BUSINESS PLAN DEVELOPMENT GUIDE

Lee A. Swanson
University of Saskatchewan

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University of Saskatchewan
Business Plan Development Guide

Lee A. Swanson

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1.1: Chapter 1 – Developing a Business Plan

Learning Objectives

After completing this chapter, you will be able to

- Describe the purposes for business planning
- Describe common business planning principles
- Explain common business plan development guidelines and tools
- List and explain the elements of the business plan development process
- Explain the purposes of each element of the business plan development process
- Explain how applying the business plan development process can aid in developing a business plan that will meet entrepreneurs' goals

Overview

This chapter describes the purposes, principles, and the general concepts and tools for business planning, and the process for developing a business plan.

Purposes for Developing Business Plans

Business plans are developed for both internal and external purposes. Internally, entrepreneurs develop business plans to help put the pieces of their business together. Externally, the most common purpose is to raise capital.

Internal Purposes

As the road map for a business's development, the business plan

- Defines the vision for the company
- Establishes the company's strategy
- Describes how the strategy will be implemented
- Provides a framework for analysis of key issues
- Provides a plan for the development of the business
- Helps the entrepreneur develop and measure critical success factors
- Helps the entrepreneur to be realistic and test theories

External Purposes

The business plan provides the most complete source of information for valuation of the business. Thus, it is often the main method of describing a company to external audiences such as potential sources for financing and key personnel being recruited. It should assist outside parties to understand the current status of the company, its opportunities, and its needs for resources such as capital and personnel.

Business Plan Development Principles

Hindle and Mainprize (2006) suggested that business plan writers must strive to effectively communicate their expectations about the nature of an uncertain future and to project credibility. The *liabilities of newness* make communicating the expected future of new ventures much more difficult than for existing businesses. Consequently, business plan writers should adhere to five specific *communication principles*.

First, business plans must be written to meet the *expectations* of targeted readers in terms of what they need to know to support the proposed business. They should also lay out the *milestones* that investors or other targeted readers need to know. Finally, writers must clearly outline the *opportunity*, the *context* within the proposed venture will operate (internal and external environment), and the *business model* (Hindle & Mainprize, 2006).

There are also five *business plan credibility principles* that writers should consider. Business plan writers should build and establish their credibility by highlighting important and relevant information about the venture *team*. Writers need to *elaborate* on the plans they outline in their document so that targeted readers have the information they need to assess the plan's credibility. To build and

establish credibility, they must *integrate scenarios* to show that the entrepreneur has made realistic assumptions and has effectively anticipated what the future holds for their proposed venture. Writers need to provide comprehensive and realistic *financial links* between all relevant components of the plan. Finally, they must outline *the deal*, or the value that targeted readers should expect to derive from their involvement with the venture (Hindle & Mainprize, 2006).

General Guidelines for Developing Business Plans

Many businesses must have a business plan to achieve their goals. Using a standard format helps the reader understand that the you have thought everything through, and that the returns justify the risk. The following are some basic guidelines for business plan development.

As You Write Your Business Plan

1. If appropriate, include nice, catchy, professional graphics on your title page to make it appealing to targeted readers, but don't go overboard.

2. Bind your document so readers can go through it easily without it falling apart. You might use a three-ring binder, coil binding, or a similar method. Make sure the binding method you use does not obscure the information next to where it is bound.

3. Make certain all of your pages are ordered and numbered correctly.

4. The usual business plan convention is to number all major sections and subsections within your plan using the format as follows:

1. First main heading

    1.1 First subheading under the first main heading

        1.1.1. First sub-subheading under the first subheading

2. Second main heading

    2.1 First subheading under the second main heading

Use the *styles* and *references* features in Word to automatically number and format your section titles and to generate your table of contents. *Be sure that the last thing you do before printing your document* is update your automatic numbering and automatically generated tables. If you fail to do this, your numbering may be incorrect.

5. Prior to submitting your plan, *be 100% certain* each of the following requirements are met:

- Everything must be completely integrated. The written part must say exactly the same thing as the financial part.
- All financial statements must be completely linked and valid. Make sure all of your balance sheets balance.
- Everything must be correct. There should be NO spelling, grammar, sentence structure, referencing, or calculation errors.
- Your document must be well organized and formatted. The layout you choose should make the document easy to read and comprehend. All of your diagrams, charts, statements, and other additions should be easy to find and be located in the parts of the plan best suited to them.
- In some cases it can strengthen your business plan to show some information in both text and table or figure formats. You should avoid *unnecessary repetition*, however, as it is usually unnecessary—and even damaging—to state the same thing more than once.
- You should include all the information necessary for readers to understand everything in your document.
- The terms you use in your plan should be clear and consistent. For example, the following statement in a business plan would leave a reader completely confused: "There is a shortage of 100,000 units with competitors currently producing 25,000. We can help fill this huge gap in demand with our capacity to produce 5,000 units."

This statement might mean there is a total shortage of 100,000 units, but competitors are filling this gap by producing 25,000 per year; in which case there will only be a shortage for four years. However, it could mean that the annual shortage is 100,000 units and only 25,000 are produced each year, in which case the total shortage is very high and is growing each year.

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1.2: Chapter 2 – Essential Initial Research

Learning Objectives

After completing this chapter, you will be able to

- Apply analytical skills to assess how the nature of the entrepreneurial environment can influence entrepreneurial outcomes
- Apply the right tools to do impactful analyses at each of the societal, industry, market, and firm levels to evaluate entrepreneurial and other business opportunities

Overview

This chapter introduces the distinct levels of analyses that must be considered while stressing the importance of applying the appropriate tools to conduct the analyses at each level.

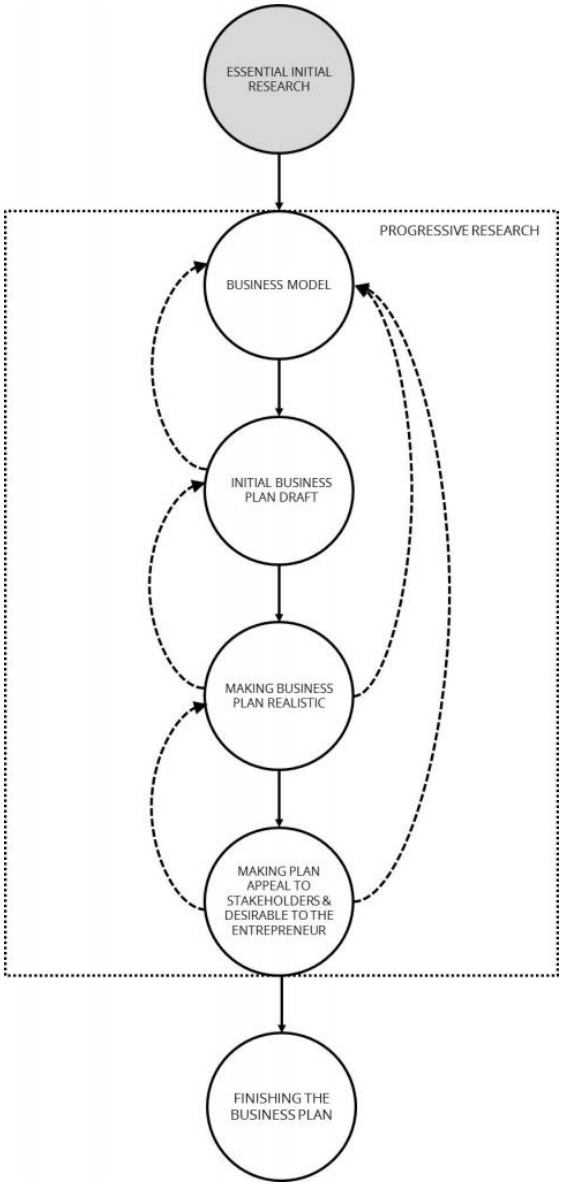

Figure 2 – Essential Initial Research (Illustration by Lee A. Swanson)

Support Information

It is important to conduct the essential initial research. All information and items in the plan should be backed with facts from valid primary or secondary sources. Alternatively, some entrepreneurs can make valid claims based on experience and expertise. As such, their

background and experiences should be delineated to support the claims made in their business plan.

Evidence-based claims make the business plan stronger.

Levels of Analyses

When evaluating entrepreneurial opportunities—sometimes called idea screening—an effective process involves assessing the various venture ideas being considered by applying different levels and types of analyses. Entrepreneurs starting ventures and running existing businesses should also regularly analyze their operating environments at the societal, industry, market, and firm levels. The right tools, though, must be applied at each level of analysis (see Figure 3). It is critical to complete the essential initial research at all four levels (societal, industry, market, and firm). The initial scan should be high-level, designed to assist in making key decisions (i.e. determining if there is a viable market opportunity for the venture). Secondary scans should be continuously conducted to support each part of the business plan (i.e. operations, marketing, and finance). However, information should only be included if it is research-based, relevant, and adds value to the business plan. The results from such research (i.e. the Bank of Canada indicates that interest rates will be increasing in the next two years) should support business strategies within the plan (i.e. debt financing may be less favourable than equity financing). Often, obtaining support data (i.e. construction quotes) is not immediate, so plant a flag and move forward. Valid useful resources may include information from Statistics Canada, Bank of Canada, IBIS World Report, etc.

Societal Level

At a *societal level*, it is important to understand each of the political, economic, social, technological, environmental, and legal (PESTEL) factors—and, more specifically, the trends affecting those factors—that will affect a venture based on a particular idea. Some venture ideas might be screened out and others might be worth pursuing at a particular time because of the trends occurring with those PESTEL factors. When including this research in your business plan, avoid using technical jargon or informal language that may distract readers (i.e. rivalry among firms) and use simpler language (i.e. competitive environment).

Industry Level

Analysis of the *industry level* will focus on the sector of the economy in which you intend to operate. Because the right analysis tool must be used for the assessment to be effective, apply Porter's (1985) Five Forces Model, or a similar tool, to assess industry-level factors. Again, avoid technical jargon (i.e. threat of new entrants) and use simpler wording (i.e. difficulty of entering the market) or flip to an analysis of the threat (i.e. strategies to establish and maintain market share).

Market Level

At the *market level*, you need to use a tool to generate information about the part of the industry in which your business will compete. This tool might be a set of questions designed to uncover information that you need to know to help develop plans to improve your proposed venture's success.

Firm Level

At a *firm level*, both the internal organizational trends and the external market profile trends should be analyzed. There are several tools for conducting an internal organizational analysis, and you should normally apply many of them.

Analyzing the Trends at Each Level

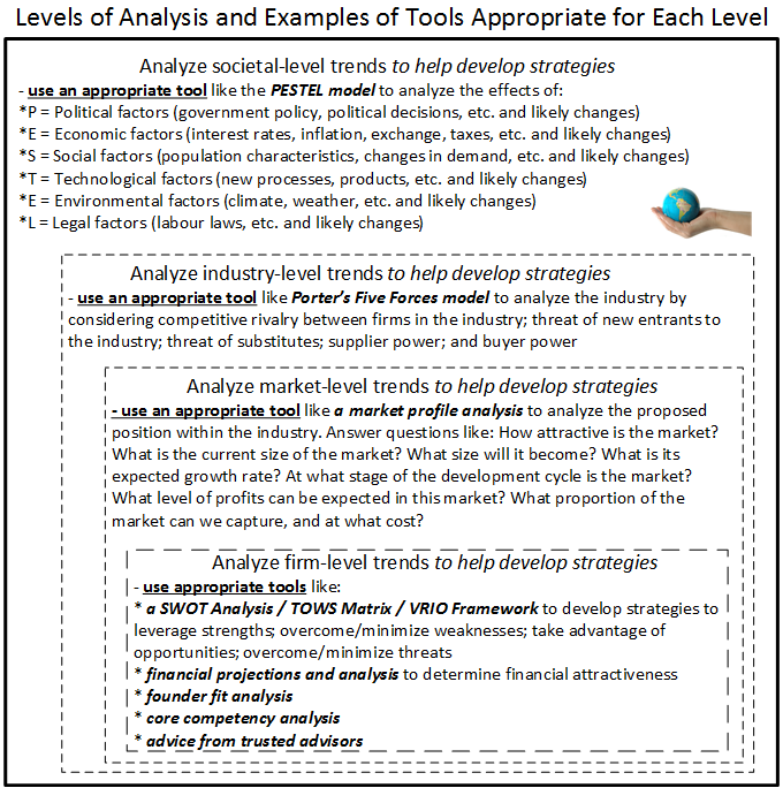

Figure 3 – Different Levels of Analysis (Illustration by Lee A. Swanson)

Analyze Societal-Level Trends

Use an appropriate tool like the PESTEL Model to assess both the current situation and the likely changes that may affect your venture in the future:

- Political factors – federal & provincial & municipal government policy, nature of political decisions, potential political changes, infrastructure plans, etc.
- Economic factors – interest rates, inflation rates, exchange rates, tax rates, GDP growth, health of the economy, etc.
- Social factors – population characteristics like age distribution and education levels, changes in demand for types of products and services, etc.
- Technological factors – new processes, new products, infrastructure, etc.
- Environmental factors – effects of climate / weather, water availability, smog and pollution issues, etc.
- Legal factors – labour laws, minimum wage rates, liability issues, etc.

After assessing these factors, analyze the impact these trends have upon the venture:

- Do the trends uncover opportunities and threats?
- Can opportunities be capitalized on?
- Can problems be mitigated?
- Can the venture be sustained?

Analyze Industry-Level Trends

Use an appropriate tool like the Five Forces Model (Porter, 1985) to analyze the industry in which you expect to operate:

- Horizontal relationships – threat of substitutes, rivalry among existing competitors, threat of new entrants, etc.
- Vertical Relationships – bargaining power of buyers, bargaining power of suppliers, etc.

Analyze Market-Level Trends

Use an appropriate method like a market profile analysis to assess the position within the industry in which you expect to operate. To do so, determine the answers to questions like the following:

- How attractive is the market?
- In what way are competitors expected to respond if you enter the market?
- What is the current size of the market and how large is it expected to become?
- What are the current and projected growth rates?
- At what stage of the development cycle is the market?
- What level of profits can be expected in the market?
- What proportion of the market can be captured? What will be the cost to capture this proportion and what is the cost to capture the proportion required for business sustainability?

Prior to a new business start-up, the customers that the new business wishes to attract either already purchase the product or service from a competitor to the new business—or do not yet purchase the product or service at all. A new venture's customers, therefore, must come from one of two sources. They must be attracted away from existing (direct) competitors or be convinced to make different choices about where they spend their money so they purchase the new venture's product or service instead of spending their money in other ways (with indirect competitors). This means an entrepreneur must decide from which source they will attract their customers, and how they will do so. They must understand the competitive environment.

According to Porter (1996), strategy is about doing different things than competitors or doing similar things but in different ways. In order to develop an effective strategy, an entrepreneur must understand the competition.

To understanding the competitive environment, entrepreneurs must do the following:

- Determine who their current direct and indirect competitors are and who the future competitors may be
- Understand the similarities and differences in quality, price, competitive advantages, and other factors that exist between their proposed business and the existing competitors
- Establish whether they can offer different products or services—or the same products or services in different ways—to attract enough customers to meet their goals
- Anticipate how the competitors will react in response to the new venture's entry into the market

Analyze Firm-Level Trends (organizational analysis)

There are several tools available for firm-level analysis, and usually several of them should be applied because they serve different purposes.

Tools like a SWOT Analysis or TOWS Matrix can formulate and evaluate potential strategies to leverage organizational strengths, overcome/minimize weaknesses, take advantage of opportunities, and overcome/minimize threats. You will also need to do a *financial analysis* and consider the *founder fit* and the *competencies* a venture should possess.

- SWOT Analysis – identify organizational strengths and weaknesses and external opportunities and threats
- TOWS Matrix – develop strategies to
  - Leverage strengths to take advantage of opportunities
  - Leverage strengths to overcome threats
  - Mitigate weaknesses by taking advantage of opportunities
  - Mitigate weaknesses while minimizing the potential threats or the potential outcomes from threats

To analyze a firm's strategy, apply a *VRIO Framework* analysis, as Barney (1997) and Barney and Hesterly (2006) outline. While conceptualizing the resource-based view (RBV) of a firm, they identified the following four considerations regarding resources and their ability to help a firm gain a competitive advantage. Together, the following four questions make up the VRIO Framework, which can assess a firm's capacity and determine what competencies a venture should have. To use this tool, you need to determine whether competencies are valuable, rare, inimitable, and organized in a way that they can be exploited:

- Value – Is a particular resource (financial, physical, technological, organizational, human, reputational, innovative) valuable to a firm because it helps it take advantage of opportunities or eliminate threats?
- Rarity – Is a particular resource rare in that it is controlled by or available to relatively few others?

- Imitability – Is a particular resource difficult to imitate so that those who have it can retain cost advantages over those who might try to obtain or duplicate it?
- Organization – Are the resources available to a firm useful to it because it is organized and ready to exploit them?

To assess the financial attractiveness of the venture, analyze

- Similar firms in industry
  - Comparative ratio and financial analysis (Vesper, 1996, p. 145-148) can help determine industry norm returns, turnover ratios, working capital, operating efficiency, and other measures of firm success.
- Projected market share
  - Analyzes the key industry players' relative market share, and make judgments about how the proposed venture would fare within the industry.
  - Uses information from market profile analysis and key industry player analysis.
- Margin analysis
  - Involves projecting expected margins from venture
  - Useful information might come from financial analysis, market profile analysis, and NAICS (North American Industry Classification System) codes (six digit codes used to identify an industry—first five digits are standardized in Canada, the United States, and Mexico—is gradually replacing the four digit SIC [Standard Industrial Classification] codes)
- Break-even analysis
  - Involves using information from margin analysis to determine break-even volume and break even sales in dollars
  - Is there sufficient volume to sustain the venture?
- Pro forma analysis
  - Forecasts income and assets required to generate profits
- Sensitivity analysis
  - What will be the likely impact if some assumed variable values change?
- Return on investment (ROI) projections
  - Projects the ROI from undertaking the venture
  - What is the opportunity cost of undertaking the venture?

Founder fit is an important consideration for entrepreneurs screening venture opportunities. While there are plenty of examples of entrepreneurs successfully starting all types of businesses, "technical capability can be an important if not all-important factor in pursuing ventures success" (Vesper, 1996, p. 149). Factors such as the experience, training, credentials, reputation, and social capital an entrepreneur has can play an important role in their success or failure in starting a new venture. Even when an entrepreneur can recruit expert help through business partners or employees, it might be important that he or she also possess technical skills required in that particular kind of business.

- A common and useful way to help screen venture options is to seek input from experts, peers, mentors, business associates, and perhaps other stakeholders like potential customers and direct family members.

Completing a TOWS Matrix develops strategies from the SWOT Analysis and strengthens your business plan.
Reference your technical skill, as this is a major factor in your venture's success.

Lean Start-up

Ries (2011) defines a lean start-up as "a human institution designed to create a new product or service under conditions of extreme uncertainty" (p. 27). The lean-start-up approach involves releasing a *minimal viable product* to customers with the expectation that this early prototype will change and evolve frequently and quickly in response to customer feedback. This is meant to be a relatively easy and inexpensive way to develop a product or service by relying on customer feedback to guide the *pivots* in new directions that will ultimately—and relatively quickly—lead to a product or service with the appeal required for business success. It is only then that the actual business will truly emerge. As such, entrepreneurs that apply the lean-start-up approach—because their business idea allows for it—actually forgo developing a business plan, at least until they might need one later to get financing, because introducing a *minimum viable product* helps "entrepreneurs start the process of learning as quickly as possible" (Ries, 2011, p. 93). This is followed by ever improving versions of their products or services. However, all entrepreneurs must directly consult with their potential target purchasers

and end users to assess if and how the market might respond to their proposed venture. The Essential Initial Research and Progressive Research stages should include purposeful and meaningful interactions between the entrepreneur and the target purchasers and end users.

Ries's (2011) five lean-start-up principles start with the idea that entrepreneurs are everywhere and that anyone working in an environment where they seek to create new products or services "under conditions of extreme uncertainty" (p. 27) can use the lean-start-up approach. Second, a start-up is more than the product or service: it is an institution that must be managed in a new way that promotes growth through innovation. Third, start-ups are about learning "how to build a sustainable business" (p. 8-9) by validating product or service design through frequent prototyping that allows entrepreneurs to test the concepts. Forth, start-ups must follow this process or feedback loop: create products and services; measure how the market reacts to them; and learn from that to determine whether to pivot or to persevere with an outcome the market accepts. Finally, Ries (2011) suggested that entrepreneurial outcomes and innovation initiatives need to be measured through innovative accounting.

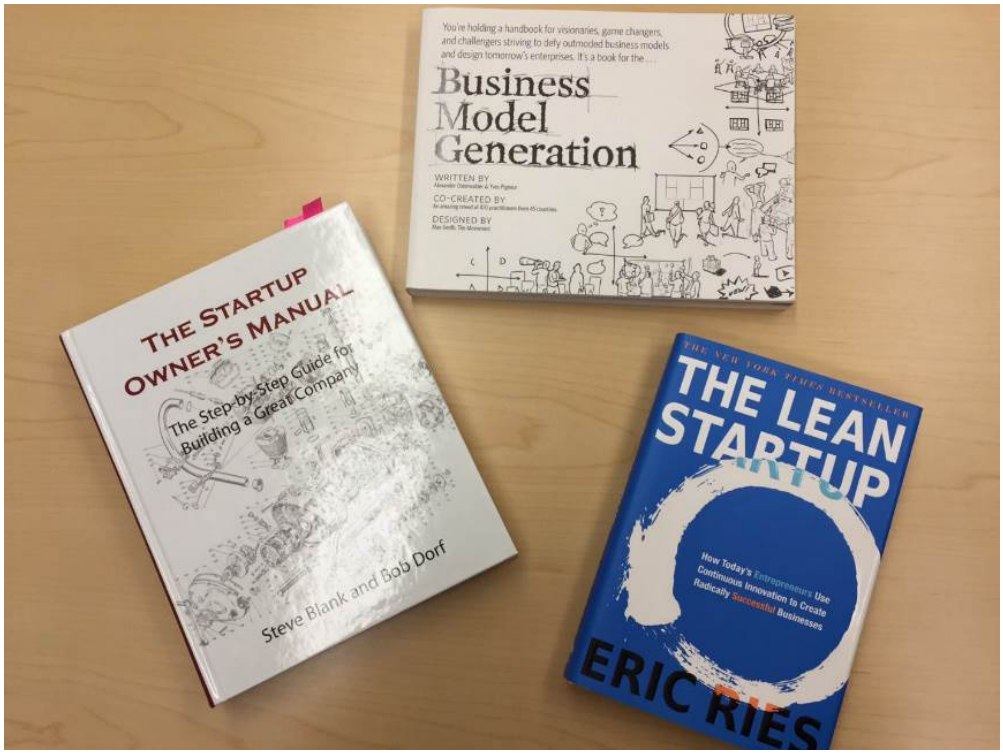

Figure 4 – Business Model and Lean Start-Up Books (Picture by Lee A. Swanson)

Chapter Summary

By applying the right tools to analyze the operating environment at each of the societal, industry, market, and firm levels, entrepreneurs screen venture ideas, plan new venture development, and potentially detect factors that might affect their business operations. The lean start-up is an alternative that can be used to circumvent the usual planning steps in favour of continuous innovation. See Figure 4 for other resources on business models and lean start-ups.

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1.3: Chapter 3 – Business Models

Learning Objectives

After completing this chapter, you will be able to

- Describe what a business model is
- Analyze existing and proposed businesses to determine what business models they are applying and what business models they plan to apply
- Develop and analyze alternative business models for new entrepreneurial ventures

Overview

In this chapter the concept of the business model is introduced. One concept of the business model in particular, the Business Model Canvas, is explored as a way to conceptualize and categorize elements of a business model.

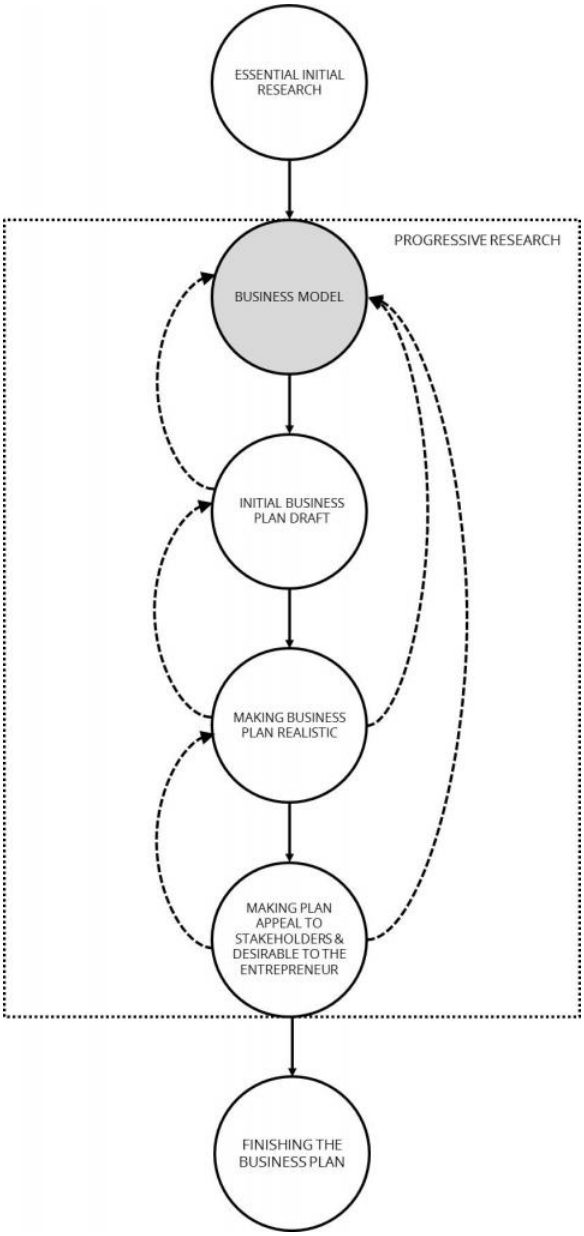

Figure 5 – Business Model (Illustration by Lee A. Swanson)

What are Business Models?

Magretta (2002) described business models as “stories that explain how enterprises work” (p. 87) and Osterwalder, Pigneur, and Clark (2010) noted that they reveal “the rationale of how an organization creates, delivers, and captures value” (p. 14). Chatterjee (2013) said that “A business is about selling what you make for a profit. A business model is a configuration (activity systems) of what the business does (activities) and what it invests in (resources) based on the logic that drives the profits for a specific business” (p. 97).

Osterwalder et al. (2010) said that a start-up is something quite different than an ongoing venture. A start-up should not be viewed as a smaller version of a company because it requires very different skills to start up a company than it does to operate one. A start-up that is still a start-up after some time has passed—maybe after a couple of years for some kinds of start-ups—is actually a failed enterprise since it hasn’t converted into an ongoing venture. Entrepreneurs who develop a business model for their ventures that deliver value to the targeted customers and to the entrepreneur stand a better chance of converting their start-up into an ongoing venture.

The Business Model Canvas

The business model canvas is made up of nine parts that, together, describe the business model (see Figure 6).

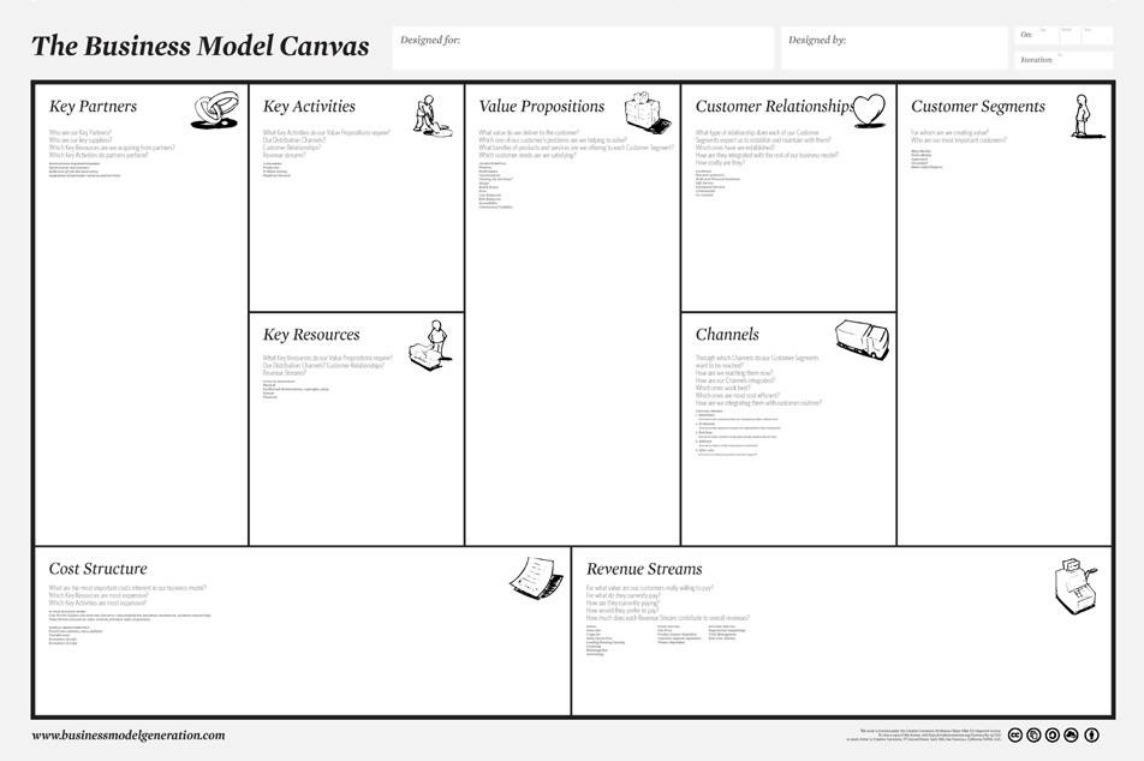

Figure 6 – Business Model Canvas from https://strategyzer.com/ (Designed by: Strategyzer AG, strategyzer.com, Creative Commons Attribution-Share Alike 3.0 Unported License)

The following elements of the Business Model Canvas were taken, with permission, from http://www.businessmodelgeneration.com.

- Key partners
  - Who are our key partners?
  - Who are our key suppliers?
  - Which key resources are we acquiring from partners?
  - Which key activities do partners perform?
  - Motivations for partnerships: optimization and economy; reduction of risk and uncertainty; acquisition of particular resources and activities

- Key activities
  - What key activities do our value propositions require?
  - Our distribution channels?
  - Customer relationships?
  - Revenue streams?
  - Categories: production; problem solving; platform/network
- Key resources
  - What key resources do our value propositions require?
  - Our distribution channels?
  - Customer relationships?
  - Revenue streams?
  - Types of resources: physical; intellectual (brand patents, copyrights, data); human; financial
- Value propositions
  - What value do we deliver to the customer?
  - Which one of our customer's problems are we helping to solve?
  - What bundles of products and services are we offering to each customer segment?
  - Which customer needs are we satisfying?
  - Characteristics: newness; performance; customization; "getting the job done"; design; brand/status; price; cost reduction; risk reduction; accessibility; convenience/usability
- Customer relationships
  - What type of relationship does each of our customer segments expect us to establish and maintain with them?
  - Which ones have we established?
  - How are they integrated with the rest of our business model?
  - How costly are they?
  - Examples: personal assistance; dedicated personal assistance; self-service; automated services; communities; co-creation
- Customer segments
  - For whom are we creating value?
  - Who are our most important customers?
  - Mass market; niche market; segmented; diversified; multi-sided platform
- Channels
  - Through which channels do our customer segments want to be reached?
  - How are we reaching them now?
  - How are our channels integrated?
  - Which ones work best?
  - Which ones are most cost-efficient?
  - How are we integrating them with customer routines?
  - Channel phases:
    - awareness – How do we raise awareness about our company's products and services?
    - evaluation – How do we help customers evaluate our organization's value proposition?
    - purchase – How do we allow customers to purchase specific products and services?
    - delivery – How do we deliver a value proposition to customers?
    - after sales – How do we provide post-purchase customer support?
- Revenue streams
  - For what value are our customers really willing to pay?
  - For what do they currently pay?
  - How are they currently paying?
  - How would they prefer to pay?

  - How much does each revenue stream contribute to overall revenues?
  - Types: asset sale; usage fee; subscription fees; lending/renting/leasing; licensing; brokerage fees; advertising
  - Fixed pricing: list price; product feature dependent; customer segment dependent; volume dependent
  - Dynamic pricing: negotiation (bargaining); yield management; real-time-market
- Cost structure
  - What are the most important costs inherent in our business model?
  - Which key resources are most expensive?
  - Which key activities are most expensive?
  - Is our business more cost driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing) or value driven (focused on value creation, premium value proposition)?
  - Sample characteristics: fixed costs (salaries, rents, utilities); variable costs; economies of scale; economies of scope

The idea is to keep adding descriptions or plans to the nine components to create the initial business model and then to actually do the start-up activities and replace the initial assumptions in each of the nine parts with newer and better information or plans and let the business model evolve. This model is partly based on the idea that the owner should be the one interacting with potential customers so they fully understands what these potential customers want. These interactions should not only be done by hired sales people, at least until the business model has evolved into one that works, because this evolution can only happen when the venture owner is completely engaged with the potential customers and the other business operations (Osterwalder et al., 2010).

A business plan shouldn't be created until the above has been done because you need to know what your business model is before you can really create a business plan (Osterwalder et al., 2010). Thus, the Business Model Canvas is best suited to technology-based and other types of companies that can be started and operated in some way and later converted into an ongoing venture. By starting operations and making adjustments as you go along, you are actually doing a form of market research that can be compiled into a full business plan when one is needed.

According to Osterwalder et al. (2010), the things we typically teach people in business school are geared to helping people survive in larger, ongoing businesses. What is taught—including organizational structures, reporting lines, managing sales teams, advertising, and similar topics—is not designed to help students understand how a start-up works and how to deal with the volatile nature of new ventures. The Business Model Canvas tool is meant to help us understand start-ups better.

The Business Model Canvas tool is intended to be applied when business operations can be started on a small scale and adjustments can be made continually until the evolving business model works in real life. This contrasts the more traditional approach of pre-planning everything, going through the set-up and start-up processes, and ending up with a business venture that opens for business one day without having proven at all that the business model it is founded upon will even work. These traditional start-ups sometimes flounder along as the owners find that their plans are not quite working out and they try to make adjustments on the fly. It can be difficult to adjust, though, because the processes are already set up. For example, sales teams might be in the field trying to make sales and blaming the product developers for the difficulty they are having, and the product developers might be blaming the sales teams for not being able to sell the product properly. The real issue might be that the company simply isn't meeting customers' needs and they don't have any good mechanism for detecting, understanding, and fixing this problem.

Chapter Summary

This chapter described business models and presented the Business Model Canvas as a tool that entrepreneurs can use to develop and define their own business models.

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1.4: Chapter 4 – Initial Business Plan Draft

Learning Objectives

After completing this chapter, you will be able to

- Develop a comprehensive business plan draft

Overview

This chapter describes an approach to writing your draft business plan. It also outlines the elements of a comprehensive business plan that can be used as a template for starting your business plan.

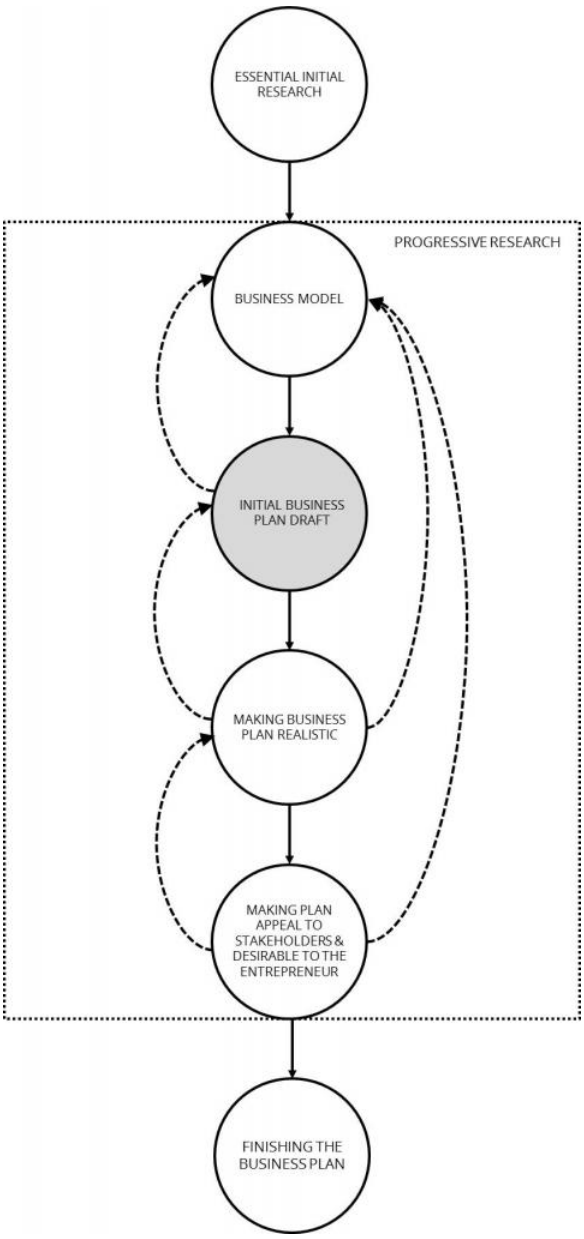

Figure 7 – Initial Business Plan Draft (Illustration by Lee A. Swanson)

Effective Business Plans

Effective business plans

- Provide statements that are backed by evidence or data

- Provide statements that are backed by evidence or data
- Include context and references with every table, figure, or illustration
- Include relevant, clear, concise tables and financial information, and exclude unnecessary material
- Present timelines for distinct purposes
- Use clear sections customized to the particular business or its environment rather than generic sections

Evidence-based claims strengthen your business plan. Providing context for tables and figures is critical.

Writing the Draft Business Plan

Although there are various ways to approach the task of writing a draft business plan, one effective approach is to do the following:

- Use the following sections of this chapter to prepare an outline for your business plan. You should use the *headings* feature in Word so that you can later automatically generate a table of contents
  - This will provide you with a template for the information needed for your plan.
- Insert the relevant parts of the written work produced during essential initial research into your new business plan template. You can do this in one of two ways:
  - You can copy and paste the results of your essential initial research into the sections of your business plan template where you believe that they can be used to support or justify the strategies and other decisions you will later describe in those sections. Of course, you can later move those parts of your environmental scan as needed as you develop your plan. *In general, this strategy results in a stronger business plan.*
  - Or you can insert the results from your societal-level and industry-level analyses in an Operating Environment section as listed in the outline below. As described below, the market-level analysis will probably always fit best within the Marketing Plan and the firm-level analysis might fit across all of the plans within the business plan.
    - Completing this step will give you the satisfaction of seeing some of your work so far taking shape in the form of a business plan.
    - Also, inserting the results from your environmental scan into the relevant sections of your plan should later provide you with the stimulus and support you will need to develop solid, realistic, evidence-based strategies and decisions for those sections.
- Incorporate your business model into your new business plan template. As there is no section in a business plan in which you specifically describe your business model, you will need to incorporate your business model elements into appropriate sections of your plan.
- Fill in as much relevant information as you can under as many of the headings on your business plan template as possible.
  - You will normally include both information that you got from particular sources and information based on an assumption you made (and that you might intend to replace later with more accurate information from valid sources).

Follow these practices as you develop your plan:

- Every time that you insert something into your business plan template that you got from a supplier's catalogue, clearly indicate from where you got that information. For example, if you list the office equipment and furniture that you need along with their exact costs as taken from suppliers' catalogue, clearly indicate from which catalogue(s) you got the information. Similarly, if you spoke to an industry expert who recommended that you manufacture your product in a particular way, clearly indicate who you spoke to and what their credentials are, if you got the person's permission to do so.

- When you do this, you help establish your credibility as a business plan writer, and your business plan's credibility. It also might save you time later when you discover that you need to add a similar item along with its cost to your list.
- Note: Do not reinvent the wheel by "inventing" your own method to reference your sources and do not use multiple methods. Use one (and only one) proper and well-established referencing method, like APA. This will improve the degree of professionalism of your plan.

- Every time that you insert something into your plan that did not come from a source, a best practice is to highlight that part of your plan, possibly by using a distinct font color. The objective will be to ultimately *replace all of those assumptions* with source-backed information. When you do so, change the font to its regular color so you can quickly and easily see what still needs to be sourced.
  - Note: if you are an expert source on something—maybe you are a construction expert that business plan readers will trust to do estimates on building costs—you should establish your credentials and clearly indicate when some of the information in your plan is based on your own expert knowledge.
  - When you flag your assumptions in this way, you can quickly and easily see what information needs to be replaced with sourced information before you finalize your business plan.
- Use the appropriate schedule in the spreadsheet templates to record estimated sales revenue for each month. You must base these sales projections on well-reasoned criteria and set them up in your spreadsheets using formulas so that if you need to change a criterion later, you can change a number in one cell or a limited number of cells rather than having to change all of them.
  - Projecting realistic sales can be difficult, but setting up a method for doing so early gives business plan writers a significant start toward completing their business plan. A well-developed sales model that takes advantage of the powers of electronic spreadsheets gives business plan writers the opportunity to relatively quickly and easily make necessary changes to their assumptions and overall estimates when needed.
- Use the spreadsheet templates by filling in all of the numbers you have in the various schedules. As you are doing in the written part of your plan, use a distinct font to flag numbers that are based on assumptions. When you have actual numbers, be certain that it is clear to a reader what sources you used to get those numbers.
  - When you use the schedules provided on the spreadsheet templates, and any others that you add, you will be well on your way to developing the financial component of your business plan.

Providing references strengthens the credibility of claims and makes the business plan stronger.

General Business Plan Format

Letter of Transmittal

A letter of transmittal is similar to the cover letter of a resume. The letter of transmittal should be tailored to the reader, clearly identifying the customized ask of the potential investor or lender. It should be short and succinct, delineating the ask (i.e. funding, specialized recruiting, purchasing a product or service, obtaining advice, etc.) within a few paragraphs. It should not summarize the business plan, as that is the job of the executive summary.

Title Page

- Includes nice, catchy, professional, appropriate graphics to make it appealing for targeted readers

Executive Summary

- Can be longer than normal executive summaries—up to three pages
- Written after remainder of plan is complete
- Includes information relevant to targeted readers as this is the place where they are most likely to form their first impressions of the business idea and decide whether they wish to read the rest of the plan

List of Tables

- References every table, figure, and appendix within the text of the plan so the relevance of each of these elements is clear.

List of Figures

Introduction

- Indicates the purpose for the plan
- Appeals to targeted readers

Business Idea

- May include description of history behind the idea and the evolution of the business concept if relevant

Value Proposition

- Explains how your business idea solves a problem for your expected customers or otherwise should make them want to purchase your product or service instead of a competitor's

Vision

- Outlines what you intend for the venture to be
- Inspires all members of the organization
- Helps stakeholders aspire to achieve greater things through the venture because of the general direction provided through the vision statement

After articulating a good vision, the business plan writer should consider what achieving the vision looks like. Many business plan writers write their vision and leave it at that. The problem with this approach is that they often then do not take the necessary steps to illustrate how the strategies they outline in their plan will move them toward achieving their vision. If they make this mistake, their strategies might indicate that they are fulfilling their current mission, but are not taking steps to move beyond that.

Vision statements should be clear with context throughout the business plan. For example, if the goal is to be the premier business operating in that industry in Saskatchewan, does that mean you have one location and are considered the best at what you do it even though you only have a small corner of the market, or does it mean that you have many locations across the province and enjoy a large market share?

Vision statements should be clear with context throughout the business plan.

Mission

- Should be very brief—a few sentences or a short paragraph
- Indicates what your organization does and why it exists—may describe the business strategy and philosophy

Values

- Consists of five to ten short statements indicating the important values that will guide everything the business will do
- Outlines the personal commitments members of the organization must make, and what they should consider to be important
- Defines how people behave and interact with each other
- Should be reflected in all of the decisions outlined in the business plan, from hiring to promotions to location choices
- Helps the reader understand the type of culture and operating environment this business intends to develop

Major Goals

- Describes the major organizational goals
- Ensures each goal is

- Specific, Measurable, Action oriented, Realistic, and Timely [SMART]
- Realistic, Understandable, Measureable, Believable, and Achievable [RUMBA]

- Aligns with everything in plan
- Written, or re-written as the second last thing you do before finalizing your business plan by proofreading, polishing, and printing it (writing the Executive Summary is the final thing you should write)

SMART and RUMBA goals strengthen the business plan.

Operating Environment

Trend Analysis

- Usually includes an analysis of how the current and expected trends in the political, economic, social, technological, environmental, and legal (PESTEL) factors will impact the development of this business
  - However, consider whether this is the right place for this analysis: it may be better positioned, for example, in the Financial Plan section to provide context to the analysis of the critical success factors, or in the Marketing Plan to help the reader understand the basis for the sales projections.

Industry Analysis

- Includes an analysis of the industry in which this business will operate
- Typically applies the Five Forces Model (Porter, 1985)
  - As above, consider whether this is the right place for this analysis: it may be better placed, for example, in the Marketing Plan to enhance the competitor analysis, or in the Financial plan to provide context to the industry standard ratios in the Investment Analysis section.

Of course, your trend analysis will also include a market-level analysis (using a set of questions, like those listed in Chapter 2) and a firm-level analysis (using tools like a SWOT Analysis / TOWS Matrix, various forms of financial analyses, a founder fit analysis, and so on), but those analyses are usually best placed in other sections of your plan to support the strategies and decisions you present there. The market-level analysis will inevitably fit in the Marketing Plan section, but the firm-level analysis might be spread across some or all of the Operating Plan, Human Resources Plan, Marketing Plan, and Financial Plan sections.

Operations Plan

- Answers the following key questions :
  - What constraints are you operating under that will restrict your capacity to produce and sell your product?
    - Given these constraints, what is your operating capacity (in terms of production, sales, etc.)?
  - What is the work flow plan for your operation?
  - What work will your company do and what work will you outsource?

Operations Timeline

- Answers the following questions:
  - When will you make the preparations, such as registering the business name and purchasing equipment, to start the venture?
  - When will you begin operations and make your first sales?
  - When will other milestone events occur such as moving operations to a larger facility, offering a new product line, hiring new key employees, and beginning to sell products internationally?
  - Sometimes it is useful to include a graphical timeline showing when these milestone events have occurred and are expected to occur.

Completing the operation plans further adds to the overall business plan.

Business Structure and other Set-up Elements

- Indicates the legal structure your venture will take:
  - Sole Proprietorship
  - Partnership
  - Limited Partnership
  - Corporation
  - Cooperative

Note: Your financial statements, risk management strategy, and other elements of your plan are affected by the type of legal structure you choose for your business. For example, all partnerships should have a clear agreement outlining the duties, expectations, and compensation of all partners as well as the process of dissolution. *Spreadsheet templates are formatted for corporations and will need to be formatted for other forms of businesses.*

- Describes your decisions related to the following:
  - Naming
  - Zoning, equipment prices, suppliers, etc.
  - Location
  - Leasing terms, leasehold improvements, signage, pay deposits, etc.
  - Getting business license, permits, etc.
  - Setting up banking arrangements
  - Setting up legal and accounting systems (or professionals)
  - Ordering equipment, locks and keys, furniture, etc.
  - Recruiting employees, setting up the payroll system and benefit programs, etc.
  - Training employees
  - Testing the products/services that will be offered
  - Testing the systems for supply, sales, delivery, and other functions
  - Creating graphics, logos, promotional methods, etc.
  - Ordering business cards, letter head, etc.
  - Setting up supplier agreements and outlining why those sellers are preferred
  - Buying inventory, insurance, etc.
  - Revising business plan
  - And many more things, including, when possible, attracting purchased orders in advance of start-up through personal selling (by the owner, a paid sales force, independent representatives, or by selling through brokers wholesalers, catalogue houses, retailers), a promotional campaign, or other means

Note: As part of your business set-up, you need to determine what kinds of control systems you should have in place, establish necessary relationships with suppliers prior to your start-up, and generally deal with a list of issues like those mentioned above.

Start-up

- Answers the following questions:
  - What is required to start-up your business including the purchases and activities that must occur before you make your first sale?
  - When identifying capital requirements for start-up, a distinction should be made between fixed capital requirements and working capital requirements.

Fixed Capital Requirements

- Answers the following question:
  - What fixed assets, including equipment and machinery, must be purchased so your venture can conduct its business?
- May include a start-up budget showing the machinery, equipment, furnishings, renovations, and other capital expenditures required prior to operations commencing
  - May also show the financing required, often in the form of longer-term loans

Working Capital Requirements

- Answers the following question:
  - What money is needed to operate the business (separately from the money needed to purchase fixed assets) including the money needed to purchase inventory and pay initial expenses?
- May include a start-up budget showing the cash required to purchase starting inventories, recruit employees, conduct market research, acquire licenses, hire lawyers, and other operating expenditures required prior to starting operations
  - May also show the financing required. Working capital is usually financed with operating loans, trade credit, credit card debt, or other forms of shorter-term loans

Risk Management Strategies

- Includes descriptions of the organization's risk exposure
  - Enterprise – liability exposure for things like when someone accuses your employees or products you sell of injuring them
  - Financial – securing loans when needed and otherwise having the right amount of money when you need it
  - Operational – securing needed inventories, recruiting needed employees in tight labour markets, operating when customers you counted on not purchasing product as you had anticipated, managing theft, arson, and natural disasters like fires and floods, etc.
- Always includes descriptions of the planned strategies for managing each of the risks identified. Identifies potential risk exposures, their consequences, risk potential, and mitigation strategies (Figure 8).
  - Avoid – choose to avoid doing something, outsource, etc.
  - Reduce – through training, assuming specific operational strategies, etc.
  - Transfer – insure against, outsource, etc.
  - Assume – self-insure, accept, etc.

RISK EXPOSURE	RISK CONSEQUENCE	RISK POTENTIAL	MITIGATION
Fire, flood, or theft	Possibly devastating	Moderate	Purchase insurance and alarm system
Bad debt	Lost income and profit	Moderate	Credit checks, registered security, and legal contracts

Figure 8 – Risk Management Strategies (Illustration by Lee A. Swanson)

Completing a risk management plan further adds to the overall business plan.

Operating Processes

- Answers the following key questions:
  - What operating processes will you apply?
  - Depending upon the type of business, describes things like
    - Retail and wholesale operations
      - How will you ensure your cash is managed effectively?
      - How will you schedule your employees?
      - How will you manage your inventories?
      - If you will have a workforce, how will you manage them?
      - etc.
    - Service operation
      - How will you bill out your employee time?
      - How will you schedule work on your contracts?
      - etc.
    - Manufacturing operation
      - How you will manufacture your product (process flow, job shop, etc.?)

        - How will you maintain quality?
        - How will you institute and manage effective financial monitoring and control systems that provide needed information in a timely manner?
        - How will you manage expansion?
        - etc.

Facilities

- May include planned layouts for facilities
- Answers the following questions:
    - What are your facility plans?
    - Where will your facility be located?
        - Expressed as a set physical location
        - Expressed as a set of requirements and characteristics
    - How large will your facility be and why must it be this size?
    - How much will it cost to buy or lease your facility?
    - What utility, parking, and other costs must you pay for this facility?
    - What expansion plans must be factored into the facility requirements?
    - What transportation and storage issues must be addressed by facility decisions?
    - What zoning and other legal issues must you deal with?
    - What will be the layout for your facility and how will this best accommodate customer and employee requirements?

Organizational Structure

- May include information on Advisory Boards or Board of Directors from which the company will seek advice or guidance or direction
- May include an organizational chart
- Can be a nice lead-in to the Human Resources Plan

Human Resources Plan

- Key questions answered by human resources plans:
    - How do you describe your desired corporate culture?
    - What are the key positions within your organization?
    - How many employees will you have?
    - What characteristics define your desired employees?
    - What is your recruitment strategy? What processes will you apply to hire the employees you require?
    - What is your leadership strategy and why have you chosen this approach?
    - What performance appraisal and employee development methods will you use?
    - What is your organizational structure and why is this the best way for your company to be organized?
    - How will you pay each employee (wage, salary, commission, etc.)? How much will you pay each employee?
    - What are your payroll costs, including benefits?
    - What work will be outsourced and what work will be completed in-house?
    - Have you shown and described an organizational chart?

Recruitment and Retention Strategies

- Includes how many employees are required at what times
- Estimates time required to recruit needed employees
- Estimates all recruitment costs including:
    - Employment advertisements
    - Contracts with employment agency or search firms
    - Travel and accommodations for potential employees to come for interviews
    - Travel and accommodations for interviewers

- Facility, food, lost time, and other interviewing costs
- Relocation allowances for those hired including flights, moving companies, housing allowances, spousal employment assistance, etc.

- May include a schedule showing the costs of initial recruitment that then flows into your start-up expense schedules

Leadership and Management Strategies

- Outlines your leadership philosophy
- Explains why it is the most appropriate leadership approach for this venture

Training

- Answers the following key questions:
  - What training is required because of existing rules and regulations?
  - How will you ensure your employees are as capable as required?
  - In which of the following areas will you provide training for your employees?
    - Health and safety (legislation, WHMIS, first aid, defibulators, etc.)
    - Initial workplace orientation
    - Management
    - Financial systems
    - Sales
    - Contracts
    - Product features
    - Other

Performance Appraisals

- Identifies how you will manage your performance appraisal systems

Health and Safety

- Notes any legal requirements (and also legal requirements for other issues that may be included in other parts of the plan)
- Identifies accreditation you might pursue, such as ISO 9000, and if so, evaluates the costs, benefits, and time frame
- Outlines training for employees, such as WHMIS training or machinery handling training

Compensation

- Always justifies your planned employee compensation methods and amounts
- Always includes all components of the compensation (CPP, EI, holiday pay, etc.)
- Identifies how you will ensure both internal and external equity in your pay systems
- Describes any incentive-based pay or profit sharing systems planned
- May include a schedule that shows the financial implications of your compensation strategy and supports the cash flow and income statements shown later

Key Personnel

- May include brief biographies of the key organizational people

Completing the human resources plan further adds credibility to the overall business plan.

Marketing Plan

- Identifies the primary and secondary research you have done
  - You must show evidence of having done proper research, both primary and secondary. If you make a statement of fact, you must back it up with properly referenced supporting evidence. If you indicate a claim is based on your own assumptions, you must back this up with a description as to how you came to the conclusion.
- Shows an effective analysis of the economic environment relevant to your business

- It is a given that you must provide some assessment of the economic situation as it relates to your business. For example, you might conclude that the current economic crisis will reduce the potential to export your product and it may make it more difficult to acquire credit with which to operate your business. Of course, conclusions such as these should be matched with your assessment as to how your business will make the necessary adjustments to ensure it will thrive despite these challenges, or how it will take advantage of any opportunities your assessment uncovers.

- Shows an effective assessment of the industry within which your venture will operate
  - You must provide an assessment of the industry coupled with descriptions of how your venture will prosper in those circumstances. A common approach used to assess the industry is to apply Porter's (1985) Five Forces Model.
    - If you apply the Five Forces Model, do so in the way in which it was meant to be used to avoid significantly reducing its usefulness while also harming the viability of your industry analysis. This model is meant to be used to consider the entire industry, not a subcomponent of it (and it usually cannot be used to analyze a single organization).
  - Your competitor analysis might fit within your assessment of the industry, or it might be best as a section within your marketing plan. Usually a fairly detailed description of your competitors is required, including an analysis of their strengths and weaknesses. In some cases, your business may have direct and indirect competitors to consider. Maintain credibility by demonstrating that you fully understand the competitive environment.
  - Assessments of the economic conditions and the state of the industry appear incomplete without accompanying appraisals outlining the strategies the organization can/should employ to take advantage of these economic and industry situations. So, depending upon how you have organized your work, it is usually important to couple your appraisal of the economic and industry conditions with accompanying strategies for your venture. This shows the reader that you not only understand the operating environment, but that you have figured out how best to operate your business within that situation.
- Outlines an effective analysis of your venture (see the Organizational Analysis section below)

Primary and secondary data further add to the strength of the business plan.
Completing the marketing plan further adds to the overall business plan.

Market Analysis

- Usually contains customer profiles, constructed through primary and secondary research, for each market targeted
- Contains detailed information on the major product benefits you will deliver to the markets targeted
- Describes the methodology used and the relevant results from the primary market research completed
- If there was little primary research completed, justifies why it is acceptable to have done little of this kind of research and/or indicate what will be done and by when
- Includes a complete description of the secondary research conducted and the conclusions reached
- Describes the potential customers
  - Define your target market in terms of identifiable entities sharing common characteristics. For example, it is not meaningful to indicate you are targeting Canadian universities. It is, however, useful to define your target market as Canadian university students between the ages of 18 and 25, or as information technology managers at Canadian universities, or as student leaders at Canadian universities. Your targeted customer should generally be able to make or significantly influence the buying decision.
  - You must usually define your target market prior to describing your marketing mix, including your proposed product line. Sometimes the product descriptions in business plans seem to be at odds with the described target market characteristics. Ensure your defined target market aligns completely with your marketing mix (including product/service description, distribution channels, promotional methods, and pricing). For example, if the target market is defined as Canadian university students between the ages of 18 and 25, the product component of the marketing mix should clearly be something that appeals to this target market.
  - Carefully choose how you will target potential customers. Should you target them based on their demographic characteristics, psychographic characteristics, or geographic location?
- Identify how your targeted customers make their buying decisions

- You will need to access research to answer this question. Based on what you discover, you will need to figure out the optimum mix of pricing, distribution, promotions, and product decisions to best appeal to how your targeted customers make their buying decisions.

Competition

- Fully describes the nature of your competitors
  - However, this information might fit instead under the market analysis section.
- Describes all your direct competitors
- Describes all your indirect competitors
- If you can, includes a competitor positioning map to show where your product will be positioned relative to competitors' products
  - If you include a competitor positioning map, insure that the x-axis and y-axis are meaningful. Often, competitor maps include quality and price as axes. Unless you can clearly articulate the distinction between high quality and low quality, it may be more valuable to have more meaningful axes or describe your value proposition relative to your competitors in the absence of a positioning map.

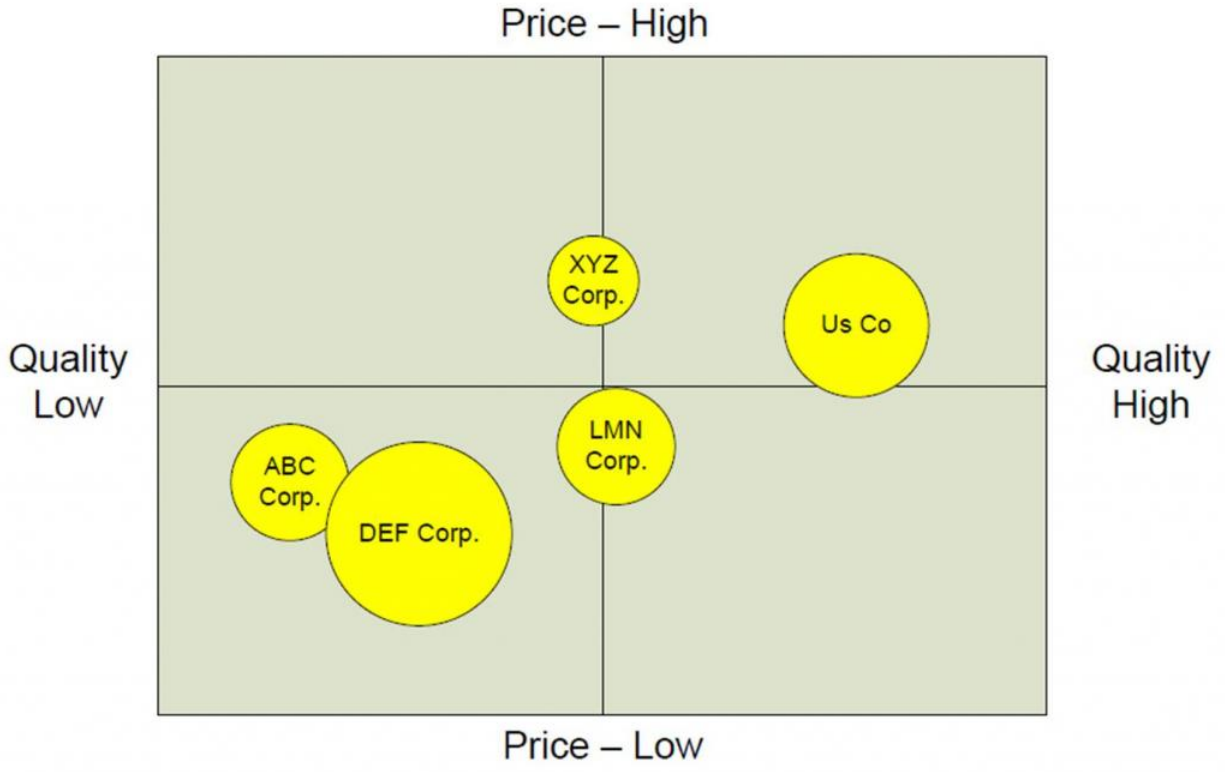

Figure 9 – Competitor Positioning Map (Illustration by Lee A. Swanson)

- Identifies your competitive advantage, your venture`s value proposition, and what distinguishes your business from that of your competitors in a way that will ensure your sales forecasts will be met
  - You must clearly communicate the answers to these questions in your business plan in order to attract the needed support for your business. One caution is that it may sound appealing to claim you will provide a superior service to the existing competitors, but the only meaningful judge of your success in this regard will be customers. Although it is possible some of

your competitors might be complacent in their current way of doing things, it is very unlikely that all your competitors provide an inferior service to that which you will be able to provide.

Demonstrating a competitive advantage makes the business plan stronger. A competitor positioning map provides context as to where your venture fits in the competitive landscape.

Marketing Strategy

- Covers all aspects of the marketing mix: your promotional decisions, product decisions, distribution decisions, and pricing decisions
- Outlines how you plan to influence your targeted customers to buy from you (your optimum marketing mix, and why is this one better than the alternatives)

Organizational Analysis

- Leads in to your marketing strategy or is positioned elsewhere depending upon how your business plan is best structured
- Often applies a SWOT Analysis to analyze the organization
  - If doing so, ALWAYS ensure this analysis results in more than a simple list of internal strengths and weaknesses and external opportunities and threats. A SWOT analysis should always prove to the reader that there are organizational strategies in place to address each of the weaknesses and threats identified and to leverage each of the strengths and opportunities identified.
  - An effective way to ensure an effective outcome to your SWOT Analysis is to apply a TOWS Matrix approach to develop strategies to take advantage of the identified strengths and opportunities while mitigating the weaknesses and threats. A TOWS Matrix evaluates each of the identified threats along with each of the weaknesses and then each of the strengths. It does the same with each of the identified opportunities. In this way strategies are developed by considering pairs of factors.
  - The TOWS Matrix is a framework with which to help you organize your thoughts into strategies. Most often you would not label a section of your business plan as a TOWS Matrix because this would not add value for the reader. Instead, you should describe the resultant strategies—perhaps while indicating how they were derived from your assessment of the strengths, weaknesses, opportunities, and threats. For example, you could indicate that certain strategies were developed by considering how internal strengths could be employed toward mitigating external threats faced by the business.

Product Strategy

- Identifies your product/service and why this particular product/service will appeal to your targeted customers more than the alternatives
  - If your product or service is standardized, you will need to compete on the basis of something else—like a more appealing price, having a superior location, better branding, or improved service. If you can differentiate your product or service, you might be able to compete on the basis of better quality, more features, appealing style, or something else. When describing your product, you should demonstrate that you understand this.

Pricing Strategy

- Outlines your pricing strategies and explains what makes these strategies better than the alternatives
  - If you intend to accept payment by credit card (which is probably a necessity for most companies), you should be aware of the fee you are charged as a percentage of the value of each transaction. If you don't account for this you risk overstating your actual revenues by perhaps one percent or more.
- Identifies your sales forecasts and explains why these are realistic
  - Sales forecasts must be done on at least a monthly basis if you are using a projected cash flow statement. These must be accompanied by explanations designed to establish their credibility for readers of your business plan. Remember that many readers will initially assume your planned time frames are too long, your revenues are overstated, and you have underestimated your expenses. Well crafted explanations for all of these numbers will help establish credibility.

Distribution Strategy

- Explains your distribution strategies and what makes these strategies better than the alternatives

- If you plan to use e-commerce, you should include all the costs associated with maintaining a website and accepting payments over the Internet.

Promotions Strategy

- Answers the following key questions:
  - As a new entrant into the market, must you attract your customers away from your competitors they currently buy from or will you be creating new customers for your product or service (i.e. not attracting customers away from your competitors)?
  - If you are attracting customers away from competitors, how will these rivals respond to the threat you pose to them?
  - If you intend to create new customers, how will you convince them to reallocate their dollars toward your product or service (and away from other things they want to purchase)?
  - In what ways will you communicate with your targeted customers? When will you communicate with them? What specific messages do you plan to convey to them? How much will this promotions plan cost?
- Outlines the anticipated responses competitors will have to your entrance into the market, especially if your success depends upon these businesses losing customers to you
  - If your entry into the market will not be a threat to direct competitors, it is likely you must convince potential customers to spend their money with you rather than on what they had previously earmarked those dollars toward. In your business plan you must demonstrate an awareness of these issues.
- Often maps out your promotional expenditures according to method used and time frame
  - Consider listing the promotional methods in rows on a spreadsheet with the columns representing weeks or months over probably about 18 months from the time of your first promotional expenditure. This can end up being a schedule that feeds the costs into your projected cash flow statement and from there into your projected income statements.
  - If you phone or visit newspapers, radio stations, or television stations seeking advertising costs, you must go only after you have figured out details like on which days you would like to advertise, at what times on those days, whether you want your print advertisements in color, and what size of print advertisements you want.
  - Carefully consider which promotional methods you will use. While using a medium like television may initially sound appealing, it is very expensive unless your ad runs during the non-prime times. If you think this type of medium might work for you, do a serious cost-benefit analysis to be sure.
  - Some promotional plans are developed around newspaper ads, promotional pamphlets, printing business cards, and other more obvious mediums of promotion. Be certain to, include the costs of advertising in telephone directories, sponsoring a little league soccer team, producing personalized pens and other promotional client give-always, donating items to charity auctions, printing and mailing client Christmas cards, and doing the many things businesses find they do on-the-fly. Many businesses find it to be useful to join the local chamber of commerce and relevant trade organizations with which to network. Some find that setting a booth up at a trade fair helps launch their business.
  - If you are concerned you might have missed some of these promotional expenses, or if you want to have a buffer in place in case you feel some of these opportunities are worthwhile when they arise, you should add some discretionary money to your promotional budget. A problem some companies get into is planning out their promotions in advance only to reallocate some of their newspaper advertisement money, for example, toward some of these other surprise purposes resulting in less newspaper advertising than had been intended.

Financial Plan

- Contains financial statements
- Also includes
  - Various funding options and exit strategies for potential investors
  - Business valuation (be cautious not to over value your business)
  - Break-even analysis

Business Valuation

There are a multitude of sophisticated business valuation methodologies. A rule of thumb for business valuations is a multiple of its earnings. For example, if the chosen multiple is five and the business' earnings before taxes are $55M, the business' valuation would be approximately $275M.

Break-Even Analysis

Break-Even Point = FC/(P-VC)

- FC = Fixed Costs
- P = Unit Price
- VC = Variable Cost

Example: If the business' total fixed costs are $1,000,000.00, it costs $5.00 to produce the widget, and the business sells the widget for $7.00, the break-even point is 500,000 widgets.

- You will most certainly need to make monthly cash flow projections from business inception to possibly three years out. Your projections will show the months in which the activities shown on your fixed capital and working capital schedules will occur. This is nearly the only way to clearly estimate your working capital needs and, specifically, important things like the times when you will need to draw on or can pay down your operating loans and the months when you will need to take out longer-term loans with which to purchase your fixed assets. Without a tool like this you will be severely handicapped when talking with bankers about your expected needs. They will want to know how large of a line of credit you will need and when you anticipate needing to borrow longer-term money. It is only through doing cash flow projections that you will be able to answer these questions. This information is also needed to determine things like the changes to your required loan payments and when you can take owner draws or pay dividends.
- Your projected cash flows are also used to develop your projected income statements and balance sheets.

Overview

Pro forma Cash Flow Statements

Pro forma Income Statements

Pro forma Balance Sheets

Investment Analysis

Projected Financial Ratios and Industry Standard Ratios

Critical Success Factors (Sensitivity Analysis)

References

Appendices

List of Items a Business May Need to Purchase

Set-up

- Business license
- Registration for name, etc.
- Domain name registration
- Initial product inventory
- Signage
- All the little things like curtains/blinds, decorations, microwave for staff room, etc.
- All the things needed to run the business from day #1 (like cutlery, plates, cooking pots, table settings etc. for restaurants; like towels, soap, etc. for gyms; like equipment and so on for manufacturing and service places)
- Set-up and testing of new facilities—new factories and offices do not operate at peak efficiency for some time after start-up because it takes time for the new systems to kick into high gear
- Professional services needed
- Lawyer's fees to make sure agreements are solid
- Graphic designer or design company needed to develop visuals
- Accounting firm needed to set up initial systems
- Insurance—maybe not a direct cost to this one to account for

Office

- Accounting system software
- Computer, printer, other things needed like scanner
- Office furniture
- Initial office supplies—paper, pens, etc.
- Telephones
- Internet/wifi
- Microwave and coffee maker and similar supplies for staff room or coffee room
- Bank fees—business banking is normally not free—might also need to have business cheques

Customer Interaction

- Cash register
- Loyalty cards/system

Production/Operations

- Safety equipment (fire extinguishers, AED)
- First aid
- Security systems
- Equipment maintenance
- Janitorial services and cleaning supplies
- Bathroom supplies—toilet paper, soap, towels
- Membership costs for various associations, including the local chamber of commerce, any professional associations for the relevant industry, etc.
- Subscriptions for things like important trade publications, etc.
- Shelving and storage systems
- Even when not full restaurant, operations like coffee shops still require equipment like dishwasher

Training

- Safety—prior to start-up and ongoing and for new employees

Hiring

- Ads, travel expenses—flights, hotels, taxi rides, meal allowances, etc.—to recruit people through interviews, meeting meals, set up with real estate agents, etc.

Promotions

- Website development
- Costs for setting up and managing social media (can take a lot of an employee's time)
- Grand opening costs

Property

- If buying, include property taxes and all utilities in cash flows and income statement and include building maintenance and maybe build up a reserve fund to pay for things like future roof repairs and needed renovations and upgrades
- If renting/leasing, include rental/least cost and whatever utilities are not included in rental/lease payment

Renovations

- Construction
- Plumbing
- Electrical
- Utility hookups
- Inspections
- Shelving
- Interior signage

- Fencing, parking lot, exterior lighting, other exterior things

Risk Management

- Insurance (need to choose the types needed)
- Training costs
- Things like snow removal, de-icing sidewalks, etc.

Chapter Summary

This chapter described the basic elements of a comprehensive business plan.

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1.5: Chapter 5 – Making the Business Plan Realistic

Learning Objectives

After completing this chapter, you will be able to

- Develop the second draft of the business plan by applying revision methods to improve the realism of the first draft

Overview

A first draft of a business plan will inevitably be unrealistic for a host of reasons. It is likely to include contradictions between sections of the written part. The financial and written parts will most likely not align, even though they must tell the same story, but in different terms. The sales projections might be unrealistic. The cash flow projections will probably be far from accurate. In general, work will be required to convert the first draft of the business plan into a *realistic* second draft.

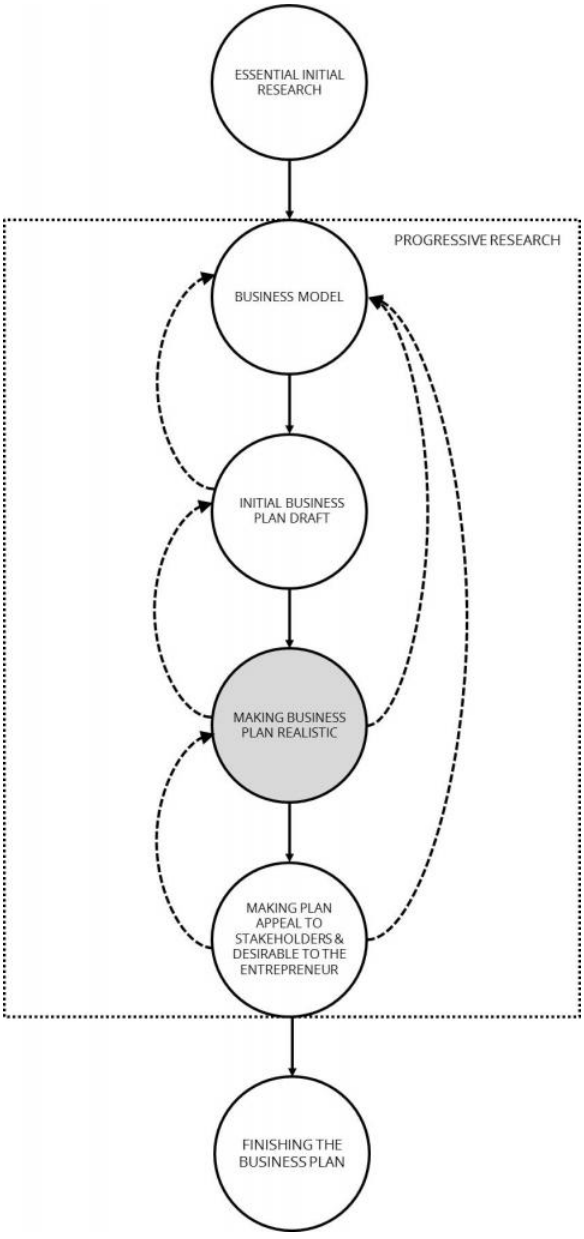

Figure 10 – Making the Business Plan Realistic (Illustration by Lee A. Swanson)

How to Make the Plan Realistic

Replace Assumptions with Factual and Expert Information

A first step is to replace the assumptions you included in your business plan and flagged with the distinct colored font (review the Writing the Draft Business Plan section) with information you got from a valid source. Of course, to establish your and your business plan's credibility, always include the references to the sources you used.

Review and Revise Sales Projections

Business plan writers should critically review and revise their sales projections while using the strategies below to improve the realism of the projected financial statements.

When reviewing, and possibly revising sales projections, business plan writers should consider both the sales projection model they used and the assumptions they fed into the model to generate the monthly sales figures. Additionally, it is important to compare the resulting projected sales with industry norms and any available comparative data with similar companies.

Adjust Strategies to Make Projected Financial Statements Realistic

If you used the financial spreadsheet templates as they are meant to be used, you will not have typed a single number into your projected cash flow statements, your projected income statement, and your projected balance sheet. You should have entered all of your numbers into a set of schedules that, in turn, automatically transfer the relevant numbers to the projected statements through formulas.

The cash flow statement estimates all of the money flowing in and out of the venture in each month. The cash inflows include cash collected from cash sales during the month and accounts receivable collections resulting from sales made in previous months. They also include proceeds from any assets you sell, loan proceeds, and other cash investments made into your business.

The cash outflows occur whenever something is purchased, an expense is paid (including loan payments and taxes), and cash is invested somewhere such that it is no longer available to be used to pay current obligations.

The cash available at the end of each month is the previous month's cash balance plus all cash inflows minus all cash outflows (the exception might be the first month when the initial investments—and, possibly, initial sales—are made, and possibly some expenses are incurred or purchases made). When you complete your first business plan draft, you will inevitably have unrealistic cash balances at the end of some, if not all months.

You can never have a negative cash balance at the end of a month. If you are projecting negative balances, your planned venture cannot survive unless you do things like implement strategies to increase projected sales, seek new investments in your business, and reduce planned operating expenses.

Likewise, *an overly high end-of-month cash balance is a signal of possible poor cash management strategies or overly optimistic sales forecasting*. Another consideration if your month ending cash balances are high is whether you have applied realistic assumptions. After all, it is very rare to stumble upon a business opportunity that generates high amounts of excess cash. If such an opportunity existed, other entrepreneurs would have or will be poised to enter the market and reduce the appeal of the perceived opportunity.

To eliminate negative cash balances and to manage cash so you don't have negative or overly positive end-of-month cash balances,

1. Determine what range of end-of-month cash balances is realistic for your type of business. For example, you might decide that, for your type of business, they should always be between $8,000 and $12,000.
2. Work forward from the first month that the ending balance falls out of that range. To do that, decide how to best manage your cash. You have several options, including the following (but be certain to make your changes in the schedules rather than on the projected statements in your financial spreadsheet templates):
    - If you are short of cash, you might be able to increase cash inflows. For example, you could implement strategies (and, of course, include these in the written part of your plan) to increased projected sales at close to current planned prices, maintain projected sales levels while increasing prices, attract new investors to inject some cash in the business, use cash reserves to increase available cash, or to sell an asset that is no longer needed. Of course, you must be aware of the possible

consequences from taking those actions. For example, increasing prices will lead to lower sales, and if the amount of the price increase is more than counterbalanced by the drop in sales, you might actually reduce the amount of cash you generate.

- As just noted, new investors can inject cash into the business. For this stage of business plan development, it is often best to focus on making the business plan realistic without worrying too much about where to secure the investments you need to start your business beyond the funding you are reasonably certain that you can get through personal money and from friends, family, and other ready sources (see the section on Starting Capital). Use this stage of development to help you determine the amount of money that you will need to secure from other sources, but adjust your plans and strategies to ensure that the amount of additional financing that you will need is realistic. It is in the next stage of business development that you will more seriously consider from what sources you can get the financing that you determined that you needed while in this stage of development.
- If you are short of cash, you might be able to decrease cash outflows by implementing cost-reduction strategies or reducing or deferring purchases. Again, all of these actions have consequences you must be aware of. For example, if you reduce your advertising expenses, you might suffer a large enough decline in sales to worsen your cash shortfall situation.
- If your projections show high cash balances in some projected high-sales months, some of that cash can be transferred to a cash reserve, used to pay down loans, used to purchase needed assets or to acquire resources to benefit the business, used to prepay expenses, and paid to investors as dividends.
- If projections show cash balances that are higher than is realistic, you should review your sales projections and your projected expenses and make any necessary adjustments to make them more realistic.

If your projected financial spreadsheet templates are set up effectively, your schedules should feed your numbers into your projected cash flow statement. From there, your projected cash flow statements should automatically populate your projected income statement and balance sheet.

Test the Realism of Projected Statements Using Financial Analysis Methods

The first steps to improving overall realism is to make your projected cash flow statement more realistic by (1) replacing as many assumed numbers in your schedules as possible with actual numbers; (2) improving the realism of your planned strategies and sales and other projections, and (3) adjusting your strategies and plans such that all month-end cash balances are within a target range. After that, you need to apply financial analysis methods, like ratio analysis, on the numbers in all of your financial statements to assess the realism of your numbers against industry standards and similar companies for which financial statements are available. That analysis should lead to further strategy adjustments to improve the realism of the planned financial positions for your venture during its first five years of business.

Synchronize the Written and Financial Parts of the Plan

Finally, you will need to rewrite parts of your operations, human resources, and marketing plans—and possibly the written introduction to your financial plan—to reflect all of the changes you made and to ensure that the written part of your business plan tells exactly the same story as does the financial part.

Chapter Summary

This chapter addressed the issue of making the first draft of the business plan realistic. To do so, replace as many of your assumptions as possible with factual and expert information, all properly referenced from valid sources to build and maintain your and your plan's credibility. After that, review and revise the original sales projections to make them more realistic as informed by industry data and available numbers from companies similar to what you want your venture to be. Revise your strategies until all of the monthly closing balances in your cash flow statement fall within a realistic, reasonable, and predetermined target range. Perform financial analysis techniques to test the realism of your projected financial situation. Finally, rewrite your business plan so that the written and financial sections tell exactly the same story—one using words and the other using numbers.

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1.6: Chapter 6 – Making the Plan Appeal to Stakeholders and Desirable to the Entrepreneur

Learning Objectives

After completing this chapter, you will be able to

- Develop the third draft of the business plan by applying revision methods to further improve the *realism* of the second draft while also making it *desirable* to the entrepreneur and *appealing* to targeted investors
- Describe the funding sources for start-ups

Overview

This chapter deals with adjusting the second business plan draft to retain, and hopefully improve, its realism, while also making it desirable to the entrepreneur and appealing to targeted investors. In some cases, a business plan should also be made to appeal to other targeted stakeholders, such as highly skilled employees who are needed, but who might not be easy to recruit unless they are offered a minority ownership position or receive reassurance from a well-written business plan.

Securing needed financing is one of the most important functions related to starting a business. This chapter describes some of the sources of financing available to start-ups.

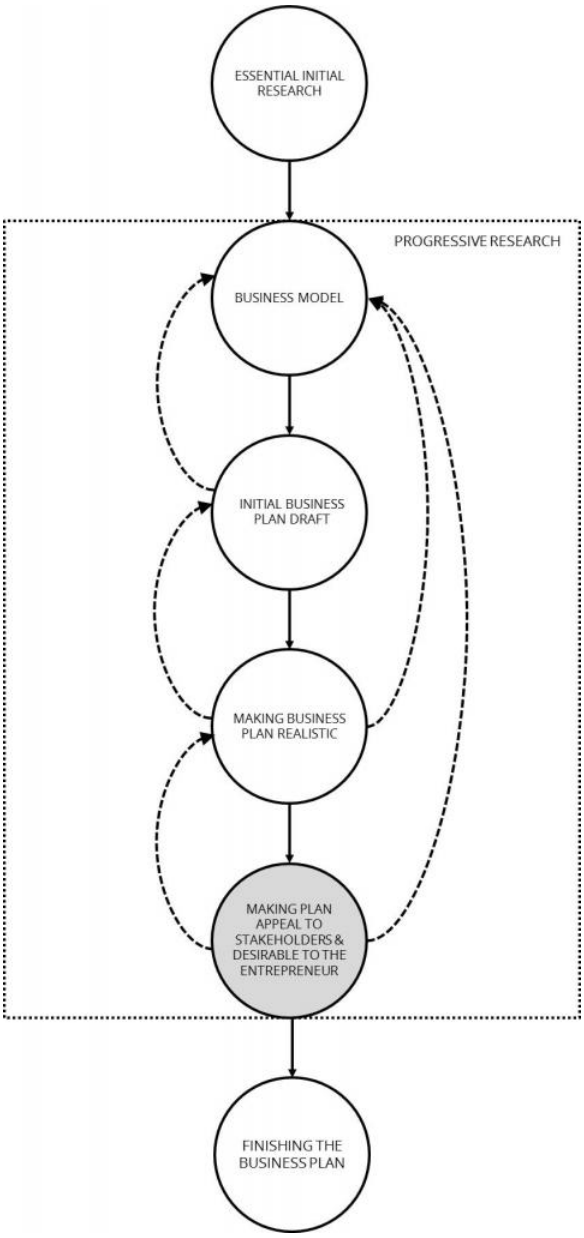

Figure 11 – Making the Plan Appeal to Stakeholders and Desirable to the Entrepreneur (Illustration by Lee A. Swanson)

How to Make the Plan Appealing and Desirable

The second draft of your business plan should include realistic financial projections based on the plans outlined in the plan. As part of that exercise, you should have projected how much money you will require to start your business and to operate it over its first five years.

This stage of development focuses on the following tasks:

1. Determine your medium- and longer-term goals for your business as they relate to what you want to get out of it. As you read through the following questions, consider that the answers you provide should guide the financing decisions you make now.
    - Do you want to start your business and rapidly grow its value so you can profit by selling it within a short period of time to an investor?
    - Do you plan to operate your business for the rest of your working life? If so, how long will that be, and what will you do with your business when you want to retire? Will you want to sell it to an investor for as high a price as you can? Will you want to pass control, and possibly ownership, to family members? Do you want to retain ownership and hire people to

manage it for you? Might you want to offer ownership interests in your business to your employees over time so that they will be majority shareholders and will take control of its operations by the time you retire? What other plans do you have for your business when you retire?
    - Do you want to, or will you need to, offer ownership interests in your business to attract partners or other stakeholders whose help you will need to make it thrive?
    - What other decisions should you make now to help guide the financing and other choices you face?
        - *Entrepreneurs must make the decisions required to make their ventures desirable to them. This includes choosing the right kinds of financing options.*
2. Based on your goals for your business and on the amount of financing you require, identify the most desired sources of financing for your venture. You must consider how much control of your business you are willing to give up (and when you are willing to give it up), whether you expect to have adequate cash flow to be able to handle set obligations like loan payments, what financing sources will enable the growth and value accumulation you desire, and a host of other factors you need to consider to determine what financing methods will be best for you.
    - *An ideal business plan (1) is realisticin that it can be carried out,(2) clearly lays out plans that make the projected business outcomes desirable to the entrepreneur, and(3) is crafted to appeal to targeted investorsso that they will provide the amount of money that is needed at the times it is needed.*
3. Incorporate the elements needed in your business plan to attract your targeted investors and make them want to invest in your company.
    - It is not enough to simply identify the most desirable kinds of financing. The planned business must be structured in a way that entices targeted investors to invest in the business when the investments are needed. If you are seeking a loan, you must include the loan payments in the cash flow statement, but you might also need to identify what assets you have to pledge as security for the loan. If instead you are hoping to attract an angel investor, you should do some research to identify potential investors who have invested in your kind of business. Your business plan should then acknowledge the need for an exit strategy for angel investors and project how that exit strategy can materialize.
4. Identify and analyze your venture's *critical success factors* by completing *what-if analyses* on your financial spreadsheets. Perform what-if analyses by making copies of your financial spreadsheets and changing some key numbers, like sales increase projections, to determine what happens if your projections are off. If your venture is particularly vulnerable to the potential effects of changes to critical success factors, make needed changes to your goals, strategies, and plans in your business plan to reduce your vulnerability to critical success factors changes. Or, adjust your goals, strategies, and plans to prepare for any changes that might occur to the critical success factors.
5. As you do the above, simultaneously adjust your goals, strategies, and plans in the written and financial projection parts of your plan until (1) you are satisfied that you are prepared to deal with issues that will affect your critical success factors, and (2) your projected cash flow statements, income statements, and balance sheets are realistic, consistent with healthy industry norms, and meet realistic expectations and aspirations for a healthy business.
6. Consider including three sets of projected financial statements in your business plan to reflect the following scenarios: most likely, optimistic, and pessimistic.

Providing context is essential in making the business plan appeal to various stakeholders.

Financing A Start-up

Starting Capital

Entrepreneurs almost always require starting capital to move their ideas forward to the point where they can start their ventures. Determining the amount of money that is actually needed is tricky because that requirement can change as plans evolve. Other challenges include actually securing the amount desired and getting it when it is needed. If an entrepreneur is unable to secure the required amount or cannot get the funding when needed, they must develop new plans.

Once a venture begins to make cash sales or it starts to receive the money earned through credit sales, it can use those resources to fund some of its activities. Until then, it must get the money it needs through other sources.

Bootstrap financing is when entrepreneurs use their ingenuity to make their existing resources, including money and time, stretch as far as possible—usually out of necessity until they can transform their venture into one that outside investors will find appealing enough to invest in.

Personal Money

Entrepreneurs will almost always have to invest their own personal money into their start-up before others will give them any financial help. Sometimes entrepreneurs form businesses as partnerships or as multi-owner corporations with other entrepreneurs who also contribute their own personal funds to the venture.

Love Money

Love money refers to money provided by friends and family who want to support an entrepreneur, often when they have no other ready source of funding after using as much of their own personal money as possible to support their start-up.

Grants and Start-up Prize Money

In some cases grants that do not need to be repaid might be provided by government or other agencies to support new venture start-ups. Sometimes entrepreneurs can enter business planning or similar competitions in which they might win money and other benefits, like free office or retail space or free legal or accounting services for a set period of time.

Debt Financing

From an entrepreneur's perspective, the cost of debt financing is the interest that they pay for the use of the money that they borrow. From an investor's perspective, their reward, or return on debt financing, is the interest that they gain in addition to the return of the money that they lent to an entrepreneur or other borrower.

To provide some protection for the investor (lender) to enable them to accept an interest rate that is also acceptable for the entrepreneur (borrower), the borrower must often pledge collateral so that, if they do not pay back the loan along with interest as arranged, the lender has a way to get all or some of the money they are owed. If a borrower defaults on a loan, the lender can become the owner of the property pledged as collateral. A key objective for an entrepreneur seeking debt financing is to provide sufficient collateral to get the loan, but to not pledge so much that they put essential property at risk.

When entrepreneurs borrow money, they must paid it back subject to the terms of the loan. The loan terms include the specific interest rate that will be charged and the time period within which the loan needs to be repaid. There are several other terms or features of the loan that can be negotiated between lenders and borrowers. One such feature is whether the loan can be converted to equity at a particular point in time and according to certain criteria and subject to specific terms.

Sometimes debt financing can be in the form of trade credit, where a supplier provides product to a business but does not require payment for a specific length of time, or perhaps even until the business has sold the product to a customer. Another form of debt financing is customer advances. This might involve a customer paying in advance for a product or service so that the business has those funds available to use to pay its suppliers.

Advantages of Debt Financing

One advantage of debt financing is that the entrepreneur does not sacrifice ownership when they take out a loan and lose some control of their venture.

Another advantage of debt financing is the certainty of the payments the borrower needs to make during the term of the loan. If the borrower takes out a loan for $20,000 over a 5-year term at a fixed interest rate of 6.2% with a monthly payment schedule designed to pay off the entire loan by the end of its 5-year term, they know that each month they must pay $389 and that over the 5 years, they will have paid back the entire $20,000 loan amount plus a total of $3,340 in interest. With this certainty, the business can accurately budget its payback amount for this loan over the 5 years.

Yet another advantage of debt financing is that it allows companies to *tradeon equity*. Trading on equity enhances the rate of return on common shareholders' equity by using debt to financing asset purchases or to take other measures that are expected to cost less than the earnings generated by the action taken. For example, if a company borrows $20,000 at 6.2% interest and uses that money to purchase a machine it will use to increase its return on equity by 20%, then it is *trading on equity*. In this case, the company is

financially better off than it would be if it had not taken out the loan. Of course, the inherent risk involved with this strategy is lowered when income streams are relatively stable.

Disadvantages of Debt Financing

A disadvantage of borrowing money is the need to report to those from whom you borrowed the money. This might be particularly true when lenders, often bankers, have interests or are subject to incentives that might not fully align with those of the borrower. For example, a lender will want assurances that they will get all of the money back that they lent, plus all of the interest owed to them during the term of the loan. A start-up entrepreneur, however, might struggle to generate the cash flow necessary to pay back all of the money owed according to the terms of the agreement.

Another disadvantage of borrowing is that the business's ownership of the property it pledged as collateral for the loan is placed at risk. For many new ventures, a loan is only possible to acquire if the owner provides their *personal guarantee* that the money will be paid back as determined in the loan agreement, thus putting personal property at risk.

The biggest disadvantage to debt financing for start-up entrepreneurs is that there are a limited number of lenders who are interested and able to provide loans to businesses during their early stages.

Equity Financing

From an entrepreneur's perspective, the cost of equity financing is the loss of some control over their venture as they must now share ownership of the business. From an investor's perspective, their reward for purchasing an ownership interest in the business is the potential to share in the business's anticipated future success by possibly receiving dividends (a portion of the profit that is distributed to owners) and by possibly being able to sell their ownership interest to another investor (or back to the entrepreneur) for more than the amount they purchased that ownership interest for originally.

The protection for the investor, who might be a *shareholder* if the ownership interest is represented in the form of *shares* in the business, is in the influence they can exert in the company's decision-making processes. This influence is normally proportionate to their share of the ownership in the overall business. Equity investors normally seek to earn a competitive return on their investment that is in line with the level of risk they assume by investing in the business. The riskier the investment, the higher the return the investor expects.

The following are some potential sources of equity financing for start-up entrepreneurs.

Equity Crowdfunding

Equity crowdfunding is a relatively new way for entrepreneurs to raise capital. This involves using online methods to promote equity interests in ventures to potential investors.

Angel Investors

Angel investors are wealthy individuals who on their own or often along with other angel investors in a network—like the Saskatchewan Capital Network—invest in new ventures in exchange for an ownership interest in the business. Sometimes angels invest in companies in exchange for convertible debt, an investment that starts off as a loan, usually in the form of a bond, that they can exercise as an option to convert to an equity interest in the company at a particular point in time for a pre-determined number of shares. Angel investors are generally less restricted in what kinds of investments they will consider than are venture capitalists, who are using other people's pooled money. Like venture capitalists, however, they normally undertake a rigorous *due diligence* process to determine whether to invest in the opportunities they are considering.

Venture Capital

Venture capital is raised when investors pool their money. The venture capital fund is then used to very carefully invest in existing but usually young companies that are expected to experience high growth. The venture capital company does not expect to invest for long and it expects to generate a large return. For example, it might expect to invest in an opportunity for a period of up to five years and then get out of the investment with five times the money it originally invested. Of course, only some investment opportunities will generate the returns hoped for and others will return far less than expected.

Venture capitalists might exert some ownership control by influencing some business decisions in cases where they believe that by doing so they can protect their investment or cause the investment to produce greater returns, but they generally prefer to invest in

companies that are going to be well-run and will not require them to be involved in decisions. Venture capitalists might also provide some assistance, such as business advice, to the companies in which they invest.

A *venture round* refers to a phase of financing that institutional investors like venture capitalists provide to entrepreneurs. The first phase (sometimes following a *seed round* in which entrepreneurs themselves provide the start-up capital and then an *angel round* where angel investors invest in the company) is called *Series A*. Subsequent venture rounds are called *Series B*, *Series C*, and so on.

In general, because venture capitalists normally invest money contributed by investors and have an obligation to assume a limited amount of risk, they usually do not invest in start-up companies.

Due Diligence

Investors follow due diligence processes to assess the risk and potential return associated with the investments they are considering. As such, entrepreneurs should maintain a due diligence file that they can quickly draw upon when a desirable potential investor expresses an interest in their venture.

A due diligence file will include copies of many of the legal papers and other important documents that a venture has accumulated and that tell the story of the enterprise. These documents will include those related to incorporation, securities it has issued or is in the process of issuing, loans, important contracts, intellectual property documents, tax information, financial statements, and other important documentation.

Advantages of Equity Financing

One important benefit to equity financing is that it does not normally require a regular payback from cash flow. Unlike with debt financing, equity investments do not usually give rise to a regular encumbrance that can increase the difficulty a young company might have in meeting its regular monthly expenses.

Second, when a firm uses equity financing, it does not need to pledge collateral, which means that the company's assets are not placed at risk.

Another potential advantage with equity financing is that, depending upon the form of financing and who the investors are, a firm might gain valued advisers. In addition, investors who exercise their ownership rights to have a say in the operations of the company, or who otherwise provide advice and mentorship to entrepreneurs starting ventures, are usually highly motivated to help the company succeed. Investors expect to benefit only when the companies they invest in succeed, meaning that their financing incentives are aligned with those of the entrepreneur and other owners.

Disadvantages of Equity Financing

Equity financing is often more difficult to raise than debt financing. Second, when they share ownership in exchange for investment into their business, entrepreneurs give up a portion of the value that they create. If things do not go as planned, entrepreneurs can lose control of their companies to their investors.

Overview of Potential Sources of Start-up Financing

- Personal sources (savings and other income) contributed by the business founders
- Extended personal sources (family, friends, employees, partners)
- Strategic partners, including potential customers or potential suppliers who want to have access to a business like the one proposed (and therefore might fund part of its development). For example, a building owner (supplier) might help a business develop that it considers to be a desirable tenant. Another example is when a complementary business, like a hotel, invests in a start-up, like a spa located next door, that might attract more business.
- Business Development Bank of Canada (BDC) and other institutions that specialize in supporting entrepreneurs
    - BDC calls itself "Canada's business development bank and the only financial institution dedicated exclusively to entrepreneurs" (Business Development Bank of Canada, 2016, p. 1).
    - Among the services provided by BDC is start-up financing for new ventures. They provide funding for the following:
        - Working capital to supplement an existing line of credit
        - Fixed assets
        - Fund marketing and start-up fees

    - A franchise purchase
    - Consulting services

(Business Development Bank of Canada, 2016)

- Angel investors
- Customers (possibly)
    - They might place orders for services or products and pay for them up-front, thereby providing financing for the new business
    - They might want your business to succeed so it can support their business. For example, a general contractor (future customer) might help a new plumber get started if there is a shortage of plumbers affecting the building industry in the contractor's community
- Venture Capitalists (possibly)
    - These organizations acquire pools of money to invest, so they differ from angel investors in that those making the decisions are not investing their own money—this means they usually consider investment options that have shown some success already (which isn't usually the case in the start-up phase)
- Asset-Based Lenders (possibly)
    - Lend money secured by the assets of the borrower, like the plant and equipment
    - Sometimes this can be done quite creatively. For example, they might accept assets that will turn into money—like accounts receivable and inventories—as security to back up a loan.
- Small Business Investment Companies (SBICs)
    - An American idea developed to bridge the gap between when small businesses need money and the time when venture capitalists might provide financing to small businesses
    - SBICs are privately owned companies in the United States that are licensed by the Small Business Administration (U.S. Government) to supply equity capital, longterm loans, and management assistance to qualifying small businesses
    - The Canadian equivalent is the Community Futures Corporations
- Equipment Leasing Companies
- Suppliers through Trade Credit (possibly)
    - The supplier provides product now without demanding immediate payment
    - This supplier will provide the product to the retailer *on terms* so the retailer does not need to pay the supplier for perhaps 30 or 60 or 90 days
    - The retailer then can sell the product and collect the money from the customer before the retailer needs to pay supplier for it
- Factoring (possibly)
    - When a business sells its accounts receivable (its invoices) to a third party (called a *factor*) at a discount in exchange for immediate money
    - Differs from bank loan in three ways:
        - The factor is interested in the value of the receivables; a bank is interested in the firm's credit worthiness
        - Factoring is not a loan: it is the purchase of a financial asset (the receivables)
        - A bank loan involves two parties (lender and borrower); factoring involves three (the business, the factor, and those who owe the money)

Chapter Summary

After developing a first draft of a business plan, an entrepreneur will inevitably need to make some major adjustments to the business model and to the plans they developed to make it realistic. After that, the entrepreneur needs to shift their attention to maintaining and potentially further improving the realism of the plan while making it desirable to the entrepreneur and appealing to targeted investors. Part of this exercise is deciding upon the best type of financing that is available to the entrepreneur (if any) to ensure that they can meet their longer term goals for their business. This chapter also described some of the sources of financing available to start-ups.

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1.7: Chapter 7 – Finishing the Business Plan

Learning Objectives

After completing this chapter, you will be able to

- Develop the final draft of the business plan

Overview

The previous stages of business plan development focused on helping the business plan writer (1) start on the plan, (2) develop a reasonably complete and comprehensive first draft of the plan by focusing on developing the initial story without obsessing about its realism, (3) convert that into a second draft by adding realism, and (4) develop a third draft by preserving the realism and making needed changes designed to make the plan *appealing* to the entrepreneur and *desirable* to targeted investors. This stage is where the business plan writer puts the finishing touches on the plan to prepare it for use.

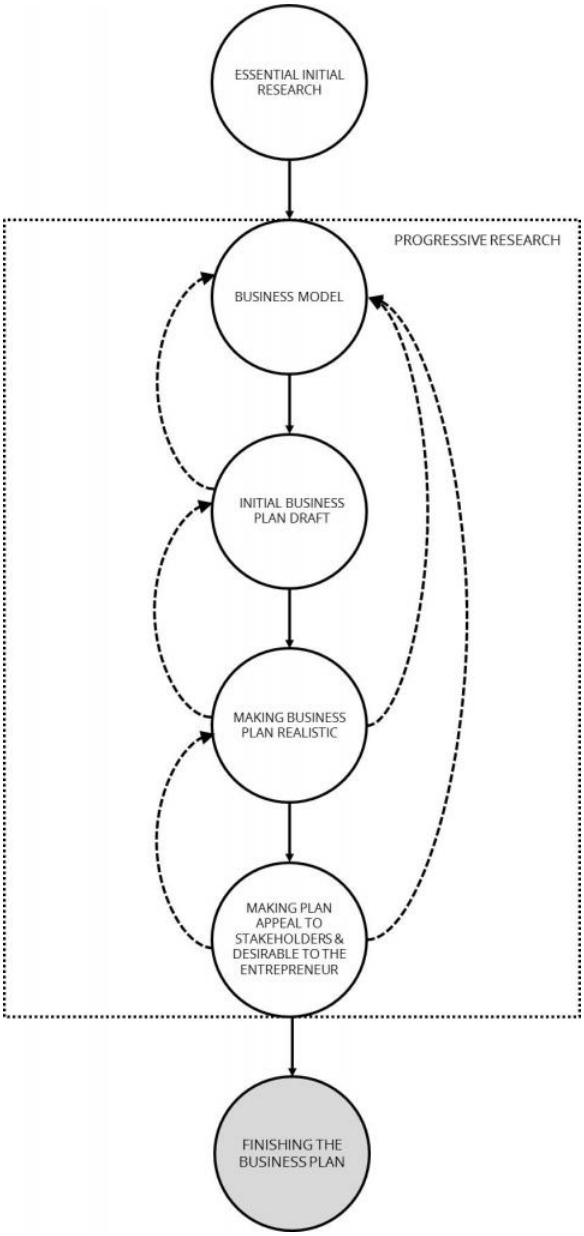

Figure 12 – Finishing the Business Plan (Illustration by Lee A. Swanson)

First Things Last

Finalize Major Goals

As contradictory as it might sound, it is only after the business plan is almost finished that the *Major Goals* section near the start of the plan should be completed. Replace the preliminary goals you have in that section with a limited set of goals, perhaps five to ten, which perfectly describe the outcomes you projected in certain sections of your plan. Write goals that will further improve the appeal of your plan for targeted investors and other important potential readers.

Your major goals should be substantive and relevant. They should also be written using a format designed to maximize their impact for targeted readers. The RUMBA formula (realistic, understandable, measurable, believable, and achievable) provides a useful guideline for developing major goals. The following is an example of a relevant major goal that follows that formula:

> *We will secure a $56,050 short-term loan in September, 20 20, to finance inventory purchases needed to satisfy our projected increase in Christmas sales that year .*

Write your Executive Summary

The last part of your business plan that you should write is the *Executive Summary*. Unlike most other types of documents, the executive summary at the start of a business plan can be up to about three pages in length.

As the executive summary might be the first section that targeted readers go through, it must be written to appeal to them. It should provide those readers with information that will encourage them to seriously consider taking the desired action, like investing in the venture. If they are not interested by the contents of the executive summary, they will not likely read any other part of the plan, and they won't act—usually by investing in the business—as the business plan writer hopes they will.

Polish it Up!

Thoroughly proofread the completed business plan and fix all errors before submitting it to anyone. It is usually best to have other people proofread your work as they will catch errors that you will miss.

Never underestimate the negative consequences that can occur from distributing poor quality work.

Write A Letter of Transmittal

A letter of transmittal is to a business plan what a cover letter is to a resume. A letter of transmittal should briefly introduce the business plan accompanying it to the intended recipient and persuasively, but briefly, communicate the reasons why they should read it.

Chapter Summary

After all of the hard work involved with developing a high-power business plan, it must be finished properly to have the intended impact with its targeted readers. Before distributing it to targeted investors and other recipients, a limited number of major goals should be included in the Major Goals section near the start of the plan. Those goals should be carefully crafted to appeal to intended readers. The final writing task is to develop an executive summary that will entice targeted readers to examine the rest of the plan in detail for the purpose of deciding whether to potentially take the action—usually to invest in the venture—desired by the business plan writer. After that, the plan should be thoroughly proofread and revised to ensure that all errors are eliminated before the plan is used. After writing a customizedletter of transmittal to introduce the plan, it can be put to use.

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1.8: Chapter 8 - The Business Plan Pitch

Learning Objectives

After completing this chapter, you will be able to

- Deliver an effective business plan pitch

Overview

Writing a good business plan will only get an entrepreneur so far. To achieve their goals, they must be prepared to pitch their plan effectively to targeted investors and other potential stakeholders. These are sometimes called *elevator pitches* because an entrepreneur should be prepared to effectively deliver one in the length of time it takes to ride up a few floors in an elevator with a potential investor. The goal of a pitch is not to fully describe a business idea, but to be able to convince a potential investor in five minutes or less that they should meet with the entrepreneur further to learn more about the idea because they might want to invest in it.

Your business plan pitch must be focused on what your targeted audience and business plan readers need to know. Usually your pitch will be designed to capture a potential investor's interest so that they will want to talk to you about investing in your venture. In that case, your pitch should follow a process similar to the one described next.

Avoid the trap of telling the potential investors too much about how your business works. Instead, spend your time telling them what they need to know to become interested enough to possibly invest in your venture. That means allocating your time almost equally on each of the following elements of your pitch script.

1. Describe the market problem that your venture solves
    - The problem you solve should be for an identifiable group of people or organizations who recognize that they have a problem and are willing to spend their money for a solution to the problem.
2. Describe how your venture solves the problem
    - Your solution should be better than the alternative solutions offered by your competitors or by those who suffer from the problem. It should also be a solution that cannot or will not be readily copied by existing or new competitors.
3. Explain how and why you and your venture are capable of solving the problem while also generating a profit
    - Your chances of being considered capable of delivering what you promise are enhanced if you have a strong team, relevant experience, or access to scarce or unique resources or networks.
4. Explain why you need the financing and anything else you want from the potential investors, like their expertise or access to their networks
    - Your opportunities to get the financing you need improve when you can show that the money will increase your capacity to achieve what you promise.
5. Describe why the investors should invest in your venture
    - Potential investors want to know how and when they will get their investment back and how much of a return they will earn on their money. You should be able provide them with an estimate of how much your venture is worth and will be worth in the future while telling them what that means for them.

Solving a market problem is a winning formula, so demonstrate how the business solves a problem and makes money makes for a strong pitch.
Providing context for individual investors and stakeholders is critical for their buy-in.

Chapter Summary

A simple five step business plan pitch format has five steps. When entrepreneurs have a chance to engage with targeted investors, they usually have a limited amount of time to convince those investors to consider their investment opportunity. The purpose of the

business plan pitch is to capture the attention and interest of targeted investors within a very short time. A successful pitch should result in an invitation by the investor for the entrepreneur to provide more information about the business because they might want to invest in it.

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