Chapter 35

developing a business plan

Section 35.1
The Business Plan

Section 35.2
Marketing and Financial Plans
The Business Plan

Before You Read

PREDICT What might happen if a business were established without a plan?
OBJECTIVES

• **Explain** the purpose and importance of a business plan.

• **Identify** external planning considerations.
A business plan helps an entrepreneur develop goals, determine resources, and identify how the business will operate. A business plan also helps lenders decide to invest in the business.
The Business Plan

VOCABULARY

- business plan
- business philosophy
- trading area
- buying behavior
The Business Plan

Elements in the First Section of a Business Plan

- Description and Analysis

...
Elements in the First Section of a Business Plan

- Type of business
- Business philosophy
- Product and service plan
- Self-analysis
- Trading area analysis
- Market segment analysis
- Operational plan
The Business Plan

Developing the Business Plan

Main Sections of a Business Plan

- Description and Analysis
- Organizational Plan
- Marketing Plan
- Financial Plan

**business plan**

A proposal that outlines a strategy to turn a business idea into a reality.
Description and Analysis

Parts of the Description and Analysis Section

Type of Business
Description and Analysis

Parts of the Description and Analysis Section

Business Philosophy

business philosophy
A company’s stated beliefs on how its business should be run.
The Business Plan

Description and Analysis

Parts of the Description and Analysis Section

Product and Service Plan
Description and Analysis

Parts of the Description and Analysis Section

- Self-Analysis
- Education and Training
- Special Strengths
- Plan for Personal Development
The geographical area from which a business draws its customers.
Description and Analysis

Parts of the Description and Analysis Section

- Target Market
- Customer Buying Behavior
- Location of the Business
- Competing and Complementary Businesses
- Hours of Operation
- Visibility
- Customer Safety
- Customer Accessibility
- Zoning and Other Regulations

**Buying behavior**
The process that individuals use to decide what they will buy, where they will buy it, and from whom they will buy it.
Description and Analysis

Provide the Titles for the Four Parts of the Business Plan
The Business Plan

Description and Analysis

Graphic Organizer

Provide the Titles for the Four Parts of the Business Plan

Parts of the Business Plan

1. Description/Analysis
   - Type of business
   - Business philosophy
   - Product and service plan
   - Self-analysis
   - Trading area analysis
   - Market segment analysis
   - Operational plan

2. Organizational Plan
   - Proposed organization
   - Proposed good/service

3. Marketing Plan
   - Pricing policies
   - Promotional activities

4. Financial Plan
   - Sources of capital
   - Projected income and expenses
Think of two small businesses in their community that compete with each other. Determine answers to these questions:

- How does the business differentiate itself from the competition?
- How does it keep abreast of the competition?
- What indirect competition does it face?

<table>
<thead>
<tr>
<th></th>
<th>Business A:</th>
<th>Business B:</th>
</tr>
</thead>
<tbody>
<tr>
<td>How does it differentiate itself from the competition?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How does it keep abreast of the competition?</td>
<td></td>
<td></td>
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- How does it keep abreast of the competition?
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<table>
<thead>
<tr>
<th></th>
<th><strong>Business A:</strong> Sam’s Grocery</th>
<th><strong>Business B:</strong> Mom’s Food Mart</th>
</tr>
</thead>
<tbody>
<tr>
<td>How does it differentiate itself from the competition?</td>
<td>Tells customers they’ll get the best deal in town.</td>
<td>Tells customers the products are chosen especially for them by a loving mom.</td>
</tr>
<tr>
<td>How does it keep abreast of the competition?</td>
<td>Reads the competition’s ads in the local newspaper.</td>
<td>Visits the competition’s store on a regular basis.</td>
</tr>
<tr>
<td>What indirect competition does it face?</td>
<td>New chain store offers online purchasing and delivery services.</td>
<td>New chain store offers online purchasing and delivery services.</td>
</tr>
</tbody>
</table>
Description and Analysis

**Graphic Organizer**

Examples of Each Type of Data

<table>
<thead>
<tr>
<th>Geographic</th>
<th>Demographic</th>
<th>Economic</th>
</tr>
</thead>
<tbody>
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Description and Analysis

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<th>Demographic</th>
<th>Economic</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Population distribution</td>
<td>• Age</td>
<td>• Business growth projections</td>
</tr>
<tr>
<td>figures or how many</td>
<td>• Gender</td>
<td>• Trends in employment</td>
</tr>
<tr>
<td>people live in a certain</td>
<td>• Marital status</td>
<td>• Interest rates</td>
</tr>
<tr>
<td>area</td>
<td>• Race/ethnicity</td>
<td>• Economic statistics</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Stock market forecasts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Governmental regulations</td>
</tr>
</tbody>
</table>
Description and Analysis

Parts of the Operational Plan

Operational Plan

- [Blank]
- [Blank]
- [Blank]
- [Blank]
- [Blank]
- [Blank]
- [Blank]
- [Blank]
Description and Analysis

Parts of the Operational Plan

- Location of business
- Competing businesses
- Zoning and regulations
- Hours of operation
- Customer accessibility
- Visibility
- Customer safety
Description and Analysis

Operational Plan for an Athletic Shoe Business

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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<tbody>
<tr>
<td>Location</td>
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</tr>
<tr>
<td>Competing Businesses</td>
<td></td>
</tr>
<tr>
<td>Hours of Operation</td>
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<tr>
<td>Customer Safety</td>
<td></td>
</tr>
<tr>
<td>Customer Accessibility</td>
<td></td>
</tr>
<tr>
<td>Zoning and Other Regulations</td>
<td></td>
</tr>
</tbody>
</table>
## Operational Plan for an Athletic Shoe Business

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Location</strong></td>
<td>the local mall</td>
</tr>
<tr>
<td><strong>Competing Businesses</strong></td>
<td>the large department stores that anchor the mall</td>
</tr>
<tr>
<td><strong>Hours of Operation</strong></td>
<td>10:00 a.m. to 7:00 p.m. every day</td>
</tr>
<tr>
<td><strong>Visibility</strong></td>
<td>located near a sporting goods store that sells some clothing but no shoes</td>
</tr>
<tr>
<td><strong>Customer Safety</strong></td>
<td>good lighting in store; mounted mirrors to increase visibility of interior</td>
</tr>
<tr>
<td><strong>Customer Accessibility</strong></td>
<td>wide, clear aisles; wheelchair ramp to door of store; large parking area</td>
</tr>
<tr>
<td><strong>Zoning and Other Regulations</strong></td>
<td>mall zoned for retail sales; additional regulations written into lease</td>
</tr>
</tbody>
</table>
1. **List** the four major parts of a business plan.

   The four major parts of a business plan are description and analysis, organizational plan, marketing plan, and financial plan.
2. **Explain** why aspiring entrepreneurs should conduct a self-analysis as part of a business plan.

The self-analysis shows the entrepreneur’s strengths and weaknesses. It allows him or her to plan ways to acquire the needed skills that are lacking or to improve in certain areas. Plans for continuing personal development show potential lenders and investors your intent to improve on your existing skills and abilities as a business owner.
3. Discuss why knowledge about disposable income of potential customers is an important part of a business plan.

Disposable income is the personal income remaining from wages after all taxes are taken out. Disposable income is also known as “buying income” because this is the money consumers have to spend on the products and services offered by businesses.
Before You Read

**PREDICT** What do lenders want to see in the organizational, marketing, and financial sections of a business plan?
OBJECTIVES

• **Explain** a business’s organizational plan.

• **Construct** a marketing plan.

• **Describe** financing sources for businesses.

• **Identify** the financial elements of a business plan.
The organizational plan explains to investors how a business will function. The marketing plan explains how it will market its products. The financial plan projects its future profitability.
VOCABULARY

- job description
- organization chart
- equity capital
- debt capital
- collateral
- credit union
Describe the Three Business Plan Components Explained in this Section

- Organizational Plan
- Marketing Plan
- Financial Plan
Describe the Three Business Plan Components Explained in this Section

- Organizational Plan
- Marketing Plan
- Financial Plan

Types of Ownership
- Steps in Establishing Your Business
- Staffing

Pricing Policies
- Promotional Activities
- Distribution

Sources of Capital
- Equity Capital
- Debt Capital
Organizational Plan

- Proposed Organization
- Establishing Your Business
- Personnel Needs
- Job Descriptions
- Organization Charts
- Outside Experts
- Proposed Product and Service

**job description**
A written statement listing the requirements of a particular job and the skills needed to fulfill those requirements.

**organization chart**
A diagram of a company’s departments and jobs with lines of authority clearly shown.
Organizational Plan

Proposed Product and Service

- Graphic Organizer

Proposed Product and Service
Organizational Plan

Proposed Product and Service

- Types of products and services
- Potential suppliers
- Manufacturing plans
- Associated costs for product
- Inventory policies
Marketing Plan

- Marketing Plan
- Pricing Policies
- Promotional Activities
Financial Plan

**Equity Capital**
- Personal Savings
- Partners
- Shareholders

**Debt Capital**
- Banks
- Credit Unions
- Supplier and Previous Owners

**financial plan**

- **equity capital**: Money raised from within a company or from selling part of an owner’s share.

- **debt capital**: Borrowed funds, from sources such as banks, friends, and suppliers, that must be repaid.

- **credit union**: A cooperative association formed by groups of employees to serve as a financial organization and offer lower rates for the benefit of its members.
Marketing and Financial Plans

Financial Plan

Sources of Capital

- Source 1
- Source 2
- Source 3
- Source 4
Financial Plan

Sources of Capital

- Equity Capital
  - Personal Savings
  - Partners
  - Shareholders

- Debt Capital
  - Banks
  - Credit Unions
  - Suppliers and Previous Owners
Financial Plan

The Six Cs of Credit

- Character
- Capability
- Capital
- Collateral
- Coverage
- Conditions

**collateral**
Something of value that you pledge as payment for a loan in case of default.
Financial Plan

Financial Statements
Financial Plan

Financial Statements

- Projected start-up costs
- Projected personal needs
- Personal financial statement
- Projected cash flow
- Projected business income
- Projected business expenses
- Projected income statement(s)
- Projected balance sheet
1. **Identify** the three main types of ownership.

   The three main types of business ownership structures are sole proprietorships, partnerships, and corporations.
2. **Explain** why personnel needs are identified in a business plan.

Potential investors and lenders need to know that the entrepreneur can identify essential jobs for the business so that it will operate efficiently and successfully.
3. **Name** the six Cs of credit.

   The six Cs of credit include: character, capability, capital, collateral, coverage, and conditions.
Marketing Essentials

End of Chapter 35
developing a business plan

Section 35.1
The Business Plan

Section 35.2
Marketing and Financial Plans