

company description  
financial plan  
management plan  
marketing plan  
mission statement  
pro forma financial  
statement  
revenue

## Chapter 3

# Business Plan

A well-orchestrated business plan is the first step in launching a new venture. Entrepreneurs take the time to research business plan templates, outlines, and examples before crafting their own plan. The process of creating a business plan assists entrepreneurs in defining their vision and goals for the company, as well as vital financial information that will help them acquire the necessary capital to launch a venture.

### Objectives

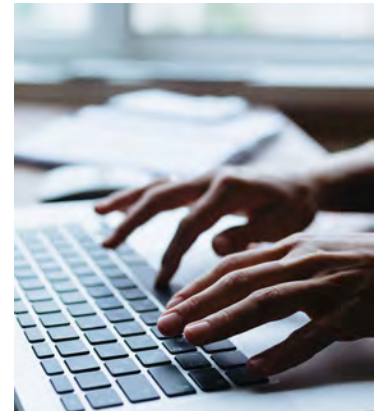
After reading this chapter, you will be able to:

- ☑ Explain characteristics of a business plan
- ☑ Define the purposes and value of a business plan
- ☑ Create a company description and mission statement

# Creating a Business Plan

Creating a start-up can seem daunting. One of the most valuable tools used by entrepreneurs to help in venture planning is a well-orchestrated business plan. A business plan guides an entrepreneur through every aspect of business creation to make his or her dreams a reality. The purpose of a business plan is to help entrepreneurs make realistic decisions about starting and operating a business.

A business plan is a strategic plan to help guide entrepreneurs through the start-up process. By breaking down the plan for generating profit into steps, the business plan can define an entrepreneur's venture idea in terms of achievable measures. Since different outcomes can result from modifying assumptions in a business plan—such as changing the price of a product or service—it is important to understand how each component can impact an entrepreneur's overall vision. Think of your own activities in the Build It section of this book as you read about the basic components of a business plan.



The characteristics of a well-orchestrated business plan include numerous documents as shown in *Figure 3.1* and described in Chapter 1's Build It section. These documents can generally be divided into several broad categories of executive summary and direction, management plan, marketing plan, financial plan, and appendix, each of which are described in detail below.

FIGURE 3.1

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Cover Page                           | <input checked="" type="checkbox"/> Social Media Marketing Plan      |
| <input checked="" type="checkbox"/> Executive Summary                    | <input checked="" type="checkbox"/> Operating Plan                   |
| <input checked="" type="checkbox"/> Company Description                  | <input checked="" type="checkbox"/> Funds Required and Expected Uses |
| <input checked="" type="checkbox"/> Description of Products and Services | <input checked="" type="checkbox"/> Financial Statements             |
| <input checked="" type="checkbox"/> Market Analysis                      | <input checked="" type="checkbox"/> Owner's Credentials              |
| <input checked="" type="checkbox"/> Marketing Plan                       | <input checked="" type="checkbox"/> Supplemental Attachments         |

# Executive Summary and Direction

The business plan is a physical statement of business goals and how the entrepreneur will achieve them. In your Build It activities, you have chosen a business and a product to deliver. Deciding these factors is the first step for entrepreneurs as they start their company. These decisions should be expressed in a document known as the executive summary, the component of a business plan that reviews what the business is and how it plans to profit. The Build It activities in this book guide you on your own entrepreneurial journey to help you think through each decision about direction, management, marketing, and financials. All of these goals are summarized in the executive summary.

## Management Plan

A **management plan** refers to how a company will be organized. Entrepreneurs creating the management plan portion of their business plan will detail procedures for operation, networking, accounting, and other daily business activities. Defining the importance of technology in operating and managing a business is another facet to a management plan entrepreneurs consider. Technology costs and functions are analyzed to determine the business's needs and how the entrepreneur will fulfill those needs.

As entrepreneurs detail their management plan, they should consider the staff they will employ in their business. Asking the following questions can help an entrepreneur determine the venture's human resources needs:

- Will the entrepreneur be the only employee?
- How many employees are needed for the business to function?
- How much will the business have to profit to hire more employees?

As part of a management plan, many entrepreneurs create an organizational structure for their entrepreneurial venture and develop job descriptions for positions. Thinking about hiring choices while considering management policies can be a helpful strategy in assessing how a business will operate.



### Notable Quotable

“Real business planning for real entrepreneurs and small business isn’t a matter of creating a big formal business plan, but instead, setting goals and metrics and tracking and following up with management and steering. It’s a planning process, not a plan. While the thinking and insight in developing a plan can be valuable, the more significant value comes from the process of the plan review and tracking and course corrections that follow.”

*Tim Berry, Palo Alto Software*

Source:  
*businessinsider.com*

### Business Ties to Technology

Technology is changing the way businesses monitor and track their finances. Financial technology, under the term fintech, has exploded in innovation and popularity in the twenty-first century. Fintech businesses offer smarter and faster services for companies to utilize, track, and monitor financial records. Examples of fintech include sophisticated data analytics, investment algorithms, and enhanced cyber security for use in the business world and beyond.



## Marketing Plan

A **marketing plan** is a strategy for how a business will generate revenue. Marketing plans include logos and taglines, target audience, market analysis, competitive analysis, and a developed strategy for how products will be sold to customers. Marketing plans include strategies for protecting the intellectual property of a company—copyright, trademarks, and patents are all ways businesses protect intellectual properties by law. A marketing strategy will include which protections will be used for certain products.

Market analysis involves entrepreneurs conducting market research to investigate what they need to know about their target audience to sell a product. Entrepreneurs analyze the market their business operates in and collect information about prospective customers to help them think about how they can meet consumer wants and needs. Their findings help guide business operations and are neatly outlined in the marketing plan section of a business plan.

## Financial Plan

Financial plans are perhaps the most critical component of a business plan because without a plan for how to fund a start-up, an entrepreneur may never get his or her business off the ground. **Financial plans** are strategies for how a business will obtain start-up capital, identify sources of financing, and assess the costs and benefits of resources. The financial plan may call for an entrepreneur to use external resources to supplement his or her expertise to ensure costs are interpreted properly. For example, an entrepreneur might consult an accountant, another businessperson, or internet resources to gain an understanding of what financial situations to expect and consider.

Identifying the necessary capital and monetary resources for a business venture requires a close look at the **revenue**—the income earned by a business—and expenses a business is expected to incur. To articulate how much money a venture will cost, the financial section of a business plan should utilize pro forma financial statements. **Pro forma financial statements** are projections of what the entrepreneur expects out of the sales and expenses of the business. Although these statements are only projections, they can give an entrepreneur and future investors a good idea of what the finances might look like in order to consider the right capital resources for the business. Three factors are forecasted in pro forma financial statements:

### Projected Income and Revenue

Entrepreneurs look at trends, market analysis, and other factors to develop an expectation of profit. The statement of profit expectations within a financial statement is called the pro forma income statement.

## Projected Cash Flow

Entrepreneurs summarize what can be expected for input and output of money in their venture. Investments, expenses, and operational costs all contribute to the cash flow of a business. The statement of projected expenses and revenue within a financial statement is called the pro forma cash flow statement.

## Projected Net Worth

Recall that net worth refers to the total value of a business determined by assets minus liabilities. An entrepreneur explains the company's expected net worth in the pro forma balance sheet.

## Appendix

The final portion of a business plan is the appendix. It provides any additional information that may be needed about the business venture. The appendix may include photographs, resumes, blueprints, or other aspects of a venture that will contribute to its future operations.



Palo Alto Software conducted a business plan survey with responses showing that those who completed business plans were nearly twice as likely to successfully grow their businesses or obtain capital as those who didn't write a plan.

Source:  
*smallbiztrends.com*

## CareerConnections

### Training and Development Manager

Training and development managers implement plans and programs that educate business professionals on a variety of topics, including technology, budgeting, or new production methods. Training and development managers are skilled communicators whose primary role is to teach business professionals. Some responsibilities of training and development managers include:

- Researching new products and technologies
- Planning training meetings
- Presenting new material
- Assessing whether employees are learning new skills
- Designing hands-on lessons



# Business Plan Resources

Entrepreneurs often seek out resources to assist in the creation of a business plan. One popular resource is a business model canvas, as shown in *Figure 3.2*. Entrepreneurs use this template to sketch out details of specific considerations related to their business. These areas of the template then become the building blocks to defining elements of the business. Seeing this information in a visual template can often help entrepreneurs and their collaborators communicate and solidify ideas.

There are typically nine areas outlined in a business canvas model that guide entrepreneurs in defining the value their products and services will bring to customers.

## 1. Customer Segments

A new business cannot be profitable without first defining the customers it will serve. Customer segments divide potential customers into categories based on shared attributes and behavior.

## 2. Value Propositions

A value proposition clearly outlines the value a product or service brings to a customer segment. Value represents the reason customers choose to buy from one business over another.

## 3. Key Activities

Key activities are the necessary actions to be accomplished to deliver a value proposition. Activities vary based on the type of business. A manufacturing firm, for example, will rely heavily on production as a key activity, while a consultancy firm would employ problem solving and critical thinking as key activities.

## 4. Key Resources

Key resources represent the assets needed to create a value proposition. Resources can vary from financial items such as credit and cash to intellectual property such as patents or copyrights.

## 5. Key Partners

Businesses rarely operate autonomously—there is usually a network of alliances that help a business reach its goals, including suppliers, vendors, and sometimes even strategic partnerships with competitors.

## 6. Channels

Channels provide the avenues for businesses to deliver their value propositions to customer segments.



## 7. Customer Relationships

After acquiring customers, businesses must consider how the customer relationships will be maintained. Defining customer relationships takes into consideration the expectation of the customer, including the level of interaction and communication.

## 8. Revenue Streams

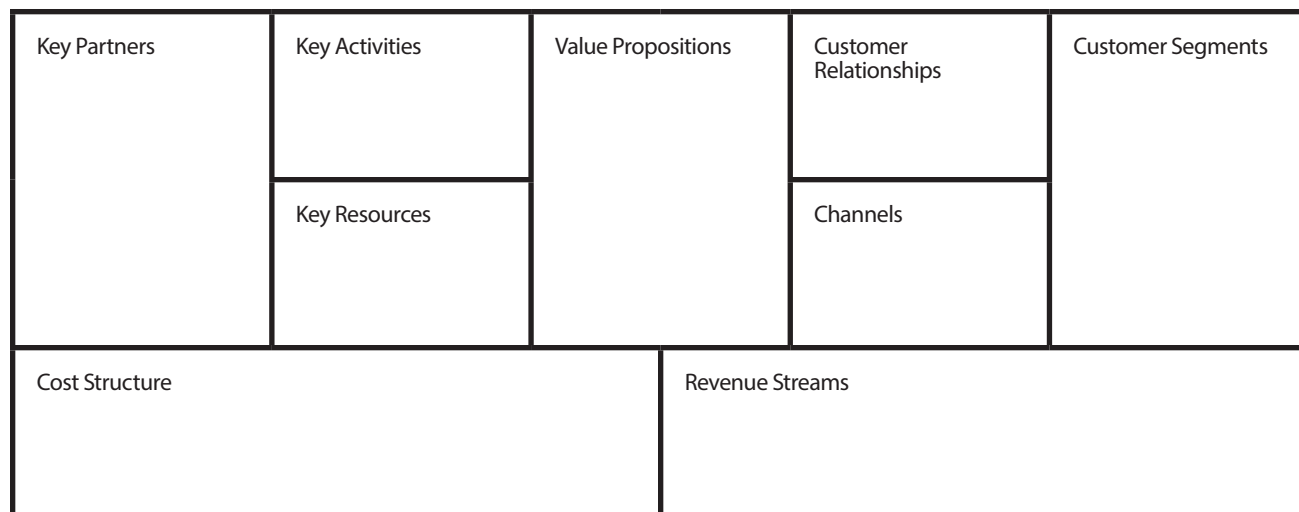
Sources of revenue reflect the value customers are willing to pay and can take a number of different forms depending on the business, such as subscription fees, one-time purchases, licensing, or leasing.

## 9. Cost structure

Businesses identify their cost structure by calculating the costs they will incur. Careful analysis of key resources, activities, and partnerships helps a business define its cost structure.

FIGURE 3.2

### Business Model Canvas



Source: [en.wikipedia.org](http://en.wikipedia.org)

In addition to using a business model canvas, entrepreneurs might also read and research other business plans within their industry to understand the best methods for creating their own. Reviewing sample business plans and notating similarities to their own business can provide entrepreneurs valuable feedback on how best to orchestrate a clear plan. Helpful resources for examples of business plans, templates, and outlines include the following:

- [sba.gov/tools/business-plan/1](http://sba.gov/tools/business-plan/1)
- [bplans.com](http://bplans.com)
- [leanstack.com/lean-canvas](http://leanstack.com/lean-canvas)
- [businessmodelgeneration.com/canvas/bmc](http://businessmodelgeneration.com/canvas/bmc)

## Sharing a Business Plan

Many entrepreneurs present or display their business plans and supporting documents to obtain a loan or appeal to investors. Critically explaining the components of a well-orchestrated business plan to a third-party can help an entrepreneur improve business projections and establish a solid foundation prior to starting a new venture.

Entrepreneurs should be prepared to deliver a short presentation before an audience to articulate their business venture. In addition to the insights an entrepreneur can gain from writing a plan, a professional business plan conveys the seriousness of a business venture. To effectively present a business plan, entrepreneurs should keep the following guidelines in mind:

- ☑ Demonstrate the need and value of the business idea
- ☑ Define the strategic plan clearly—providing an overview of the business model canvas can assist entrepreneurs in succinctly defining both value and strategy
- ☑ Know every piece of financial data and how it was calculated
- ☑ Make regular eye contact with the audience
- ☑ Be prepared to respond to audience questions and challenges



### Case Study

## Ethics in Entrepreneurship

Samuel needs to present a well-orchestrated business plan to obtain start-up capital from investors. He has completed a business model canvas, written a comprehensive business plan, and practiced explaining the contents of his plan to be well prepared before pitching to investors.

The only problem is that he is not happy with his financial plan and the financial requirements it will take him to launch his business. With his current financial projections, he needs to borrow \$150,000 to start his business and doesn't anticipate breaking even and profiting until year four. He is not confident investors will like what they hear so he decides to modify his financial statements to be more appealing to investors. While he doesn't have any solid research to support the changes, he believes telling investors the business will profit sooner will make them more likely to fund his venture.



**Do you agree or disagree with Samuel's approach? If you were Samuel, how would you handle the situation? What other areas of his business plan could be revised to help him profit sooner without having to fabricate financial data?**



## Community Change-Maker Leads with Authenticity and Transparency

**Chrissanne Long** is a self-described “late bloomer.” She didn’t discover her entrepreneurial purpose until her mid-30s. Now, at 42, she is doing everything she can to make up for lost time.

Chrissanne and her partner Craig started **Maximize Digital Media** with two laptops and an idea. For the first few years, they worked out of Chrissanne’s house as there was no other place for them to work together. Maximize has since grown into a full-service digital marketing agency with a focus on meaningful and measurable online marketing campaigns to help businesses use the internet to increase their bottom line. Chrissanne’s desire to become an entrepreneur was sparked by the possibility of making a difference. She didn’t know whether or not she could do it, but she felt she needed to try because there were businesses that simply weren’t going to be able to keep up with the fast-paced, ever-changing dynamic of the digital age.

Chrissanne shares the hardest part of starting a business is building relationships in the community from scratch. It took longer than she expected, but the investment paid off in more ways than she could have imagined. Chrissanne says, “I believe we can always do more. I believe in the power of relationships, in trust, and in showing up with a can-do attitude. I can’t say I always believed these things, but today they are the foundation of everything I do.” Her belief in the power of relationships was one of the catalysts for her starting a local business leaders organization comprised of small business owners, which provides a support system through face-to-face educational events, online meetings, and networking events. Chrissanne is now considered a change-maker in her community as a result of all she’s done to help build the local entrepreneurial ecosystem. Even so, she says there is more work to be done to connect all of the players—from small to large businesses and the organizations that support commerce in the community.

To other entrepreneurs, Chrissanne says there is no secret sauce. In addition to building relationships, she believes in authenticity and transparency. These two attributes are the building blocks to everything she does in business and in life. She believes that you shouldn’t wait for someone to ask for help—entrepreneurs should step in, take initiative, and meet the needs that aren’t being met.

**Name**

Chrissanne Long

**Company**

Maximize Digital Media

**Location**

Lakeland, Florida

**“I believe we can always do more. I believe in the power of relationships, in trust, and in showing up with a can-do attitude.”**

What exactly is it that your business will do? The goal of the company description is to explain just that. The **company description** section of a business plan provides the reader with a brief overview of the company including the business name, a summary of the business, and location of the business. The company description section is usually placed near the beginning of the business plan to establish a framework for the reader.

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## Company Description

The company description section of a business plan typically includes the following components.

- 1. The company name**

A business name tells potential customers who you are and what you do.

- 2. A general summary of the business**

A basic summary communicates what products or services a business offers.

- 3. An industry classification for the business**

The industry that your business will fall under.

- 4. The location of the business**

Where the day-to-day operations of the business will take place.

- 5. The year established**

The year the business was formed.

- 6. The primary function of the business**

The main products or services provided by the business.

- 7. Employees**

The number of employees (if any) who will be working for the company, as well as their job titles.

- 8. Business advisors**

Individuals (if any) who will be providing advice on legal, insurance, and accounting issues.

Once a company description is crafted, an entrepreneur can distill the most critical ideas into a succinct mission statement. A **mission statement** is a formal explanation of a company's goals, and will indicate what a company does and why. Popular company mission statements include the following:

**Sony Entertainment Company**

"A company that inspires and fulfills your curiosity."

**Penguin Random House Publishing Company**

"Our mission is to foster a universal passion for reading by partnering with authors to help create stories and communicate ideas that inform, entertain, and inspire, and to connect them with readers everywhere."

**Honda**

"Maintaining a global viewpoint, we are dedicated to supplying products of the highest quality, yet at a reasonable price for worldwide customer satisfaction."

**Riot Games**

"Riot's mission is to be the most player-focused company in the world."

## Crafting Your Company Description and Mission Statement

Understanding basic elements of your business will enable you to communicate to readers of your business plan a clear company description and mission statement. You will need to contemplate how and where your business will operate, as well as individuals who will assist you in operations, such as business advisors, partners, or potential employees.

An important first piece to a business plan is developing a sound company description and mission statement. Brainstorming different ideas will help you identify the best framework for the company description. Review and contemplate the following questions as you begin to identify components of a company description and mission statement for your own business plan:

- ☒ What potential business names can you brainstorm?
- ☒ What products or services will your company sell?
- ☒ What type of business ownership will you establish?
- ☒ What industry will your business be classified as?
- ☒ Where will your business operate and when do you plan on launching your business?
- ☒ Will you have employees or business advisors?

# Chapter Review

## Business Plan

In this chapter, you learned about the characteristics of a business plan. From identifying and researching online templates to exploring a business model canvas, entrepreneurs take advantage of numerous resources to help craft a well-orchestrated business plan.

### Instructions

Demonstrate your knowledge of this chapter by completing the following review activities.

**Note:** If you do not have access to the eText of this book, Chapter Review worksheets will be provided by your instructor.

### Define Key Terms

Apply your knowledge of the chapter reading by defining key vocabulary terms.

### Test Your Knowledge

Test your knowledge of the chapter reading by answering short answer questions.

### Read and Write

Review Ethics in Entrepreneurship about an entrepreneur preparing to present a business plan. Apply what you have learned by writing an essay analyzing the choices you would make if you were in the entrepreneur's position.

### Listen and Speak

Apply your knowledge of the chapter by preparing a presentation for an entrepreneurial venture.

### Create and Design

Use what you have learned in this chapter by researching business plan resources, outlines, and templates and assessing the effectiveness of each.

### Build It

Review the Build It section from this chapter about creating a company description and mission statement. Apply what you have learned by writing a mission statement and description for your company in the Build It activity.