

# Guidebook

Business Plan Competition 2014

The Rising Entrepreneur

Virtual University Of Pakistan

## **Topic: Understanding Business Plan (A Starter's Perspective)**

**Introduction:** Over the decades the world has learnt a lesson from the failure of multiple measures and steps taken to alleviate poverty and control unemployment that entrepreneurship development is the only and right solution to alleviate poverty and reduce unemployment.

Generally the concept of entrepreneurship is linked with starting a new business in an innovative way. The world has also learnt a lesson that main cause of failure of many businesses is poor planning or lack of formal and proper business planning. When we talk about planning the concept of business plan comes to our mind.

The article is written with a special objective to give the idea of business plan to those who are interested to start their own business venture in a secured way. I don't claim that business plan in any way guarantees success but it can certainly reduce the chances of failure or even when you fail in the end of the day you know the causes of failure which can be overcome and the learning can become the reason of success for the failing entrepreneur in particular and others in general.

In the article I have used a question answer approach to educate starters/potential entrepreneurs, so following are the questions raised and by answering these questions business plan can be understood.

### **Basic Questions:**

1. What is a business plan?
2. Why business plan is important?
3. Whom business plan is prepared for?
4. What is the extent of a business plan?
5. What are features of an effective business plan?
6. What is the strategic arrangement of a business plan & what are its contents?
7. How a business plan should practically be prepared?

#### ***1. What is a business plan?***

The term business plan is made of two words "business" and "plan". By understanding each we will try to arrive at some usable definition of business plan

- a. Business: "Any economic activity undertaken on regular basis to earn profit by combining resources and delivering value to society/market in response of whose unmet need it is started and run".
- b. Plan: "Simply it is the product or result of planning or it can be defined as it is a document or piece of thought which answers the basic questions of planning".

If plan is so then what is planning? In my opinion it is nothing more than the consideration of following three questions:

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- a. Where am I? (Identification and analysis of opportunity and resources/Situation Analysis)
- b. Where do I want to go? (Knowing the destination/Setting goals & Objectives)
- c. How can I get there? (The road map/Way out/Strategy)

To make the concept of planning clear we try to apply the above questions on following situation faced by a potential entrepreneur:

Mr saleem standing unemployed with cash resources of Rs.25000 and living in a small town which consists of 100 households divided in seven streets. Further it is learnt that town is situated 15 k/m apart from vegetable market. The residents face problem in buying fresh vegetable. Each household demands to buys fresh vegetable worth Rs 100 per day.

Now applying the planning questions to the above situation for MR Saleem:

- a. Where am I?
  - Standing Unemployed
  - Having Rs 25000
  - Spent six months as hawker in vegetable market
  - There is unmet need of vegetable worth Rs. 10000 per day
  - People prefer fresh vegetable only
  - 100 households are divided in seven streets
  - The profit margin is 15% in average
- b. Where am I to go?
  - I want to start a venture of selling fresh vegetable with capacity of selling vegetable worth Rs 10000 per day to all hundred households in the town on daily basis so that they may buy & enjoy fresh vegetable
  - I am to earn profit to meet my family needs and to grow my business from micro to small to medium size
- c. How can I get there?
  - I can have a mobile vegetable shop having the name “VAGI FRESH”
  - For the mobile shop I will get a specially assembled bicycle which has a shop like carrier.
  - I will buy vegetable early in the morning from nearby vegetable market so that fresh vegetable can be supplied to the customers timely.
- d. Cost-Benefit analysis:

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- Cost of bicycle Rs 10000
- Cost of inventory everyday Rs 7500
- Profit earned per day Rs 1500
- Reserve capital Rs 7500

The above example can make the concept of planning clear. When MR Saleem compiles the answer of planning questions he gets his business plan ready.

**Defining Business Plan:** “A document which contains all the necessary information required to start, run, grow and shut down a venture profitably”.

OR

“Functionally business plan is a mega document which contains different but related documents covering all aspects of a new business venture”.

### 2. Why business plan is important?

Very simply it is important because it guides the entrepreneur through out the process of venture creation. It is generally considered as a step by step guideline for new venture creation. I personally feel that entrepreneurs are dreamers and their source of dream is the unmet need of the society/market. They can only meet the unmet need of market by putting their dreams to reality in the shape of starting business venture so I believe business plan is a document which helps entrepreneur put his dream to practice in other words business plan is a way by which entrepreneurial dream is put to practice.

A business plan is also used as a saleable commodity you will learn this on the pages to come.

### 3. Whom business plan is prepared for?

This question is concerned with understanding who are users or stakeholders of a business plan. The users of a business plan are categorized as internal users and external users.

a. **Internal Users:** There are two internal users of a business plan.

- I. The Entrepreneur
- II. Potential Employees

**The Entrepreneur:** How entrepreneur uses business plan is clear from the previous discussion just for quick review we can say entrepreneurs use business plan to seek step by step guidance.

**Potential Employees:** For the entrepreneur a new venture may be a dream coming true and he may be emotionally attached with it but for employees it's a matter of career

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specially when they are saying good bye to their previous job, however employees use business plan in the following way.

- a. Use to know whether purposed venture is a viable career path.
- b. Use to seek guidance to perform their responsibilities in the new venture.  
For instance some one is hired as marketing & sales manager where he will get guidance to do his job? Definitely from the business plan.

It is true that whole of the plan is not discussed with potential employees but only the concerned part. There is another opinion that if founding employees participate in the planning process and know the plan they can be very effective, obviously it is only possible if employees are reliable otherwise it can be dangerous for the new venture even before it completes its gestation period (period before a business starts earning profit).

c. **External Users:** Following are four external users of a business plan

- I. Potential Customers
- II. Potential Suppliers
- III. Potential Investors
- IV. Regulatory Agencies

I. Potential Customers: There may be objection on the point that how customers can be the users of the business plan? Although point is arguable yet I believe they can be the users in the following way:

Consider you want to start the business of automobile wheel manufacturing which is used by automobile assemblers as input. Think if you wish to be the vendor of a well established automobile assembler like HONDA OR TOYOTA etc you will definitely have to convince them that you can meet their standards but how can you convince when so far venture is only a dream? Definitely through your strong business plan you can do this. Now think if you manage to convince automobile assemblers it's a sort of guarantee you have obtained before even starting venture.

Conclusively it can be said that not in all but in some types of business customers are the direct users of the business plan. Remember even in household goods you have to convince the retailers to carry your product and for that definitely parts of the business plan are used.

II. Potential Suppliers: The success of a new venture also lies in reducing cash requirement as much as possible; to achieve this objective the one of the strategies may be to convince the suppliers to allow trade credit (Terms under which inputs are obtained from supplier on credit). But here arises a question why suppliers should allow trade credit to a venture which has yet to prove its success? I think here ones again you need a business plan to convince the suppliers on the following points:

- a. Whether the business will be able to repay timely

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b. Whether its product will receive any appreciation by the market

III. Potential Investor: It is said and rightly said that most of the business plans are prepared for investor so must be prepared from investor's perspective even though when entrepreneur is arranging finance from his own pocket. The reasons are as follows:

- a. Investors are rational whereas entrepreneurs are emotional
- b. Investors are market oriented whereas entrepreneurs are product oriented
- c. Investors are result oriented whereas entrepreneurs are detail oriented

Also remember:

- a. Investors in average allow 5 to 10 minutes to a business plan
- b. Investors receive a large number of business plans to be reviewed on daily basis
- c. Investors are well informed you can't deceive them by manipulating data
- d. Investors are concerned with the quick, handsome and definite return on their investment

Above points show that investors are the most important users of a business plan so a plan must be investor focused. Also remember that potential investors may be your relatives, friends, professionals, angel financiers, banks and venture capitalists.

IV. Regulatory Agencies: There are different regulatory agencies at both federal and provisional level which act as the stakeholders on the behalf of government to protect the public interest so these may be interested to know the business plan before business gets permitted by the government. It is advisable that entrepreneur must identify the concerned regulatory agencies affecting his area of business and give due attention to their point of view while preparing business plan.

Conclusively it can be said in this part that all the stakeholders' concern is to be given due attention to make business plan and resultant venture more acceptable.

#### ***4. What is the extent of a business plan?***

This question is related with the length of details of a business plan. The extent of business planning depends on the following factors:

- a. **Entrepreneurs ability and preference:** The extent of business planning initially depends on entrepreneurial preference whether he believes in planning or not. Research shows that most of the entrepreneurs are doers

and take planning as wastage of time. The second factor is the ability to plan definitely the more you are equipped with planning skills & tools the deeper will be the extent of planning.

- b. **Complexity of business:** The more complex is the business the more planning you need. Its true that extent of planning varies with the level of complexity of business for instance there is definitely difference of extent of planning for a grocery store and a manufacturing concern. It must be remembered that people generally plan less under difficult situations because it is difficult to plan under such situations but potential entrepreneurs are advised to plan accordingly.
- c. **Level of Competition:** The more competitive is the market the more planning you need. Consider MR Saleem's example in the beginning how easier it was to plan as there were no competitors but if there were many competitors how difficult it would have been to plan.
- d. **Level of Uncertainty:** The more uncertain is the environment the more planning you need. Planning is all about rational predictions of the things but if environment around you is uncertain and highly unpredictable definitely the more alternatives you need which resultantly demands more planning for instance planning is easier in Sweden but difficult in Pakistan and Sudan.
- e. **Available Time & Money Resources:** The more time & money you have the more planning is possible. Obviously planning demands time and money to be executed. Consider you are given an opportunity to open a coffee shop during an international exhibition to be held at Expo-Lahore but you are allowed only 24 hours to decide now consider another situation of same type but you are allowed to take as many as seven days to decide where you can plan more? Definitely in the second situation as you have more time available.

##### **5. What are the features of an effective business plan?**

As business plan is a saleable commodity so it must be in a form to be acceptable for both internal and external stakeholders. There are following points mentioned which may make a business plan effective:

- a. It must be comprehensive enough to cover all the aspects of the new venture
- b. Must be written by keeping seven C's of communication in mind
- c. Its length must be between 25 to 50 pages excluding appendix
- d. It must be arranged in a way that each section catches readers attention for the next section
- e. It must not be too fancy or too simple rather it must have professional outlook

##### **6. What is the strategic arrangement of a business plan and its contents?**

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There are no hard and fast rules as to the contents and strategic arrangement of a plan but I feel following may prove to be effective for starters:

- A. Title/Cover Page
- B. Table of Contents
- C. Executive summary
- D. General Business Description
- E. Management Plan
- F. Marketing Plan
- G. Operations & Production Plan
- H. Financial Plan
- I. Appendix

A. **Title/Cover Page:** It is the first introduction or packaging of a business plan which catches the attention of the reader for the remaining parts and it contains the following important information:

- Name of the venture
- Logo
- Nature of business
- Legal status//Type of ownership (Proprietorship/Partnership/Corporation)
- Name of key entrepreneur
- Amount of purposed investment
- Statement of confidentiality
- Location & address

Note: For example see appendix

B. **Table of Contents:** It serves as the explorer of the document so following things are advisable while preparing table of contents:

- a. It must match with the internal arrangement of the document otherwise the document will lose its impact, to making it sure following two strategies are suggested:
  - 1. First number and arrange the document and then prepare the table of contents
  - 2. First prepare the table of contents and then arrange the document accordingly.

C. **Executive summary:** It is the most important part of the business plan because it gives overview of the new venture to the reader in shortest span of time so it must be written strategically; for this following points are observable:

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- a. It is prepared in the end but attached in the beginning of the business plan
- b. It must be originally prepared rather than cut-copy-paste
- c. It must be reviewed three times and tested by an expert
- d. It must be paragraphed in a way that each paragraph represents each section of the plan in a coherent manner
- e. Its maximum length is three pages
- f. If necessary it may contain charts and tables specially to convince on financial and growth aspects

**D. General Business Description:** It is the first regular part of the business plan which discusses the context of the new venture along with its basic information, it consists of following parts:

- a. Introduction & rationale of opportunity (You need to justify that business is viable as we did in case of opening example)
- b. History of the venture if ongoing otherwise background of the entrepreneurial team
- c. Industry analysis  
Demand of the industry (Total units demanded by market over time)  
Supply of the industry (Total units supplied by the current players)  
Number of players in industry  
Growth trends of the industry (Minimum for past 3 years & Maximum 5 years)  
Stage of development of industry (Introduction/Growth/Maturity/Decline)  
Major threats and opportunities of the industry  
*Note: Also justify whether there is shortage or surplus in the market.*
- d. SWOT of the venture (Strength, Weaknesses, Opportunities & Threats Analysis)
- e. Legal status of the business (Proprietorship/Partnership/Company)
- f. Legal issues and requirements (Licenses, permits etc)
- g. Location & its rationale (Is it a strategic location? For understanding a strategic location is that which is conveniently accessible for all supply chain members in general and customers in particular)  
Above information produces a general idea of the venture.

**E. Management Plan:** It is that part of the business plan which contains the detailed information of new ventures management and it's human resource strategies and policies and consists of the following:

1. Introduction of the entrepreneurial team
  - a. Name and address
  - b. Qualification
  - c. Experience
  - d. Current responsibilities & why they have been assigned current responsibilities
2. Hierarchy: Order of command and division of the organization
3. Total number of jobs

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- a. Job descriptions (Responsibilities to be performed under each job)
- b. Job specifications (Qualification required to perform each job)

### 4. Human Resource Policies

- a. Hiring process
- b. Training & Development
- c. Evaluation and Reward System

Note: Don't forget Management plan is important for potential employees in particular and other stakeholders in general.

**F. Marketing Plan:** It is that part of a business plan which contains all the information required to market new venture and its products and it has the following parts:

#### 1. Analysis Phase/Market analysis

- a. Customer analysis
- b. Competitor analysis
- c. Supply chain analysis
- d. Sales forecasting

#### 2. Action/Strategic phase

- a. Product Plan
- b. Pricing Plan
- c. Promotion Plan
- d. Placement Plan

Always remember that marketing plan is the heart of business plan because it justifies whether new venture is marketable or not. Following are the details of marketing plan which I think are important because it is also that part of the business plan where practically business plan starts in writing.

1. Analysis phase/Market analysis: This is the part in which information about different aspects of the market is collected and four types of profile reports are prepared which are used to formulate action phase and other parts of business plan.

*a. Customer Analysis:* it consists of answers of the following questions

1. Who are our customers? (Age, Gender, Location, Income category, Education & Occupation)
2. What do they need?
3. How do they want to meet their need? (Core needs, Preferences, Benefits looking for this question helps develop the product)
4. How much do they want to buy? (Quantity over time and packaging size)
5. How much do they wish to pay for? (This & next question helps develop pricing plan)
6. How do they wish to pay for? (Cash/Credit)
7. When do they buy at? (Purchase timing in terms of part of the year, month & day)

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8. Where do they buy from? (Purchase location this question will help develop distribution strategy)

9. How do they want to be communicated? (Language, Media, timing & message content this question helps develop promotion strategy)

Note: Answer of above questions will result in the customer profile report.

*b. Competitor Analysis:* In this part we scan and seek information about competitors which is used to develop action plan and other parts of business plan so following questions are answered in this regard:

1. Who are our competitors? (Direct, Indirect, Existing & Potential)

2. What do they offer? (Products offered by competitors, this will help develop differentiated product)

3. What are their strategies? (Product, Promotion, Pricing & Placement, this will help develop our own new value proposition)

4. Who are their key team members?

5. What are their strengths & weaknesses? (Competitor's weakness is an opportunity and strength is a threat)

6. How do consumers perceive their value offering?

7. How may they respond to our strategies and offerings?

Note: Answers of the above questions will result in the competitor profile report.

*c. Supply Chain Analysis:* This section will help understand supply chain members which are definitely an essential part of a business. Following questions are answered in this regard:

1. Who are the suppliers of different inputs? (Better to develop a list of all)

2. What is the level of supplier power?

3. What is supply infrastructure?

4. What is the distribution channel infrastructure?

5. What is the level of distributor power?

6. What is the infrastructure of transportation and utilities in the area of operations?

7. What is the labor market structure?

Note: Answer of above questions help develop supply chain structure profile.

*d. Sales Forecasting:* That is the part in which it is estimated that how many units the new venture will be able to sell over a given period of time (Daily, Monthly & Annually). Remember that you can't plan any thing unless this part is done because the figure how many units you will be able to sell at what price will answer the questions of other parts of the document, this section will for instance help determine the following:

1. Number of machines required to produce forecasted quantity (Production Plan)

2. Number of persons required to handle production and operations (Management Plan)

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3. Management system required to handle persons, material and machines (Management Plan)
  4. Building and factory required to accommodate forecasted operations (Financial Plan)
  5. Inputs required (Purchase Plan)
  6. Utilities and other expenses (Financial Plan)
  7. Marketing Expenses (Financial Plan & Marketing Plan)
  8. Legal and preliminary expenses required to set up this size of business
- Etc

Note: When above information is collected that is used to develop “Requirement Sheet” which serves as link between marketing and financial plan and used as raw data to prepare other parts of the plan.

Based on the above information action phase of the marketing plan is prepared, however this article can't afford to detail them all for that a separate article will be produced as “Understanding Marketing Plan”.

Note: Calculation along with example is attached in appendix of the article.

3. Implementation & Control Phase: How will the marketing plan be implemented and controlled is discussed under this section.

**G. Operations & Production Plan:** This is the part of business plans which deals with the material and machines.

1. Input/Supply/Purchase Plan:
  - a. List of raw materials
  - b. List of suppliers and reason of selection
  - c. Supply schedule & payment plan
  - d. Storage facilities required
  - e. Transportation system
2. Production Plan
  - a. Plant lay out
  - b. Machines, tools and plant
  - c. Capacity
  - d. Facilities
3. Total quality management system
4. Out bound logistics plan

**H. Financial Plan:** it is that part of the business plan which contains the financial information and answers the following three questions:

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1. How much finance is required? (Requirement sheet is prepared to calculate the purposed amount of finance required)
2. Where to get finance from? (By analyzing alternative sources it is determined which will be used to obtain finance like debt/equity)
3. Utilization and recording of financial results? (Projected financial statements for 3 to 5 years are prepared which include Projected Income Statement, Projected Balance Sheet & Projected Cash Flow statement)

**I. Appendix:** It is the final part which is excluded from the regular plan and contains the following additional information:

- a. Resumes of Entrepreneurs
- b. Legal documents (Deed, Certificate of Incorporation, Partnership Registration Certificate, license etc)
- c. Pictures (Products, Plant, Building etc)
- d. Location map

**Conclusive Remarks:** Effort has been made in the article to make the potential entrepreneurs familiar with the concept of the business plan.

**Appendix**

**(1) Sample Cover Page**

**Name Of the Business** : Vegi Fresh

**Logo** : 

**Nature of Business** : Mobile Retail Concern of fresh Vegetable

**Legal Status** : Sole proprietorship

**Name of Entrepreneur** : MR Saleem

**Amount of Purposed Investment:** Rs 25000

**Financing type** : Total equity

**Purposed Starting Date** : 12/09/2009

**Statement of Confidentiality** : “It is a private & confidential document, not to be opened and read without the prior permission of the entrepreneur and sent to the following address if found lost somewhere”.

**Contact:** ABC street, XYZ town, Lahore,Pakistan

**042-50000001,030094000000**

**(2) Requirement Sheet**

**Requirement sheet (A Training Centre)**

No	Item	Calculation(Rs Million)	Final(Rs Million)
<b>A</b>	<b>Assets Requirement</b>		
1.	Renovation& Partition	0.2	0.2
2.	Furniture a. Class Chairs b. Office sets c. White board	40*1200=0.048 06*6000=.036 03*1500=.0045	0.088
3.	Computers(PIV) a. For Lab b. For Research c. Networking d. Software & USB's e. Printer(LJ)	15*20000=0.3 06*30000=0.18 0.05 0.03 2*0.02=.004	0.6
4.	Library Upgradation(books&Furniture)	0.3	0.3
5.	Multimedia Projector	2*0.5=1.00	1.00
6.	Motor Bikes(Local Made)	03*.045=0.135	0.135
7.	Suzuki Mehran(CNG)	01*0.420=0.420	0.420
Total			2.743
<b>B.</b>	<b>Human Resource Requirement</b>		
1.	Project Coordinator	1*0.04*12=0.48	0.48
2.	Training Manager	1*0.03*12=0.36	0.36
3.	Research Manager	1*0.03*12=0.36	0.36
4.	Research Officers	2*0.02*12=0.48	0.48
5.	Research Associates	6*0.015*12=1.08	1.08
6.	peon	2*0.005*12=0.12	0.12
7.	Sweeper	2*0.002*12=0.048	0.048
8.	Instructors	5*0.02*12=1.2	1.2
9.	Field Associates	6*0.012*12=0.864	0.864
Total			4.992

<b>C.</b>	<b>Running Expenses</b>		
1.	Electricity	0.02*12=0.24	0.24
2.	Telephone	0.002*12=0.024	0.024

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3.	Stationary	$0.02 * 12 = 0.24$	0.24
5.	Transportation & Fuel	$0.01 * 12 = 0.12$	0.12
6.	Rent	$0.015 * 12 = 0.18$	0.18
7.	Promotion	0.20	0.20
8.	Repair & Maintance	0.3	0.3
9.	Miscellaneous		0.011
Total			1.315
<b>Grand Total</b>			<b>9.05</b>