

Entrepreneurship

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Lecture 4

جامعة الجميع الذكية

تسعى لتكون الكيان الأول الذي يتبنى مبدأ المجتمع التعليمي
التعاوني ويقدم العلم مقابل العمل لتنمية وبناء المجتمعات.

Crafting a Business Plan & Building a Solid Strategic Plan



جامعة الجميع الذكية
EVERYONE'S SMART UNIVERSITY

Learning Objectives

1

Explain the benefits of an effective business plan.

2

Describe the elements of a solid business plan.

3

Explain the “five Cs of credit” and why they are important to potential lenders and investors reviewing business plans.

4

Understand the keys to making an effective business plan presentation.

Learning Objectives

5

Understand the importance of strategic management to a small business

6

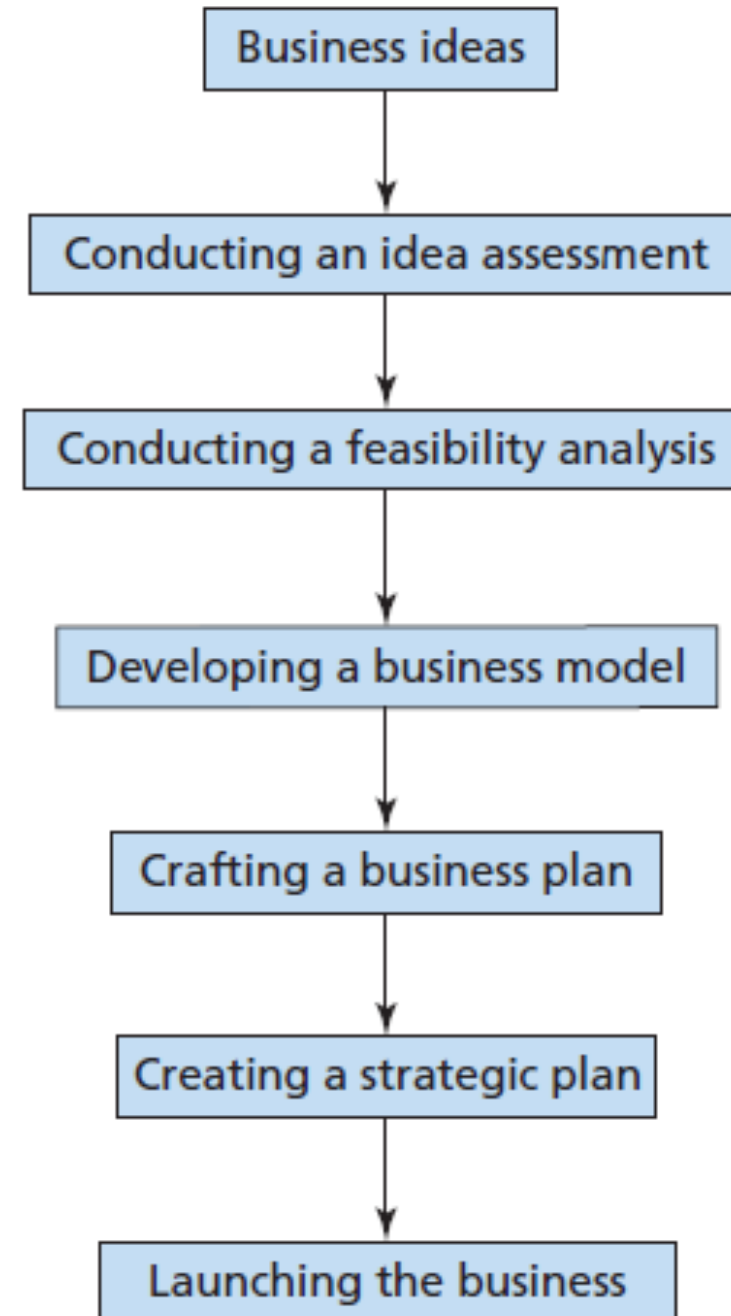
Explain why and how a small business must create a competitive advantage in the market.

7

Develop a strategic plan for a business using the nine steps in the strategic management process.

Chapter 04

New Business Planning Process



- Business Plan

- A business plan is a written narrative, typically 25 to 35 pages long, that describes what a new business plans to accomplish. (Barringer & Ireland, 2016)
- A business plan outlines the basic concept underlying a business-what problem will be solved-and describes how the business will execute its plan to solve the problem. (Longenecker et al., 2017)
- A business plan is a document that defines in detail a company's objectives and how it plans to achieve its goals. A business plan lays out a written road map for the firm from marketing, financial, and operational standpoints. Both startups and established companies use business plans. (investopia)

Benefits of Creating a Business Plan

- **Business plan:**
 - A written summary of:
 - An entrepreneur's proposed business venture
 - The operational and financial details
 - The marketing opportunities and strategy
 - The managers' skills and abilities
 - A business plan is the best insurance against launching a business destined to fail or mismanaging a potentially successful company.



Essential Functions of a Business Plan

1. Guiding the company by charting its future course and defining its strategy for following it.
2. Attracting lenders and investors who will provide needed capital.

A Plan Must Pass Three Tests



1. The Reality Test

proving that:

- A market really does exist for your product or service.
- You can actually build or provide it for the cost estimates in the plan



2. The Competitive Test

evaluates:

- A company's position relative to its competitors.
- Management's ability to create a company that will gain an edge over its rivals.



3. The Value Test

proving that:

- A venture offers investors or lenders an attractive rate of return or a high probability of repayment.



Why Take the Time to build a Business Plan?

- Although building a plan does not guarantee success, it does increase your chances of succeeding in business.
- A plan is like a road map that serves as a guide on a journey through unfamiliar, harsh, and dangerous territory. Don't attempt the trip without a map!



Who Reads the Business Plan—And What Are They Looking For?

There are two primary audiences for a firm's business plan

Audience	What They are Looking For
A Firm's Employees	A clearly written business plan helps the employees of a firm operate in sync and move forward in a consistent and purposeful manner.
Investors and other external stakeholders	A firm's business plan must make the case that the firm is a good use of an investor's funds or the attention of others.

- Structure of the Business Plan
 - To make the best impression a business plan should follow a conventional structure, such as the outline for the business plan shown in the chapter.
 - Although some entrepreneurs want to demonstrate creativity, departing from the basic structure of the conventional business plan is usually a mistake.
 - Typically, investors are busy people and want a plan where they can easily find critical information.

Types of Business Plans

Summary Business Plan

10–15 pages
Works best for new ventures in the early stages of development that want to “test the waters” to see if investors are interested in their idea

Full Business Plan

25–35 pages
Works best for new ventures who are at the point where they need funding or financing; serves as a “blueprint” for the company’s operations

Operational Business Plan

40–100 pages
Is meant primarily for an internal audience; works best as a tool for creating a blueprint for a new venture’s operations and providing guidance to operational managers

Key Elements of a Business Plan

- Title Page and Table of Contents
- Executive Summary
- Mission and Vision Statement
- Business and Industry Profile
- Description of a Firm's Product or Service
- Competitor Analysis
- Marketing Strategy
- Entrepreneurs' and Managers' Resumes
- Plan of Operation
- Pro Forma (Projected) Financial Statements
- The Loan or Investment Proposal

• Executive Summary

- The executive summary is a short overview of the entire business plan.
- It provides a busy reader with everything that needs to be known about the new venture's distinctive nature.
- An executive summary shouldn't exceed two single-spaced pages.
- Even though the executive summary appears at the beginning of the business plan, it should be written last.
- The plan itself will evolve as it's written, so not everything is known at the outset.
- In many instances an investor will ask for a copy of a firm's executive summary and will ask for a copy of the entire plan only if the executive summary is sufficiently convincing.
- The executive summary, then, is the **most important section** of a business plan.

A close-up photograph of a person's hands writing on a white notepad with a black pen. The person is wearing a light blue shirt. The background is blurred.

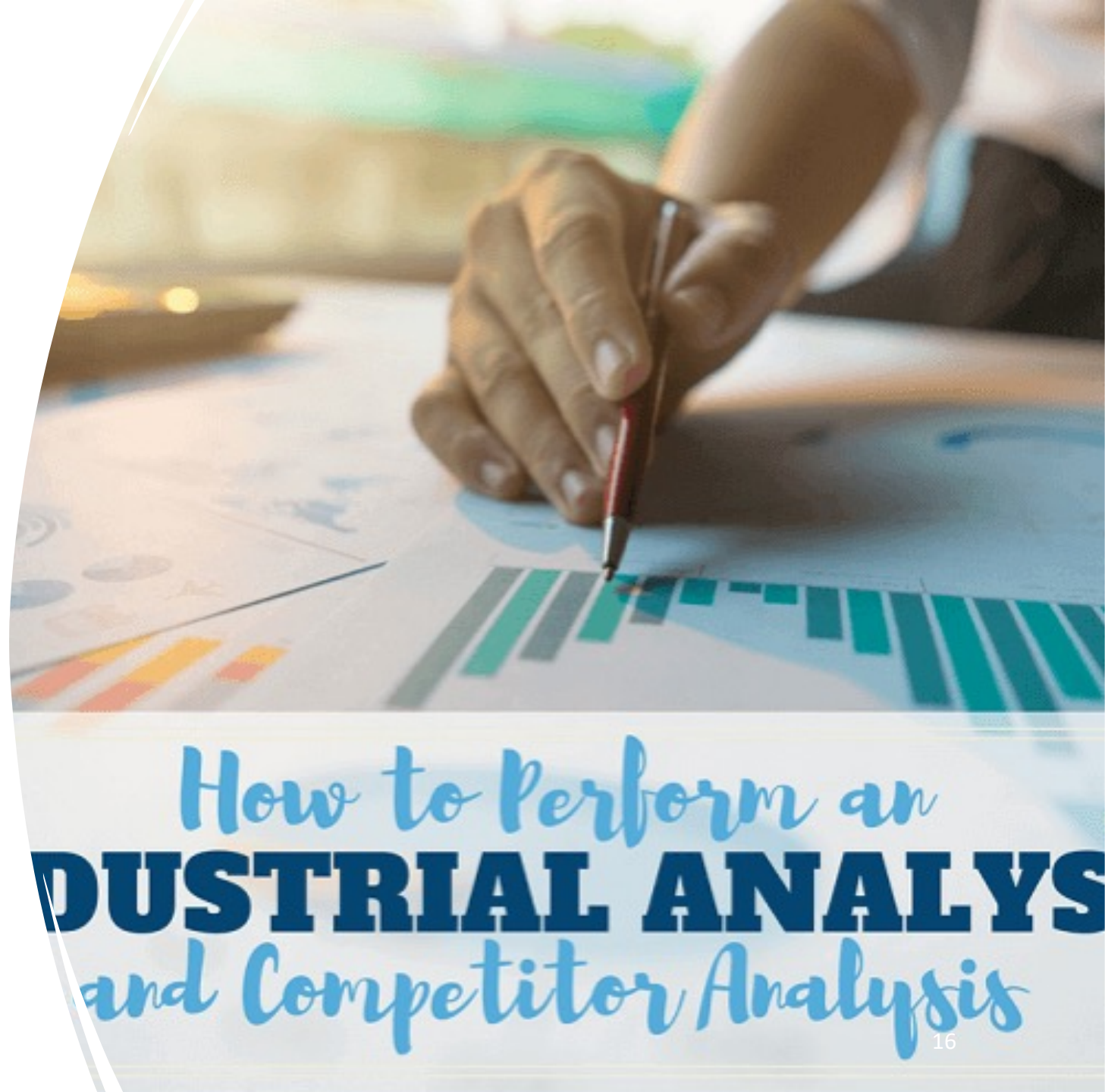
Section1: Executive Summary

- The executive summary is a written version of “the elevator pitch”
 - A good elevator pitch provides:
 1. **Context.** What does your company do in easy-to-understand words?
 2. **Benefit.** What benefit or advantage does your company offer customers?
 3. **Target customers.** For whom does your company provide the benefit?
 4. **Point of differentiation.** How is your company different from other companies that provide similar products, services, or solutions?
 5. **Clincher.** Can you leave the listener or reader with a memorable, bottom-line sound bite about your company.

Section 2:

Industry Analysis

- Industry Analysis
 - This section should begin by describing the industry the business will enter in terms of its **size, growth rate, and sales projections.**
 - Items to include in this section:
 - Industry size, growth rate, and sales projections.
 - Industry structure.
 - Nature of participants.
 - Key success factors.
 - Industry trends.
 - Long-term prospects.



How to Perform an
INDUSTRIAL ANALYSIS
and Competitor Analysis

Section 3: Company Description

- This section begins with a general description of the company.
- Items to include in this section:
 - Company description.
 - Company history.
 - Mission statement.
 - Products and services.
 - Current status.
 - Legal status and ownership.
 - Key partnerships (if any).
- Most start-ups do not service their entire industry. Instead, they focus on servicing a specific (target) market within the industry.
- It's important to include a section in the market analysis that deals with the behavior of the consumers in the market. The more a start-up knows about the consumers in its target market, the more it can tailor its products or services appropriately.

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- Describe the benefits customers get from the product or service
- A **feature** is a descriptive fact about a product or service.
- A **benefit** is what the customer gains from the product or service feature.

Features



4000 mAh battery
Fingerprint sensor
32 mega pixel camera
Wireless charging
8 GB RAM and 1.8 GHz processor
5 ' 7 inch AMOLED panel

Benefits



Long lasting battery
Security
Good pictures
Handy charging
Fast processing
Comfortable screen size



Section 4: Market Analysis

- Market Analysis
 - The market analysis breaks the industry into segments and zeros in on the specific segment (or target market) to which the firm will try to appeal.
 - Items to include in this section:
 - Market segmentation and target market selection.
 - Buyer behavior.
 - Competitor analysis.

competitive analysis

strategic many firms competitors strategy management

sources dangerous offensive intuition relevant type

current efficient provides places operate monitoring strengths framework robust support information impressions continually enterprises conjectures one lack argued competitive enough due receives context blindspots component risk adjustment scanning threats traditional essential potential Compe opp

gained identity instead result type relevant intuition offensive dangerous sources

- The Economics of the Business
 - This section addresses the basic logic of how profits are earned in the business and how many units of a business's profits must be sold for the business to "break even" and then start earning a profit.
 - Items to include in this section:
 - Revenue drivers and profit margins.
 - Fixed and variable costs.
 - Operating leverage and its implications.
 - Start-up costs.
 - Break-even chart and calculations.



- Marketing Plan
 - The marketing plan focuses on how the business will market and sell its product or service.
 - Items to include in this section:
 - Overall marketing strategy.
 - Product, price, promotions, and distribution.
 - Sales process (or cycle).
 - Sales tactics.



Section 6: Marketing Plan

- The best way to describe a start-up's marketing plan is to start by articulating its **marketing strategy, positioning, and points of differentiation**, and then talk about how these overall aspects of the plan will be supported by **price, promotional mix, and distribution strategy**.
- It's also important to discuss the **company sales process**.



Marketing Strategy

- Show customer interest
 - Prove that target customers need or want the product/service.
- Address:
 - Target market
 - Advertising and promotion
 - Market size and trends
 - Location
 - Pricing
 - Distribution



- Design and Development Plan
 - If you're developing a completely new product or service, you need to include a section in your business plan that focuses on the status of your development efforts.
 - Items to include in this section:
 - Development status and tasks.
 - Challenges and risks.
 - Projected development costs.
 - Proprietary issues (patents, trademarks, copyrights, licenses, brand names).



Section 8: Operations Plan

- Operations Plan
 - Outlines how your business will be run and how your product or service will be produced.
 - A useful way to illustrate how your business will be run is to describe it in terms of “back stage” (unseen to the customer) and “front stage” (seen by the customer) activities.
 - Items to include in this section:
 - General approach to operations.
 - Business location.
 - Facilities and equipment.



- Management Team and Company Structure
 - The management team of a new venture typically consists of the founder or founders and a handful of key management personnel.
 - Items to include in this section:
 - Management team.
 - Board of directors.
 - Board of advisers.
 - Company structure.
- Many investors and others who read the business plan look first at the executive summary and then go directly to the management team section to assess the strength of the people starting the firm.



- Overall Schedule
 - A schedule should be prepared that shows the major events required to launch the business.
 - The schedule should be in the format of milestones critical to the business's success.
 - Examples of milestones:
 - Incorporating the venture.
 - Completion of prototypes.
 - Rental of facilities.
 - Obtaining critical financing.
 - Starting production.
 - Obtaining the first sale.

Section 11: Financial Projections

- Financial Projections
 - The final section of a business plan presents a firm's pro forma (or projected) financial projections.
 - Items to include in this section:
 - Sources and uses of funds statement.
 - Assumptions sheet.
 - Pro forma income statements.
 - Pro forma balance sheets.
 - Pro forma cash flows.
 - Ratio analysis.

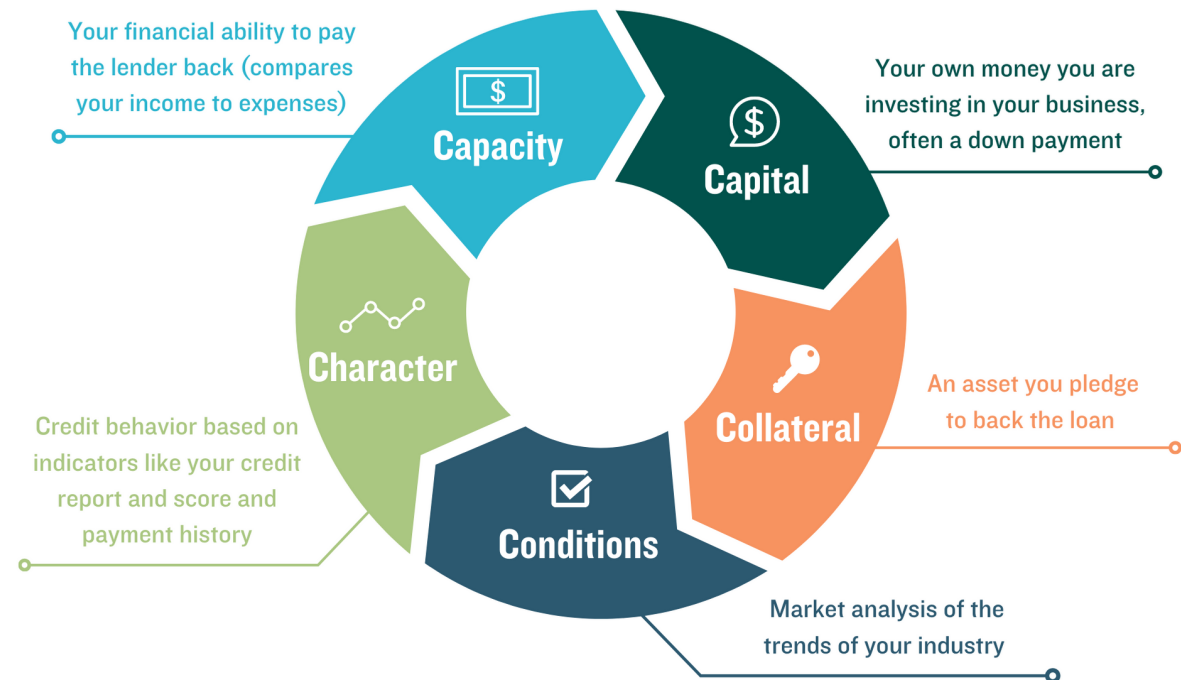
Tips for a Good Business Plan

- **First impressions count! Use an attractive cover.**
- **Checks for errors.**
- **Make it visually appealing.**
- **Include a table of contents with page numbers.**
- **Make it interesting!**
- **Show that it will make money.**
- **Use spreadsheets for realistic financial forecasts.**
- **Include cash flow projections.**
- **Keep the plan “crisp.”**
- **Tell the truth.**



- The “5 Cs” of Credit
 1. Capital
 2. Capacity
 3. Collateral
 4. Character
 5. Conditions

The 5 C's of Credit



The Pitch: Presenting the Plan

- The time allotted for presenting is usually less than 20 minutes, so it's important to rehearse and be prepared.
- A basic presentation should cover:
 - Your company and its products and services.
 - The problem to be solved.
 - A description of your solution to the problem.
 - Your company's business model.
 - Your company's competitive edge.



Building a Strategic Plan

- Entrepreneurs must be able to adapt to changes in the marketplace.
- Strategic planning is a tool that can help: it involves developing a game plan to guide the company as it works to accomplish its vision, mission, goals, and objectives and to keep it from straying off course.
 - It's crucial to building a successful business.

Strategic Management Process

- Step 1 Develop a vision and translate it into a mission statement
- Step 2 Assess strengths and weaknesses
- Step 3 Scan environment for opportunities and threats
- Step 4 Identify key success factors
- Step 5 Analyze competition
- Step 6 Create goals & objectives
- Step 7 Formulate strategies
- Step 8 Translate plans into actions
- Step 9 Establish accurate controls



Step 1: Develop a Vision and Create a Mission Statement

- **Vision:** the result of an entrepreneur's dream of something that does not exist yet and the ability to paint a compelling picture of that dream for everyone to see.
- What does success look like?
- A clearly defined vision:
 - Provides direction
 - Determines decisions
 - Inspires people
 - Allows for perseverance in the face of adversity

Questions



- **Mission statement:** addresses the question: “what business are we in?”
 - Clarifies “why we are here” and “where we are going.”
 - Serves as a “strategic compass.”
 - Four key questions:
 - What are we in business to accomplish?
 - Who are we in to business to serve?
 - How are we going to accomplish that purpose?
 - What principles and beliefs form the foundation of the way we do business?

Step 2: Assess Company Strengths and Weaknesses



- Use a balance sheet to identify:
 - **Strengths**
 - Positive internal factors a company can draw on to accomplish its mission, goals, and objectives.
 - **Weaknesses**
 - Negative internal factors that inhibit a company's ability to accomplish its mission, goals, and objectives.



- Identify and manage:
 - **Opportunities**
 - Positive external factors the company can exploit to accomplish its mission, goals, and objectives.
 - **Threats**
 - Negative external factors that inhibit the firm's ability to accomplish its mission, goals, and objectives.

Step 4: Identify Key Success Factors

- **Key success factors (KSFs):** factors that determine the relative success of market participants.
- The keys to unlocking the secrets of competing successfully in a particular market segment.



Step 5: Analyze the Competition

- **Direct competitors**
 - Offer the same products and services
 - Customers often compare prices, features and deals among these competitors when they shop
- **Significant competitors**
 - Offer some of the same or similar products or services
 - Product or service lines overlap but not completely
- **Indirect competitors**
 - Offer same or similar products in only a small number of areas

Goal

- A greater purpose
- A long-term outcome
- May not be easy to measure

[Example: Support NWT residents to make healthy lifestyle choices that reduce their risk of cancer.]

Objective

- A specific, short-term action that will contribute to achieving a goal
- Must be measurable

[Example: Create a website with accurate and current information about cancer risk factors.]

SMART objectives

Specific – Who? What? Where? How?

Measurable – How many? How can this be measured?

Achievable – Is it possible?

Realistic – Is it possible given our time and resources available?

Timebound – When?

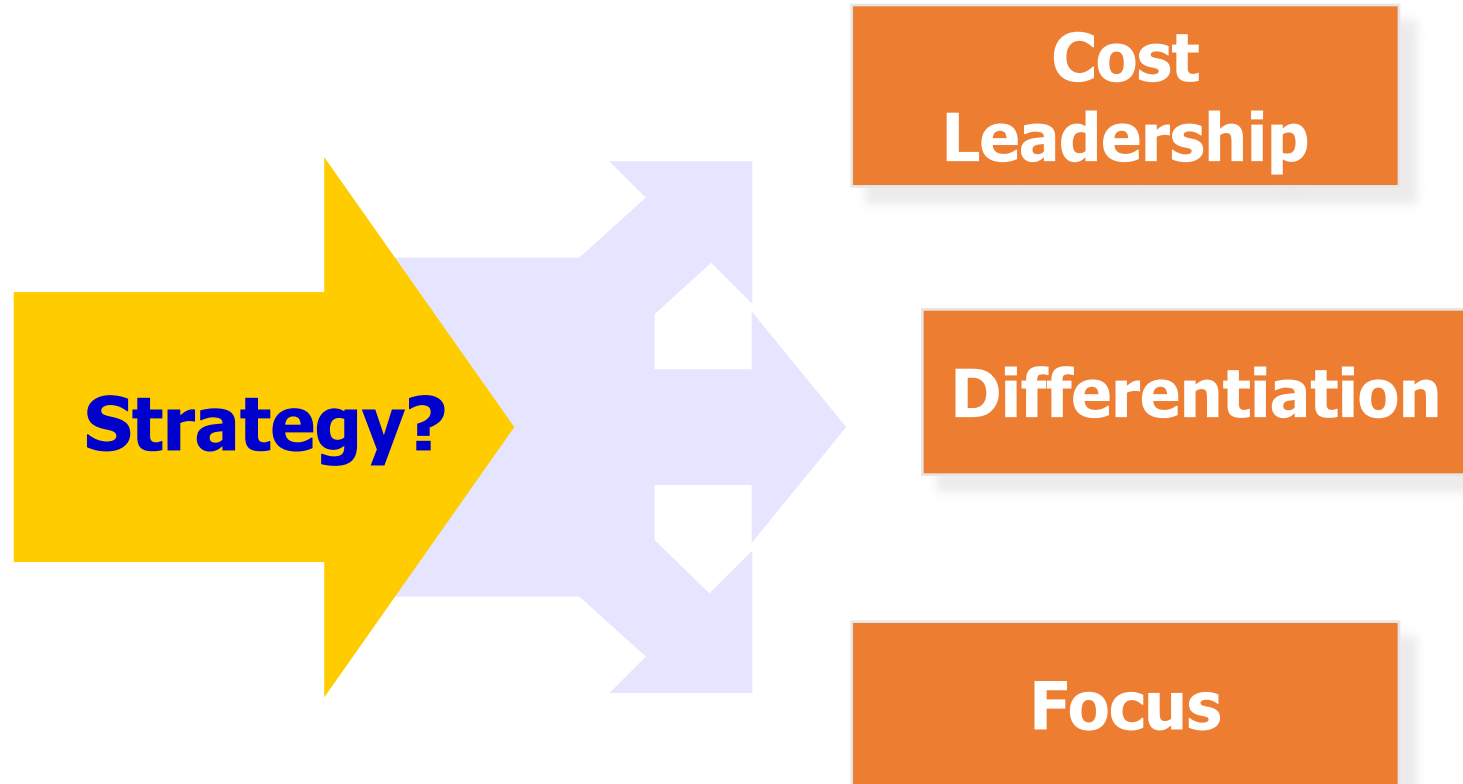
Each objective should be written in precise terms that leave no room for misinterpretation.

[Example: Within 12 months, we will team with the local health centre to recruit at least 20 men and women for colorectal cancer screening.]

Step 7: Formulate Strategies

- **Strategy:** a road map of the actions an entrepreneur draws up to achieve a company's mission, goals, and objectives.
- It is the company's game plan for gaining **a competitive advantage**.
- **competitive advantage:** the aggregation of factors that sets a company apart from its competitors and gives it a unique position in the market that is superior to its competition.

Porter's Three Strategies



Three Strategic Options

		Competitive Advantage	
		Uniqueness perceived by the customer	Low cost position
Target Market	Industry	Differentiation	Low cost
	Niche	Differentiation focus	Cost focus

- Goal: Be *the* low-cost producer in the industry or market segment.
- Low-cost leaders have advantages:
 - Reaching buyers who buy on the basis of price.
 - The power to set the industry's price floor.
- Cost Leadership works well when:
 - Buyers are sensitive to price changes.
 - Competing firms sell the same commodity products.
 - A company can benefit from economies of scale.
 - Examples: Dollar General and Dollar Tree

- Goal: Build customer loyalty by positioning its goods or services in a unique or different fashion.
 - Be special at something customers value.
- Key: Build basis for differentiation on a distinctive competence, something that the small company is uniquely good at doing in comparison to its competitors.
 - Example: RentTheChicken.com

- Goal: Select one or more customer segments in a market, identify customers' special needs, wants, or interests, and then target them with a product or service designed specifically for them.
- Strategy builds on the *differences* among market segments.
- Rather than try to serve the total market, the company focuses on serving a niche (or several niches) within that market.
- Example: I Do Now I Don't

Step 8: Translate Strategies into Action Plans

- Proper execution of a company's strategy accounts for 85% of a company's financial performance.
- Make plans workable by defining:
 - Purpose
 - Scope
 - Contribution
 - Resource requirements
 - Timing

- The strategic planning process:
 - *Begins* with the nine steps.
 - *Becomes* more efficient each time.
 - *Teaches* entrepreneurial discipline for a higher chance of survival.

thanks for
listening!