How To Write A Great Business Plan¹

By Valerie S. Koenig
Business Plans Hawaii

People Spend a lot of time talking about business plans.
  - Could devote a whole course to business plans.

Weak plans put too much emphasis on:
  - Financial projections: detailed month by month with wildly optimistic results, without sufficient background analysis
  - An Idea: advertising, promotion, concept, new invention
Emphasize the Business Model

- Business Model – the key factors that are going to drive the success or failure of the business. Could be:
  - For Manufacturers: the production process
  - For Magazine Publishers: the renewal rate
  - For Software Publishers: the distribution channels
  - For Telecommunications: the adoption rate
Four Sections

- The Context
- The Opportunity
- The People
- The Financial Analysis of Rewards (and Risks)
Clue: It’s the Glue

- Good business ideas are simple to understand and easy to identify, but hard to assemble. Needed:
  - Context is favorable for macroeconomic, regulatory or technological environment.
  - Opportunity has attractive, sustainable model for industry penetration.
  - Committed Team has skill, experience and motivation.
The Context

Context has tremendous impact on entrepreneurial potential. Includes:

- Economic Outlook (long-term structural factors, such as employment, interest rates, construction, tourism, government spending, etc…)
- Government Rules and Regulations (tax policies, environmental rules, licensing & permits, trade policies, security measures, etc…)
- Technological Developments (new, better, cheaper, etc..)
The Context

Plan Should Show that Team:
1. Knows how to capitalize on context.
2. Ways team might affect context (lobbying).
3. Knows that context can change (and has plans in event?).
The Opportunity

First, focus on 2 Questions:

- Is the total market for the venture’s product or service large, rapidly growing, or both?
  - Easier to obtain share of large or growing markets

- Is the industry now, or can it become, structurally attractive to enter?
  - Bad Example: computer peripherals, car parts
  - Good Example: information services
The Opportunity

Second, describe how your venture takes advantage of 1 and 2 above (if it doesn’t, for small companies, why it will still make enough money to be attractive).

- Focus on Revenues and the cash flow of producing or marketing the product.
- Ideal: buy low, sell high, collect early and pay late.
The Opportunity

- All opportunities have promise; and all have vulnerabilities.
  - Don’t whitewash – demonstrate that you have a plan to address the weakness.

- Opportunities do not have to be “early entrants” taking market %
  - Location, location, location
  - Cheap land, lease or resources
  - Good distribution opportunities
  - Underserved or growing markets
The People

- People might not be the most important part of every business plan, but...
- How familiar is the team with the industry, its players and dynamics?
  - Trying to show that the venture might be new, but the team members are not new to suppliers, customers, employees...
- Not every kind of business requires extensive industry experience.
  - Can stress training, short-term learning curve
The People

- Smart investors invest in People with ideas, not Ideas with people.
- Do you have the means to recruit, compensate and motivate a team?
- You usually don’t have all the talent you’d like – discuss how you will recruit it.
Financial Risks and Rewards

- Context, Opportunity and People are all moving targets. Financial projections are a “snapshot” of a moment in time when all three are stable.
- State the Assumptions clearly.
  - Hard part is to make the plan truly “strategic” – i.e., what you will do in response to changing assumptions
  - Contingencies with low, medium and high projections
Financial Risks and Rewards

- Discuss Long Term Opportunities and/or an Exit Strategy
  - Most common is buy-out or IPO, but strong rewards and return on investment is sufficient.
  - Do not try to get crafty with payoff and option schemes or obsess over share valuation or return on investment terms.
  - Is this just a “lifestyle” company meant to give the team a job? Nothing wrong with that…
Financial Risks and Rewards

Terms should be:

- Fair
- Simple
- Emphasize Trust rather than legal ties
- Allow for variance from projections
- No perverse Incentives
Business Success

- Don’t be Arrogant
  - Do not dismiss the quality or quantity of your competition.
- First do your market research, then your financial projections, then write, not reverse.
- Before launching the whole show, launch a little piece of it.
  - Convene a focus group, test the product in a market, build a prototype, conduct a regional or local rollout…
Market Research

1. ASK YOUR LIBRARIAN
2. ASK YOUR LIBRARIAN
   - Even for database searches
3. Not just a simple keyword search on the Internet
Market Research

- Rules for Business Plan Research
  - Footnote everything with a number.
  - Do not cite opinions or drawn-out conclusions for anything critical to your success (i.e., a single marketing concept or idea).
  - The stronger the source, the more credible your numbers.
  - Roll the research into your financial assumptions.
Market Research

- Start with industry, then move to regional or local research.
- Best Source of Market Information: Trade Associations.
Industry & Market Research

- Rule of Thumb: Value of Information is in reverse correlation to frequency of publication.
  - Directories & Encyclopedias: Extremely High
  - Monthly Magazines & Publications: High
  - Weekly: Good
  - Daily: Okay, most anecdotal
Industry Research

- Use research “Quick Start Guides”
- Start with “Sources of Business Information”
- Check out sources of all kinds
  - Emphasis on trade associations and directories
  - Be Aware of SIC and NAICS Codes
Industry Research (& Examples)

1. Encyclopedia of Global Industries
2. Encyclopedia of Emerging Industries
   ● Also, Encyclopedia of American Industries
3. Standard & Poor’s Industry Surveys
   ● Limited coverage, but excellent & credible

● Encyclopedic directories and much, much more available through Hawaii State Library:
  http://www.librarieshawaii.org/
  − Click on “Public Access”
  − “Other Databases”
  − “Business & Company Resource Center”
Industry & Market Research

● National Magazines & Newspapers:
  - ABI/Inform (Hamilton Electronic Resources)
  - Business & Company Database (State Library)

● Hawaii
  - Hawaii Business Magazine
  - Honolulu Magazine
  - Pacific Business News
Sample Business Plans

- Business Plans Handbook
  - Hundreds of sample business plans in Volumes 1-11 (quality mixed)
  - Available through Hawaii Public Library
    - Click “Public Access”
    - “Other Databases”
    - “Gale Virtual Reference Library”
Sample Business Plans

- Business Plan Competition
  - http://www.businessplans.org/businessplans.html

- Palo Alto (BusinessPlanPro Software)
  - http://bplans.com/sp/businessplans.cfm
Free Business Help (Hawaii)

- Small Business Development Center: [www.hawaii-sbdc.org](http://www.hawaii-sbdc.org)
  - Tons of Business Materials / Computers / Seminars
  - Consultants, including SCORE (within reason)
  - Hawaii Business Research Library ***** [www.hbrl-sbdc.org](http://www.hbrl-sbdc.org)


- Hawaii Dept. of Agriculture – Loans, Farmers & Aquaculture

- Office of Hawaiian Affairs – Loans & Seminars, Hawaiians

  - Community Ex. Loans up to $50k for start-ups.

- Minority Business Development Center / Pacific Business Center, at UH [www.honolulu-mbdc.org](http://www.honolulu-mbdc.org)
Executive Summary

- Most Important Section of Plan
- Should Include:
  - Opening Paragraph (who, what, when, where)
  - Overview of Context, Opportunity, People (why, how, who)
  - Overview of financial results (how many, how much)
  - Conclude with table showing total resources needed for Start-Up
    - Total costs, with some detail
    - Shareholder Input (money & sweat)
    - Financing Required (term loan, line of credit, venture capital)