CHAPTER 2

BUSINESS PLANNING

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.