**CHAPTER THREE: DEVELOPING A BUSINESS PLAN**

3. INTRODUCTION

To start a business, an entrepreneur must first have an idea. Sam Walton, founder of Wal-Mart stores, had an idea for a discount retailing enterprise and spawned a global retailing empire that changed the way traditional companies look at their business. Next, the entrepreneur needs to devise a business plan to guide planning and development. Finally, decisions must be made as to form of ownership, the financial resources needed, and whether to buy an existing business, start a new one, or buy a franchise.

**3.1. Meaning and need for Planning**

A key element of business success is a business plan – a meticulous statement of the rationale for the business and a step by step explanation of how it will achieve its goals. The business plan should include an explanation of the business, an evaluation of the competition, estimates of income and expenses, and other information. It should establish a strategy for acquiring sufficient funds to keep the business going.Planning is really nothing more than decision making – that is, deciding what to do, How to do it, and when to do it. It is vital for business success.

One of the most important steps in setting up any new business is to develop a business plan. In many ways the business plan resembles a road map, telling entrepreneurs how best to get from A to Z. It allows the owner-manager to crystallize their idea and to think through the problems they will face, before they have to cope with them. It allows them to set aims and objectives and thereby give them a yard sticks against which to monitor performance. Perhaps, of more immediate importance, it can also act as a vehicle to extract finance.

A business plan is a written document prepared by the individual entrepreneur or partners that describes the goals and objectives of the business along with steps necessary to achieve those goals. It is also referred to as a proposal, a prospectus, or game plan. Business plan is a meticulous statement of the rationale for the business and a step by step explanation of how it will achieve its goals. The business plan should

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	+ It should establish a strategy for acquiring sufficient funds to keep the business going.

**3.2. The purpose and importance of a business plan**

The idea of a business plan is hardly new. In starting a new venture, the pivotal step is to prepare a business plan, which calls for entrepreneurs to anticipate.

* The potential market for products or services
* The potential costs of satisfying that market.
* The potential pitfalls in organizing operations.
* The early signals of progress or setbacks.

 It is the rigor and thoroughness of the business plan that inform the work of successful entrepreneurs, not only at birth but throughout a venture’s life. Big businesses have long been turning out business plans yearly by the thousands, especially for marketing new products, buying existing businesses, or expanding globally.

 In fact, outside pressures now force entrepreneurs to develop their business on paper before investing time and money in ventures that may have little chance of success. These pressures flow mainly from creditors and investors, the people the entrepreneurs must approach for money.

* Entrepreneurs get benefited because a business plan makes them better appreciate and makes them understand about what it will take to succeed.
* Investors and such creditors as banks and suppliers also benefit because a business plan gives them better information with which to decide whether to help finance the entrepreneur.
* The entrepreneur’s employees in particular may use the business plan as a blue print for harvesting their energies for years to come.

Once completed, there are many potential uses for your business plan. First and foremost, it is a powerful sales document for raising money. A business plan is a prerequisite for talking to a venture capitalist, and/or other investors. If you want to borrow money, it is an impressive document to your banker at the time you ask for a loan. As a rule of thumb, the more you want to borrow, or the more money you want to raise from investor, the more thorough your business plan must be.

A second major use of your business plan is an operational plan to direct your operations. Like a blueprint for a house, your plan will tell you what you are going to do, and when you are going to do it. Many entrepreneurs use their business plan for the critical start-up expansion periods of operation so they will stay both on target and on budget.

The third major use of your business plan is pre supposed in the above two, and entails proving the feasibility of your business idea. If your idea merits your time and your money, researching and writing a business plan is an excellent way of putting your intentions to the test. It will also test your motivation to get into business.

If you find the idea of writing a business plan unattractive, you may not want to enter business after all, or you may want to discontinue this course.

If you seriously intend to start a business or to expand or otherwise develop your existing business, you will find it of great value to prepare and use a business plan. At the same time, you will be able to put into practice the personal entrepreneurial competencies so that you will both provide yourself with a valuable business tool and improve your ability as an entrepreneur.

**3.3. What is A Feasibility Study?**
A feasibility study is an analysis of the viability of an idea through a disciplined and documented process of thinking through the idea from its logical beginning to its logical end. A feasibility study provides an ***Investigating*** function that helps answer *“Should we proceed* *with the proposed project idea? Is it a viable business venture?”* conducted to determine the viability of an idea before proceeding with the development of a business.

**3.3.1. The Components of a Feasibility Study**
Feasibility studies contain comprehensive, detailed information about your business structure, your products and services, the market, logistics of how you will actually deliver a product or service, the resources you need to make the business run efficiently, as well as other information about the business.

* **Product/Service Desirability** entails showing a representation of the product or service to prospective users to gauge customer interest, desirability, and purchase intent.
* **A target mark**et is a place within a larger market segment that represents a narrower group of customers with similar needs.
* **Industry Attractiveness** Industries vary considerably in terms of their growth rate. In general, the most attractive industries are characterized as the following: are young, growing, sell products or services that customers “must have” rather than “want to have”.
* **Technical Feasibility Study**: The Technical Feasibility Study assesses the details of how you will deliver a product or service (i.e., materials, labor, transportation, where your business will be located, technology needed, etc.). Think of the technical feasibility study as the logistical or tactical plan of *how* your business will produce, store, deliver, and track its products or services. This includes the initial purchase and installation costs of the equipment as well as the operational costs of running the equipment.
* **Organizational Structure Feasibility Study**: It is conducted to determine whether a proposed business has sufficient management expertise, organizational competence, and resources to successfully launch its business.
* Purpose of an Organizational Feasibility Study is defining the legal and corporate structure of the business. An Organizational Feasibility Study may also include professional background information about the founders and principals of the business and what skills they can contribute to the business.
* **A Financial Feasibility Study:** A financial feasibility study projects how much start-up capital is needed, sources of capital, returns on investment, and other financial considerations. Based on the estimated demand, what are the business’ revenue projections? How will the business determine its pricing arrangements?

**3.4. Preparation of the parts of the business plan**

 What should a business plan cover? It should offer a thought-through analysis of not only personal skills but also the need for a particular product or service. Also, it should layout the strategies for such vital areas as production and marketing, organization and legal aspects, accounting and finance. In short, a business plan should answer such questions as what do I want and what am I capable of doing?

* What are the most workable ways of achieving my goals?
* What can I expect in the future?

 There is no single best way to begin the preparation of a business plan. The guidelines here are simply suggestions that entrepreneurs can modify to suit their individual needs.

**3.4.1. Suggested steps in developing a business plan**

1. Make the commitment to go into business for yourself
2. Analyze your strengths and weakness paying special attention to your business experience, business education, and desires that is why should I be in business for myself?
3. Choose the product a service that best fits your strengths and desires
	* What need will my product or service fill?
	* Product unique selling point
	* Do’s and Don’ts of product / service to customers
4. ***Market research***
	* Description of market to be served
	* Market size and segments
	* Market trends
	* Customer – type and locations
	* Competition – strengths and weaknesses
	* Sales forecast
5. ***Marketing Plan***
	* Overall marketing strategy
	* Channels of distribution
	* Personal selling
	* Advertising & Promotion
	* Pricing
	* Service and warranty policies
6. ***Operations***
	* Location
	* Facilities
	* Raw materials
	* Inventory Control
	* Quality Control
	* Production Control
	* Staffing
	* R&D
7. ***Organization and Management***
	* Legal form of business
	* Managerial organization – roles and relationships
	* Key management personnel
	* Board of directors
8. ***Financial Plan***
	* Projected source of funds: may be Friends, Mortgaged property, Family, Personal savings, Bank loans.
	* Initial financial requirements
	* Profit and loss forecast
	* Cash flow forecast
	* Break even analysis
	* Projected Balance sheet
	* Risks and contingency plans
9. Write a letter summarizing your business plan, stressing its purpose and its promise.

**Basic Outline for preparing a business plan**

* **Executive Summary** - Presents a believable snapshot of the problem, the market, and the solution and a candid assessment of the risks and rewards of the proposed business.
* **General company description** - Profiles the overall company, location and goals.
* **Products and services** – Describes the products or services the business will provide and how they will differ from those currently in the market.
* **Marketing Plan** – Contains an assessment of product or service demand and an overview of how the company will develop a competitive advantage and sell and promote its product / service.
* **Management Plan** – Explains who will manage the company, how they will be paid, and how the company will be structured.
* **Operational Plan** – Defines manufacturing and labor requirements and how supplies will be obtained.
* **Financial Plan** – Summarizes in detail the company’s financial needs and how they will be met.
* **Appendices** – Contains key manager’s resumes, product information, and market research and technical reports.