

CHAPTER 2: BUSINESS PLANNING

2.1 INTRODUCTION

- 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**

2.2 Opportunity Identification and Evaluation

- **initial stage** in the entrepreneurial process is the **identification and refinement of a viable economic opportunity** that exists in the market
 - **Without the recognition of an opportunity** the **entrepreneurial process is likely to result in failure**
- **opportunity identification and evaluation stage** can be divided into **five main steps**

1. Scanning the Environment/ Getting the Idea

- While 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**
 - **opportunity** is a **favorable time or set of circumstances for doing something**
- **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**
 - Successful venturing may well rest upon **the ability of an individual to recognize or distinguish an opportunity from an idea**

2. Opportunity Identification

- It is **the ability to see, to discover and exploit opportunities that others miss**
 - It is the **process of seeking out better ways of competing**

- includes **scanning the informational 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**
 - **Is it technological change?**
 - **Is it market shift?**
 - **Is it government regulation?**
 - **Is it competition?**

These factors and the **resulting opportunity** have a **different market size and time dimension**

- market size and the length of the window of opportunity form **the primary basis for determining risks and rewards** which **serves for opportunity evaluation**

3. Opportunity Development

- It is the process of **combining resources** to pursue a market **opportunity** identified
 - involves **systematic research** to refine the idea to the most promising high potential opportunity

4. Opportunity Evaluation

- A professional 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 is **the most critical element** of the entrepreneurial process
- This evaluation process involves looking at
 - the **creation and length** of the opportunity
 - its **real and perceived value**
 - its **risks and returns**
 - it's **fit with the personal skills and goals** of the entrepreneur
 - its **differential advantage** in its **competitive environment**

- evaluating the opportunity must answer the questions listed below among many others
 - What **competitive advantage** / **benefits** does the product have?
 - Where is the **market demand**? What is the **target market**? Is it **generic or a niche**?
 - **Timing and length of the window of opportunity**?
 - **How much will it cost** to develop the product and commercialize it?
 - Where is the money to be made in this activity? What are the **gross margins**?
 - **How much capital** (people, operating expense and assets) is required to start?
 - **What risks** (real and perceived) are inherent with the product/service?

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**
- **Some of the team factors and questions for opportunity evaluation**
 - **Focus:** Is the **founder really an entrepreneur**? Does the entrepreneur (or his team) **have some experience**?
 - **Selling:** Does the team have the necessary **selling and closing skills**?
 - **Management:** Does the team have the **necessary management and technical skills**? **Who will work full time**?
 - **Ownership:** Have the **critical decisions about ownership and equity splits** been resolved?

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**

- **Old Idea** – Here an individual **copies an existing business idea** from someone
- **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**
- **A New Idea** – This one involves the **invention of something new** for the first time

2.4 Business Idea Identification

- 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?
 - 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
- All business ideas are not equally worth. to identify promising business idea among others, it is important to answer the above raised questions

2.4.1 The Need will Your Business Fulfill for the Customers

- Your business idea should always **have customers** and **their needs in mind**

2.4.2 Good or Service will your Business Sell

- Depending on your skills and the needs of the customers, you should **decide which good or service your business will sell**
- must be goods or services that **people are willing to pay** for and **at a price that will allow you to make a profit**
- **A good** - **an item** that people pay for and use
 - may be something you make yourself or it may be something you buy to resell

- E.g Tools, baked goods, clothes etc.
- **A service** - is **something you do for people that they then pay you for**
 - E.g delivering goods, banking, babysitting etc.

2.4.3 Identifies Potential Customer

- it is essential that **you know who your customers will be**
 - Will you sell **to a specific type of customer** or **to everyone in an area?**
- There must be **enough people who are able and willing to pay for your goods and services** or the business will not survive

2.4.4 Strategy for Selling Goods or Services/ How is Your Business Going to Sell Good or Services?

- A manufacturer can sell either
 - **directly** to **customers**, to **retailers**
 - **to wholesalers**

2.4.5 Relation between Business and Environment

- Your business can only **be sustainable in the long run if it works in harmony with the social and natural environment**
 - **How much does your business depend on the environment?**
Does it **rely on** the **weather, soil or other natural resources?**
 - Does it **need any specific type of labor from the local community?** Does it **need the local community to support it?**
 - **What should you do to make sure that your business nurtures the natural environment and helps the local community?**
 - How would you **minimize or reverse any negative effect that your business might have?**

2.5 Methods for Generating Business Ideas

- **Questions to ask** about your business idea
 - **Which need** will my business fulfill?
 - **What good/service** will I provide?
 - **To whom** will I sell?
 - **How will I sell** my service?
 - **How much will my business depend upon and impact the environment?**
- Every business idea should be **based on knowledge of the market and its needs**
 - **The market** refers to people who might want to buy a good or service; i.e. the **customers**
 - The **market differs from place to place**, depending on **who lives in the area, how they live** and **for what goods or services they spend their money**
 - When you **understand the market in your area**, you might recognize many business ideas that you may have previously ignored
- When generating business ideas, it is **best to try to keep your mind open to everything**
 - Your first goal is to **think of as many ideas as possible** and **make a list of all the possible business opportunities**
 - then can **scan the list and nail down the idea(s)** that sound **most feasible** to you and that you think will be most profitable
- There are **many ways to come up with business ideas**, such as
 - **surveying local businesses**
 - **asking existing business owners**
- a few **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
 - You should try to **get the following information** from them:
 - **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. Draw From Experience

- **Your own Experience**
 - Look at the list of **your interests, your experiences** and **your networks**
 - there **any possible business ideas** that you can derive from your own past experience?
- **Other People's Experience**
 - The **people around you are potential customers**
 - It is important to **understand their experience** trying to find goods and services that are unavailable or not exactly what they need
 - Listen carefully to **what these people say about their shopping experience**
 - the **things they would like to find** that are not locally available
 - **Expand your social knowledge** by talking to people from different age groups, social classes, etc.
 - You can also visit community groups, colleges, etc. for a greater understanding of the market

3. Survey Your Local Business Area

- look around your local community
 - 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**
 - Look at the list of existing local businesses
 - If the list has included most of the local markets, **you may be able to learn about the industries or service providers on which the local economy relies**
- think about business ideas by **considering all the resources and institutions in your area**. For example, think about:

- **Natural Resources**

- Think of **what is abundantly available in your area** that could be made into useful products without harming the environment
 - E.g Perhaps there is good clay soil in the area that can be used for making bricks. It may be used for other business ventures such as making plates, cups or tiles
- **Think about a way to use this resource that would enable you to continue working with it for many years**
 - **make sure** that **your business idea will not exhaust the natural resource** that would be the foundation of your business

- **Characteristics and Skills of People in the Local Community**

- Consider whether the people in your area have some **special characteristics or skills** that could be useful for a business:
 - people who are good artisans, tailors or carpenters?
 - people who have specific skills creating items unique to your area?
 - Are there recent caregivers, nurses or people who could offer services to children, the elderly or the sick?
 - Is your community digitally connected?
 - Is the infrastructure in your community well developed?

- **Waste Products**

- Business opportunities can also be generated by **using materials that have been previously used** by both homeowners and businesses
 - Think about the **possible use of waste materials for the production of other useful and marketable items**

- Recyclable waste products **can be identified by analyzing certain items to see how they are discarded**
- Man-made waste has a detrimental effect on the environment
 - In most cases, **companies are keen to work with entrepreneurs who can turn their waste products into valuable and marketable items**
- Is there a possibility that you **could recycle something that is found in abundance** in your neighborhood?
- Is there a way of **using resources more efficiently**?
- **Import Substitution**
 - Can you think of **anything that is imported that might be made locally**?
 - Some **imported goods** have high import duties, making them **very expensive**
 - You could investigate the **possibility of operating a business that can easily make the imported goods locally**
- **Publications**
 - **Publications** from the **internet** and **other printed material** may **help you find ideas**
 - There are also **web-based businesses** that you can search from home if you have internet connection
- **Trade Fairs and Exhibitions**
 - Attending these fairs may **give you exposure to a number of new business ideas** that you had not previously considered

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**

- Good ideas can come from concepts that initially seem strange
- Brainstorming works best in a group

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
 - This is different from thinking about random items related to a particular business field and type
- Try to think of all the businesses that are related to different aspects of a product:
 - Those involved in production
 - Those involved in the selling process
 - Those involved in recycling or re-using materials
 - Those indirectly related (spin-offs)
 - Those involved in servicing
- As far as all brainstorming exercises are concerned, it is essential to recall the basic rules of brainstorming:
 - no criticizing or censoring of ideas
 - wild and turbulent sessions allowing the uninterrupted flow of ideas
 - no interruption once the basic idea of the exercise has been introduced
 - no shyness and no limitations

7. Focus Group

- Focus group is a group of individuals providing information on a structured format which is led by moderators
- characterized by an open and in-depth discussion
- The moderator focuses the discussion in either Directive or non-directive manner
- It is useful for both getting new idea on existing product or screening idea/concepts

8. Problem Inventory Analysis

- It is similar to focus group to generate new product ideas, **The difference is** rather than generating new idea themselves, **consumers are provided with a list of problems in general product category**
- It is a method of **obtaining “New Idea”** and solutions by **focusing on problems**

9. Free Association

- This technique is particularly helpful in **developing an entirely new slant to a problem**
- First, a word or phrase related to the problem is written down, then another and another, 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**

10. Forced Relationships

- is the process of **forcing relationships among some product combinations**
- It is a technique that **asks questions about objects or ideas in an effort to develop a new idea**

11. Attribute Listing

- an idea-finding technique that has the **entrepreneur list the attributes of an item or problem** and then **look at each from a variety of viewpoints**
 - **originally unrelated objects can be brought together to form a new combination** and **possibly a new product/service** that better satisfies a need.

2.6 Business Idea Screening

- **Idea screening** is the process to **spot good ideas** and **eliminate poor one**
- To screen the business idea generated, **three approaches** are discussed as follow:
 - **Macro screening**
 - **aimed screening down ideas to 10**
 - the common criteria are:

- Are my own competencies (see strength detector) 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)?
- **Micro Screening**
 - aimed **screening down ideas into 3**
 - common criteria used for screening are:
 - Solvent demand
 - Availability of raw materials
 - Availability of personal skills
 - Availability of financial resources
- **Scoring the Suitability of Business Idea**
 - This approach is most appropriate when **deciding on starting a business**
 - we use score business ideas by **assigning a rating from 1 to 3 for each question, with 3 being the strongest**
 - Are you familiar with the operations of this type of business?
 - Does the business meet your investment goals?
 - Does the business meet your income goals?
 - Does the business generate sufficient profits?
 - Do you feel comfortable with the business?
 - Does your family feel comfortable with the business?
 - Does the business satisfy your sense of status?
 - Is the business compatible with your people skills?
 - Is there good growth projected for the overall industry of the business?
 - Is the risk factor acceptable?
 - Does the business require long hours?
 - Is the business location-sensitive?
 - Does the business fit your personal goals and objectives?
 - Does this business fit your professional skills?

- While to answer the above questions, there are **four important groups** that you should talk to:
 - **Potential customers**
 - Whether or not your proposed product is **important to them** and **if you need to modify** your idea to meet their needs
 - **Competitors, suppliers and entities with financial resources**
 - Their views will reveal **the challenges of competition that you would face**, as well as **other issues related to your potential business**
 - **Financial institutions**
 - Find out **the lending requirements** to determine whether borrowing for a new business is possible
 - **Key informants and opinion leaders**
 - These are people who would know a lot **about the type and field of business** you want to go into and/or a lot **about your potential customers**
 - Their views would give you a lot to think about and could also **give you a better insight into the feasibility of your business idea**

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 business plan is a **road map for starting and running a business**
- A **well-crafted business plan**
 - identifies opportunities
 - scans the external and internal environment to assess the **feasibility of business**
 - allocates resources in the best possible way
 - provides information to all concerned people like the venture capitalist and other financial institutions, the investors, the employees

- It provides information about the various functional requirements (marketing, finance, operations and human resources) for running a business
- 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
- A business plan
 - identifies an innovative idea
 - researches the external environment to list the opportunities and threats
 - identifies internal strengths and weakness
 - assesses the feasibility of the idea
 - allocates resources in the best possible manner
- **some objectives of a business plan** are to:
 - Give directions to the vision formulated by entrepreneur
 - Monitor the progress after implementing the plan
 - Persuade others to join the business
 - Seek loans from financial institutions
 - Identify the strengths and weakness of the plan
 - Identify challenges in terms of opportunities and threats
 - Document ownership arrangements, future prospects and projected growths of the business venture

2.8 Developing a Business Plan

2.8.1 Business Planning Process

- **documenting the business plan** is one of the early steps that an entrepreneur should take
 - successful entrepreneur lays down a step-by-step plan that she/he follows in starting a new business
- business plan acts as a **guiding tool** to the entrepreneur and is **dynamic in nature** – it needs continuous review and updating
- **various steps involved in business planning process:**
 - 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 etc.
- Scan the external environment and internal 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

- Opportunity identification and business idea generation is the **first stage** of business planning process
- involves **generation of new concepts, ideas, products or services** to satisfy demand

3. Environmental Scanning

- carried out to analyze the **prospective strengths, weakness, opportunities and threats of the business enterprise**

4. Feasibility Analysis

- **Feasibility study** is done to find whether the proposed project (considering the above environmental scanning) **would be feasible or not**
- demarcate environmental scanning and feasibility
 - **Environmental scanning** is carried out to **assess the external and internal environment** of the geographical area/areas where, entrepreneur intends to set up his business enterprise
 - **feasibility study** is carried out to **assess the feasibility of the project** itself in a particular environment in greater detail

5. Report Preparation

- **After** environmental scanning and feasibility analysis, a **business plan report** is prepared
- It is a **written document that describes step-by- step, the strategies involved in starting and running a business**

2.8.2 Essential Components of Business Plan

1. Cover Sheet

- like the cover page of the book, mentions the **name of the project**, **address of the headquarters** (if any) and **name and address of the promoters**

2. Executive Summary

- the **first impression** about the business proposal
 - **careful presentation** of information should be done to **attract the attention of the evaluators**
 - should be in **brief** (not more than two or three pages) yet it **should have all the factual details about the project**
 - **Generating interest in the minds of the readers** is the prime motive of the executive summary

3. The Business

- give **details about the business concept**
- It will discuss the
 - **objective of the business**
 - a **brief history about the past performance** of the company (if it is an old company)
 - what would be **the form of ownership** (whether it would be a **single proprietor**, **partnership**, **cooperative society** or a **company under company law**)
 - label the **address of the proposed headquarters**

4. Funding Requirement

- Since the **investors** and **financial institutions** are one of the key bodies examining the business plan report and **it is one of the primary objectives of preparing the business plan report**
- **how much finance would the company require and how it would like to fund the project**

5. The Product or Services

- brief **description of product/services**
 - includes the **key features of the product**
 - also gives details about the **patents**, **trademarks**, **copyrights**, **franchises**, and **licensing agreements**

6. The Plan

a. Marketing Plan

- Marketing mix strategies are to be drawn, based on the market research

b. Operational Plan

- would give information about
 - **Plant location**: why was a particular location chosen?
 - **Plan for material requirements, inventory management and quality control**
 - **budget for operational plan**

c. Organizational Plan

- indicates the **pattern of flow of responsibilities and duties amongst people in the organization**
- details about the **manpower plan that would be required**
- details about the **laws that would be governed in managing the employees of the organization**

d. Financial Plan

- 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**

7. Critical Risks

- **tentative risks** to **evaluate the viability of the business** and to **measure the risks involved** in the business
- This can further **give confidence to the investors as they can calculate the risks involved** in the business from their perspectives as well

8. Exit Strategy

- 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

- It further helps in measuring the risks involved in investing

9. Appendix

- provide information about the Curriculum Vitae of the owners, Ownership Agreement and the like

2.9 Sample Business plan Format