

Chapter 2: Business Planning

- ✓ In this chapter, students will be able to:
 - Identify opportunity in the environment
 - Evaluate the opportunities in the environment
 - Generate business idea
 - Explain the concept of business planning
 - Identify components of business plan
 - Develop business plan

2.1. Opportunity Identification and Evaluation

- First **opportunity** mean a situation or condition favourable for attainment of a goal. Or
- **opportunity** is a good position, chance, or prospect, as for advancement or success

N.B. 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.

- ✓ **Opportunity recognition** corresponds to the **principal activities** that take place before a business is formed or structured.

✓ *The opportunity identification and evaluation stage can be **divided into five** main steps*

2. 1.1. Scanning the Environment/ Getting the Idea

- **Scanning the Environment** is collects information regarding its environment and analyses it to forecast the impact of changes in the environment.
- **scanning the environment** it may be provide you with idea and business opportunities. Idea is a thought or suggestion about a possible course of action.

2.1.2 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 computing.
- Based on information scanning the environment, being able to capture, recognize and make effective use of abstract, implicit and changing information from the changing external environments.
- It is important for the entrepreneur to understand the cause of the opportunity

2.1.3. 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.

2.1.4. Opportunity Evaluation

- Opportunity screening and evaluation allows the entrepreneur to assess whether the specific product or service has the returns needed for the resources required.
- This evaluation process involves looking at the creation and length of the opportunity, its real and perceived value, its risks and returns, its fit with the personal skills and goals of the entrepreneur, and its differential advantage in its competitive environment.

2.1.5. Assessment of the Entrepreneurial Team

✓ Ask pertinent questions about the people who would run the company like:-

- Does the entrepreneur (or his team) have some experience
- Do they really like this product/sector? Do they really want this?
- How stressful is the opportunity for the team?
- Does the team have the necessary selling and closing skills?
- Does the team have the necessary management and technical skills?
- If the required skills are not available, can they be acquired at competitive rates?
- Have the critical decisions about ownership and equity splits been resolved?
- Are the members committed to ownership?

2.2. 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

2.3. 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:

2.3.1 Which need will your business fulfill for the customers (Simply identify who is our customer)

2.3.2. What good or service will your business sell? (What types of product wants to offer for the market)

2.3.3. Who will your business sell to?

2.3.4. How is your business going to sell its goods or services?

2.3.5.How much will your business depend upon and impact the environment?

N.B. A good business idea will be **compatible with** the sustainable use of **natural resources** and will respect the social and natural environment on which it depends.

- ❖ Therefore, to **identify promising business idea** among others, it is important to **answer** the above raised questions

2.4 Methods for Generating Business Ideas

✓ Approaches to generating business ideas:

2.4.1. 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.
- What kind of idea did these businesses start with?
- Where did the ideas come from?
- How did they develop their ideas into successful businesses?
- How does the business profit and fit into the local environment?
- Where did they get the money to start their business?

2.4.2. Draw From Experience

2.4.2.1. Your own Experience

- ✓ First look your list of your interests, your own experiences and your own networks.
- ✓ Are there any possible business ideas that **you can derive from your own past experience.**
- ✓ What has your experience been as a customer in the market place?
- ✓ Have you ever searched all day for some items that you could not find in any store in your area?
- ✓ Think about the goods and services you have wanted at different times and that you have had difficulty finding.

2.4.2.2. Other People's Experience.

Those are may be:-

- potential customers
- Ask your family and friends
- talking to people from different age groups
- social classes
- community groups
- Colleges

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2.4.2.3. Survey Your Local Business Area

- ✓ Make them in the following ways:-
 - look around your local community.
 - Find out what type of businesses are already operating in your area.
 - See if you can identify any gaps in the market.

2.4.2.4. Scanning Your Environment

- Look the list of existing local businesses. If the list has included most of the local markets, you may be able to understand about the industries or service providers on which the local economy depends.

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- ✓ It may be **useful** to **think about business ideas** by considering all the resources and institutions in your area:-
 - **Natural resources:** **available resource** in your area without harming the environment.
 - **Characteristics and skills of people in the local community:** **available labor force** whether skilled or non skilled
 - **Import substitution:** check is their any imported good to substitute the existed product
 - **Waste products:** **possible use of waste materials** for the production of other useful and marketable items.
 - **Publications:** from the internet and other printed material or from social medias
 - **Trade fairs and exhibitions**

2.4.2.5. Brainstorming

- ✓ **Brainstorming** means: opening up your mind and thinking about **many different ideas** then write down everything that comes to mind relating to that subject
- You continue writing for **as long as possible**, putting down things that you think of, **even if they seem irrelevant or odd**. Good ideas can come from concepts that initially seem strange.

2.4.2.6. Structured Brainstorming

- ✓ **Structured Brainstorming:** is when you 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.
- Try to think of all the businesses that are related to different aspects of a product. About:-
 - production
 - selling process
 - recycling or re-using materials
 - Those indirectly related (spin-offs)
 - servicing

2.4.2.7. Focus Group Discussion

- ✓ This method is made whether open or in depth discussion with group of individuals who are directly related with the product

2.4.2.8. Problem Inventory Analysis

- ✓ This method of obtaining New Idea by focusing on problems and it's solutions by means of consumers are provided with a list of problems in general product category.

2.4.2.9. Free Association

- ✓ Free association is the simplest methods that entrepreneurs can use to generate new ideas.
- ✓ This method is **perform a list of word or phrase related to the problem is written down**, then with each new word attempting to add something new to the ongoing thought processes, **thereby creating a chain of ideas ending with a new product/service idea emerging.**

2.4.2.10. Forced Relationships

- ✓ This technique is that asks questions about objects or ideas in an effort to develop a new idea.

2.4.2.11. Attribute Listing

- ✓ This idea-finding technique carry out that the entrepreneur list the feature of an item or problem and then look at each from different perspective.

2.5. Business Idea Screening

- ✓ It's the process to spot good ideas and eliminate unsound concept.
- ✓ There are three approaches helps to screen the business idea generated:-

1. Macro screening: is aimed screening down ideas to 10. And the common criteria are:

- Are my own competencies (see strength indicators) 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)?

2. Micro Screening: is aimed screening down ideas into 3. The common criteria for this:

- Solvent demand (demand that will be satisfied)
- Availability of raw materials
- Availability of personal skills
- Availability of financial resources

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3. 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 like** :-

No.	Questions	BI1.	BI2.	BI3.
1.	Are you familiar with the operations of this type of business?			
2.	Does the business meet your investment goals?			
3.	Does the business meet your income goals?			
4.	Does the business generate sufficient profits?			
5.	Do you feel comfortable with the business?			
6.	Does your family feel comfortable with the business?			
7.	Does the business satisfy your sense of status?			

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- ✓ **Notes:** while to answer the above listed questions it is important to conduct survey.
- ✓ While **to answer the above** questions, there are **four important groups** that you should talk to:
 1. Potential customers
 2. Competitors, suppliers and entities with financial resources
 3. Financial institutions
 4. Key informants and opinion leaders

N.B. After your business idea is decide, you can go on to **start your own business**, there fore business plan development is important.

2.6. Concept of Business Plan

- ✓ Planning is the first and the most crucial step for starting a business.
- ✓ Business plan is a written document that setting out of basic business idea.

- ✓ **The objectives of a business plan are to:**
 - Give directions 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.
 - Document ownership arrangements, future prospects and projected growths of the business venture

2.7. Essential Components of Business Plan

1. **Cover Sheet:** It mentions:-

- Name and address of the business
- Name and address of the owner of the business
- Confidential report

2. **Executive Summary**

- This part is prepare after the whole part is written down.
- It should be placed next to cover page
- About three to four pages in length
- The executive summary should stimulate the interest of the potential investor.
- The nature of the venture, financing needed, market potential, and support as to why it will succeed.

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3. The Business:- This will give details about the business concept.

- The objective of the business
- brief history about the past performance of the company (if it is an old company)
- form of ownership
- The address of the business.

4. Funding Requirement:- a careful, well-planned funding requirement should be documented.

- It is also necessary to project how these requirements would be fulfilled.
- Debt equity ratio should be prepared

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6. The Product or Services: is require brief description of product/services. It includes:-

- The key features of the product
- The product range that would be provided to the customers
- The advantages or value of the product holds over and above the similar products/ substitute products available in the market.
- It also gives details about the patents, trademarks, copyrights, franchises, and licensing agreements.

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7. **The Plan:** Now the functional plans for marketing, finance, human resources and operations are to be drawn.

A. Marketing Plan: Marketing mix strategies are to be drawn, based on the market research.

B. Operational Plan: The operational plan would give information about

- i. **Plant location:** why was a particular location chosen? Is it in the vicinity of the market, suppliers, labor or does it have an advantage of government subsidies for that particular location or are there any other specific reasons for choosing the particular location?
- ii. **Plan for material requirements, inventory management and quality control** are also drawn **for identifying further costs and details of the business**. Finally, the budget for operational plan is also drawn.

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C. Organizational Plan: It indicate:-

- The responsibilities and duties amongst member of the organization
 - Details about the manpower requirements
 - About the laws that would be governed in managing the employees of the organization.
- ✓ In the end the organizational plan is also budgeted.

D. Financial Plan: The financial plan is usually drawn for two to five years for an existing company.

✓ For a new organization the following projections are drawn:

- Projected Sales
- Projected Income and Expenditure Statement
- Projected Break Even Point
- Projected Profit and Loss Statement
- Projected Balance Sheet
- Projected Cash Flows
- Projected Funds Flow
- Projected Ratios

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E. Critical Risks: Every new venture will be faced with some potential hazards, given the particular industry and competitive environment.

- Major risks for a new venture could result from a competitor's reaction; weaknesses in the marketing or production, and new advances in technology that might render the new product obsolete. Even if these factors present no risks to the new venture, the business plan should discuss why that is the case.

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F. Exit Strategy: It would provide details about:-

- how the organization would be **dissolved**
- About share of each stakeholder in case of **winding-up** of the organization.
- Measuring the risks involved in investing.

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G. Appendix: It provide information about:-

- the Curriculum Vitae of the owners
- Ownership Agreement and the like.
- Letter from customers, distributors, or subcontractors.
- Any documentation of information, that is, secondary data or primary research data.

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