

CHAPTER 2

BUSINESS PLANNING

INTRODUCTION

- 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.**

Opportunity Identification and Evaluation

- Most authors agree that the 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 recognition corresponds to the principal activities that take place before a business is formed or structured.**

opportunity identification stages

- 1) Scanning the Environment/ Getting the Idea
- 2) Opportunity Identification
- 3) Opportunity Development-is the process of combining resources to pursue a market opportunity identified.
- 4) Opportunity Evaluation

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:
- **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

Business Idea Identification

- All business ideas are not equally worth.

Methods for Generating Business Ideas

1. Learn from successful business owners
2. Draw From Experience-your experience/other peoples
3. Survey Your Local Business Area
4. Scanning Your Environment

Methods for Generating Business Ideas,,,

- ✓ It may be useful to think about business ideas by considering all the resources and institutions in your area. For example think about:
 - Natural resources,
 - Characteristics and skills of people in the local community,
 - Import substitution,
 - Waste products,
 - Publications,
 - Trade fairs and exhibitions

Methods for Generating Business Ideas,,,

5. Brainstorming

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.

Methods for Generating Business Ideas,,,

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.

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

- **Macro screening:** is aimed screening down ideas to 10. And 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:** is aimed screening down ideas into 3.
- The 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.
- 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.**

Concept of Business Plan

- Planning is the first and the most crucial step for starting a business.
- 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 and allocates resources in the best possible way, which finally leads to the success of the plan.**
- It 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.***

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.

Developing a Business Plan

Business Planning Process

- ❖ A plan, which looks very feasible at the first instance, might actually not be when the details are drawn.
- ❖ Hence documenting the business plan is one of the early steps that an entrepreneur should take.
- ❖ *A successful entrepreneur lays down a step-by-step plan that she/he follows in starting a new business.*

- This business plan acts as a guiding tool to the entrepreneur and is dynamic in nature – **it needs continuous review and updating so that the plan remains viable even in changing business situations.**
- The various steps involved in business planning process are discussed here below:

planning process steps

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 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

Entrepreneurship is not just limited to innovation (generation of an entirely new concept, product or service, but it also encompasses **incremental value addition** to the concept/product/ services offered to the consumer, shareholder and employee).

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

3) Environmental Scanning

is carried out to analyze the prospective strengths, weakness, opportunities and threats of the business enterprise.

Hence before getting into the finer details of setting up business it is advisable to scan the environment both external and internal and collect the information about the possible opportunities, threats from the external environment and strengths and weaknesses from the internal environment

4) Feasibility Analysis

Feasibility study is done to find whether the proposed project (considering the above environmental scanning) would be feasible or not.

It is important to demarcate environmental scanning and feasibility study at this point.

- 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, whereas 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.

Essential Components of Business Plan

I) Cover Sheet: Cover sheet is like the cover page of the book.

It mentions the name of the project, address of the headquarters (if any) and name and address of the promoters.

II) Executive Summary

A careful presentation of information should be done to attract the attention of the evaluators. 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. It should briefly describe the company; mention some financial figures and some salient features of the project.

Generating interest in the minds of the readers is the prime motive of the executive summary.

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 (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). **It would also label the address of the proposed headquarters.**

IV) 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, 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, 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 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. **It also gives details about the patents, trademarks, copyrights, franchises, and licensing agreements.**

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

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

- Product
- Price
- Promotion
- Distribution

2) 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 intricacies of the business. Finally, the budget for operational plan is also drawn.

3) **Organizational Plan:** The 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 and it would also enlist the details about the **laws that would be governed in managing the employees of the organization.**

In the end the organizational plan is also budgeted.

- **4) 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:
 - 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:** 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. 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. It further helps in measuring the risks involved in investing.
- **IX) Appendix:** The appendix can provide information about the Curriculum Vitae of the owners, Ownership Agreement and the like.

The End !!!!!