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Business Plan- The Secret to Success

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Abstract:

A business plan is a must for every business whether it's a start-up or a business planning for an expansion. It plays a vital role in identifying the probable, the unforeseen opportunities and the forthcoming hurdles so as to sail well through business unique competitive environment. Making a business plan is an extremely focused activity. In simple words it can be well-defined as a business functioning on the paper. A business plan involves truthful thinking of the business concepts, the opportunities, and the recipes to be successful and most importantly the team that will be involved. The paper consists of a section that explains the typical elements which should be there in a plan and as to why it is needed. It also demonstrates how a good business plan can be used as a tool for a start-up firm's or businesses planning expansions so as to achieve the objectives or at times even outshine them.

Keywords: Business plan, key success factors, management summary

1. Introduction

Business plan preparation is part of preparing for a business. It is essential to recognize the objectives, develop the plans to meet them so as to guarantee the victory (Amir, 2002) as in figure 1. A business plan is an efficient technique to combine the various objectives into a logical arrangement (Amir, 2002). In simple words it can be well-defined as a business functioning on the paper. A business plan is not just a manuscript that is done hurriedly and then placed in some dusty shelf (Cyr, 2007). If the purpose of the business plan is to cater in the resource-rich environment, then some segments of the plan like marketing and the operational can be shorter when compared to the other sections (Cyr, 2007). But when it is anticipated to attract investments from angel investors then most of the sections have to be explained clearly (Cyr, 2007). Many entrepreneurs are hesitant to write a plan, but a good plan gives infinite benefits (Arkebauer, 1995), as these plans enable them to recognize the problematic areas and find the solutions in advance if the same problem was to exist later (O'Connor, 1998). Although a good plan does not ensure success, it can minimize the chances of failure (Crawford-Lucas, 1992). Most of the angel investors look for the business opportunity, its market potential, the amount asked for and by when they will get back the amount invested (Hodges, 1997). Entrepreneurs who require funding for their start-up, new owners, a business owner planning for expansions, all of them should write a business plan. The paper addresses how a good business plan can be used as a tool for a start-up firm's or businesses planning expansions so as to achieve the objectives or at times even outshine them.

1.1. Sources of Information

It is essential to make sure that all the relevant information is available before a business plan is written. There are various ways to get the information that is desired- some information may be easily extracted and may be economical, while gathering facts in some cases might also be a time consuming and an expensive exercise (Cyr, 2007). Some of the means are the internet, competitor's data, libraries, journals and so on. As the gaps generally lie in untried areas it is better to have a consultant do the work (Amir, 2002). Since start-ups have limited funding at the beginning hiring a consultant may increase the overhead which is a drawback.

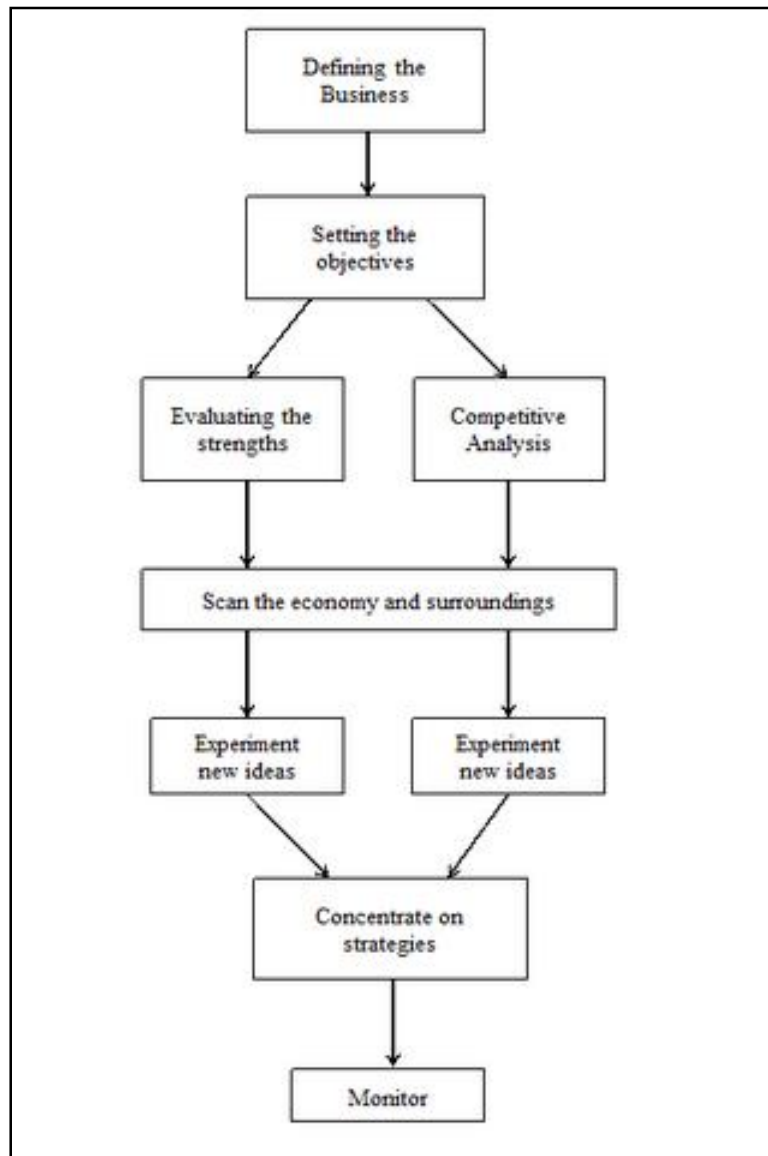


Figure 1: Steps in Planning (Source: Reuben, 1994)

2. Segments of a Business Plan

The business plans usually, consists of the following segments

- The cover page and the table of contents
- Executive summary
- Description of the business
- Competitive analysis
- Analysing the markets
- Marketing plan
- Operational plan
- Financial plan
- Management summary

2.1. The Cover Page and the Table of Contents

The intention of the cover page is to enlighten the audience as to what they are going to read and tell them as to how they can reach the people associated with the business. It is the first thing the audience looks at. To create an impression the cover page needs to have a fresh and good look, the names of the business has to be inputted, the business symbol has to be exhibited and the communication details has to be provided.

The table of contents shows the themes that are covered in the business plan. The pages in a business plan have to be numbered and it should also exhibit, the page numbers of the various themes present in it. This enables the target audience to go through the sections of their interest and read whatever they want to.

2.2. Executive Summary

The executive summary is a crisp exhibition of the key topics in the business plan and it gives a quick summary of the business as a whole. It has to include the market in which it will be operational, the product that is being offered and how different is it from that of the existing ones, the people involved in the business, the expected threats and returns and so on. It is usually two to three pages and must hard sell the business (Arkebauer, 1995) and has to basically create interest among the audience (Brown, 1996).

2.3. Description of the Business

This segment lays emphasis on the business notion, the nature of the business and the whole idea of the business. The intentions are to be correctly explained and also explain how the business will become successful. Sahlman (1996) says that the angel investors would like to know the potential for the firm's product in the market, the product and the market attractiveness, the returns expected and so on. Thus segment has to throw light on these topics. Following information has to be incorporated such as the product benefits, the market segments the business will cater, product description, and uniqueness and more importantly about the background of the business as to whether it is a start-up or ready to expand.

2.4. Competitive Analysis

The next stage is to carry out the competitive analysis. Some of the components of competitive analysis are: identifying the strengths, weakness, opportunities, threats, determining the financials etc. Aaker (1984) proposed a model to rank the business against its competitors using the key success factors (KSF). Once the various conditions under KSF is decided they need to be graded, the weights allotted should come up to 1. Once the weights are allocated, the strength rating is allotted to each KSF ranging from 1 (weak) to 5 (strong). To calculate the firm strength, the strength rating of the corresponding KSF is multiplied with weights parallel to it. The final rating denotes the overall strength. Higher the rating higher is the overall strength. With reference to Table 1 it is seen that an entrepreneurs business has a higher final rating and is hence better than Competitor A.

KSF	Weights	Own Business		Competitor A	
		Strength Rating	Firm Strength	Strength Rating	Firm Strength
Market Share	0.30	2	0.60	4	1.20
R&D	0.10	4	0.40	2	0.20
Distribution	0.20	3	0.60	2	0.40
Resources	0.30	3	0.90	2	0.60
Service	0.10	4	0.40	2	0.20
Final Rating	1.00		2.90		2.60

Table 1: Competitor ranking using KSF (Source: Friend, 2004)

2.5. Analysing the Markets

This segment defines the target market. It is important to identify the target customers, assess the market size and the growth potential. Market segmentation can be carried out to identify the potential customers; surveys can also be conducted to capture the perceptions of the potential customers (Johnson, 1997). In addition, it is essential to communicate the value proposition which may be the unique benefits the customers get by purchasing a firms product, the benefit the product has over the competitors offering etc. The basic objective of this exercise is to determine the market for the offerings of the firm, the competition faced and the decisions that are to be taken to guarantee success.

2.6. Marketing Plan

In this segment strategies are formed, as to decide how to reach the customers, how to capture the attention of the potential customers, what kinds of messages and medium is needed to get a response and motivate the potential customer to place an order if he/she has a desire to purchase the product.

To sum up, it is a tool to

- Appeal to the customers
- Focus desire
- Get responses
- Secure action

Since the marketing plan is associated with costs, it is essential to select the methods which give a higher impact. The methods can include paid advertisements in papers, magazines, radio, etc., depending on the location, press releases, personal sales calls, sales promotion, using internet and many other means (Johnson, 1997). The promotional activity has to vary from location to location based on the responses, as there are costs associated with it.

2.7. Operational Plan

Operations are the efforts put in by the business; that is to convert the raw materials into finished products which is sold to the customer. In addition to this the various operational activities, the people responsible, tools used to complete the activities and so on. It has to be a lively one, but should not be high on technical aspects as some of the readers might be unable to understand it (Cyr, 2007). The primary objective of this plan is to show the use of various factors say the technological innovations in manufacturing, an efficient pricing strategy and how things are accomplished that will make the business a success. It can be summarized as shown in Table 2.

Activity	Responsibility	Tools used
Installation	Line Manager	Standard procedures, Installation manual
Sales	Sales Engineer	Product demonstration, personal sales calls
Accounting	Officer	SAP module, Tally software
Hiring	HR Manager	Interviews, Advertisements
Quality Inspection	Level II Inspector	Gauge, Caliper
Procurement	Purchase Associate	SAP module

Table 2: Sequence in operational plan

2.8. Financial Plan

The financial plan is the chief section of the business plan as it integrates all the parts of the business like the marketing plan, the operational plan and other details into expected financial outcomes. It is nothing but specifying the businesses capital requirements. Be it a start-up or business planning expansion, the angel investors would be keen to know the funding that is required, the projected profits, the expected returns, and the various break ups all of which are to be shown in detail. Though there are assumptions made in preparing financial statements, it should appear realistic and the assumptions made should be justified. So it is necessary to carry out surveys, conduct field studies, and consult the experts before the plan is prepared. The importance of the statements is to be explained. In general cash flow diagrams, profit and loss statements, and the break even, balance sheet should be included. Income statement delivers a summary of profits and expenditures. The balance sheet highlights the assets and liabilities of the firm. Cash flow statement displays how business plans to achieve cash flow (Amir, 2002). The investor who decides on loan approval wants to determine the firm's ability to service debt. The financial picture should also include the return on investment which is the measurable indicator for the success of business. To display the relation between price, cost and profit a risk table can be drawn as shown in Table 3. When there is neither profit nor loss the breakeven is achieved which should also be shown.

Particulars	Least estimate	Reasonable estimate	Optimistic estimate	Highly optimistic estimate
No of units sold				
Revenue Generated				
Cost per item				
Gross Profits				
Fixed Costs				
Net Profit/ (Loss)				

Table 3: Risk Table (Source: Johnson, 1997)

2.9. Management Summary

Another factor that influences funding is the people who are associated with the business. For some investors and readers, management summary is a key segment in the business plan (Cyr, 2007) and is of much interest to them as it is also a factor taken into consideration while funding for the business.

It should include details like

- The prior experience of the team members
- Their achievements
- Reputation within the business surroundings
- Their knowledge, skills and abilities
- Commitment towards the set-up
- The strength of the team as a whole
- The team's viewpoint

3. Conclusion

Crawford-Lucas (1992) and Orser et al., (2000) say that having a business plan gives the firm's an edge over others and can be more successful in their venture. Although a good plan does not ensure success, it can minimize the chances of failure (Crawford-Lucas, 1992). Orser et al., (2000) is also of the opinion that a good plan results in an overall growth for the firm. The business plan offers a blueprint for successfully creating and running the new venture. It is a necessary handbook, which can help a manager make significant improvements in the planning process. It also plays an important role in identifying the likely, the unanticipated

opportunities and the upcoming obstacles so as to steer smoothly in an environment that is filled with competition. The paper shows the different sections and explains the importance of each segment in the business plan. A successful business plan is only possible, when it includes all the segments and all these segments are precisely explored. Future research can focus on preparing business plans using system dynamics tools which can determine the behavior, business might exhibit in future, structural equation modelling approach wherein models are used to test the significance between the variables, design of experiments wherein the variables are tested to see if there is any interaction between them. Using these modern approaches will give business plans a more realistic feel. To guarantee business success, the business plan serves as a road map in taking the business towards the right direction.

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