memorial Day weekend (2003) doing our business plan. We spent the Fourth of July weekend doing our cash flow. After we had our ideas on paper, we went back to Cornell, met with a professor there, and had a crash course in chemistry. She worked with us on the formulation of the products.

Gwen: I found a manufacturer on Columbus Day. Every piece of free time we had, we dedicated to the business. We weren't at the beach with our friends anymore.⁷

The payoff for this level of dedication and hard work, which involved the preparation of a formal business plan, is that Whiting and Wieber have now had a successful business for 10 years. Their products are sold through their Web site and in many stores.

To provide another indication of the value of writing a business plan for the founders of a firm, Table 1-1 shows the contents of the business plan for a fictitious

TABLE 1-1 Business Plan Format for New Venture Fitness Equipment Inc.

Table of Contents

I.	Executive Summary	1
II.	Company Description	3
III.	Industry Analysis	6
IV.	Market Analysis	10
V.	Marketing Plan	14
VI.	Management Team and Company Structure	18
VII.	Operations Plan	22
VIII.	Product (or Service) Design and Development Plan	25
IX.	Financial Projections	30
	Appendices	
	Summary of Feasibility Analysis, Including Customer Reaction to the Product or Service	
	Supporting Industry Research	
	Resumes of Management Team Members	

company named New Venture Fitness Equipment. This plan is probably similar to the plan that Gwen Whiting and Lindsey Wieber wrote for The Laundress. New Venture Fitness Equipment plans to sell a new generation of fitness machines that will take the boredom out of exercising indoors by equipping its machines (treadmills, stationary bikes, and rowing machines) with flat-panel monitors that will allow exercisers to compete against virtual opponents, in a sort of electronic-game format, on a variety of simulated outdoor courses. Spend a few minutes looking at each of the topics included in Table 1-1, and then imagine the founders of New Venture Fitness Equipment talking through each of these topics. Imagine the debate that will inevitably ensue as the founders grapple with tough issues, such as projecting the size of their industry, specifying their target market, pricing their products, and determining how many machines they will have to sell to break even in each of their first three years. This process forces a team to not only work together but also turn abstract ideas like “these machines are so great they should sell like hotcakes” into concrete realities like “we’ll need to sell 9,850 machines each year during our first three years to break even.” The benefit of this type of intense analysis before a business is started provides a compelling rationale for writing a business plan. This sentiment is affirmed by Guy Kawasaki, a well-known Silicon Valley entrepreneur and venture capitalist, who wrote:

All the late-night, back-o’-the envelope, romantic intentions to change the world become tangible and debatable once they’re put on paper. Thus, the document itself is not nearly as important as the process that leads to the document. Even if you aren’t trying to raise money, you should write one (a business plan) anyway.⁸

The second reason a business plan is important is because it is a selling document for a company. It provides a mechanism for a young company to present itself to prospective investors, business accelerators and incubators, suppliers, potential partners, and others. Investors vary in terms of the reliance they place on formal business plans. Initially, many investors ask for an executive summary, which is a 1–2 page overview of a business plan, or they’ll ask for a short set of PowerPoint slides (often called a slide deck) describing the merits of a new venture. If their interest is sufficiently peaked, in some cases they’ll ask for a full business plan and in other cases they won’t. It’s still necessary to have a business plan, however. If an investor commits, in most cases a business plan will be required during the due diligence phase. Due diligence refers to the process investors go through after they tentatively commit to an investment. The commitment is based on a thorough investigation of the merits of the venture, whether any legal complications exist, and whether the claims made in the business plan are accurate and realistic.⁹

As a selling document, a business plan also helps a new company build credibility. For example, imagine that you are an investor and have enough money to invest in one new business. You chat informally with several entrepreneurs at a university-sponsored event for startups and decide that there are two new ventures that you want to know more about. You contact the first entrepreneur

and ask for a copy of his business plan. The entrepreneur hesitates a bit and says that he hasn't prepared a formal business plan but would love to buy you lunch to talk about his business idea. You contact the second entrepreneur and make the same request. This time, the entrepreneur says that she would be glad to forward you a copy of a 25-page business plan, along with a 12-slide PowerPoint presentation that provides an overview of the plan. Ten minutes later, the PowerPoint presentation is in your e-mail inbox with a note that the business plan will arrive by FedEx the next morning. You look through the slides, which are crisp and to the point and do an excellent job of outlining the business opportunity. The next day, the business plan arrives just as promised and is equally impressive.

Which entrepreneur is likely to get your attention? All other things being equal, the answer is obvious: the second entrepreneur. The fact that the second entrepreneur has a business plan not only provides you with detailed information about the venture but also suggests that the entrepreneur has thought through each element of the business and is committed enough to the new venture to invest the time and energy necessary to prepare the plan.

Another way that a business plan helps establish credibility for a firm is by winning or placing high in a university-, community-, or state-sponsored business plan competition or similar event. In the United States alone, more than 50 universities conduct business plan competitions, awarding up to \$10 million in prizes and in-kind services every year. The participants are able to connect with investors and successful entrepreneurs who serve as judges and the winners are typically featured in local newspapers and business publications. Winning or placing high in a competition also sends a message to investors that a startup is worth looking at. For example, when a professor they admired suffered a heart attack, Ray Li, a Rutgers alumnus, and John Vitug, a graduate of Kean University, created an all-natural, low-calorie beverage named Heart Juice that contains ingredients that combat high cholesterol. The two partnered with Shaun Bratton, an MBA candidate at Rutgers Business School, and entered the 2011 Rutgers Business School Business Plan Competition. They were placed second and won \$10,000. Commenting on the value of participating in the competition, Ray Li said:

The Rutgers competition gave us the push to get our product up and running. The award confirmed the belief that we could be successful and win interest from venture capitalists down the road.¹⁰

Over 300 stores now carry Heart Juice, and the number is growing.

There is an emerging school of thought that opposes the idea of writing a business plan, and advocates experimentation and trial-and-error learning gleaned through customer feedback over formal planning.¹¹ This approach, which is associated with the Lean Startup movement, espouses many excellent ideas, particularly in the area of solicitation feedback directly from prospective customers prior to settling on a business idea and a business model to execute on the idea. This book differs from this approach by arguing that a business plan represents an important starting point for a new venture and serves many useful

purposes. It is not intended to be a static document written in isolation at a desk. Instead, it is anticipated that the research conducted to complete the plan will place the founders in touch with potential customers, suppliers, business partners, and others, and that the feedback obtained from these folks will cause the plan to change as it's being written.¹² It's also anticipated that the business will iterate and change after it is launched, based on additional feedback. Some businesses will change more than others, depending on the quality of their initial feasibility analysis and the newness and volatility of their industry. An example of a startup that has relied on its business plan extensively but iterates frequently is Moxie Trades (www.moxietrades.com), a company started by Marissa McTasney, a woman in the construction industry. Ms. McTasney couldn't understand why tradeswomen had to wear ill-fitting men's work boots and clothes, so she started a company that designs and sells work boots and work apparel designed specifically for women. Writing about how Moxie Trades has benefited by having a formal business plan and how frequently the plan changes, author Melanie Keveles wrote in the book *Scrappy Startups*:

Marissa found that she was capable of drawing up a business plan, but she also found that her business plan would work for three months and then it would change. Now, not only does she modify her business plan every six months but she completely changes her strategy along the way.¹³

WHO READS THE BUSINESS PLAN AND WHAT ARE THEY LOOKING FOR?

There are two primary audiences for a firm's business plan. Let's look at each of them.

A FIRM'S EMPLOYEES

A clearly written business plan, which articulates the vision and future plans of a firm, is important for both the management team and the rank-and-file employees. As mentioned above, some experts argue that it's a waste of time to write a business plan and favor trial-and-error learning instead. Although trial-and-error learning is valuable, the process of writing a business plan is often as beneficial as the plan itself, as illustrated through the New Venture Fitness Equipment example. Not only is it useful for a management team to hammer out the contents of a business plan together, but also the process of working together on such an important project can help develop a strong, cohesive team. The process can also uncover potential trouble spots in a team. If particular members of a team can't work together to produce a business plan, it is unlikely they will be successful working together after the business is launched.

A clearly written business plan also helps a firm's rank-and-file employees operate in sync and move forward in a consistent and purposeful manner. The existence of a business plan is particularly useful for a new business that

has geographically dispersed employees. For example, say you live in Raleigh, North Carolina, and were just hired to be the primary sales rep for the eastern United States for an information technology startup headquartered in California. Imagine how helpful it would be for you to have a copy of your new firm's business plan, so that you could refer to the plan to make sure everything you do and say is consistent with the overall plans and direction of the company.

INVESTORS AND OTHER EXTERNAL STAKEHOLDERS

External stakeholders, such as investors, potential business partners, potential customers, private and government-funded grant awarding agencies, and key employees who are being recruited to join a firm, are the second audience for a business plan. To appeal to this group, the business plan must be realistic and not reflect overconfidence on the firm's part. A good rule of thumb is that a business plan should be written with extreme empathy for the readers, who are typically busy people who like to read plans that are clear, concise, and plainly explain the business. Overly optimistic statements or financial projections undermine a business plan's credibility, so it is foolish to include them. At the same time, the plan must clearly demonstrate that the business idea is viable and offers potential investors financial returns that are greater than lower-risk investment alternatives. The same is true for potential business partners, customers, grant awarding agencies, and key recruits. Unless the new business can show that it has impressive potential, there is little reason for anyone to become involved.

A firm must validate the feasibility of its business idea and have a good understanding of its competitive environment prior to presenting its business plan to others, as will be emphasized throughout this book. Sophisticated investors, potential business partners, and others will base their assessment of the future prospects of a business on facts, not guesswork or speculation. The most compelling facts a company can provide in its business plan are the results of its own feasibility analysis, particularly if the analysis includes feedback from industry experts and prospective customers. A business plan rings hollow if it is based strictly on entrepreneurs' predictions and estimates of what they "think" will happen.

Particularly when writing for an external audience, entrepreneurs must avoid appearing naïve or uninformed, especially about the industry a firm is about to enter or the amount of competition a firm may encounter. To make this point, William A. Sahlman, a Harvard professor and expert on business plans, says that "Business is like chess: To be successful, you must be able to anticipate several moves in advance."¹⁴ What Sahlman means by this statement is that a business plan that is overly optimistic and doesn't seem to anticipate any problems or competitive challenges to its product or service is by definition naïve and stands to lose credibility quickly. All companies have problems and competitors. In addition, a cardinal rule in approaching an investor or a banker with a business plan is to get a personal introduction. Bankers and investors receive many business plans, and most of them end up in a pile on their credenzas. To have your business plan noticed, find someone who knows the banker or the investor, and ask for an introduction.

GUIDELINES FOR WRITING A BUSINESS PLAN

Several important guidelines should influence the writing of a business plan. It is important to remember that a firm's business plan, its executive summary, or a set of PowerPoint slides that summarizes the plan is typically the first aspect of a proposed venture that will be seen by an investor or whomever the plan is presented to. If the full plan, the executive summary or the PowerPoint slides are incomplete or look sloppy, an investor may easily infer that the venture itself is incomplete or sloppy. It is important to be sensitive to the structure, style, and content of a plan before exposing it to a firm's employees or sending it to an outsider. It is also important for the individuals writing the plan to continually measure the type of company that they are envisioning against their personal goals and aspirations. One of the worst things that can happen to an entrepreneur is to write a business plan, raise money, launch the business, and then realize that the business is inconsistent with his or her personal aspirations or preferred lifestyle and wish that the firm hadn't come to fruition.

STRUCTURE AND STYLE OF THE BUSINESS PLAN

To make the best impression, a business plan should follow a conventional structure, such as in the plan outlined earlier in Table 1-1. Although some entrepreneurs are creative and don't want their plans to "look like everyone else's," departing from the basic structure of the conventional business plan is usually a mistake. Typically, investors are very busy people and want a plan that allows them to easily find critical information. If investors have to hunt for something because it is in an unusual place or just isn't there, they might simply give up and move on to the next plan.

One of the most common questions that the writers of business plans ask is, "How long and detailed should it be?" Experts vary on the optimal page length, but most recommendations fall in the 25–35-page range. Many software packages are available that employ an interactive, menu-driven approach to assist in the writing of a business plan. Some of these programs are very helpful; however, entrepreneurs should avoid a boilerplate plan that looks as though it came from a "canned" source. The software package may be helpful in providing structure and saving time, but the information in the plan should still be tailored to the individual business. Some businesses hire consultants or outside advisors to write their business plans. Although there is nothing wrong with getting advice or making sure that a plan looks as professional as possible, a consultant or outside advisor shouldn't be the author of the plan. Along with facts and figures, a business plan needs to project a sense of anticipation and excitement about the possibilities surrounding a new venture, which is a task best accomplished by the creators of the business. Plus, hiring someone to write the plan denies the entrepreneur or team of entrepreneurs the positive benefits of the writing experience, as explained earlier in the chapter.

The appearance of the plan must be carefully thought out. It should look sharp but not give the impression that a lot of money was spent to produce it. Those who read plans know that entrepreneurs have limited resources and

expect them to act accordingly. A plastic spiral binder, including a transparent cover sheet and a back sheet to support the plan, is a good choice. When writing the plan, avoid getting carried away with the design elements included in word-processing programs, such as boldfaced type, italics, different font sizes and colors, clip art, and so forth. Overuse of these tools makes a business plan look amateurish rather than professional. Some style-related things can be done that show the amount of care and attention that went into a plan and that aren't overly flashy or costly. For example, if a company has a well-designed logo, it should be placed on the cover sheet of the business plan and on the header for each page. A simple design element such as having the colors in the charts and graphs in the plan match the colors in the logo shows an attention to detail and an eye toward branding that is impressive to most readers.

One important criterion that all business plans should adhere to is to convey a clear, coherent story of what the business plans to accomplish and how it plans to get there. Many entrepreneurs aren't very good at this, which lessens the potential impact of their plans. Robert W. Price affirms this sentiment in a book titled *Roadmap to Entrepreneurial Success*, which reports the observations of two experts on business plans regarding this issue:

According to David Berkus, a past-president of the Tech Coast Angels, one of the largest angel investment groups in the United States, the first step to writing a business plan is fleshing out your “talking points” and weaving them into a storyline. Storytelling is having the ability to communicate succinctly and precisely what you do, what you want to do, and what you need to do it. Bill Joos at Garage Technology Ventures, who has heard some 100,000 pitches from entrepreneurs, agrees that there is a “big problem with entrepreneurs who have the inability to talk about what they do.”¹⁵

One thing that a new venture can do to help develop a concise description of their business is develop an elevator speech. An elevator speech is a brief, carefully constructed statement, usually 1–2 minutes long that outlines the merits of a business venture. It is explained in more detail in the following Business Plan Insight box. A properly prepared elevator speech can assist in writing a business plan by helping the founders develop a sharp and concise description of their business.

In business plans, savvy investors and others will pick up on several potential “red flags” when certain aspects of a plan are insufficient or miss the mark. These red flags, which are depicted in Table 1-2, not only undermine the credibility of the business plan but of the individuals who wrote the plan. The writers of a plan should work hard to avoid these potential complications.

CONTENT OF THE BUSINESS PLAN

Most business plans are divided into sections that represent the major aspects of a new venture's business, as depicted in the business plan outline shown earlier in Table 1-1. The titles of the sections will vary from plan to plan, although most plans follow a fairly standard format. What varies, of course, from plan to plan,

BUSINESS PLAN INSIGHT

Develop an Elevator Speech

A very useful exercise for a new firm is to develop an elevator speech. An elevator speech (or pitch) is a brief, carefully constructed statement that outlines the merits of a business opportunity. Why is it called an elevator speech? If an entrepreneur stepped into an elevator on the 25th floor of a building and found that by a stroke of luck a potential investor was in the same elevator, the entrepreneur would have the time it takes to get from the 25th floor to the ground floor to try to get the investor interested in the business opportunity. Most elevator speeches are 1–2 minutes long.

An elevator speech might come in handy on many occasions. For example, many university-sponsored centers for entrepreneurship hold events that bring investors and entrepreneurs together. Often these events include breaks designed specifically for the purpose of allowing entrepreneurs looking for funding to mingle with potential investors. The other thing an elevator speech does for a young firm is force the founders to develop a very concise, to-the-point description of the business idea.

An outline for a 2-minute elevator speech is provided here. A new venture’s elevator speech should be carefully prepared and practiced often.

STEPS IN AN ELEVATOR SPEECH

Step 1: Describe the opportunity or problem that needs to be solved.	45 seconds
Step 2: Describe how your product or service meets the opportunity or solves the problem.	45 seconds
Step 3: Describe your qualifications.	15 seconds
Step 4: Describe your market.	<u>15 seconds</u>
Total:	<u>2 minutes</u>

is the quality of the writing, the substance of the plan, and the degree to which the plan convinces the reader that the business opportunity is exciting, feasible, defensible, and within the capabilities of the people launching the firm. Writing a plan that includes all of these elements is not an easy task, but it is a very useful one, as illustrated throughout this book.

The essence of what should be included in each section of a business plan is described in Chapter 4 through Chapter 10 of this book. After the plan is completed, it should be reviewed for spelling and grammar and to make sure that no critical information has been omitted. There are numerous stories about business plans being sent to investors that left out important information. One investor even said that he once received a business plan that didn’t include any contact information for the entrepreneur. Apparently, the entrepreneur was so focused on the content of the plan that he or she simply forgot to provide contact information on the business plan itself. This was a shame because the investor was interested in learning more about the business opportunity.¹⁶