CHAPTER TWO

BUSINESS PLANNING

2.1 INTRODUCTION

- *To **start / expand** any type of business needs to work on opportunity identification and evaluation, business idea development and then prepare business plan.*
- *Lack of doing these are the most often cited reasons for business failure.*

2.2 Opportunity Identification and Evaluation

*There are **five main steps**;*

1. *Getting the idea/scanning the environment*
2. *Identifying the opportunity*
3. *Developing the opportunity*
   - *Timely adaptation of that opportunity to suit actual market need is key to new venture success. It involves combining resources to pursue a market opportunity identified.*
4. *Evaluating the opportunity*
   - *assess whether the specific product or service has the returns needed for the resources required.*
5. *Assessment of the Entrepreneurial Team*

*A **business idea** is a short and precise description of the basic operation of an intended business.*

Types of Business Idea

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

You need to have a clear idea of the sort of business you want to run & identify promising business idea among others. Important questions to answer are

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

1. *Learn from successful business owners*
2. *Draw From Experience*
    i. *Your own Experience*
    ii. *Other People's Experience*
3. *Survey Your Local Business Area*
4. *Scanning Your Environment*
    i. *Natural Resources*
    ii. *Characteristics and Skills of People in the Local Community*
    iii. *Waste Products*
    iv. *Import Substitution*
    v. *Publications*
    vi. *Trade Fairs and Exhibitions*

Con't…

5. ***Brainstorming***
   - *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.*
6. ***Structured Brainstorming***
   - *Think of the different processes that are involved in the operation of a particular business and the goods/services that can be offered with respect to those processes.*
7. ***Focus Group***
   - *Focus group is a group of individuals providing information on a structured format which is led by moderators. It is characterized by an open and in depth discussion: rather than simply asking questions to solicit student response.*
8. ***Problem Inventory Analysis***
9. ***Free Association***
10. ***Forced Relationships***
11. ***Attribute Listing***

2.6 Business Idea Screening

Idea screening is the process to spot good ideas and eliminate poor one.

i. Macro screening:

- *Are my own competencies sufficient?*
- *Can I finance it to a large extent with my own equity?*
- *Will people buy my product/service (i.e. is it needed and can people afford it)?*

ii. Micro Screening:

- *Solvent demand*
- *Availability of raw materials*
- *Availability of personal skills*
- *Availability of financial resources*

iii. Scoring the Suitability of Business Idea

- *When there are more than one possible business ideas and one needs to decide which one to follow, we use score business ideas (e.g., BI1, BI2, BI3) by assigning a rating from 1 to 3 for each question, with 3 being the strongest.*
- *After we score the ideas we sum the total and select the idea with the highest score.*

(please refer to your handout page 52)

Con't…

- *While you answer the above questions, there are four important groups that you should talk to:*
  - ***Potential customers***
  - ***Competitors, suppliers and entities with financial resources***
  - ***Financial institutions***
  - ***Key informants and opinion leaders***

THE CONCEPT STATEMENT
(Concept Note)

- *A Concept Statement is a short statement that sums up your ideas.*
- *Communicates the entrepreneur's vision.*
- *It is a few sentences/paragraphs long, should not exceed two pages.*

BUSINESS MODEL

- *It is the conceptual structure supporting the viability of a business, including its purpose, its goals and its ongoing plans for achieving them.*
- *Identifies sources of revenue, the intended customer base, products, details of financing….*

Business Model Canvas At-A-Glance

(source: www.businessmodelgeneration.com)

Key Partners

Reasons for partnerships:
- *Cost / flexibility*
- *Acquisition of key resources or activities*
- *Reduction of risk and uncertainty*

- Who are key suppliers?
- Who are key partners?
- Which key resources will we acquire from partners?
- Which key activities will partners perform for us?

Key Activities

- What are the most important activities we must do well to deliver our value proposition to our chosen segment(s)?

Key Resources

- What are the most important resources we must own/manage directly to deliver our value proposition to our chosen segment(s)?

Value Proposition

- What problem(s) are we helping our target customers solve?
- What unique / differentiated value can we deliver relative to others?
- What bundle of products and/or services will we need to offer?
- Which customer needs are we satisfying?
  - *Performance/newness*
  - *Getting the job done*
  - *Price/cost reduction*
  - *Convenience/accessibility*
  - *Design*
  - *Customization*
  - *Risk reduction*
  - *Brand status*
  - *Other?*

Customer Relationships

- What type of relationship do our customers expect? What will they not accept?
- Which relationships are they comfortable with now?
- Which are most cost effective?

Channels

- How do our customers want to be reached?
- Which channels work best?
- Which are most cost effective?
- How are we integrating our various channels to optimize the customer experience AND cost?

Customer Segments

- Who are our most important customers? Why?
- What are the key characteristics of our target segment(s)?
- What jobs are they trying to get done? What are their pains and desired gains?
- Which segment(s) will we NOT target initially? Why?
- Is this segment(s) viable and attractive for growth?
- Are our customers and consumers the same or different?

Cost Structure

- Is our business model more cost or value driven?
- What are the important costs that must be incurred to deliver our value proposition well?
- How we can maintain a strong variable/fixed cost ratio?
- What levers can we pull to keep costs as low as possible?

Revenue Streams

- For what value are our target customers willing to pay?
- What do they currently pay?
- How do they currently pay? How do they prefer to pay?
- How does our pricing compare to alternatives or substitutes?
- What is the relative contribution of our various revenue stream options?

2.7 Concept of Business Plan

- *A business plan is a road map for starting and running a business.*
- *A business plan identifies opportunities, scans the external and internal environment to assess the feasibility of business and allocates resources in the best possible way.*
- *It is the blueprint of the step-by-step procedure that would be followed to convert a business idea into a successful business venture.*

The objectives of a Business Plan

- Gives direction to the vision formulated by entrepreneur.
- Objectively evaluate the prospects of business.
- Monitor the progress after implementing the plan.
- Persuade others to join the business.
- Seek loans from financial institutions.
- Visualize the concept in terms of market availability, organizational, operational and financial feasibility.
- Guide the entrepreneur in the actual implementation of the plan.

- *Identify the strengths and weakness of the plan.*
- *Identify challenges in terms of opportunities and threats.*
- *Clarify ideas and identify gaps in management information about their business, competitors and the market.*
- *Identify the resources that would be required to implement the plan.*
- *Shows future prospects and projected growths of the business venture.*

2.8.1 Business Planning Process

The various steps involved in business planning process are;

1. Preliminary Investigation

Before preparing the plan entrepreneur should:

- Review available business plans (if any).
- Draw key business assumptions on which the plans will be based (e.g. inflation, exchange rates, market growth, competitive pressures, etc.).
- Scan the environment to assess the strengths, weakness, opportunities and threats.
- Seek professional advice from a friend/relative or a person who is already into similar business (if any).

2. *Opportunity Identification and Idea Generation*
3. *Environmental Scanning*
4. *Feasibility Analysis*
5. *Report Preparation*

I. ***Cover Sheet:*** *Cover sheet is like the cover page of the book. It mentions the name of the project, address of the headquarters and name and address of the promoters.*

II. ***Executive Summary:*** *Executive summary is the first impression about the business proposal.*

- *Highlight concisely and convincingly the key points in the business plan*
- *Should stimulate the interest of the potential investor.*

III. ***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*

IV. ***Funding Requirement:***

- *Debt equity ratio should be prepared, which can give an indication about how much finance would the company require and how it would like to fund the project.*

V. ***The Product or Services***

- *A brief description of product/services*
- *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.*
- *details about the patents, trademarks, copyrights, franchises, and licensing agreements.*

VI. The Plan:

1. Marketing Plan

- Marketing mix (4Ps) strategies are to be drawn, based on the market research.

2. Operational Plan

- Gives information about (i) Plant location: (ii) Plan for material requirements, inventory management and quality control.

3. Organizational Plan

- Indicates the pattern of flow of responsibilities and duties amongst people in the organization (it provides details about the manpower plan that would be required to put life into the business)

4. Financial Plan

a. *Projected Sales*
b. *Projected Income and Expenditure Statement*
c. *Projected Break Even Point*
d. *Projected Profit and Loss Statement*
e. *Projected Balance Sheet*
f. *Projected Cash Flows*
g. *Projected Funds Flow*
h. *Projected Ratios*

VII Critical Risks

- *This can further give confidence to the investors as they can calculate the risks involved in the business from their perspectives as well.*

VIII 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.*

IX. Appendix

- *Provides information about the Curriculum Vitae of the owners, Ownership Agreement and the like.*


Thanks !