BBM 001/03 Entrepreneurship Development course guide

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Unit 5

BBM 001/03

Entrepreneurship Development

The Business Plan

Wawasan Open University

the people's university

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Unit Overview

Unit 5 presents the outline of a business plan, explains the importance of each section, and guides you on how you can craft this information for your own ventures. We will also cover the "do's" and "don'ts" of preparing a business plan. Lastly, this unit will emphasise how the business plan is not the business itself, but only a step from an idea to a venture. It is imperative that you understand how to articulate the business plan succinctly, cleanly and carefully.

Unit Objectives

By the end of Unit 5, you should be able to:

1. Explain how to write a formalised business plan.
2. Identify the information found in a business plan.
3. Explain what a business plan is and its importance to the success of a business.
4. Discuss the nature of a marketing plan.
5. Describe some characteristics of a marketing plan.
6. Outline the steps involved in developing a marketing plan.

5.1 Business Plan

What is a business plan?

The terms 'strategic planning' and 'business plan' are often used interchangeably even though they are different. The strategic planning process is essentially the upfront activity related to generating a business model.

A business plan is a written document that describes in detail the overall plans of the business in which an entrepreneur wants to get involved. Even if entrepreneurs have been in business for a number of years, committing their plans to paper allows them to re-examine their business as well as to consider new business opportunities. A business plan is the blueprint of a company, presented in a standard format that is logical and realistic. It must clearly communicate the ideas of an entrepreneur and what he or she wants to achieve. To accomplish this, a business plan should include:

1. Evidence of focus, which shows the entrepreneur's expertise or that he or she has done exceptionally well in the business that he or she is involved in.

2. A description of who the entrepreneur's target customers are.

3. A description of how the entrepreneur plans to fulfil investors' or lenders' requirements.

According to Utton (2001), a business plan is a detailed programme or roadmap outlining every conceivable aspect of an entrepreneur's proposed business venture. It is a comprehensive, self-explanatory plan of what an entrepreneur intends to do; and how, when, and where he or she intends to do it. The business plan also explains why the entrepreneur believes the idea is viable and profitable. It is, in essence, a structured guideline to achieving the entrepreneur's goals in operating the business.

Besides all that, a business plan is the ideal tool with which to check the facts about a business and comprehensively examine the practicality of the business idea before taking action on it. It gives the entrepreneur an opportunity to make a realistic forecast of the business' prospects and list the actions for taking the business into operation. In addition, it also helps the entrepreneur to identify areas of strength and weakness, pinpoint needs and details that the entrepreneur may overlook, and describe the opportunities to be gained and the threats to be faced. All these aspects will determine how entrepreneurs achieve their business goals.

A business plan needs to be written against a framework of the following three questions:

1. Where am I now?

   This is an assessment of an entrepreneur's current position; the people, resources, assets and cash that he or she has to assist him or her in the business.

2. Where am I going?

   This is the "visioning" part of the process. What are the entrepreneur's personal objectives, why does he or she want to run a business? Where does he or she want to be in five years' time?

3. How am I going there? What are the milestones?

In general, entrepreneurs need to prepare a business plan for the following purposes:

1. It encourages them to arrange their thoughts in a logical and structured manner.

2. It helps them to create a business framework by defining the activities to be undertaken, the responsibilities of the various stakeholders and the objectives to be achieved.

3. It encourages entrepreneurs to simulate reality and anticipate problems before they actually occur.

4. It helps entrepreneurs to develop strategies to meet their objectives.

5. It serves as an action plan or guideline in operating the business.

6. It enables them to identify constraints that they may face when running the business.

For your business plan, you will need to find the answers to the following questions:

1. Who wants your product or service?

2. What characterises them — what is their market segment?

3. What is the anticipated value of the market?

4. Is the market likely to grow?

5. What are your competitors doing?

6. What are their strengths and weaknesses?

7. How are you positioning your product or service offering?

The importance of a business plan

A business plan is very important to an entrepreneur for the following reasons:

1. **It increases the chances of success**

   Comprehensive business planning can define the level of performance that is supposed to be achieved by the business. A business plan will determine the actions that need to be taken to ensure the success of a business venture. It takes into consideration the structure of the business, the introduction of new technologies and new manufacturing techniques, and the development of employee training programmes. Careful consideration of all these aspects will increase the entrepreneur's chances of success.

2. **It describes the mission and vision of the business**

   A business plan clearly sets out the mission and vision of the business. It guides an entrepreneur to take the right decisions and actions in the future. The mission and vision statements act as a "lighthouse" that enables the entrepreneur to know exactly where he or she is going. In addition, the business plan allows the entrepreneur to communicate the mission and vision to all stakeholders in order to gain their confidence.

3. **It helps to determine the main competitor/s**

   Frequently, entrepreneurs ignore the reality of competition in their new venture, believing that their product has no close substitutes and that their success will not attract other entrepreneurs. Business planning will enable entrepreneurs to determine who their main competitors are as well as the strengths and weaknesses of these competitors. This knowledge can be obtained by performing competitive analyses to identify potential competitors' product lines or services as well as their market segments. The entrepreneur should identify all key competitors for each of their products or services and try to estimate how long it will take new competitors to enter the marketplace. This knowledge will help entrepreneurs to determine the strategy needed to counter their competitors.

4. **It helps to determine the right way of managing the business**

   A business plan provides a space for entrepreneurs and their employees to develop effective strategies to run a business. In a business plan, they can define the knowledge, skills and abilities that are required to implement a business.

5. **Increases stakeholder confidence**

   Every stakeholder in a business is eager to know the company's strengths in terms of its finances, resources and viability. This information is very important as it enables them to determine their return on investment. For example, before a financial institution agrees to provide a loan needed by an entrepreneur, either to start or to expand a business, the institution would want to know the prospects of the business and its ability to repay the loan. Suppliers would also want to know an entrepreneur's financial position before they are prepared to extend credit for the purchase of goods or services. In addition, government agencies would also want to know the background and the nature of the business before they allow the company to be operated.

6. **It helps to determine the barriers of the business**

   In implementing a business, the entrepreneur will no doubt face many barriers. These barriers will cause failure or slow down an entrepreneur's progress if they are not overcomed properly. Therefore, entrepreneurs should know the barriers they may have to face before implementing a business and take the necessary action to overcome these barriers. The entrepreneur should know how far these barriers will affect them and their business. The entrepreneur should also ensure that products and services are in line with customers' tastes, government policies and changes in the business environment. All of this should be stated in the business plan.

7. **It serves as a performance tool**

   A business plan is a performance tool, which if properly prepared, will help an entrepreneur to work effectively towards success. A business plan allows an entrepreneur to set realistic performance targets. The business plan will provide the basis for evaluating and controlling the company's future performance in terms of profit, cost and quality.

Who needs a business plan?

Among those who need a business plan are:

1. **The entrepreneurs**

   The formulation of a business plan enables entrepreneurs to consider the time, effort, resources and support needed to achieve their goals. It will provide them with analyses of critical situations that may hinder business progress. In addition, it will help them to forecast changes. In a business plan, entrepreneurs must also analyse the factors that may lead to the success or failure of the company, as well as the threats and opportunities that may be faced in the future. Entrepreneurs must develop and examine the strategies and priorities needed to ensure the company's growth and these strategies and priorities should be clearly described and communicated. Entrepreneurs are responsible for setting reasonable benchmarks as measures of the company's success and these benchmarks should be stated in the business plan. In addition, the business plan will enable entrepreneurs to identify the difficulties and constraints faced by employees in achieving set targets.

2. **The shareholders**

   A business plan is also important to shareholders. They have a responsibility to know how the business will be or is being operated and their approval must be sought if changes in targets and strategies need to be made. Therefore, shareholders need to know about a new decision before it is executed. A business plan should be considered as an essential document for shareholders because they can play a role in critically reviewing the draft plan. The business plan enables entrepreneurs to inform shareholders about future markets for their products or services, key employees, business operations, financial projections and future plans.

3. **The bankers or creditors**

   A business plan is also needed by bankers when they are considering whether to extend a loan to an entrepreneur. Banks want to see the return that they can make from their loan by analysing the strategies and priorities of the company, which are stated in the business plan. Banks look at overall departmental strategy and policy, functional objectives and reporting requirements. They also look at the availability of government grants and tax incentives.

4. **The customers**

   The customer is a person, business or agency that purchases and uses the goods and services produced by an entrepreneur. All customers have a limited amount of money and thus must decide how it will be spent. The business plan provides them with information about the company that they can use in making a purchasing decision. In effect, customers are the people who will determine what products and services a company will produce.

   The business plan also provides customers with information about the quality and safety of the products that the company produces. To gain customers' confidence, entrepreneurs need to include information such as the price, product durability, ease of operation and maintenance, and after sales service and support. The customer will be more confident if a product or service uses new technologies and is endorsed or certified by organisations such as SIRIM, CAP and JAKIM, and is in line with customers' values and culture.

Essential elements of a good business plan

The following are the essential elements of a good business plan:

1. **Executive summary**

   The executive summary is the most important section of a business plan. It is the first thing the readers view and read. About 10% of readers will only read this part and the rest of the business plan will be neglected. This section needs to briefly tell readers where the company is and where it wants to be. Among the elements included in the executive summary are: the mission statement, the date the business started, the names of the founders and the roles played by them, the number of employees, the location of the business and the branches or subsidiaries if any, the description of plants or facilities, a list of the products manufactured and/or services provided, name of bankers, the progress of the company, the company's financial status and a summary of the management's future plans.

2. **Market analysis**

   The market analysis section should provide information about the industry the company is involved in. It should also present general highlights and conclusions of any marketing research that has been conducted. However, the details of any marketing research study should be moved to the appendix section of the business plan. This section should include an industry description and outlook, target market information such as the size of the market in terms of overall sales expected per annum for each product/service, a list of the major players and their sales for each product/service, total potential sales for each product/service, and the desired market share for your organisation. The drivers and trends of demand in the target market should also be stated in this section.

3. **Firm and management organisational structure**

   This section should describe the company's organisational structure and provide details about the ownership of the company, a profile of the entrepreneur(s) and the qualifications of the members of the board of directors and key management personnel.

4. **Marketing and sales strategies**

   Marketing is the process of creating and attracting customers to the business. In this section, the first thing to do is to define the marketing strategy. The marketing strategy should be part of an ongoing self-evaluation process and is unique to the company. An overall marketing strategy includes a market penetration strategy, a strategy for growing the business, a strategy for the channels of distribution and a communications strategy. The section should also describe the sales strategy, sales force strategy and sales activities.

5. **Service or product line**

   This section will describe the uniqueness of the company's products or services, emphasising their benefits to potential and current customers. The entrepreneur should focus on the areas where distinct advantages exist. The problem in the target market for which the service or product provides a solution should be identified.

6. **Funding request**

   This section focuses on the amount of funding needed to start or expand the business. If necessary, it can include different funding scenarios such as the situation for the firm with and without funding, and the implications of each situation to the business. Funding may come from the following sources:

   a. Self, family and friends.

   b. Shareholders and directors.

   c. Internal company sources.

   d. Banks.

   e. Second-tier finance.

   f. Special financial institutions.

   g. Venture capitalists.

   h. Mergers and acquisitions.

   i. Grants.

   Therefore, this section will include funding requirements, future funding requirements (e.g., over the next five years), details of how the company will use the funds received and any long-term financial strategies the company is planning that would have an impact on its financial status.

7. **Financial situation**

   The financial situation section should be developed after the market is analysed and clear objectives are set. In this section, the entrepreneur clearly shows the financial situation of the company by providing profit and loss forecasts, a cost flow forecast and a capital expenditure plan.

8. **Appendices**

   Appendices should be provided to readers on an as-needed basis. Appendices may include a credit history, detailed resume(s) of the entrepreneur(s), pictures of products, letters of reference, details of market studies, relevant magazine articles, copies of licenses, permits, legal documents, leases and contracts, and a list of business consultants, including lawyers and accountants.

Activity 5.1

Describe in not more than 250 words what a business plan is, what should be incorporated in it and why it is important.

Guidelines for preparing a business plan

The following guidelines should be followed in order for a business plan to be as effective as possible:

1. **Keep the business plan short**

   Keep the business plan as short as possible without compromising the description of the venture and its potential. Cover the key issues that will interest an investor and leave secondary details for a meeting with the investor.

2. **Be focused**

   The entrepreneur should not over-diversify the venture. This means that attention must be focused on one or two services or product lines and markets, because a new or young business usually does not have the management depth to pursue many opportunities all at once.

3. **Reveal the people involved and describe their roles**

   The entrepreneur cannot have unnamed or mysterious people in the company's business plan. For example, the plan cannot simply mention that Mr. Ahmad will join the company later as the vice-president of finance. Investors will want to know early on exactly who Mr. Ahmad is and his commitment to the business.

4. **Avoid the use of jargon**

   The entrepreneur should not describe products or manufacturing processes using jargon that only an expert can understand. Most venture capitalists do not like to invest in what they do not understand or think the planners themselves do not understand.

5. **Information should be based on studies**

   The entrepreneur cannot just provide an estimate in the business plan that has no logical basis. For example, the sales forecast must not be made on the basis of the production capacity available. Therefore, the entrepreneur must carefully estimate potential sales on the basis of a marketing study and from these estimates determine the production capacity required. Ambiguous, vague or unsubstantiated statements should not be made in the business plan because it makes the planner look like a shallow and fuzzy thinker. For instance, if the entrepreneur wants to substantiate the sales forecast, he or she must analyse past, present and projected future growth rates, and market size.

6. **Be realistic and objective**

   The entrepreneur must be rigorously realistic and objective in making estimates and discussing risks in the business plan.

Why business plans fail

Business plans may fail due to mistakes made by entrepreneurs when they write the business plan. All entrepreneurs need to have some type of plan. However, there are generally two problems with their plans. The first is that the plan is generally in their minds only and is not adequately stated. Secondly, the plan has not been adequately thought out. An entrepreneur needs to think through and plan his/her strategy in time horizons of one year, three years and five years. A good plan anticipates the next stage of business growth and plans for it.

Entrepreneurs should realise that the plan will help them to evaluate the goals and objectives of the business as well as the desired financial targets. Entrepreneurs must think about their goals for the business when they write the business plan. It is possible for entrepreneurs to implement their business plan successfully. Business plans should have realistic goals. The business plan can be difficult to implement because the goals are not balanced with the resources that the business has. Entrepreneurs must make sure that the plan that they write is realistic. The goals of the company must be written clearly and realistically. Each plan that is framed must be analysed to ensure that what is written in it can be successfully carried out. When entrepreneurs frame plans for the business, they must determine the steps that have be undertaken in each specific period to achieve the goals.

Another possible error in business plans is that entrepreneurs often **fail to expect barriers** that can arise and these unexpected barriers may cause the business to fail. When entrepreneurs write a business plan, they must think about problems that they may face. They must include contingency steps in their business plan. They must describe expected problems and provide possible solutions to these problems. These problems usually include financial issues, marketing analysis issues and the actions of competitors. Problems may also occur because of the economic environment that the business may face. The seriousness of the problems must also be considered.

The **entrepreneur may not have given sufficient consideration** to the task of selecting members of the planning team. Entrepreneurs sometimes select people with too little thoughts about their potential contribution to building a viable business when framing the business plan. Also, they sometimes do not consider whether each team member is positioned to drive the successful implementation of the resultant strategies. They may be unwilling to work hard or are not optimistic that the businesses goals stated in the business plan can be achieved. Some employees may not even understand what the business wants to achieve.

The **business may also fail to gather sufficient information for strategy planning**. At times, the planning team may meet to develop the business plan without having gathered the information necessary for proper strategic thinking. Naturally, their strategy will then be inadequate. The entrepreneur and the planning team must decide in advance on the information that they will need for preparing the strategy and take the necessary action to obtain this information.

The **business plan must involve market analysis**. When the business does not analyse the market, it cannot determine the business environment and this may cause the business to be unsuccessful. Market analysis must be as specific as possible, focusing on believable and verifiable data. It must include a thorough analysis of the company's industry and potential customers. It must also include information on the size of the market, growth rates, recent technical advances, government regulations and market trends; i.e.,, whether the market as a whole is developing, growing, matured and or in decline.

Activity 5.2

Prepare a draft of your own entrepreneurial business plan. Let your friends evaluate your plan.

Self-test 5.1

1. Discuss the importance of business planning in the world of entrepreneurship. Explain, with examples, the elements that make up a good business plan.

2. Briefly discuss why and how business plans fail and suggest how to overcome or prevent such failures.

5.2 How to Present a Business Plan

Presenting a business plan

After a business plan has been written, the next stage often involves pitching the plan to prospective investors. This very fact means that the plan authors and management team should be one and the same and that 'outsourcing' the business plan writing process should not be considered. It is not just the content of the business plan that is being scrutinised.

Before we give you guidelines on how to present he business plan to interest parties, let us first look at who might be interested in your business plan. **Figure 5.1** provides an overview on who might be interested in your business plan. There are two groups of users and both will pay attention to specific matters in the business plan. When drawing up a business plan, you should bear in mind who your readers will be.

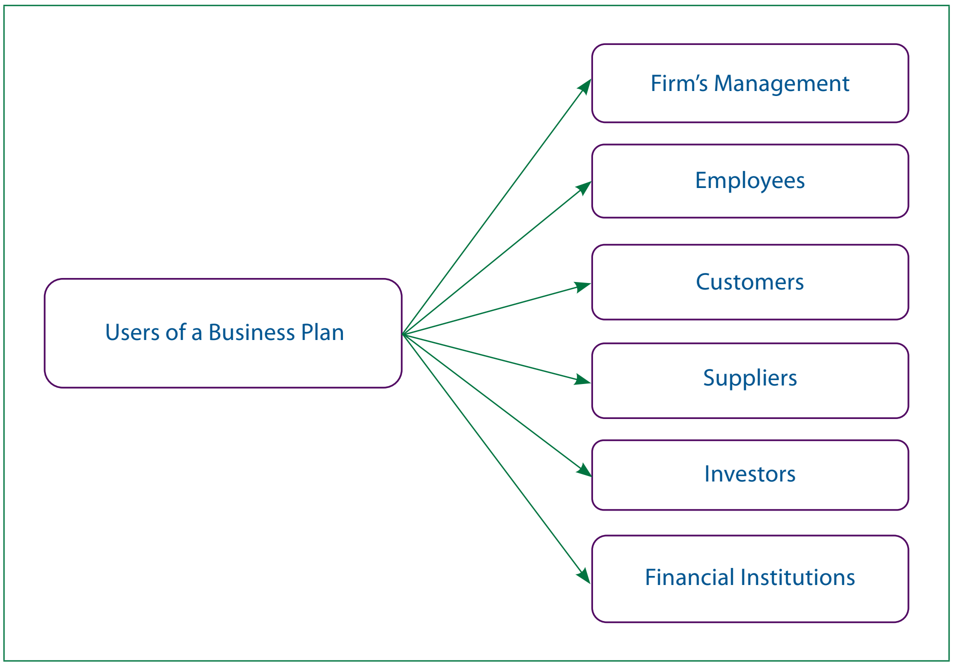

Figure 5.1 Overview of a business plan

In addition to knowing for whom you are preparing a business plan and taking their interests into consideration, you will have to decide how much planning to do before you start preparing the business plan. Planning involves the following:

1. You should study and be thoroughly conversant with your business plan.
2. You should have a solid knowledge about your market.
3. You should know how much is required for financing your business, the source of the required finance, the implication of such financing and how you will meet the commitment.

4. You should know your abilities and challenges and how you plan to use or manage them in the course of implementing your plans.

Preparing a formal, written business plan imposes discipline on the entrepreneur. In order to prepare the marketing plan, financial plan and operating plan, you should have conducted some research. You are thus forced to exercise self-discipline, which is a characteristic of good managers. The business plan can be used internally as well as externally.

Using the business plan internally

A good business plan should be effective in terms of selling ideas to people. In this way, the business plan will provide a structure for you to communicate your mission to your current and prospective employees i.e., being used as a tool for recruiting key personnel. A business plan helps to motivate and focus the management team when the enterprise grows and becomes more complex. The business plan is your guiding tool in the business. It provides you with the exact idea of how to operate and conduct your business activities.

The business plan and outsiders

A business plan is an effective selling tool as it can enhance the credibility of the business with customers, suppliers, business partners, lenders and investors.

1. **Business partners**

   A business plan is of significant value to your business when you want to obtain certain contracts. Big businesses will insist on information about who you are and what you can offer them in terms of products and services. A well-prepared business plan might clinch the deal for you.

2. **Suppliers**

   Part of financing your business will involve trade credit that is extended by your suppliers. A well-drafted business plan may be helpful in gaining a supplier's trust and thus securing favourable credit terms.

3. **Customers**

   A business plan can improve sales prospects by convincing a potential customer that the new business will provide a quality product or service.

4. **Financial institutions**

   Lenders and investors use business plans to gain an idea of the business, the type of product or service, the nature of the market, the qualifications of the entrepreneur, and the future potential of the business. They require a step-by-step plan of how you intend to make your venture a success and they want to be convinced that you are capable of doing it.

If you are going to use your business plan to raise capital, you should understand the lenders' and investors' perspectives. You should see the world as they see it, i.e., you should think like them. Therefore, you should consider all business plan features that will attract or repel them.

Activity 5.3

In your own opinion, why do you think many entrepreneurs do not prepare a business plan?

Self-test 5.2

1. Identify two main purposes of a business plan.

2. What are the most important parts that you should include in your business plan?

5.3 The Marketing Plan

The nature of the marketing plan

In the previous section, you learnt how to develop a business plan for your business idea. You looked at options for financing your business and included them in your business plan. You also learnt that planning for your business should include a marketing plan driven by the overarching direction set out in the business plan. In this section, you are going to look at the nature of a marketing plan and why it is important for your business.

A sound marketing plan is the key to the success of our business. It should include:

1. Sound and specific market research.
2. Location of the business.
3. Target customer groups.
4. Who the competition is.
5. Market positioning.
6. Description of the products or services you want to provide.
7. The pricing structure for the product or service.
8. Advertising plan and strategies.
9. Promotion strategies.

Before you start your business, it is important to draft up a marketing plan that will provide some direction as to how you will market your products or services. Once your business is established, you should plan to revise your marketing plan annually.

The marketing plan should focus on decisions related to the marketing variables which may affect your products, your pricing structure and location of the business and how you carry out promotion strategies. The process of developing your marketing plan should include an initial stage to conduct market research. Market research is the process whereby you collect information that will assist you in the development of your marketing plan. This information can be generated from both secondary and primary sources. You may contact sources of information directly by conducting interviews or indirectly by accessing existing marketing information reports.

Environmental scanning

In addition to conducting marketing research, it is also important for an enterprise to do an environmental scan. Environmental scan is the process of gathering, analysing and dispensing information for tactical or strategic purposes. The environmental scanning process entails obtaining both factual and subjective information on the business environments in which a company is operating or considering entering.

Whether you are planning a trip to the grocery store or the direction of your business, you need to consider the external environment. For example, you want to go grocery shopping in the next town. You would like to get this done as quickly as possible. So, you turn on the radio to listen to the traffic report. If there has been an accident on the main road, you plan to take an alternate route that will keep you out of the traffic jam. There you go ... you have done a limited form of environmental scan.

In terms of organisations and strategy planning, an environmental scan involves considering the external factors that will influence the direction and goals of your business. It includes consideration of both present and future factors that might affect the business since of course, you are planning for the future, not just the present.

Basically, an environmental scan provides the entrepreneur with information on what is happening in the market. It entails the following:

1. Economy
2. Culture
3. Technology
4. Legal issue
5. Competition
6. Availability of raw materials

It is also important to study the internal environment factors. These include:

1. Financial resources
2. The management team
3. Suppliers
4. The company's mission statement

The main idea behind the development of a marketing plan is to answer the following questions:

1. **Where have we been?** This includes finding out historical information about the marketplace, the firm's strengths, weaknesses, opportunities and threats.

2. **Where do we want to go?** This involves setting marketing goals and objectives for the short term.

3. **How do we get there?** This question calls for decisions on specific marketing strategies that will be implemented to achieve the enterprise's goals.

Characteristics of a marketing plan

The characteristics of a marketing plan are as follows:

1. It provides a strategy to accomplish the mission statement of the enterprise.

2. It is based on facts and valid assumptions.

3. It provides for the use of existing resources.

4. It describes how an organisation is going to implement the plan.

5. It provides for community.

6. It is simple and short.

7. It is flexible.

About the marketing plan

The first thing you need to do is to set your marketing objectives. Your marketing objectives must be:

1. Clear

2. Measurable

3. Have a stated time frame for achievement.

Marketing strategy

The marketing strategy section of your plan should outline your game plan to achieve your marketing objectives. It is, essentially, the heart of the marketing plan and should include information about the four P's:

1. Product — Your product(s) and services
2. Price — What you will charge customers for products and services
3. Promotion — How you will promote or create awareness of your product in the marketplace.
4. Place (distribution) — How you will bring your products to your customers.

Preparing a marketing plan

There are ten steps in preparing a marketing plan. They are:

1. Defining the business situation.
2. Defining the target market/opportunities and threats.
3. Considering strengths and weakness.
4. Establishing goals and objectives.
5. Defining marketing strategy.
6. Co-ordinating of the planning process.
7. Determining responsibility for implementation.
8. Budgeting the marketing plan.
9. Implementing the marketing plan.
10. Monitoring process or marketing actions.

Let us look at each step in detail.

Step 1: Defining the business situation

Business analysis

The first step in preparing a marketing plan is to do a situation analysis. A situation analysis basically takes into careful consideration the results of the environmental scan, which you studied earlier on in this unit. If you are planning to expand an existing small business, you should review the past performance of your products and the company at this stage. The situation analysis provides information on the market size, growth rate, suppliers, competitors and the general economic conditions. As you work on this step, you will be able to define:

1. Your geographic marketing area – neighbourhood, regional or national.
2. Your competition.
3. How you differ from the competition- what makes you special.
4. Your price.
5. The competition's promotion methods.
6. Your promotion methods.
7. Your distribution methods or business location.

Activity 5.4

Prepare a draft of your own entrepreneurial marketing plan. Let your friends evaluate your plan.

Plan and budget

As you carry out a situation analysis, it is important that you start to draft an overall plan and an initial budget for your marketing activities. Here are a few things you may want to think about:

1. The marketing methods you will use to communicate with your customers.
2. The marketing methods that have been most effective to your competitors.
3. Possible future marketing methods to attract new customers.
4. Percentage of profits you can allocate to your marketing campaign.

5. The marketing tools you can use within your budget, newspaper, magazine or Yellow Pages advertising; advertising; radio or television advertising; direct mail; telephone-marketing; public relations activities such as community involvement, sponsorship or press releases.

6. The methods of testing your marketing ideas.

7. The methods for measuring results of your marketing campaign.

8. One marketing tool you can use immediately to start promoting your products and/or services.

Step 2: Defining target market/opportunities and threats

It is important for you to know who your customers or target market will be. This can be classified into target markets or the entire market. Once you decide what your target market will be, try to break it into segments. As you have learnt previously in this course, market segmentation is the process of dividing your customer base into smaller homogeneous groups according to age, sex, income, geographical location, etc. In order to do this, think about:

1. How your customer learns about your product or service — advertising, radio, TV, newspapers, direct mail, word of mouth, Yellow Pages, flyers, billboards.

2. Patterns or habits of your potential customers — where they shop, what they read, watch, listen to.

3. Qualities your customers will value most about your product or service — selection, convenience, service, reliability, availability and affordability.

4. Qualities your customers will like least about your product or service — can they be adjusted to serve your customers better?

Step 3: Considering strengths and weaknesses

This step in the development of a marketing plan takes into consideration the strengths and weaknesses of your company. You have learnt how to do this earlier on in this course.

Step 4: Establishing goals and objectives

At this stage, it is very important to establish the goals and objectives that you wish to achieve. These goals and objectives will answer the second question of a marketing plan:

These goals should specify the following:

1. Market share
2. Profit
3. Sales
4. Market penetration
5. Pricing
6. Promotion policies

Best practices indicate that it is best to limit the number of goals to between six and eight. It is also worth nothing that although the goals should ideally be quantifiable, some may not be.

Step 5: Defining marketing strategy and action programmes

At this stage, you must ask yourself the question: How are we going to get there?

To answer this question, you must set strategies and action plans. This stage entails designing strategies to address all the four elements of the marketing mix popularly known as the 4Ps of marketing which we have referenced above:

1. **Product or service** — This first P basically means that you must describe the product or services you are going to offer. It involves addressing issues about packing, brand name, warranty, image service, features and style.

2. **Pricing** — The second P is a reminder that you must come up with a pricing strategy. It is worth noting, however, that determining the price of a product is difficult. You must consider the costs of providing the product, discounts, freight and mark up. A good source for this information would be existing marketing research.

3. **Place** — The third P emphasises how important it is to make sure that the product is available for purchase in a convenient place. At this stage, you should consider the type of distribution channel to use, number of intermediaries and the location of the members of the distribution channel. Some enterprises nowadays use direct mail marketing because it is simple and less costly. However, you should evaluate all possible options of distribution.

4. **Promotion** — The last P reminds you that one of the one of the tasks you have to do is to inform customers about your product. You can use advertising media such as print, radio or television. Some enterprises use magazines and TV

Step 6: Coordination of the planning process

Another important step in the development of a marketing plan is to coordinate the planning process. You may lack the experience necessary to prepare the plan because you are the only person involved. However, you may seek assistance from other bodies that help small businesses such as 1Malaysia Entrepreneur (1MET) Programme, Young Entrepreneur Fund (YEF) and many others under the Prime Ministers Department of Malaysia.

Step 7: Determining responsibility for implementation

It is important that the marketing plan is implemented effectively so that it meets the goals and objectives of the business. It is therefore important that someone be assigned the responsibility for implementing all the decisions in the marketing plan. This is what you must do at this stage.

Step 8: Budgeting the marketing plan

In order to implement any plan, it is necessary to have a budget. At this stage, it is important to consider all the costs involved in the implementation of the actions specified in the marketing plan. This means that you must create a marketing budget. The marketing budget also helps in the preparation of the financial plan for your business.

Step 9: Implementing the marketing plan

At this point, you are ready to implement the plans and strategies set out in the marketing plan so that it achieves the desired goals and objectives over the period established, usually 1 to 3 years. It is important at this stage to be committed to making adjustments with guidance from the marketing environment.

Step 10: Monitoring process and marketing actions

This is the last step in the development of the marketing plan. It involves checking results versus efforts. The results are measured against the goals and objectives. If you fail to meet some of the goals, you must be flexible and be prepared to make adjustments.

Self-test 5.3

1. Discuss the forms of expenses that a business would likely face?

2. List the bodies that you ask for help in coordinating and planning of a small business.

Summary of Unit 5

Summary

In this unit, we have explored the key elements and importance of a business plan. You have also explored the nature and characteristics of the business and marketing plan. You have learnt about the importance of understanding your competition and how to market your products and services.

Congratulations! You have concluded studying this course. Have a look at the activities we propose, which will guide you through the process of putting together the business plan for your business enterprise.

Course Summary

Summary

Congratulations on completing *BBM 001/03 Entrepreneurship Development* course. You should now have a basic understanding of entrepreneurship that will enable you to explore the subject at a deeper level if you wish to do so. Let us briefly recall what you have learnt in this course.

There are several factors that govern the pattern and rate of economic development in a country. One of the important inputs is provided by the quantum and quality of entrepreneurship. Unit 1 has elaborated the basic characteristics of entrepreneurs and how successful some entrepreneurs have evolved in the Malaysian context. It has also provided clear understanding on what motivates entrepreneurs and what makes them creative. The discussion on the history of entrepreneurship should have given you ample background knowledge on the origins of entrepreneurship and how the subject has evolved over time. The real-life examples should have inspired you and convinced you that success in entrepreneurship is attainable with proper planning, determination and creativity. Entrepreneurs are responsible for introducing innovation, adaptation and new ideas. They often come up with brilliant ideas to fill the market's need for products and services.

In Unit 2, you should now have a better understanding on how to craft a business model, marketing mix strategy and also consider the advantages of embracing the latest technologies in your business. You have also learnt about the legal requirements that you need to comply with as a business owner and also considered how to develop a code of ethics to guide your business operations.

In Unit 3, you have explored the key elements of a business structure. You should be able to identify and distinguish between different types of businesses based on how they are organised and financed. Identifying the supply and demand for what you are trying to offer as well as determining the market you will sell you product/service will contribute to your success as an entrepreneur. You have also learnt about the importance of understanding your competition and how to market your products and services.

In Unit 4, you have learnt managerial issues in entrepreneurship in the context of communication, leadership, competition and change. You should have realised that knowledge of the 3Cs, namely communication, competition and change, are vital for any successful entrepreneur, as is knowledge of leadership. You have also learnt the various styles of communication and leadership. You should be able to understand that competition is unavoidable and you need to know how to handle competition.

In the fifth and final unit, the topics covered key elements and importance of a business plan. You have also explored the nature and characteristics of a business and marketing plan.

Suggested Answers to Self-tests

Feedback

Self-test 5.1

1. Key elements that should be included are:

   a. **Business concept**. Describes the business, its product and the market it will serve. It should point out just exactly what will be sold, to whom and why the business will hold a competitive advantage.

   b. **Financial features**. Highlights the important financial points of the business including sales, profits, cash flows and return on investment.

   c. **Financial requirements**. Clearly states the capital needed to start the business and to expand. It should detail how the capital will be used, and the equity, if any, that will be provided for funding. If the loan for initial capital will be based on security instead of equity, you should also specify the source of collateral.

   d. **Current business position**. Furnishes relevant information about the company, its legal form of operation, when it was formed, the principal owners and key personnel.

   e. **Major achievements**. Details any developments within the company that are essential to the success of the business. Major achievements include items like patents, prototypes, location of a facility, any crucial contracts that need to be in place for product development, or results from any test marketing that has been conducted.

2. Six reasons businesses fail:

   - Leadership failure
   - Lacking uniqueness and value
   - Not in touch of customer needs
   - Unprofitable business model
   - Poor financial management

- Rapid growth and over expenses

Preventing or overcoming from business failure:

- Lack of capital
- Lack of management skills
- Lack of information about what works and what does not
- Lack of a plan
- Lack of focus
- Ignoring risks in their assessment of alternatives and opportunities
- Failure to plan for issues absorbing the majority of your time

Self-test 5.2

1. A good business plan acts as a dynamic blueprint for running and expanding your business, according to Inc.com. It is necessary for you to understand the main purposes of a business plan in order to write one.

   a. **Maintaining focus**

      A business plan contains all your product information, manpower and financial estimates as well as your plans for the future. As you grow your business, you should refer to your business plan. When you decide to make changes to your business, those changes should be reflected in your business plan. When you update your business plan, you will be able to see how your proposed changes will affect your entire business. Your business plan reminds you of why you started your business in the first place, what your original goals were and how business changes will affect your original vision.

   b. **Securing financing**

      As you start your business and even as your business moves along, you will constantly need to concern yourself with financing your business. Financing concerns begin with start-up costs followed by business expansion and new product development. When you look for external financing, one of the first things an investor wants to see is your business plan according to Inc.com. Private investors, banks or any other lending institutions want to see how you run your business, what your expense and revenue projections are and whether or not your plans for the future are attainable with the business you have created. All of this can be answered by a well-written and thorough business plan.

c. **Fuelling ambitions**

Starting your own business may seem like a daunting task if you have never done it before. When you break down your business into a business plan, it can motivate you because it presents the business in an organised fashion, according to the University of Colorado. When you spend time to outline your business in detail, you begin to understand what it will take to get your dream off the ground. Following a business plan can help you to map out the growth of your company and give you confidence when you need it.

d. **Enlightening executives**

As your business grows, you need to consider adding executives to your team that can help move your company in the right direction. A business plan will help executive talent see your business vision and determine whether or not your company is a worthwhile investment in terms of time and resources.

First, here is what a standard business plan should cover:

i. The company (its legal formation, history, and ownership)

ii. What it sells (the product or service)

iii. The market (including size of market, growth, and trends)

iv. The plan (sales forecast, sales and marketing strategy, milestones, assumptions and tasks)

v. The management team (organisational structure and managers' backgrounds)

vi. Financial analysis (cash flow, profitability, balance, and returns)

The most important part of the plan is where it says specifically what is going to happen. The core of a business plan is the collection of detailed dates, deadlines, responsibilities and commitments. It is called milestones or MAT i.e., Milestones, Assumptions and Tasks. Ironically, this kind of detail is frequently left out of business plans that are full of big ideas and strategy. What you want from a plan is results and the way to get results is to build specifics you can track.

The cash flow statement is the second-most important item. Prepare a monthly cash flow for the first 12 months of your plan. "Cash" in this context means money in the bank, not coins and bills; it is critical to business.

There are two good reasons for stressing cash flow. First, businesses live or die with cash — not profits. Second, cash makes much more sense in a plan, laid out monthly than in your head. Putting it down on paper will help you understand your cash flow projections and any problems will become immediately apparent.

Complete financials include, at the very least, projections for profit, cash and balance sheet, which should be in monthly detail for the first 12 months in a plan and then annually for the following two to four years. A three-year plan is enough for most businesses, although some investors want to see projections for five years.

Self-test 5.3

1. Operating a small business can include a variety of business expenses. The actual expenses you incur will depend on factors like the type and size of your enterprise. Anticipating expenses and managing them efficiently will help ensure the success of your small business. Making a list of possible expenses can help you in your expense management efforts.

   a. Start up expenses

   b. Operating expenses

   c. Capital expenses

2. Bodies that you ask for help in coordinating and planning of a small business.

   a. 1Malaysia Entrepreneur (1MET) Programme.

   b. Young Entrepreneur Fund (YEF) and many others.

   c. Prime Ministers Department of Malaysia.

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