

principles of Entrepreneurship

>>>> 12. Creating a Business Plan

A comprehensive business plan is crucial for a start-up business. It defines the entrepreneur's vision and serves as the firm's resume.

There are many reasons for writing a business plan:

- To convince oneself that the new venture is worthwhile before making a significant financial and personal commitment.
- To assist management in goal-setting and long-range planning.
- To attract investors and get financing.
- To explain the business to other companies with which it would be useful to create an alliance or contract.
- To attract employees.

A business plan can help an entrepreneur to allocate resources appropriately, handle unexpected problems, and make good business decisions.

A well-organized plan is an essential part of any loan application. It should specify how the business would repay any borrowed money. The entrepreneur also should take into account all startup expenses and potential risks so as not to appear naive.

However, according to Andrew Zacharakis, a common misperception is that a business plan is primarily used for raising capital. Zacharakis, a professor of entrepreneurship at Babson College, suggests that the primary purpose of a business plan is to help entrepreneurs gain a deeper understanding of the opportunity they envision. He explains: "The business plan process helps the entrepreneur shape her original vision into a better opportunity by raising critical questions, researching answers for those questions, and then answering them."

Some entrepreneurs create two plans: a planning document for internal use and a marketing document for attracting outside investment. In this situation, the information in each plan is essentially the same, but the emphasis is somewhat different. For example, an internal document intended to guide the business does not need detailed biographies of the management. However, in a plan intended for marketing, the background and experience of management may be the most important feature.

A standard business plan is usually about 40 pages in length. It should use good visual formatting, such as bulleted lists and short paragraphs. The language should be free of jargon and easy to understand.

The tone should be business-like and enthusiastic. It should be strong on facts in order to convince people to invest money or time in the new venture.

The basic elements of a standard business plan include:

Title Page
Table of Contents
Executive Summary
Company Description
Product/Service
Market and Competition
Marketing and Selling Strategy
Operating Plan
Management/Organization
Financing
Supporting Documents

The executive summary is the cornerstone of a good plan. This is the section that people read in order to decide whether to read the rest. It should concisely summarize the technical, marketing, financial, and managerial details. More importantly, it needs to convince the reader that the new venture is a worthy investment.

The company description highlights the entrepreneur's dream, strategy, and goals.

The product/service section should stress the characteristics and benefits of the new venture. What differentiates it from its competition? Is it innovative?

The financial components of a new venture's business plan typically include three projections: a balance sheet, an income statement, and a cash-flow analysis. These require detailed estimates of expenses and sales. Expenses are relatively easy to estimate. Sales projections are usually based on market research, and often utilize sales data for similar products and services produced by competitors.

Writing a business plan may seem overwhelming. However, there are ways to make the process more manageable. First, there are many computer software packages for producing a standard business plan. Numerous books on entrepreneurship have detailed instructions, and many universities sponsor programs for new businesses.