

# **CHAPTER 2**

## **BUSINESS PLANNING**



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## 2.1 INTRODUCTION

- This unit will help you to understand the concept of opportunity identification and evaluation, business idea development and how to prepare a business plan.
- Virtually to start any type of business or expand the existing one needs to work on opportunity identification and evaluation, business idea development and then prepare business plan.

- **Lack of proper opportunity identification and evaluation, idea development process and business planning are the most often cited reasons for business failure.**

## **2.2 Opportunity Identification and Evaluation**

- **The initial stage in the entrepreneurial process is the identification and refinement of a viable economic opportunity that exists in the market.**

- The opportunity identification and evaluation stage can be divided into five main steps:
- **1. Scanning the Environment/ Getting the Idea**
- Scanning the environment may provide you with idea and business opportunities.
- Idea is a thought or suggestion about a possible course of action.

- A business opportunity is a **gap left in a market** by those who currently serve it, **giving a chance to others to add unrealized value** by performing differently from and better than competitors **in order to create new possibilities.**
- Business opportunities are distinguished from ideas; an idea is not synonymous with opportunity.

- The difference between an idea and an opportunity is that an opportunity is the possibility of occupying the market with a specific innovative product that will satisfy a real need and for which customers are willing to pay but idea is all about opinion about anything we can have.
- Successful venturing may well rest upon the ability of an individual to recognize or distinguish an opportunity from an idea.

- **2.Opportunity Identification**
- **Opportunity identification** is **ability to see, to discover and exploit opportunities that others miss.** It is the process of **seeking out better ways of competing.**
- It is important for the entrepreneur to understand the **cause of the opportunity.** **Is it technological change, market shift, government regulation, or competition?**

- Opportunity identification is a very difficult task, as most opportunities do not just appear but rather result from an entrepreneur's alertness to possibilities.
- In developing countries, problems may be changed to business opportunities.

- **3.Opportunity Development**

- Opportunity development is the process of **combining resources to pursue a market opportunity** identified.
- This **involves systematic research** to refine the idea to the most promising high potential opportunity that can be **transformed into marketable items.**

- **4.Opportunity Evaluation**
- **Opportunity screening and evaluation** is a critical element of the entrepreneurial process.
- A professionally executed evaluation can tell whether the specific product or service has the returns needed to justify the investment and the risk to be taken.
- Opportunity screening and evaluation allows the entrepreneur **to assess whether the specific product or service has the returns needed** for the resources required.

- **5. Assessment of the Entrepreneurial Team**
- Regardless of how **right the opportunity** may seem to be, it **will not make a successful business unless it is developed by a team with strong skills.**
- Once the opportunity has been evaluated, the **next step is to ask pertinent questions about the people who would run the company.**

## 2.3 Business Idea Development

- A **business idea** is a short and precise description of the basic operation of an intended business. **There are three types of business ideas.** They are:
  - **1.Old Idea** – Here an individual **copies an existing business idea** from someone.

- **2.Old Idea with Modification** – In this case the person accepts an old idea from someone and then modifies it in some way to fit a potential customer's demand.
- **3.A New Idea** – This one involves the invention of something new for the first time.

## 2.4 Business Idea Identification

- Before you start a business, **you need to have a clear idea of the sort of business you want to run.** Your business idea will tell you:
- **Which need will your business fulfill for the customers and what kind of customers will you attract?**

- **What good or service** will your business sell?
- **Who** will your business **sell to**?
- **How** is your business going to **sell** its goods or services?
- How much will your business depend upon and **impact the environment**?

## 2.5 Methods for Generating Business Ideas

- Different **approaches to generating business ideas:**
  - **1.Learn from successful business owners**
  - You can learn a lot from people in your area who have already gone through the process of establishing a business.

- **2.Draw From Experience**
- **Your own Experience-** Look at the list of your interests, your experiences and your networks.
- **Other People's Experience-** Listen carefully to what these people say about their shopping experience.

- **3.Survey Your Local Business Area**
- Find out what type of businesses are already operating in your area and see if you can identify any gaps in the market.
- **4.Scanning Your Environment**
- You can use your creativity to find more business ideas in your area.

- **5.Brainstorming**
- **Brainstorming** means **opening up your mind** and **thinking about many different ideas**.
- You **start with a word or a topic** and then **write down everything that comes to mind** relating to that subject.

## 2.6 Business Idea Screening

- Idea screening is the process to **spot good ideas and eliminate poor ones.**

## 2.7 Concept of Business Plan

- A carefully charted and **meticulously designed business plan** can convert a simple idea/innovation **into a successful business venture.**

- A well-crafted business plan identifies opportunities, scans the external and internal environment to assess the feasibility of business and allocates resources in the best possible way, which finally leads to the success of the plan.
- A business plan is the blueprint of the step-by-step procedure that would be followed to convert a business idea into a successful business venture.

## 2.8 Developing a Business Plan

- Business Planning Process
  1. Preliminary Investigation
  2. Opportunity Identification and Idea Generation
  3. Environmental Scanning
  4. Feasibility Analysis
  5. Report Preparation

# Essential Components of Business Plan

- **Cover Sheet:** mentions the **name** of the project, **address** of the headquarters (if any) and name and address of the promoters.
- **Executive Summary:** is the **first impression** about the business proposal.
- **It should be in brief** (not more than two or three pages) yet it should have all the **factual details about the project** that can improve its marketability.

- **The Business:** This will give details about the business concept.
- It will discuss the objective of the business, a brief history about the past performance of the company, what would be the form of ownership.
- **Funding Requirement:** a careful, well-planned funding requirement should be documented.
- It is also necessary to project how these requirements would be fulfilled.

- **The Product or Services:** A brief description of product/services is given in this subsection.
- It includes the **key features of the product**, the **product range that would be provided to the customers** and the **advantages that the product holds over and above the similar products/ substitute products available in the market.**

- **The Plan:** Now the functional plans for marketing, finance, human resources and operations are to be drawn.
- **Critical Risks:** The investors are interested in knowing the tentative risks to evaluate the viability of the business and to measure the risks involved in the business.

- **Exit Strategy:** The exit strategies would provide details about **how the organization would be dissolved**, what would be the **share of each stakeholder in case of winding-up of the organization**.
- **Appendix:** The appendix can provide information about the **Curriculum Vitae of the owners, Ownership Agreement** and the like.