

## Part I: Starting the Process

### Chapter 1 *Why Plan?*

#### Key Words

**Business plan**—a written document that carefully explains every aspect of a new business venture

**Due Diligence**—the process investors go through after they tentatively commit to an investment

**Lean Startup Movement**—associated with the school of thought that advocates experimentation and trial-and-error learning gleaned through customer feedback over formal planning

**Elevator speech**—a brief, carefully constructed statement, usually 1—2 minutes long that outlines the merits of a business venture

**Stealth mode**—companies that formulate their business plans in secret, to avoid tipping off potential competitors as to what they're planning

**Feasibility Analysis**—the process of determining if a business idea is viable; normally conducted prior to writing the business plan

**Corridor principle**—an academic principle which states that once an entrepreneur starts a business, he or she begins a journey down a path where “corridors” leading to new venture opportunities become apparent

#### Chapter Overview

This chapter introduces the idea of the business plan, including the rationale for writing one, the multiple purposes that a business plan can serve both inside and outside the firm, and the key audiences for a business plan. Students will also learn about major imperatives in creating a business plan, as well as some potential pitfalls in writing the business plan.

The organization of the text is also laid out by topic and associated chapter(s). The outline of the text walks the reader through the process from understanding and conceptualizing the plan, to preparing to write the plan, to creating the plan, and finally, to presenting the plan to potential investors and others.

## Chapter Summary

1. A business plan is a written document that carefully explains every aspect of a new business venture.
2. The most effective business plans are part of a comprehensive process that includes (1) identifying a business idea, (2) screening the idea (or ideas) to determine their preliminary feasibility, (3) conducting a full feasibility analysis, and (4) writing the plan.
3. There are two primary reasons for writing a business plan: (1) it forces the founding team to work together to hammer out the details of the business venture, (2) it communicates the merits of a new venture to outsiders, such as investors or bankers.
4. The process of writing a business plan forces a team to not only work together, but to turn abstract ideas into concrete realities.
5. The two primary audiences for a firm's business plan are the firm's employees and investors and other external stakeholders.
6. It is important to remember that a firm's business plan, executive summary or a set of PowerPoint slides is typically the first aspect of a proposed venture that will be seen by an investor (or anyone else who reads the plan), and if the plan is incomplete or looks sloppy, it is easy for an investor to infer that the venture itself is incomplete or sloppy.
7. To make the best impression, a business plan should follow a conventional structure. Typically, the individuals who read business plans are busy people who want a plan that allows them to easily find critical information.
8. It is a good idea to develop a 1—2 minute elevator speech which briefly outlines the merits of the venture.
9. As a business plan is written, the people involved should continually measure the type of company that they are hoping to start against their personal goals and aspirations.
10. There are four types of businesses: survival, lifestyle, managed growth, and aggressive growth. This book focuses on lifestyle, managed growth, and aggressive growth firms.
11. While the preparation of a business plan is essential, it is often an insufficient exercise through which to complete a full and candid analysis of the merits of a new business venture. Steps that logically precede the completion of a business plan, which include the preliminary screening of business ideas and feasibility analysis, are also important.

## Chapter Outline

- I. Introduction
- II. Reasons for Writing a Business Plan
  - a. Internal Reason
  - b. External Reason
- III. Who Reads the Business Plan—And What Are They Looking For?
  - a. A Firm’s Employees
  - b. Investors and Other External Stakeholders
- IV. Guidelines for Writing a Business Plan
  - a. Structure and Style of the Business Plan
    - i. Outside resources
    - ii. Appearance
    - iii. Develop an Elevator Speech
      1. Four Steps in an Elevator Speech
    - iv. Red Flags in a Business Plan
  - b. Content of the Business Plan
  - c. Measuring the Business Plan Against Your Personal Goals and Aspirations
    - i. Investor expectations
    - ii. Attractiveness of revised business plan
  - d. Recognizing That Elements of the Plan May Change
- V. Types of Business
- VI. The Plan for the Book
  - a. Section 1: Starting the Process
  - b. Section 2: What to Do Before the Business Plan Is Written
  - c. Section 3: Preparing a Business Plan
  - d. Section 4: Presenting the Business Plan to Investors and Others

## Chapter Notes

- I. **Introduction**
  - Research reveals an increased interest in the study of entrepreneurship
    - More than 2,000 colleges and universities, about two-thirds of the total, offer entrepreneurship coursework
    - 54 percent of millennials (ages 18-34) either want to start a business or have already started one
    - 63 percent of African Americans and 64 percent of Latinos expressed a desire to start their own company
  - The **business plan** is a written document that carefully explains every aspect of a new business venture

- Inside the firm, the **business plan** is used to develop a “road map”
- Outside the firm, it introduces potential investors and other stakeholders to the business opportunities
- Although a relatively small percentage of entrepreneurs write business plans, there is ample evidence that writing a business plan is an extremely good investment of time and money.

## II. Reasons for Writing a Business Plan

- There are two primary reasons for writing a **business plan**
  - Internal reason—forces the founders of a firm to systematically think through each aspect of their new venture
  - External reason—communicates the merits of a new venture to outsiders, such as investors and bankers
    - Investors rely heavily on the **business plan** to make their decisions regarding initial investment
    - The business plan helps a new company build credibility by providing detailed information and demonstrating that the entrepreneur has thought through each element of the business
    - Placing highly or winning a university-, community-, or state-sponsored business plan competition also helps to establish credibility for a firm
- There is an emerging school of thought, associated with the Lean Startup movement, that opposes the idea of writing a business plan and advocates experimentation and trial-and-error learning through customer feedback over formal planning

## III. Who Reads the Business Plan—And What Are They Looking For?

- There are two primary audiences for a firm’s **business plan**
  - a. A firm’s employees—because the business plan articulates the vision and future of the firm, both the management team and the rank-and-file employees can benefit from reading the business plan in order to operate in sync and with purpose
  - b. Investors and other external stakeholders—investors, potential business partners, potential customers, private and government-funded grant-awarding agencies, and key employees who are being recruited are all part of the second audience for a **business plan**
    - To appeal to this group, the business plan must be clear, concise, and not overly optimistic or naive

## IV. Guidelines for Writing a Business Plan

- It is important to remember that a firm’s **business plan**, executive summary, or a set of PowerPoint slides is typically the first aspect of a proposed venture that will be seen by an investor or whomever the plan is presented to
- A good **business plan** will be sensitive to the structure, style, and content of a plan before exposing it to a firm’s employees or sending it to an outsider

- Individuals writing the plan should also measure the type of company that they are envisioning against their personal goals, aspirations, and preferred lifestyle
- a. Structure and Style of the Business Plan**
- The **business plan** should follow a conventional structure
  - Most experts recommend a length of between 25 and 35 pages
  - Effective **business plans** should be sharp, but not look expensive to produce or overly flashy
  - **Business plan** software can help provide structure, but all of the content should come from the entrepreneur
  - Outside assistance in putting the plan together is fine, but the enthusiasm of the founder should remain
- i. Develop an Elevator Speech**
- An **elevator speech** is a brief, carefully constructed statement, usually 45 seconds to two minutes long that outlines the merits of a business venture (business plan insight feature)
    - 1. Steps in an Elevator Speech (from business plan insight feature)**
      - Describe the opportunity—45 seconds
      - Describe how your product or service meets the opportunity—45 seconds
      - Describe your qualifications—15 seconds
      - Describe your market—15 seconds
- ii. Red Flags in a Business Plan (Table 1-2)**
- Founders with none of their own money at risk
  - A poorly cited plan
  - Defining the market size too broadly
  - Overly aggressive financials
  - Hiding or avoiding weakness
  - Sloppiness in any area
  - Too long of a plan
- b. Content of the Business Plan**
- Most plans are divided into sections that represent the major aspects of a new venture's business (Table 1-1)
  - The plan should convince the reader that the opportunity is exciting, feasible, defensible, and within the capabilities of the people who will be launching the firm
  - Details of each section of the plan will be described later in this book in Section 3: Preparing an Effective Business Plan

**c. Measuring the Business Plan Against Your Personal Goals and Aspirations**

- Accepting venture capital will almost assuredly force a firm into a fast-growth model from the start
  - Most venture capitalists shoot for a 30 to 40 percent annual return and a total return of five to 20 times their original investment over the life of the investment
- Using venture capital also involves surrendering equity in the firm to outsiders in exchange for their investment and accepting heavy scrutiny at all levels
- If an entrepreneur places a high value on leisure time or family time or doesn't want the pressure associated with a group of investors, he or she would be better suited to launch a firm in a target (or niche) market and solicit funds from friends and family or a lender
- During the course of writing the plan, the entrepreneur may find that there are aspects to the business that are not as attractive as originally anticipated

**d. Recognizing That Elements of the Plan May Change**

- Revisions may be made based on early feedback
- The corridor principle is an academic principle which states that once an entrepreneur starts a business, he or she begins an journey down a path where "corridors" leading to new venture opportunities become apparent
- The corridor principle also applies during the preparing of a business plan; new insights will invariably emerge that weren't initially apparent
- The business plan is a living, breathing document, rather than something set in stone
- Guy Kawasaki suggests that authors of business plans should "write deliberate, (but) act emergent"
  - Create a "deliberate" plan that is a specific blueprint to follow
  - Think "emergent" with a mindset that is open to change and influenced by the realities of the marketplace

**V. Types of Businesses**

- There are four distinct types of businesses (Table 1-3)
  - Survival—provides its owner just enough money to put food on the table and pay bills (handyman, part-time childcare)
  - Lifestyle—provides its owner the opportunity to pursue a certain lifestyle and make a living at it (clothing boutique, personal trainer)
  - Managed growth—employs 10 or more people, may have several outlets, and may be introducing new products or services to the market (regional restaurant chain, multi-unit franchise)
  - Aggressive growth—bringing new products and services to the market and has aggressive growth plans (computer software, medical equipment, national restaurant chain)

- This book focuses primarily on lifestyle, managed growth, and aggressive growth firms

## VI. The Plan for the Book

### a. Section 1: Starting the Process (Chapter 1)

- A business plan is also an essential document for a firm to have at its disposal, particularly if it plans to reach out to others to try to gain access to resources

### b. Section 2: What to Do Before the Business Plan Is Written (Chapters 2-3)

- Writing a business plan is part of a comprehensive process that includes the four steps of the comprehensive feasibility analysis/business planning process
- There are many steps that logically precede the completion of a business plan, including the preliminary screening of business ideas and feasibility analysis

### c. Section 3: Preparing a Business Plan (Chapters 4-10)

- This section provides an explanation of how to complete each section of a business plan

### d. Section 4: Presenting the Business Plan (Chapter 11)

- Concrete suggestions for how to make effective presentations using PowerPoint slides, and how to field questions from an audience effectively, will be provided

## Review Questions

1. What is a business plan? What are the advantages to preparing a business plan for a new venture?

**Answer:** A business plan is a written document that carefully explains every aspect of a new business venture. The advantages to preparing a business plan are that inside the firm, it acts as a “road map” for the execution of strategies and plans. Outside the firm, it introduces the business opportunity to potential investors and other stakeholders. Many investors won’t even consider a firm that does not have a business plan. Finally, the process of writing the plan forces the entrepreneur to examine the merits of the business idea and test its feasibility.

2. What are the two most common reasons that entrepreneurs write business plans?

**Answer:** The most common reasons for writing a business plan are that it forces the founding team to work together to hammer out the details of the business venture, and it communicates the merits of a new venture to outsiders such as investors or bankers.

3. Who are the primary consumers of business plans? In what ways do the people who read business plans differ in the information they are looking for?

**Answer:** The primary consumers of a business plan are the firm's employees, investors, and other external stakeholders. A firm's employees may use the business plan as a guideline to ensure that all their activities are in sync with the vision and plan of the founders. Investors and other external stakeholders are looking for demonstration that the business idea is viable and can offer an attractive financial return when compared with lower risk investment alternatives.

4. It is often argued that the process of writing a business plan is as important as the plan itself. How is this so?

**Answer:** The process of working together on a business plan requires the founders to systematically think through each aspect of their new venture and forces team members to turn abstract ideas into more concrete realities.

5. Why is it important for the founders of a firm to continually measure whether the type of company they are envisioning, as described by their business plan, is consistent with their personal goals and aspirations?

**Answer:** It is important that the founders use the business plan writing process to visualize what the firm will look like in terms of the demands on their time, the pressures of accepting venture capital, and the need to accept investor scrutiny over operational decisions for the firm. If an entrepreneur wants to ensure a significant amount of leisure or family time, this should be taken into consideration before moving forward with an aggressive growth business.

6. What are the hazards involved with using a software package to help write a business plan or hiring consultants to write the business plan for you?

**Answer:** Software packages and outside consultants are useful in providing a conventional format for the business plan, but over-reliance on these sources can produce a business plan that looks “canned” or fails to convey the enthusiasm and excitement of the entrepreneur’s vision.

7. Describe the general rules of thumb for the length and appearance of a business plan.

**Answer:** Most experts agree that the plan should be between 25 and 35 pages in length. It should be clear, concise, and follow a conventional format. It should look sharp, without looking like the entrepreneur spent too much to produce it. The plan’s author should also avoid overuse of clip art and other design elements, but a well-designed logo can add to the professionalism of the plan.

8. Why is it important for a firm to test the feasibility of its business idea prior to writing a business plan?

**Answer:** There are steps that naturally precede the completion of a business plan. The results of a full feasibility analysis will help the entrepreneur to decide whether it is worthwhile to go forward with the business plan.

9. Why is it important for a firm to test the feasibility of its business idea prior to writing a business plan?

**Answer:** Many new businesses fail, not because the founders didn’t work hard or weren’t committed to the venture, but because the idea wasn’t a good one to begin with. Conducting a feasibility analysis helps assess the merits of a business idea prior to dedicating the time and effort to write a **business plan**.

10. What is an elevator speech? How can developing an elevator speech help a firm write a more effective business plan?

**Answer:** An elevator speech is a 45-second to two-minute statement outlining the merits of a business venture. Creating an elevator speech can help the founders to develop a sharp and concise description of their business.

## Application Questions

1. Justin Wells is one of three founders of an organic snacks company. The founders have decided to write a business plan to try to obtain funding. In a meeting with his cofounders, Justin said, “I know that we’re all very busy, so I’d like to volunteer to write the business plan. My parents have a cabin on a lake about an hour from here, so if it’s alright with the two of you, I’d like to take my laptop up to the cabin for a couple of days and hammer out the business plan. Any objections?” If you were one of Justin’s cofounders, what would you say? What alternative approach, if any, would you suggest to writing the plan?

**Answer:** As one of Justin’s cofounders, I should consider the fact that the process of writing the plan should be a collaborative effort. Writing the plan together can help the team develop a stronger bond and identify potential problems within the team. We should suggest that, following the feasibility analysis, the three founders have a retreat at Justin’s parents’ cabin and begin work on the business plan writing process together.

2. Melanie Scott is a high school math teacher who is in the process of developing an iPhone app centered on engaging games that require high school students to use math to master the games. Melanie is planning to attend a new business conference in about six weeks that will feature a number of investors. She hopes to make some contacts and schedule follow-up meetings with several investors. Up until now, Melanie has focused primarily on the technical aspects of building the app, and hasn’t written a business plan or talked to any potential customers. She’s willing to do whatever it takes to get prepared for the conference. What would you tell Melanie to focus on over the next six weeks to get ready for the conference?

**Answer:** Since Melanie will be at a conference with other new business founders, she needs to prepare a business plan to use as a selling tool. An investor choosing between two or more business ventures may eliminate one that does not have a professional business plan for them to review. Melanie should also get feedback from potential users and work on an elevator speech to use when speaking with investors at the conference.

3. A year ago, a friend of yours opened in innovative type of fitness center that helps high school athletes improve their fitness and sharpen their skills to the point where they’ll be more likely candidates for college scholarships. He recently wrote a business plan seeking \$100,000 in funding to expand from one

location to three locations. He sent the business plan out to three industry experts for feedback, and was struck by the advice he received. All three experts loved his concept and encouraged him that instead of asking for \$100,000 to expand to three locations, he should ask for \$1 million to expand to 30 or more locations. What factors should your friend consider before he pursues this advice?

**Answer:** He should measure the suggested business plan and expert advice against his personal goals and aspirations. Investors will expect a 30-40 percent annual return over the period of their investment. They will also open the firm to increased input and scrutiny since the investors will now own a stake in the business. Further, the type of aggressive growth advised by the industry experts will drastically change the amount of time and attention required by the founder. He should be sure that he is willing to spend that amount of time away from personal and family concerns.

4. Imagine you just received a text message from a friend. The message reads, “Just wanted to share with you some fantastic news. Last Friday, I talked to an investor about my business idea, and he asked me to send him the executive summary from my business plan along with a PowerPoint overview of the plan. I spent the weekend working on his requires, and am about to send him an 8-page executive summary and a 42-slide PowerPoint overview. Just thought I would check with you to see if you have any last minute words of advice. I really want to get funding.” How would you respond to this request for feedback?

**Answer:** To make the best impression, a business plan should follow a conventional structure. This includes the executive summary and slide deck. The executive summary should only be 1-2 pages long and the PowerPoint overview should be about 12 slides long. The executive summary and slide deck that this founder plans does not recognize the fact that the investor is a busy person who wants a document that provides a very quick snapshot of the key information regarding the business. If the investor is interested, he or she will ask for a 25-35 page plan.

5. Spend some time studying the website of Heart Juice ([www.heartjuice.com](http://www.heartjuice.com)), a healthy beverage company referred to in the chapter. Search for additional information on the company. Write a two minute elevator speech rather than a 60-second elevator speech.

**Answer:** Student responses will vary, but should cover the four steps of an elevator speech:

**Step 1: Describe the opportunity or problem that needs to be solved.**

Answers will vary, but may include information such as documentation of the increased interest in products that support a healthier lifestyle and the high incidence of cardiac events in the target population.

**Step 2: Describe how your product or service meets the opportunity or solves the problem.**

Answers will vary but might explain how Heart Juice provides a healthier option than more commonly consumed beverages that have fewer health benefits. They may also explain the health effects of the hawthorne berry, a key ingredient of Heart Juice.

**Step 3: Describe your qualifications.**

Answers will vary but might include the personal story of how the founders were inspired following the heart attack of a professor of one founders, a heart attack by the father of another founder, and the high cholesterol diagnosis of a parent of the third founder.

**Step 4: Describe your market.**

Student answers will vary but might address the large number of Americans suffer adverse cardiac events, the world's number one killer.

**Additional Activities****1. I Know Someone Who...**

Purpose: to help students meet other students in your new class, and help students build their network of people who can help connect them to professionals.

This is a good exercise for the first day of class. To prepare for this exercise, create a one-page handout listing many different professions such as attorney, accountant, consultant, banker, angel investor, venture capitalist, website developer, etc. These are the kinds of professionals a startup would benefit from.

Begin by asking students to first think of professionals in these categories whom they personally know, and would go to with questions.

Then each student is given a handout, told to stand up, leave the classroom (if possible) and network with each other. Tell them how much time you can allow for the exercise. They have two objectives to accomplish:

- Introduce them self and get to know as many other students as possible.
- Write other students' names on their handout who may know a professional they need.
  - For example, Chris introduces herself to Pat, and asks Pat if he knows anyone who is a professional listed on the handout. If Pat knows a good attorney, then Chris will write Pat's name next to the word attorney on the handout.

## 2. Virtual Incubator Tour

**Purpose:** to introduce students to business incubators

If you have Internet access in your classroom, take your students on a virtual tour of an incubator. If you do not have classroom access, then you can assign your students to find an incubator's website to take a virtual tour. If you would like to link directly to an incubator, then visit the University of Central Florida Business Incubator Program in Orlando, Florida, at <http://www.incubator.ucf.edu/index.html>. You could assign your students to find an incubator on their own by conducting a Google search, starting with <http://www.nbia.org/>, the National Business Incubator Association (NBIA).

## 3. Business Plan Competition

**Purpose:** to enhance retention of course concepts and encourage students to apply what they learn

Does your college or university participate or sponsor a business plan competition? Encourage your students to enter a competition. This is a great way to generate enthusiasm at the beginning of the term that can carry all the way through to the end of the term. Even if your college or university does not have a business plan competition, there are many events throughout the country that students can explore. Check out the BPC website (<http://www.bizplancompetitions.com/>) to find a listing of many different business plan competitions.

## 4. Elevator or Quick Pitch

**Purpose:** to encourage students to practice presenting their new business concepts

Although some colleges and universities put on quick pitch or elevator speech competitions, you can easily have a competition in your classroom. Have each student prepare and deliver a one-minute presentation to the class to inform and persuade the class of the viability of a new business concept.

Students are *not* pitching a great idea, team, or product. Instead, they are pitching what their business will do for investors and for customers. Therefore, they should pitch how their business will solve a tangible problem that exists today. Their pitch must have some kind of “hook” that will immediately spark interest in the audience. They must demonstrate that they, personally, are very excited about their own concept. Finally, they should close their pitch with some kind of request for action from the listeners, such as a request for funding or to join the founding team.

This YouTube video of an award-winning pitch (<http://www.youtube.com/watch?v=BIo-enMAIxE>) is only one of many to help students prepare their pitch.

You could use the pitch assignment early in the term to form teams. Instead of pitching a business concept, a student could practice preparing and delivering a pitch by attempting to persuade other students to join his or her team. In this case, students will pitch what they can do for the team.