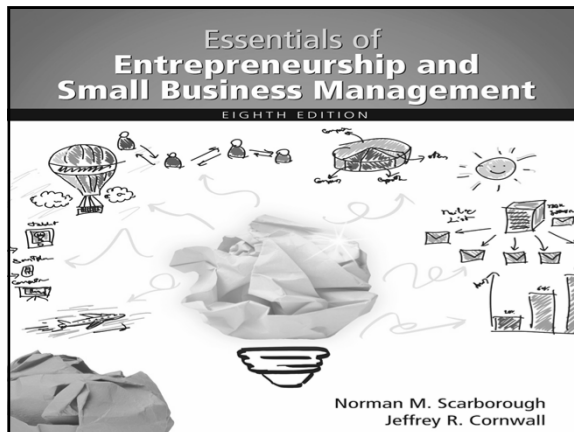


# ESSENTIALS OF ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT • I

## Chapter 5: Crafting a Business Plan and Building a Solid Strategic Plan



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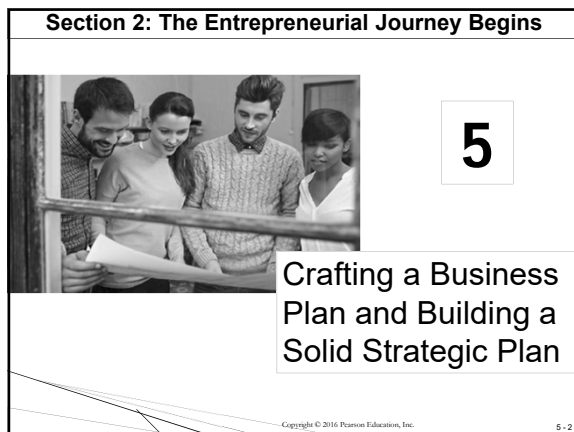
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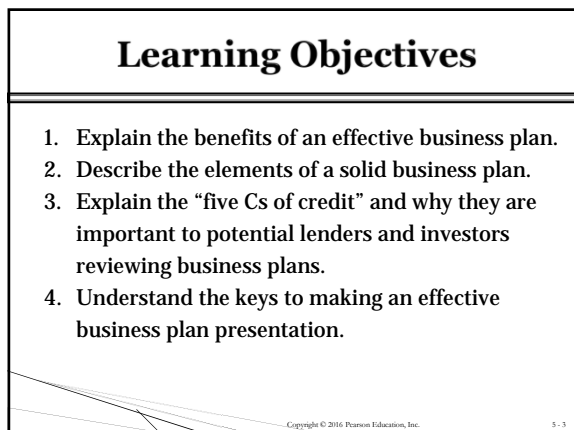
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## Learning Objectives

(continued)

5. Understand the importance of strategic management to a small business.
6. Explain why and how a small business must create a competitive advantage in the market.
7. Develop a strategic plan for a business using the nine steps in the strategic management process.

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## Benefits of Creating a Business Plan

### ❖ Business plan:

- ❖ A written summary of:
  - ❖ An entrepreneur's proposed business venture
  - ❖ The operational and financial details
  - ❖ The marketing opportunities and strategy
  - ❖ The managers' skills and abilities
- ❖ A business plan is the best insurance against launching a business destined to fail or mismanaging a potentially successful company.

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## Essential Functions of a Business Plan

1. Guiding the company by charting its future course and defining its strategy for following it.
2. Attracting lenders and investors who will provide needed capital.

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### A Plan Must Pass Three Tests

1. The *Reality Test*: proving that:
  - ❖ A market really does exist for your product or service.
  - ❖ You can actually build or provide it for the cost estimates in the plan.
2. The *Competitive Test*: evaluates:
  - ❖ A company's position relative to its competitors.
  - ❖ Management's ability to create a company that will gain an edge over its rivals.
3. The *Value Test*: proving that:
  - ❖ A venture offers investors or lenders an attractive rate of return or a high probability of repayment.

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### Why Take the Time to Build a Business Plan?

- ❖ Although building a plan does not guarantee success, it does increase your chances of succeeding in business.
- ❖ A plan is like a road map that serves as a guide on a journey through unfamiliar, harsh, and dangerous territory. Don't attempt the trip without a map!

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### Key Elements of a Business Plan

- ❖ Title Page and Table of Contents
- ❖ Executive Summary

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### Executive Summary

- ❖The executive summary is a written version of “the elevator pitch”
- ❖A good elevator pitch provides:
  - ❖Context
  - ❖Benefit
  - ❖Target customers
  - ❖Point of differentiation
  - ❖Clincher

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### Key Elements of a Business Plan

(continued from 5-9)

- ❖Title Page and Table of Contents
- ❖Executive Summary
- ❖Mission and Vision Statement
- ❖Description of a Firm’s Product or Service

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### Product or Service Description

- ❖Describe the benefits customers get from the product or service
- ❖A **feature** is a descriptive fact about a product or service.
- ❖A **benefit** is what the customer gains from the product or service feature.

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### Key Elements of a Business Plan

(continued from 5-11)

- ❖ Title Page and Table of Contents
- ❖ Executive Summary
- ❖ Mission and Vision Statement
- ❖ Description of a Firm's Product or Service
- ❖ Business and Industry Profile
- ❖ Competitor Analysis

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### Competitor Analysis

- ❖ Who are the company's key competitors?
- ❖ What are their strengths and weaknesses?
- ❖ What are their strategies?
- ❖ How successful are they?
- ❖ What distinguishes the entrepreneur's product or service from others already in the market, and how will these differences produce a competitive edge?

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### Key Elements of a Business Plan

(continued from 5-13)

- ❖ Title Page and Table of Contents
- ❖ Executive Summary
- ❖ Mission and Vision Statement
- ❖ Description of a Firm's Product or Service
- ❖ Business and Industry Profile
- ❖ Competitor Analysis
- ❖ Market Entry Strategy
- ❖ Marketing Strategy

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**Marketing Strategy**

- ❖ Show customer interest
  - ❖ Prove that target customers actually need or want the product or service.
- ❖ Document market claims
  - ❖ Support market size and growth rates with facts.

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**Marketing Strategy**

(continued)

- ❖ Address:
  - ❖ Target market
  - ❖ Advertising and promotion
  - ❖ Market size and trends
  - ❖ Location
  - ❖ Pricing
  - ❖ Distribution

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**Key Elements of a Business Plan**

(continued from 5-15)

❖ Title Page and Table of Contents	❖ Marketing Strategy
❖ Executive Summary	❖ Entrepreneurs' and Managers' Resumes
❖ Mission and Vision Statement	❖ Plan of Operation
❖ Description of a Firm's Product or Service	❖ Pro Forma (Projected) Financial Statements
❖ Business and Industry Profile	❖ The Loan or Investment Proposal
❖ Competitor Analysis	

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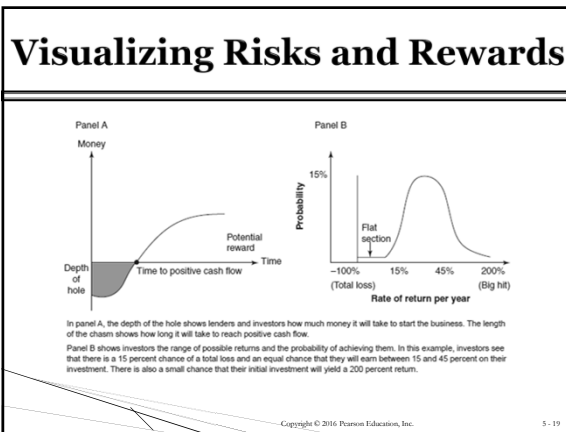
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# ESSENTIALS OF ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT • I

## Chapter 5: Crafting a Business Plan and Building a Solid Strategic Plan



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- ### Tips for a Good Business Plan
- ❖ First impressions count! Use an attractive cover.
  - ❖ Checks for errors.
  - ❖ Make it visually appealing.
  - ❖ Include a table of contents with page numbers.
  - ❖ Make it interesting!
  - ❖ Show that it will make money.
  - ❖ Use spreadsheets for realistic financial forecasts.
  - ❖ Include cash flow projections.
  - ❖ Keep the plan "crisp."
  - ❖ Tell the truth.
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- ### What Lenders and Investors Look for in a Business Plan
- ❖ The "5 Cs" of Credit
    1. Capital
    2. Capacity
    3. Collateral
    4. Character
    5. Conditions
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## The Pitch: Presenting the Plan

- ❖ The time allotted for presenting is usually less than 20 minutes, so it's important to rehearse and be prepared.
- ❖ A basic presentation should cover:
  - ❖ Your company and its products and services.
  - ❖ The problem to be solved.
  - ❖ A description of your solution to the problem.
  - ❖ Your company's business model.
  - ❖ Your company's competitive edge.

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## Tips for Making the Pitch

- ❖ Prepare
- ❖ Practice your delivery and then practice some more.
- ❖ Demonstrate enthusiasm about the business but don't be overly emotional.
- ❖ Focus on communicating the dynamic opportunity your idea offers and how you plan to capitalize on it.
- ❖ Hook investors quickly with an up-front explanation of the new venture, its opportunities, and the anticipated benefits to them.

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## Tips for Making the Pitch

(continued)

- ❖ Use visual aids.
- ❖ Follow the 10/20/30 rule for PowerPoint presentations.
- ❖ Explain how your company's products or services solve some problems and emphasize the factors that make your company unique.
- ❖ Offer proof.
- ❖ Hit the highlights.
- ❖ Keep the presentation "crisp."

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## Tips for Making the Pitch

(continued)

- ❖ Avoid the use of technical terms that will be above most of the audience.
- ❖ Remember to tell lenders and investors how they will benefit.
- ❖ Be prepared for questions.
- ❖ Anticipate questions and prepare for them in advance.
- ❖ Focus your answers on what's important to lenders and investors.
- ❖ Follow up with every lender and investor to whom you make a presentation.

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## Building a Strategic Plan

- ❖ Entrepreneurs must be able to adapt to changes in the marketplace.
- ❖ Strategic planning is a tool that can help: it involves developing a game plan to guide the company as it works to accomplish its vision, mission, goals, and objectives and to keep it from straying off course.
- ❖ It's crucial to building a successful business.

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## A Major Shift . . .

- ❖ The biggest change facing entrepreneurs today is the shift from financial capital to intellectual capital
  - ❖ Human
  - ❖ Structural
  - ❖ Customer

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### Building a Competitive Advantage

❖ Developing a strategic plan is crucial to creating a sustainable **competitive advantage**: the aggregation of factors that sets a company apart from its competitors and gives it a unique position in the market that is superior to its competition.

❖ Example: Whole Foods

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### Define Competitive Advantage

❖ Consider five aspects of a small company:

1. Products they sell
2. Service they provide
3. Pricing they offer
4. Way they sell
5. Values to which they are committed

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### The Key: Core Competencies

❖ Unique set of capabilities a company develops in key areas, such as superior quality, customer service, innovation, team-building, flexibility, responsiveness, and others that allow it to vault past competitors.

❖ They are what a company does best.

❖ Best to rely on a *natural advantage* (often linked to a company's "smallness").

❖ Example: Noodles & Company

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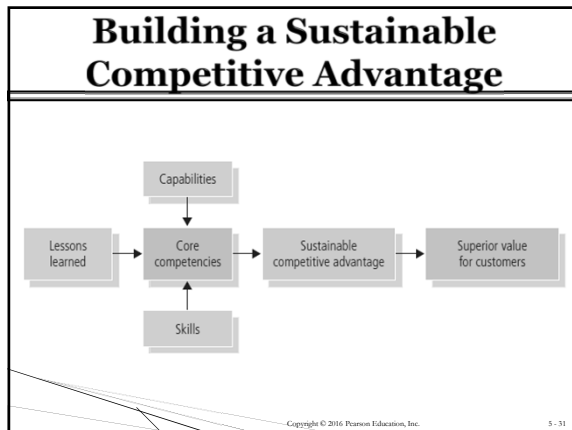
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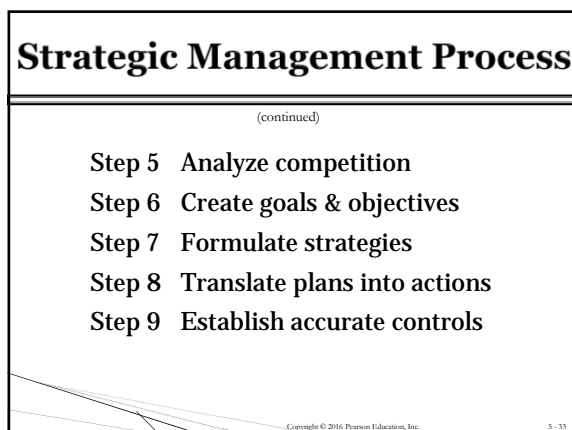
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### Step 1: Develop a Vision and Create a Mission Statement

- ❖ **Vision:** the result of an entrepreneur's dream of something that does not exist yet and the ability to paint a compelling picture of that dream for everyone to see.
- ❖ A clearly defined vision:
  - ❖ Provides direction
  - ❖ Determines decisions
  - ❖ Inspires people
  - ❖ Allows for perseverance in the face of adversity

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### Step 1: Develop a Vision and Create a Mission Statement

(continued)

- ❖ **Mission statement:** addresses the question: "what business are we in?"
  - ❖ Clarifies "why we are here" and "where we are going."
  - ❖ Serves as a "strategic compass."
  - ❖ Examples: Bongo World, Nisolo Shoes, Badger Mining, Putney, Inc., Clymb

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### Elements of a Mission Statement

- ❖ Four key questions:
  - ❖ What are we in business to accomplish?
  - ❖ Who are we in business to serve?
  - ❖ How are we going to accomplish that purpose?
  - ❖ What principles and beliefs form the foundation of the way we do business?

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Step 2: Assess Company Strengths and Weaknesses

❖Use a balance sheet to identify:

❖Strengths

❖Positive internal factors a company can draw on to accomplish its mission, goals, and objectives.

❖Weaknesses

❖Negative internal factors that inhibit a company's ability to accomplish its mission, goals, and objectives.

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Step 3: Scan for Opportunities and Threats

❖Identify and manage:

❖Opportunities

❖Positive external factors the company can exploit to accomplish its mission, goals, and objectives.

❖Threats

❖Negative external factors that inhibit the firm's ability to accomplish its mission, goals, and objectives.

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Identifying and Managing Threats

Source	Specific Threat	Severity (1 = Low, 10 = High)	Probability of Occurrence (0 to 1)	Threat Rating (Severity x Probability, Max = 10)
1. Channels of distribution				
2. Competition				
3. Demographic changes				
4. Globalization				
5. Innovation				
6. Waning customer or supplier loyalty				
7. Offshoring or outsourcing				
8. Stage in product life cycle				
9. Government regulation				
10. Influence of special interest groups				
11. Influence of stakeholders				
12. Changes in technology				

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### Step 4: Identify Key Success Factors

❖ **Key success factors (KSFs):** factors that determine the relative success of market participants.

❖ The keys to unlocking the secrets of competing successfully in a particular market segment.

❖ Example: Five Guys Burgers and Fries

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### Identifying Key Success Factors

List the specific skills, characteristics, and core competences your business must possess if it is to be successful in its market segment.

Key Success Factor	How Your Company Rates . . .
1	Low 1 2 3 4 5 6 7 8 9 10 High
2	Low 1 2 3 4 5 6 7 8 9 10 High
3	Low 1 2 3 4 5 6 7 8 9 10 High
4	Low 1 2 3 4 5 6 7 8 9 10 High
5	Low 1 2 3 4 5 6 7 8 9 10 High

Conclusions:

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### Step 5: Analyze the Competition

❖ Small business owners believe they operate in a highly competitive environment and the level of competition is increasing.

❖ Yet, 97 percent of all U.S. businesses do *not* systematically track the progress of their key competitors.

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### Step 5: Analyze the Competition

(continued)

- ❖ Goal of competitive intelligence:
  - ❖ Conduct continuous rather than periodic analysis of competition.
  - ❖ Avoid surprises from existing competitors' use of new strategies and tactics.
  - ❖ Identify potential new competitors.
  - ❖ Improve reaction time to competitors' actions.
  - ❖ Anticipate rivals' next strategic moves.

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### Competitor Analysis

- ❖ **Direct competitors**
  - ❖ Offer the same products and services
  - ❖ Customers often compare prices, features and deals among these competitors when they shop
- ❖ **Significant competitors**
  - ❖ Offer some of the same or similar products or services
  - ❖ Product or service lines overlap but not completely
- ❖ **Indirect competitors**
  - ❖ Offer same or similar products in only a small number of areas

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### Collecting Competitive Intelligence

- ❖ Monitor industry and trade publications.
- ❖ Talk to customers and suppliers.
- ❖ Debrief employees, especially sales representatives and purchasing agents.
- ❖ Attend trade shows and conferences and study competitors' sales literature.
- ❖ Watch for competitor's employment ads.

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## Collecting Competitive Intelligence

(continued)

- ❖ Watch for competitor's employment ads.
- ❖ Conduct patent searches for patents competitors have filed.
- ❖ Get EPA reports for the factories of competing manufacturers.
- ❖ Monitor direct competitors via social media.
- ❖ Learn about the kinds of equipment and raw materials competitors are importing from the *Journal of Commerce Port Import Export Reporting Service*.

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## Collecting Competitive Intelligence

(continued)

- ❖ Buy competitors' products and "benchmark" them.
- ❖ Get competitors' credit reports.
- ❖ Check out the reports publicly-held competitors must file with the SEC.
- ❖ Investigate UCC reports.
- ❖ Check out the resources in your local library.
- ❖ Use the Internet to learn more about competitors.
- ❖ Visit competing businesses to observe their operations.

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## Competitive Profile Matrix

Key Success Factors (from Step 4)	Your Business			Competitor 1		Competitor 2	
	Weight	Rating	Weighted Score	Rating	Weighted Score	Rating	Weighted Score
Quality	0.25	4	1.00	2	0.50	2	0.50
Customer retention	0.20	3	0.60	3	0.60	3	0.60
Location	0.15	4	0.60	3	0.45	4	0.60
Perception of value	0.20	4	0.80	2	0.40	3	0.60
Cost control	0.20	3	0.60	1	0.20	4	0.80
<b>Total</b>	<b>1.00</b>		<b>3.60</b>		<b>2.15</b>		<b>3.10</b>

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## Why Set Goals and Objectives?

**“Would you tell me, please, which way I ought to go from here?” said Alice.**

**“That depends a good deal on where you want to get to,” said the Cheshire cat.**

**“I don’t much care where....” said Alice.**

**“Then it doesn’t matter which way you go,” said the cat.**

From Lewis Carroll’s *Alice in Wonderland*

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## Step 6: Create Company Goals and Objectives

❖ **Goals:** Broad, long-range attributes to be accomplished.

❖ BHAGs

❖ Inspire and focus the company

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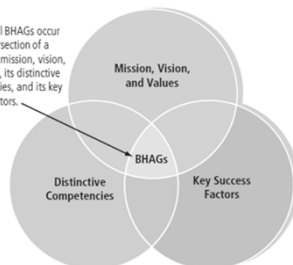
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## What Makes an Effective BHAG?

Meaningful BHAGs occur at the intersection of a company’s mission, vision, and values, its distinctive competencies, and its key success factors.



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Step 7: Formulate Strategies

❖ **Strategy:** a road map of the actions an entrepreneur draws up to achieve a company's mission, goals, and objectives.

❖ It is the company's game plan for gaining a competitive advantage.

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Porter's Three Strategies

Strategy?

Cost Leadership

Differentiation

Focus

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Three Strategic Options

Competitive Advantage

Uniqueness perceived by the customer

Low cost position

Target Market

Industry

Niche

Differentiation

Differentiation focus

Low cost

Cost focus

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**Cost Leadership**

- ❖ Goal: Be *the* low-cost producer in the industry or market segment.
- ❖ Low-cost leaders have advantages:
  - ❖ Reaching buyers who buy on the basis of price.
  - ❖ The power to set the industry's price floor.

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**Cost Leadership**

(continued)

- ❖ Cost Leadership works well when:
  - ❖ Buyers are sensitive to price changes.
  - ❖ Competing firms sell the same commodity products.
  - ❖ A company can benefit from economies of scale.
  - ❖ Examples: Dollar General and Dollar Tree

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**Differentiation**

- ❖ Goal: Build customer loyalty by positioning its goods or services in a unique or different fashion.
  - ❖ Be special at something customers value.
- ❖ Key: Build basis for differentiation on a distinctive competence, something that the small company is uniquely good at doing in comparison to its competitors.
  - ❖ Example: RentTheChicken.com

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**Focus**

- ❖ Goal: Select one or more customer segments in a market, identify customers' special needs, wants, or interests, and then target them with a product or service designed specifically for them.
- ❖ Strategy builds on the *differences* among market segments.
- ❖ Rather than try to serve the total market, the company focuses on serving a niche (or several niches) within that market.
- ❖ Example: I Do Now I Don't

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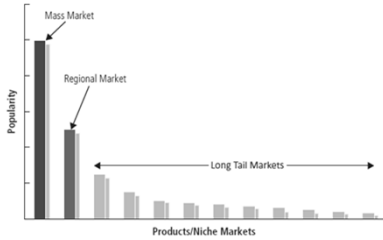
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**Long Tail Markets**



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**Step 8: Translate Strategies into Action Plans**

- ❖ Proper execution of a company's strategy accounts for 85% of a company's financial performance.
- ❖ Make plans workable by defining:
  - ❖ Purpose
  - ❖ Scope
  - ❖ Contribution
  - ❖ Resource requirements
  - ❖ Timing

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**Step 9: Establish Accurate Controls**

- ❖ Plan establishes the standards against which actual performance is measured.
- ❖ Entrepreneur must:
  - ❖ Identify and track key performance indicators.
  - ❖ Take corrective action.

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**Balanced Scorecards**

- ❖ A set of measurements unique to a company that includes both financial and operational measures.
- ❖ Gives managers a quick, yet comprehensive, picture of a company's overall performance.

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**Balanced Scorecards**

(continued)

Five Perspectives:

1. Customer: How do customers see us?
2. Internal Business: At what must we excel?
3. Innovation and Learning: Can we continue to improve and create value?
4. Financial: How do we look to shareholders?
5. Corporate Citizenship: Do we meet our responsibility to society as a whole, the environment, the community, and other external stakeholders?

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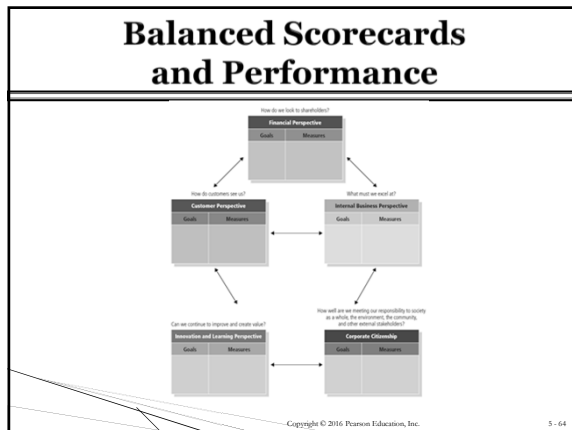
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### Conclusion

- ❖ The strategic planning process:
  - ❖ *Begins* with the nine steps.
  - ❖ *Becomes* more efficient each time.
  - ❖ *Teaches* entrepreneurial discipline for a higher chance of survival.

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