***CHAPTER THREE: BUSINESS PLANNING***

***3.1. The Concept of Business Plan***

Why is planning?

* Planning is the process of setting objectives and devising actions to achieve those objectives, answers the questions
* What business am I in?
* Where can I find needed personnel?
* What finances do I need?
* How much profit can I expect?
* What is my sales strategy?
* Planning is a process that never ends for a business though it is extremely important in the early stages of any new venture when the entrepreneur will need to prepare a preliminary business plan.
* As the venture evolves from an early start-up to a mature business, planning will continue as management seeks to meet its short­ term or long-term business goals.
* For any given organization, it is possible to find
* Financial plans,
* Marketing plans,
* Human resource plans,
* Production plans, and
* Sales plans.
* Plans may be short-term or long-term, or they may be strategic or operational.
* Plans will also differ in scope depending on the type of business or the anticipated size of the startup operation.

***What is Business Plan?***

* Business plan is the formal written expression of the entrepreneurial vision, describing the strategy and operation of the proposed venture.
* It is also a loan proposal, venture plan, or investment prospectus.
* However, not all business plans are the same because businesses are different, products are different, they are prepared for different reasons and they vary in importance.

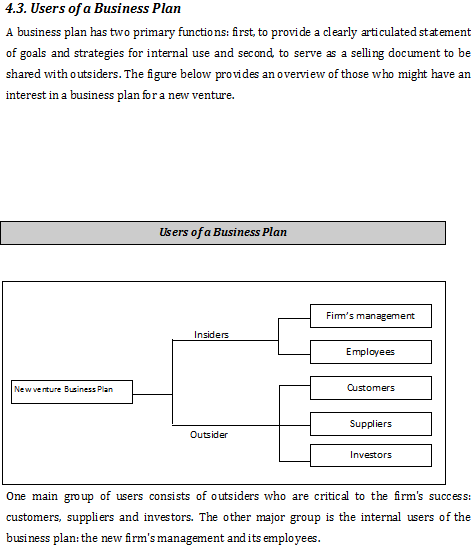
For the entrepreneur starting a new venture, a business plan has four basic objectives:

* It identifies the nature and the context of the business opportunity­ why does such an opportunity exist.
* It presents the approach the entrepreneur plans to exploit the opportunity.
* It identifies the factors that will most likely determine the success of the venture.
* It serves as a tool to raise financial capital.
* A business plan can be viewed as an entrepreneur's game plan
* It crystallizes the dreams and hopes that motivates the entrepreneur to start the business.
* Bridges between an idea and reality.
* A business plan can be a response to some changes in the external environment that presents new opportunities.
* Therefore, writing a business plan should be thought of as ongoing process and as the means to an end product.

**Importance of the Business Plan**

The major benefits of a sound business plan are.

* **Arranging strategic alliance:** strategic alliances are arrangements between large and small companies to carryout joint research, marketing, and other activities.
* **Seeking investment funds**: venture capitalists and investors require a business plan from any company that wants to be taken seriously for funding the venture.
* **It reduces the anxieties and tension of the entrepreneur**. By projecting the risk of the new venture into the future, the entrepreneur comes to grasps with potential negative outcomes and the possibility of failures.
* **Obtaining bank financing**: only those having the best business plan will receive funds from bank.
* **It helps to obtaining large contract.**
* **Completing mergers and acquisitions:** Your business plan can inspire the confidence essential to complete the deal, i.e. to sell your company or to acquire the other companies.
* **Attracting key employees:** Usually, people doubt about the sustainability of companies during their inspection.
* **Motivating the management team:** A written business plan that is based on input from all members of the company’s management team and/or distributed to all managers ensures that everyone understands where the company is headed.
* **It provides self-assessment of the entrepreneur.** A well-prepared business plan enables an entrepreneur to see whether the business is assured of success.



***Essentials of a sound business plan***

To make persuasive your business plan consider the following points:

* ***Comprehensive*:** the business plan has to fully and completely treat all the major issues facing the new venture.
* ***Communicative*:** the business plan is a document for communicating to various audiences the business’s concepts and potential.
* ***Guidance*:** the business plan can be referred repeatedly to guide decisions of the firm’s managers and employees.
* ***The planning process/flexible*:** the process of putting together a business plan, consulting it frequently, and reviewing and revising it periodically can improve the venture’s performance even through some aspects of the plan may become obsolete before the ink dry.

**3.2. Developing a Business Plan**

**3.2.1 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. As discussed above, the 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:

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).

1. **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.

1. **Environmental Scanning**

Once a promising idea emerges through idea generation phase the next step is environmental scanning, which 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 (the detail has been addressed in chapter one).

1. **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.

1. **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.

**3.2.2 Essential Components of Business Plan**

1. **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.
2. **Executive Summary:** Executive summary is the first impression about the business proposal. As the saying goes, the first impression is the last impression. 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.
3. **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 labelthe 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, 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.
5. **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.
6. **The Plan:** Now the functional plans for marketing, finance, human resources and operations are to be drawn.
7. **Marketing Plan:** Marketing mix strategies are to be drawn, based on the market research.
8. **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.
9. **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.
10. **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:
11. Projected Sales
12. Projected Income and Expenditure Statement
13. Projected Break Even Point
14. Projected Profit and Loss Statement
15. Projected Balance Sheet
16. Projected Cash Flows
17. Projected Funds Flow
18. Projected Ratios
19. **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.
20. **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.
21. **Appendix:** The appendix can provide information about the Curriculum Vitae of the owners, Ownership Agreement and the like.

**3.3 Sample Business plan Format**

The business plan outlined below presents all necessary chapters in detail, including all necessary explanations in the context of Ethiopia.

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| **Business plan outline   for micro-enterprises - Ethiopian application** |
| **Business Plan**  **1.  Full name** of the business operator...................................  **2.  Address:**       Woreda.......................... Town...................                           Kebele........................... House no..............  **3.  Type of the plan/work/business** in which the operator is to be engaged.      ........................................................................................  **4. Year of the plan:**  From............................... to....................  **5. Work premises** **at the disposal of the operator**..................      ..........................................................................................      ..........................................................................................  Specify, if there is any problem:  ..............................................................................................    **6. Yearly sales plan:**   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | Ser. no. | Product/service to be sold, marketed / year | Unit | Qua. | Unit price | | Total price | Remark | |  |  |  |  | |  |  |  | |  | Total sales |  |  | |  |  |  |    Months during which sales are expected to be high  ........................................................................................................................................................ ................................................................................................................................................................................................................................................................................................................   1. **Equipment currently owned by the operator:**  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | Ser. no. | Type of equipment | Unit of measure | Qua. | Unit  cost | Total  cost | Remark | |  |  |  |  |  |  |  | |  | Total cost of equipment |  |  |  |  |  |     **8.  Equipment to be purchased by the operator**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | Ser. no. | Type of equipment | Unit of measure | Qua. | Unit  cost | Total  cost | Remark | |  |  |  |  |  |  |  | |  | Total cost of equipment |  |  |  |  |  |   **9.  Yearly raw material requirement:**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | Ser. no. | Type of raw material | Unit | Qua. | Unit price | Total     price | Remark | |  |  |  |  |  |  |  | |  | Total yearly raw material cost |  |  |  |  |  |     Source of raw material..................................................................................................................  ......................................................................................................................................................  **10. Other yearly operating expenses** (e.g. labor expense, sales expense, depreciation expense, tax       expense etc..)   |  |  |  |  | | --- | --- | --- | --- | | Ser. no. | Types of expense | Amount of expense in Birr | Remark | |  |  |  |  | |  | Total expense |  |  |     **11. Yearly production/service plan:**   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | Ser. no. | Types of production/service to be produced or rendered | Unit | Qua. | Unit cost | Total cost | Remark | |  |  |  |  |  |  |  | |  | Total cost |  |  |  |  |  |     **12. Financial plan:**   |  |  |  |  | | --- | --- | --- | --- | | **Capital requirements** | **Equity** | **Loan** | **Total** | | **Investment capital:** |  |  |  | | ·       Machinery + equipment  ·       Furniture + fixture  ·       Business premises  ·       Any other initial and significant outlay |  |  |  | | **Working capital:** |  |  |  | | * + Salary/wage   + Raw material and/or supplies   + Rent   + Maintenance   + Business promotion   + Other cash outlay to meet    short-term and recurrent expenditure |  |  |  | | **Total** |  |  |  |   **13. Yearly profit and loss plan**  Profit + Loss Statement Format: [Accounting](http://www.bds-ethiopia.net/accounting.html#profit-loss) |