

experience. The statement should not be too restrictive to prevent development, or so broad as to be meaningless (for example, a coalman might say he is in the business of 'marketing and distributing home fuel requirements'). Second, a quantified primary long-term objective is needed which reflects what is wanted by the owner/ manager (s) and what the business can achieve, given the prospects for the environment it finds itself in.

7.1 Merits of a Business Plan

The entire business planning process forces the entrepreneur to analyze all aspects of the venture and to prepare an effective strategy to deal with the uncertainties that arises. Thus a business plan may help an entrepreneur avoid a project doomed to failure. As one researcher states, "if you proposed venture is marginal at best, the business plan will show you why and may help you avoid paying the high tuition of business failure. It is far cheaper into to begin an ill-fated business than to learn by experience what your business plan could have taught you at a cost of several hours of concentrated work.

It is important entrepreneurs prepare their own business plan. If an entrepreneurial team is involved, then all of the key members should be part of writing the plan; in this case it is important the lead entrepreneur understand the contribution of each team member. If consultants are sought to help prepare a business plan, the entrepreneur must remain the driving force behind the plan. Seeking the advice and assistance of outside professionals is always wise, but entrepreneurs need to understand every aspect of the business plan, since it is they who come under the scrutiny of financial sources. Thus the business plan stands as the entrepreneur's description and prediction for his or her venture, and it must be defended by the entrepreneur—simply put. It is the entrepreneur's responsibility.

Other benefits are derived from a business plan for both the entrepreneur and the financial sources that read it and evaluate the venture. Specially for the entrepreneur, the following benefits are gained:

- ❖ The time, effort, research, and discipline needed to put together a formal business plan force the entrepreneur to view the venture critically and objectively.
- ❖ The business plan quantifies objectives, providing measurable benchmarks for comparing forecasts with actual results.
- ❖ The completed business provides the entrepreneur with a communication tool for outside financial sources as well as an operational tools for guiding the venture toward success.
- ❖ The competitive, economic, and financial analyses included in the business subject the entrepreneur to close scrutiny of his or her assumptions about the ventures success.
- ❖ Since all aspects of business venture must be addressed in the plan, the entrepreneur develops and examines operating strategies and expected results for the out side evaluators.

7.2 Causes of products/services failure

Absence of or existence of inappropriate business plan, often, causes failure of products or services. If appropriate plans for products or services are not made it is likely to suffer from producing quality products in required quantities. The problems for which such failure are caused may be seen as under:

1. Faulty estimates of market potential
2. Inadequate quality control.
3. Faulty estimates in production costs.
4. Inadequate expenditure on initial promotion.
5. Faulty marketing testing
6. Improper channel of distribution

7. Unexpected reactions from competitors
8. Poor timing in the introduction of the product.
9. Rapid change in the market (economy) after the product was approved.

A deeper look of the above mentioned causes indicates that all the causes prompted as a consequence of a wrong business plan or as there was no business plan at all. From these we can infer that if the product planning is proper and timely, a business is most likely to be successful in its endeavor.

7.3 Functions of a Business Plan

Business plan is an instrument that brings things in order towards desired accomplishment. It does many functions. In order of importance, a business plan functions as:

1. **A Sales tool:** The number one use of a business plan is as a sales tool. It serves as a prospectus, an invitation to invest or to provide a loan, and, at the same time, the first official presentation to the outside world of the kind of product or service the prepare will be offering. Prospective bankers or investors will initially judge the entrepreneur's abilities and his or her chances for success on the quality of the business plan.
Surprisingly, the strategies contained in the business plan are not as important to knowledgeable bankers and investors as is its quality and professionalism. They know that events will dictate changes in those strategies, and that what is important is the entrepreneur's ability to manage those changes. Experience has taught them, it's the jockey that wins the race, not the horse.
2. **An exercise in strategic planning and business logistics:** Assembling the business planning and business logistics. It is an exercise in strategic planning and business logistics. It is an exercise that too many of us action-oriented entrepreneurs tend to overlook, both during the start-up stage of our business, and later on, when we're in the heat of the battle.
3. **A barometer and a scorecard:** A business plan sets goals – Written goals, published goals, goals for the world to see. Goals that publicly state the entrepreneur's intentions.

7.4 In Search of New Ideas and Products

Generation of workable ideas is very important to make a business plan. The entrepreneurs usually look around to find clues for new ideas. Customers through their frank reactions, often, communicate some ideas to the sales force who make these delivered to the people in search of those. The table provided under contains a list of such sources of new ideas :

A. Sources of Ideas

1. Sales force <ol style="list-style-type: none"> a. Knowledge of customer's needs b. Knowledge of the industry and competition c. Inquiries from customers or prospects 	c. Suppliers or vendors d. Middlemen e. Ad agencies f. Prospective consumers suggestion observing markets
2. Research and engineering <ol style="list-style-type: none"> a. Application of basic research b. Accidental discoveries c. Original or creative thinking d. Testing existing products and performance records. 	4. Observation of markets <ol style="list-style-type: none"> a. Utilization of by-products or scrap b. Income levels, c. Market surveys d. Future demand e. Suggestions from employees f. Technology, etc.
3. Outside sources <ol style="list-style-type: none"> a. Inventors b. Stockholders 	

<p>5. Developments in other nations :</p> <p>a. Fashion trends of developed countries.</p> <p>6. Study of project profiles :</p> <p>a. Various Government and public agencies periodic profiles</p> <p>b. Various Private agencies projects and industries profiles</p>	<p>7. Other agencies :</p> <p>a. Consultancy organizations,</p> <p>b. Investment centers,</p> <p>c. Export promotion councils.</p> <p>8. Trade Fairs and Exhibitions : National an international trade fairs</p>
---	--

Sales force, suppliers, middlemen, advertisement agencies, trade associations' work shops, seminars, consultancy organizations help the interested parties with new ideas. Some organizations of their own, engage competent persons like researchers, engineering talents, incubators and others who in a scientific process constantly look for workable ideas. Such a model of finding ideas may be seen below:

The Creativity Thinking Progress

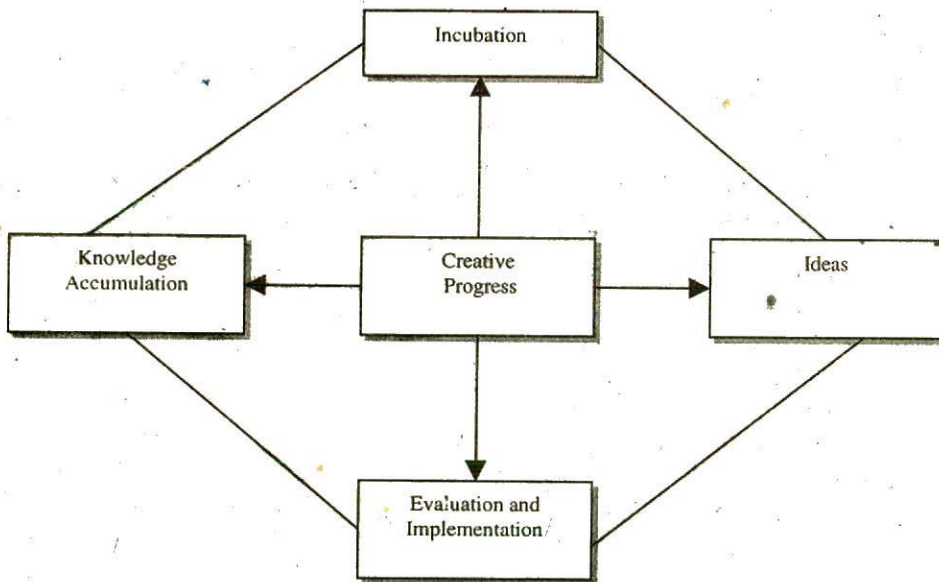


Figure-7A : Showing the Creativity Thinking Progress

Those figure illustrates the four phases of the creative thinking process. If a person encounters a major problem while moving through the process it is sometimes helpful to go back to a previous phase and try again. For example, if an individual is unable to formulate an idea or solution (Phase 3), return to Phase 1 often helps. By immersing in the data, the individual allows the unconscious mind to begin a new processing the data, establishing cause/effect relationships, and formulating potential solutions. The model is a problem-solving one used also to generate new ideas besides looking for solving techniques or keys in a particular situation in order to find solutions to specific problem.

B. Processing and Selection

A number of alternative ideas are initially identified for further scrutiny, evaluation and testing. Various aspects of these initially selected ideas are weighed in terms feasibility, cost- benefits.

technicalities, environmental impacts etc to finally arrive at one acceptable idea. This may be gauged as under:

1. Preliminary evaluation and testing of ideas: Once business ideas are discovered, screening and testing of these ideas is done. The following considerations are significant in the evaluation and testing of business ideas.
 - (a) Technical feasibility: It refers to the possibility of producing the product. Technical feasibility of an idea is judged in terms of availability of necessary technology, machinery and equipment, labour skills and raw materials.
 - (b) Commercial viability: A cost-benefit analysis is required to ascertain the profitability of the ideas. An elaborate study of market conditions and prevailing situation is made to assess the viability and prospects of the proposed project.
- (2) Detailed analysis: After preliminary evaluation of the idea, the promising idea is subjected to a through analysis from all angles.

C. Selection of Ideas:

The evaluation of the alternative ideas when concretized in a report is analyzed to finally choose the most promising idea. Generally, the aforesaid evaluation report along with the following considerations influence the selection of the idea for a product or service:

- (a) Products whose imports are banned or restricted by the Government
- (b) Products based on the expansion or diversification plans of existing firms of the family/friends/relatives.
- (c) Products which ensured specific advantages. The advantage might accrue because of the scale of the industry or the location of the factory or technology of manufacture.
- (d) Products favored by the country's industrial/licensing policy e.g., delicensed industries.
- (e) Products for which incentives and subsidies are available.
- (f) Products which can be exported easily and profitably
- (g) Products whose demand exceeds their supply so that there exists ready demand.
- (h) Products in which the entrepreneur has manufacturing /or marketing experience.
- (i) Parent ancillary relationships i. e., the product is to be manufactured for a parent company.
- (j) Products which showed high profitability.

7.5 Project Formulation

Project formulation is by itself an analytical management aid. It enables the entrepreneur to arrive at the most effective project decision. Project formulation exercise normally includes such aspects as follows:

1. Feasibility Analysis
 2. Techno-economic Analysis Social
 3. Project Design and Network Analysis
 4. Financial Analysis
 5. Project Appraisal
 6. Cost-Benefit Analysis, and
 7. Input Analysis.
1. **Feasibility Analysis:** Feasibility analysis is the process of evaluating the future of a project idea within the limitations of the project implementing body and the constraints imposed on the project situation by the environment.

- (i) **Prefeasibility Study:** The Project idea must be elaborated in a more detailed study. However, formulation of a techno-economic feasibility study that enables a definite decision to be made on the project is a costly and time consuming task. Therefore, before assigning funds for such a study, a preliminary assessment of the project idea must be made in a pre-feasibility study.
 - (ii) **Feasibility Study:** It is the most important part of project analysis, for it provides answers to questions in detail on different aspects relating to a project. In practice this means investigating the project from six different aspects economic, technical, managerial, organisational commercial and financial.
2. **Techno-Economic Analysis:** Techno-economic analysis is primarily concerned with the identification of the project demand potential and the selection of the optimal technology suitable for achieving the project objectives.
 - (i) **Determination of Project Demand Potential:** Estimation of demand potential is the starting of techno-economic analysis.
 - (ii) **Selection of Optimal Project Strategy:** In many project situation, normally, an infinite series of strategies can theoretically be made available for achieving the project objectives.
 3. **Project Design and Network Analysis:** Project design is the heart of a project. It defines the individual activities
 4. **Financial Analysis:** Financial characteristics of an investment proposition have a significant impact on the acceptability or rejection of a project. The purpose of financial analysis is to identify these characteristics and to determine the financial feasibility of a project.
 5. **Feasibility Report :** The details gathered from feasibility studies and presented in various tables, reports and statements are consolidated into one master report called project report or feasibility report
 6. **Cost Benefit Analysis:** Under this analysis, estimates of social costs and social benefits are made and presented for computation of social profitability of the project. While the costs and benefits under the financial analysis are estimated employing market prices based on financial objectives, this cost-benefit analysis considers them only at certain imputed prices based on social or national objectives.
 7. **Input Analysis:** After a project idea has withstood the tests of feasibility analysis, techno-economic analysis and network analysis, it becomes necessary to determine the resource requirements of the project. Input analysis is primarily concerned with the identification, quantification and evaluation of project inputs.

7.6 Elements of the Business Plan

A Business plan come in a variety of shapes and forms, depending on the size of the deal, the needs of the lender, and the sophistication of the entrepreneur. Entire books have been written of the subject of business plans, and even computer software is available to lead the first time business plan developer through the process. The entrepreneur who is seeking serious financing should not cut corners when developing a business plan. Plenty of information is available.

This section is intended for overview only. The entrepreneur in search of capital should either (a) read one of the many books written specifically about business plans (all the major accounting firms have free business planning brochures available to the public); (b) purchase some business planning software; (c) ask his or her accountant, lawyer, or counselor for a copy of someone's already-successful business plan; or (d) hire a consultant (business plan consultants can be found in most major cities) to assist in developing the plan.

The following are the important elements that should be included in every business plan:

The Company

1. **Management:** Include complete biographical sketches of the entrepreneur and his key employees. The reader will be looking for specific accomplishments, not just job history. Also include a prospective organization chart, along with a management philosophy statement indicating how entrepreneur will be managing your team. Remember, experienced investors and/or creditors look first for quality and experience in the entrepreneur and his team members.
2. **Mission:** Include a mission statement.
3. **Recruitment:** Explain how and where entrepreneur intends to find employees.
4. **Training:** Describe the training that will be provided for the entrepreneur's existing team and his new hires.
5. **Organization:** Indicate the type of organization the entrepreneur has chosen
6. **Location:** Include a description of all offices and warehouse and physical facilities.

The Service or Product

What is the entrepreneur's service or product? What are its benefits? What makes it special? How it will be manufactured, produced, or procured? What will be the cost and projected selling price? How about warranties, guarantees, and ongoing service? Answer these questions and include information about the entrepreneur's product or service history, along with everything applicable to patents, trademarks, or copyrights.

The market

1. **The industry:** Provide an industry overview. How big is the entrepreneur's market? What is the entrepreneur's market's growth prospects? How competitive is the marketplace? How profitable are the major players?
2. **The competition:** List the entrepreneur's competitors. What are their approximate market shares? What are their strengths and weaknesses?
3. **The customers:** Identify the individual groups or companies the entrepreneur will target as customers. What similar products/services are they purchasing now? Why would they seriously consider purchasing the entrepreneur's product? Who in each company would be doing the actual buying? And most importantly, which of the company's customer's needs will the entrepreneur's product or service fulfill?

Distribution

What will be the entrepreneur's approach to selling the product? Entrepreneur's own in-house sales force? Factory reps? Mail order? Catalog? Include the ways, as well as the how. Also, describe the entrepreneur's marketing, advertising, and promotional plans in this section. Distribution (sales and marketing) is second only to the quality of the team when it comes to determining success. This section of the business plan will be of primary importance to sophisticated investors or creditors.

Financial

1. **Financial organization:** Decide how much of the entrepreneur's own money he is investing. What is the entrepreneur looking for, debt or equity? How much additional capital do the entrepreneur need? Where the entrepreneur is seeking equity, who are the other shareholders? Where are their ownership percentages? What are their exit provisions?
2. **Compensation:** How will the entrepreneur and his key employees be compensated? Include stock options, bonus plan, and perquisites.
3. **Financial projections:** Include projected profit and loss statements and balance sheets for at least three, and no more than five years. Make them as realistic as possible – sophisticated investors and/or creditors will quickly recognize projections that are padded or overoptimistic.

Risks and Rewards

1. **Risks:** What are they? Shrinking markets? Aggressive competitors? Interest rates? Government policies? New technologies? Be blunt and be frank; every new venture has a risk. The business plan reader is looking for honesty here.
2. **Rewards** Include expectations regarding dividends, loan repayment, reinvestment of profits, expansion, public offerings, and so on.

With this thought in mind, the entrepreneur should ask himself this question, once he has finished assembling his business plan: "Does this reflect the way he wants to be perceived?"

If it does, he has done everything he possibly can do?

The entrepreneur must not be in a hurry in preparing the business plan. It should be made with adequate information to be processed by persons with experience & vision, else the whole exercise may prove to useless and irritating.

7.7 Steps to Develop a Business Plan

An essential steps in getting a new venture off the ground is the preparation of a business plan. The process forces the entrepreneur to anticipate the potential market, the potential of satisfying that market, the potential pitfalls of organizing a new venture, and the early signals of progress or failure. The plan itself is the basis on which the entrepreneur runs the business, and in which investors and creditors make their decision to help the entrepreneur.

There are 25 steps in preparing a business plan:

Step 1 Make a commitment to go into business for yourself.

Step 2 Analyze your strengths and weaknesses

Step 3 Choose the product or service that best fits your strengths and desires.

Step 4 Determining what profit you want from this business, recognizing the time you will give and the investment you will have. Then complete a projected income statement based upon your decision.

Step 5 Review all aspects of our merchandising plan.

Step 6 Analyze your estimated expenses in terms of their fixed or variable nature.

Step 7 Determining the firm's break-even point.

Step 8 If you are considering sales on credit review the advantages and administrative decisions involved. Then established a credit policy.

Step 9 Develop a Production plan.

Step 10 Survey and test the market you plan to serve to ascertain if the necessary sales volume required to produce the profit called for in step 1 is obtainable.

Step 11 Prepare a statement of assets to be used.

Step 12 Prepare an opening day balance sheet.

Step 13 Determine the sources of assets needed.

Step 14 Study the location and the particular site chosen for specific characteristics.

Step 15 Prepare a layout for the entire space to be used for business activity.

Step 16 Choose your legal form of organization.

Step 17 Develop a marketing plan.

Step 18 Develop an organizational plan.

Step 19 Review the risks to which you are subject and how you plan to cope with them.

Step 20 Establish a human resources policy at the beginning.

Step 21 Establish an adequate system of accounting records.

Step 22 Develop a computer plan.

Step 23 Develop a program of total quality management.

Step 24 Develop a financial plan.

Step 25 Develop a letter that summarizes the business plan, stressing its purpose and promise.

These steps interconnect and overlap. This means that certain key steps cannot be taken until earlier steps are completed. In almost every stage of the development of a business plan, the entrepreneur must gather facts, opinions, and judgements from many sources. Market research is perhaps the critical steps in the preparation of a business plan. The more the entrepreneur knows about the market, the greater the chance of attracting customers and earning a profit. This plan binds all the preceding steps in the preparation of a business plan by translating operating plans into money.

7.8 Pitfalls to avoid in Making Business Plan

A business plan even if prepared may be a source of failure of the business, if the same is not made in a way free from the defects and the limitation. The possible defects that may be in the process of preparing business are as under:

Pitfall 1: No Realistic Goals

- Lack of attainable goals
- Lack of priorities
- Lack of action steps
- Lack of a time frame

Pitfall 2: Failure to Anticipate Roadblocks

- No recognition of future problems
- No contingency or alternative plans
- No admission of possible flaws or weaknesses

Pitfall 3: No Commitment or Dedication

- Starting is good but the spirit an initiative declines
- Desire to make a "fast buck" from a hobby or a "whim"
- No desire to invest personal money
- Excessive procrastination
- Missed appointment

Pitfall 4: Lack of Demonstrated Experience (Business or Technical)

- No experience in business
- Lack of understanding of the industry
- No experience in this specific area of the venture
- Failure to take clear picture of a hows and whys of venture implementation

Pitfall 5: No Market Niche (Segment)

- Uncertainty of product customer
- Unclear about product quality
- Considering the customer through wrong perception of the producer

A perusal of the above shows that the business plan to be useful must be free from defects, inadequacies, inconsistencies and with misplaced emphasis. This is possible if the framers of the plan remain careful & vigilant about the correct statement of the goals, rightly foresee & visualize the possible problems, make a realistic time frame, make an achievable projections, properly assesses the market share.

7.9 Checklist of a Business Plan

A business plan should take into consideration the check list in the process of its preparation. It is advisable in order to avoid defects in the plan resulting from missing some important variables. The art of preparing a good business plan should include nine sections: introduction, basic consideration, competitive advantage, production, marketing, management, accounting & finance, conclusion and appendixes. This may be seen below:

<ol style="list-style-type: none"> 1. A business plan to be complete in order to satisfy the needs of the entrepreneur should include the following: <ol style="list-style-type: none"> a. Introduction b. History c. Description of the business 2. Basic Consideration <ol style="list-style-type: none"> a. Acceptability of products or services b. Legality of Products or Services 3. Accounting and Finance <ol style="list-style-type: none"> a. Balance sheet (current and/or projected) b. Income statement (current and/or projected) c. Ratio analysis (explain differences compared with Robert Morris Associates' Annual Statement Studies) d. Cash flow analysis (current and/or projected) e. Break-even analysis (current and/or projected) f. Profitability 4. Competitive Advantage <ol style="list-style-type: none"> a. Potential Market Share of the proposed enterprise b. Market Share of the existing company. c. Likely response of the competitor 5. Production <ol style="list-style-type: none"> a. Choosing a product or service for production or delivery b. Maintenance and servicing c. Insurance d. Controlling wastage, pilferage etc. e. Make or buy to resale f. Equipments and Machinery g. Quality Control h. Delivery schedule 	<ol style="list-style-type: none"> 6. Marketing <ol style="list-style-type: none"> a. Product or service description b. Advertising and promotion c. Price determination (optional) d. Distribution (optional) e. Target customers f. Market demand/competition definition g. Marketing area description h. Market segmentation i. Location 7. Buying habits and capacity of the target customers. 8. Management <ol style="list-style-type: none"> a. Managerial skills requirements b. Personnel-management policies c. Organizational hierarchy (chart)/committees d. Customer relations policies e. Inventory control 9. Conclusion <ol style="list-style-type: none"> a. Individual and overall impression of the study by the consultant. b. Benefits gained by the owner(s) c. Additional references for business owner(s) on the subject matter (list numbers on back with references) 10. Appendix <ol style="list-style-type: none"> a. Maps b. Trade association material c. Layouts d. Flyers
--	---

7.10 Summing Up

A business plan is a written document which illustrates current status, expected needs, and projected results of the new business. It is a description of the facets of the proposed venture like the project, marketing, research and development, manufacturing, management, critical risks, financing, etc. It exhibits what the proposed venture is about, where it is projected to go, and how the entrepreneur proposes it will get there. Business plan is, therefore, the entrepreneur's road map for a successful enterprise. Since all the aspects of business venture must be addressed to in the plan, the entrepreneur develops and examines operating strategies and expected results, quantifies objectives, providing measurable benchmarks for comparing forecasts with actual results and also provides the small businesspersons with a communication tool for outside financial sources as well as an operational tools for guiding the venture toward success in time to come.

A business plan to be complete in order to satisfy the needs of the small business men should include the items: introduction of the enterprise including description of the business, production plan, marketing plan including advertising and promotion, personnel management policies, organizational hierarchy, customer relations policies, planned accounting practices and statements and the like. Some of the pitfalls to avoid in making business plan include lack of attainable goals, time frame, priorities, action steps and clear picture of a "hows" and "whys" of venture implementation. Excessive procrastination, inability to recognize possible future problems and wrong perception about market areas, product quality, target customers are some other pitfalls that the entrepreneurs are to guard against while preparing his business plan.

Model Questions

Broad Questions

1. Give the meaning of business plan. Examine the benefits that are being derived by preparing a business plan.
2. Clarify the concept of business plan with particular advantages to the entrepreneur.
3. What roles does a business plan play to the small business entrepreneurs?
4. Describe the sources of product idea and business ideas.
5. "Project formulation is by itself an analytical arrangement aid" Describe it with particular reference to arrive at the most effective project discussion by a successful entrepreneur?
6. "All business plans are not same" – Explain by duly mentioning the elements of business plan.
7. What are the items that the entrepreneur should include in an ideal business plan?
8. Do you think environmental aspect may be a threat to a new business? Describe in brief the several key factors of business environment?
9. Why a checklist of a business plan is important? What are the probable factors may include in the checklist?
10. Why do so few entrepreneurs prepare a business plan?
11. How would you, as an entrepreneur, go about gathering facts for your own venture to prepare your business plan?
12. To prepare your business plan, whose professional help would you seek out? Why?
13. In a business plain, how does the financial plan relate to operating plans?
14. How do you determine the value of a business by the cost and market approach?
15. After considering all factors – such as your business ability, time involvement, earning power of money deposited in other investments, salary desired, etc. – what capitalization rate would you set as desirable for yourself? Explain.

Short Questions

1. "Business plan is an ins and outs of a business" – Explain.
2. Do you think "business plan & venture plan" are the same?
3. How could a fresh entrepreneur may be benefited by a business plan?
4. "Business plan may act as a sales tool" – Explain.
5. What are the main sources of business ideas?
6. What are the main aspects of "project formulation"?
7. "Marketing is the key item in an ideal business plan"- Explain.
8. Discuss the environmental variables by an exhaustive details.
9. What are the main pitfalls that an entrepreneur should guard against while making business plan?
10. What threats may be acute in the entrepreneurs economic environment?
11. Why should every would-be entrepreneur prepare a business plan?

All business proceeds on beliefs, or judgments of probabilities, and not on certainties.

- Charles Eliot