Entrepreneurship Starting and Operating a Small Business 5th edition Glackin Solutions Manual

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Chapter 2 Pathway to Success: Process and Instruments

Chapter 2 Contents

Chapter 2 Overview

This chapter is an introduction to the concepts of feasibility analysis, lean startup, business models, and business plans. The reasons for creating these documents and the recommended contents and applications are discussed.

Chapter 2 Objectives

Learning Objective 2.1: Describe what a feasibility analysis is and choose when to create one.
Learning Objective 2.2: Articulate the Lean Startup methodology.
Learning Objective 2.3: Prepare a Business Model Canvas.
Learning Objective 2.4: Identify primary business plan contents.
Learning Objective 2.5: Summarize the various purposes for a business plan and the audiences for one.
Learning Objective 2.6: Differentiate the components of a business plan.
Learning Objective 2.7: Recognize and demonstrate proper development and formatting of a business plan.

Chapter 2 Outline

I. Describe what a feasibility analysis is and choose when to create one. The feasibility analysis essentially tests a business concept for viability through:
   A. product and/or service feasibility,
   B. market and industry feasibility, and
   C. financial feasibility.

II. Articulate the lean start-up methodology.
   The lean startup methodology is a hypothesis-driven approach for start-ups to validate business models using:
   A. Hypotheses often illustrated in a business model canvas
   B. Minimum viable products
   C. Pivots, perseverance, and perishing
   D. Actionable metrics
   E. Build–measure–learn loops

III. Prepare a Business Model Canvas and make a visual representation of the nine facets:
   A. Key partners
   B. Key activities
   C. Key resources
   D. Value propositions
   E. Customer relationships
   F. Channels
   G. Customer segments
   H. Cost structure
   I. Revenue streams

IV. Identify primary business plan contents.
   A. the story of what the business is and will be,
   B. all costs and a marketing plan,
   C. description of how the business will be financed, and
   D. an estimate of projected earnings.

V. Summarize the various purposes of a business plan and the audiences for one.
   A. A business plan is used by entrepreneurs to organize their thoughts before starting a business and to determine business viability.
   B. It can be used to raise money from investors and lenders. Almost always, bankers and other potential investors will refuse to consider funding an entrepreneur who does not have a business plan.
   C. It can help guide the operation of the business.

VI. Differentiate the components of a business plan.
   The parts of a business plan include a cover page; table of contents; executive summary; mission, vision, and culture; company description; opportunity analysis; marketing strategy and plan; management and operations; financial analysis and projections; funding request; and exit strategy.

VII. Recognize and demonstrate proper development and formatting of a business plan.
   A solid, viable business plan that is sloppy and filled with errors may be rejected on that basis alone. The business plan should be well organized, neatly presented, and written in correct English.

Chapter 2 Teaching Notes

Class Discussion Ideas:

1. Present this problem: The students want to go from your location to Wall Street, in New York. Ask them how they would figure out how to get there. Some may say, use MapQuest (or Google Maps or your car's GPS system)—particularly if it is within driving distance. Others may suggest getting train, subway, bus or airline schedules (depending on your location). There may be some who recommend driving east, north, or south until reaching New York City, and then finding Wall Street. Discuss how there can be many ways to achieve the same goal. Explore the estimated travel time and cost of each option. Emphasize that different financial costs and time investments can be involved to accomplish the same goal. Next, ask what happens if they simply get into a car and start driving with no particular destination in mind. Make the connection with the road map to success.

2. The chapter's opening quote, from Lewis Carroll, is: "If you don't know where you are going, any road will get you there." Ask class how this pertains to business. How does it relate to business plans?

3. Ask students to describe what they would want to know about a business before they invested in it? What would determine how much they would invest? (Should help with understanding of contents and rationale.) What would determine whether or not they would invest at all?

4. Suggest that students imagine themselves working at a bank rather than being individual investors. What is the role of the lending officer? (Looking for sales of loans and making profitable loans that are repaid on time.) What would you need to know about a business before approving a loan, or making a positive recommendation to a loan committee?

5. Give students examples of different businesses to show distinctions in what a plan could emphasize. Start with an example such as a student-run T-shirt silkscreen-printing business. Then, progress to a restaurant or retail store. Next, present a high-tech venture. Discuss commonalities and differences in what their respective business plans should include and emphasize.

6. Show examples of well-formatted and poorly formatted business plans and ask students for their reactions to each. Explore reasons why style and format matter.

7. Select an excellent business plan presentation and a poor one or develop one of each. Demonstrate approximately one minute of each. Launch a discussion regarding presentation quality.

Chapter 2 Lecture Enhancers

PPT Lecture Slides Chapter 2

Outside the Classroom:

http://www.rmahq.org: Risk Management Associates is an organization that provides comparative financial information for businesses.

http://www.entrepreneurship.org: The Kauffman Foundation site provides a broad array of resources and information for entrepreneurs, as well as significant financial resources to support entrepreneurship education.

The Art of the Start: The Time-Tested, Battle-Hardened Guide for Anyone Starting Anything, by Guy Kawasaki (Portfolio, 2004).

Business Model Generation: *A Handbook for Visionaries*, *Game Changers, Challengers*, by Alexander Osterwalder and Yves Pigneur (John Wiley & Sons, 2010).

The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses, by Eric Reis (Crown Business, 2011).

The Startup Owner's Manual: The Step-by-Step Guide to Building a Great Company, by Steve Blank and Bob Dorf (K & S Ranch, 2012).

Start Your Own Business, by Rieva Lesonsky (Entrepreneur Press, 4e, 2007).

Chapter 2 Key Terms

Chapter 2 Class Activity Ideas and Group Exercises

1. Pick a familiar product or service, such as computers or fast food, and list several companies for that product or service category—for example, Apple, IBM, Dell, and Asus; or Sonic, McDonald's, Wendy's, KFC, and Burger King. Break students into small groups and assign one company to each. Have each group create a list of key competitors, including direct and indirect competition, and what makes the company unique. Have them summarize this on a poster board and present it. Then, discuss how each company might incorporate the information into their business plan.

2. Form several teams to create fictitious companies in different fields. Ask them to answer the following about their company (when they have answered the questions, explain that they have essentially created an Executive Summary for a business plan):
    a. Name
    b. Type of business (manufacturing, retail, wholesale, or service)
    c. Location (city and state at a minimum)
    d. Key product or service
    e. Who will buy/use the product or service?
    f. What makes the company different from its competition?
    g. Why is this a good opportunity?
    h. How will customers know about the product and be induced to buy it?
    i. Who will manage the company? What are their qualifications?
    j. How long will it take before the company is profitable?
    k. How much will it cost to start the company?
    l. Where will the start-up funds come from? If they are borrowed or invested, how will investors or lenders be paid back or realize gains?
    m. How will the owners exit from the company?

3. Divide the students into pairs. Distribute examples of excellent and poor executive summaries from business plans to each pair. Ask the students to identify the differences in the summaries and comment on them to the class. Depending upon class size, the number of plans may range from 2 to 6.

4. How does voice inflection affect how an elevator pitch is received? Have the students do some research on psychological studies of voice inflection. What things can you do to be more convincing?

5. Give students a simple business plan or one from the text and have them write elevator pitches to present in front of the class.

Chapter 2 Critical Thinking Exercises

2-1. Shawn is creating a business that provides advertising on public restroom stall doors. He is funding the project from his personal savings of $5,000 and does not expect to use any outside financing. Should he utilize the Lean Startup process? Create Business Model Canvases? Develop a business plan? Why or why not?

L.O. 2.5 Summarize the various purposes for a business plan and the audiences for one.
AACSB Application of knowledge

Shawn should first put his hypotheses into the Business Model Canvas format and use the Lean Startup process to complete customer discovery and test the viability of the concept. Once he has found a sustainable, profitable model, he should develop a business plan for funding and to guide his operations. He may find that he needs outside funding or that what he had in mind is not practical.

2-2. Charity and Devon are planning to license technology from NASA that would make it impossible to accidentally lock a child in a car. The technology is complex, and the market analysis and financial assumptions take up a lot of pages. The two women have written a 63-page business plan. Explain your concerns about the plan considering the chapter text.

L.O. 2.7 Recognize and demonstrate proper development and formatting of a business plan.
AACSB Application of knowledge & Analytical thinking

The plan is just too long. Investors and lenders will not want to sift through that much information. Charity and Devon need to revise the plan to make it more concise. They need to explain the complex technology in terms that non-technical people can understand, but not so simplistically that technical reviewers are put off.

2-3. What factors make the difference between a good business plan and an excellent one?

L.O. 2.4 Identify the primary business plan contents.

AACSB Analytical thinking

A good plan contains all the required information but may not be interesting or engaging. It may look functional but not attractive. Or, it may be too elaborate. An excellent plan includes all the requisite information, is visually appealing, is clear and concise, and draws the reader into the concept. An excellent business plan "sells" the business.

2-4. Visit an Internet shopping site such as the Home Shopping Network (http://www.HSN.com) or QVC (http://www.QVC.com). Select five products for sale that you find interesting or unusual. Make a list of the products and your explanation of the market opportunities they reflect.

L.O. 2.4 Identify the primary business plan contents.
AACSB Information technology and analytical thinking

Answers will vary.

2-5. Explain how this statement applies to business plans: *Errors of omission can sometimes be greater than errors of commission.*

L.O. 2.7 Recognize and demonstrate proper development and formatting of a business plan.
AACSB Reflective thinking and ethical understanding and reasoning

Leaving out parts of a business plan is worse than putting in too much information. For example, an investor or lender cannot evaluate a plan without a complete set of financial statements and may reject the entire concept due to a lack of a cash flow statement, or other crucial item. Also, there are ethical implications of excluding information that may represent a substantial, known or expected, risk for the business.

Chapter 2 Key Concept Questions:

2-6. Explain why a prospective business founder might want to create a feasibility study or Business Model Canvas before developing a complete business plan.

L.O. 2.1 Describe what a feasibility analysis is and choose when to create one.
AACSB Reflective thinking

A prospective business owner can save time and money by discovering early in the process that an idea or strategy is not viable and that a pivot is in order. He or she can avoid prolonged product development efforts that are based upon "hunches" or hypotheses by testing the hypotheses and creating products and services that are more viable.

2-7. How can investing time in the Lean Startup process save an entrepreneur time and money in the short and long term?

L.O. 2.2 Articulate the Lean Startup methodology.
AACSB Reflective thinking

Answers should include:

a. **Potential loss of investment and personal assets may be avoided by determining viability up front.**
b. **The process of lean startup involves answering many questions about business strategy, tactics, and operations before "opening the doors." This can save both time and money.**
c. **Preparation in general is a time saver because of the focus it brings.**

2-8. What are the parts of a Business Model Canvas? How can the entire canvas assist an entrepreneur?

L.O. 2.3 Prepare a Business Model Canvas.
AACSB Reflective thinking

The components of a Business Model Canvas are:

A. **Key partners**
B. **Key activities**
C. **Key resources**
D. **Value propositions**
E. **Customer relationships**
F. **Channels**
G. **Customer segments**
H. **Cost structure**
I. **Revenue streams**

It provides a visual representation of the business model that clarifies the organizations thinking and compels customer inquiry and development. It can assist in shortening the time to market and make the development process more efficient.

2-9. Explain why the executive summary is the most important section of any business plan.

L.O. 2.6 Differentiate the components of a business plan.
AACSB Application of knowledge

The executive summary is the most important section because it usually is the first part of the plan that an investor or lender will read. It needs to capture their attention and entice them to read more, or they will go no further.

2-10. One mistake entrepreneurs make in their business plans is that of only including an income statement. What other financial statements should be incorporated and why?

L.O. 2.6 Differentiate the components of a business plan.
AACSB Application of knowledge

The balance sheet and cash flow statements should also be included. Although not strictly financial statements, the financial ratios should also appear. The balance sheet shows what the business owns and owes, as well as its liquidity and debt structure. The cash flow statement shows the inflows and outflows of cash from the business. Both documents help readers understand the whole picture of company finances. For example, a business can be profitable but temporarily in a poor cash flow situation.

2-11. Print an assignment or any body of text, with 1-inch margins, double-spaced, using 12-point Times New Roman font. Then, print the same document with 0.8-inch margins, single-spaced, using a 10-point Arial typeface. Which is easier to read? Why? How would this relate to a business plan?

L.O. 2.7 Recognize and demonstrate proper development and formatting of a business plan.
AACSB Application of knowledge

The former is easier to read than the latter. The document has space around the text and the font size is more legible. The same is true for business plans.

2-12. Name three categories of investors/lenders that might have an interest in your business plan.

L.O. 2.5 Summarize the various purposes for a business plan and the audiences for one.
AACSB Analytical thinking

Answers will vary depending upon the business interests of the student. They typically include bankers, venture capitalists, angel investors, friends, family, and crowd funders.

2-13. Why is it important to identify a business's culture from the beginning?

L.O. 2.6 Differentiate the components of a business plan.
AACSB Reflective thinking

Identifying an organization's culture from the beginning is important because it impacts all aspects of the business going forward, from hiring to product development to customer service.

Chapter 2 Application Exercises

2-14. Prepare a Business Model Canvas for Honest Tea based on the business plan included at the end of this chapter.

L.O. 2.3 Prepare a Business Model Canvas.
AACSB Application of Knowledge

<table>
<tr>
<td rowspan="2"><u>Key Partners</u>
Tea growers (access to markets)
Retail stores (new, novel products)</td>
<td><u>Key Activities</u>
Bottling
Marketing</td>
<td rowspan="2"><u>Value Propositions</u>
Less sweet tea
Organic product
Quenching thirst without the calories
Performance</td>
<td><u>Customer Relationships</u>
Consumers build relationships through blogs and correspondence
Retailers have direct contact with sales force</td>
<td rowspan="2"><u>Customer Segments</u>

Niche markets
Athletes
Health conscious consumers
Consumers of organic foods</td>
</tr>
<tr>
<td><u>Key Resources</u>
Production capacity
Marketing expertise
Funding for startup - $1.1 million</td>
<td><u>Channels</u>
Retail health food stores
Independent sales representatives
(Really not addressed well in plan)</td>
</tr>
<tr>
<td colspan="2"><u>Cost Structure</u>
Bottling by outside vendor
Tea and sweetener</td>
<td colspan="3"><u>Revenue Streams</u>
Paying for a less sweet alternative to energy drinks and/or a more flavorful alternative to water
Revenue type: sale of product (bottled iced tea)</td>
</tr>
</table>

2-15. Call or visit an entrepreneur in your community to discuss business plans.

a. Ask whether he or she wrote a business plan before starting the business. Since then?
b. If the owner did write a plan, for what has it been used?
c. If the owner did not write a plan, why not?
d. Did the owner have any assistance in writing or reviewing the plan?
e. If so, what was the source of assistance?

L.O. 2.5 Summarize the various purposes for a business plan and the audiences for one.
AACSB Application of knowledge

The answers will vary but should respond to each part of the exercise.

Chapter 2 Exploring Online

2-16. Find and provide the URL for a business plan on the Internet. Examine it to see whether it follows the guidelines provided in this text. Use a highlighter to mark the sections of the plan that are present. Then, make a list of missing or incomplete sections. Indicate how it does/does not follow the "rules" for formatting and content. Is the plan viable? Why or why not? Would you invest in it? Why or why not?

L.O. 2.6 Differentiate the components of a business plan
AACSB Application of knowledge and reflective thinking

The student should cite the URL and include a business plan from the Internet that has each part of the plan highlighted. Often, there are missing, or incomplete sections and the students should list them. Then, there should be formatting and content comments/critiques. The student should evaluate viability and the rationale for the answer. He/she should do the same with the question of whether or not to invest.

2-17. Find a Business Model Canvas example online (can be a video). Compare its hypotheses to the types identified in the Business Model Canvas section of the chapter. What has been added? What is missing?

L.O. 2.3 Prepare a Business Model Canvas
AACSB Application of knowledge and reflective thinking

Students will find a variety of BMCs on the web. Some will be full of description and information, while others will have barely any hypotheses. Clearly, the specifics will vary. Some students may find mission model or lean canvases as well.

Chapter 2 In Your Opinion

2-18. If an entrepreneur presents a business plan that an investor believes is deliberately vague and has provided inflated financial statements, what should that investor do?

L.O. 2.7 Recognize and demonstrate proper development and formatting of a business plan.
AACSB Ethical understanding and reasoning.

Recommendations will vary but should note the importance of clarity and realistic projections. One answer will probably be that the investor should decline the opportunity. Another may be to probe for better, more realistic information.

2-19. What, if any, value do you see in the hypothesis-driven approach of the lean start-up, with its iterative processes? How does this compare to the value in the traditional linear process of creating a business plan? How do they conflict, if at all? How do they complement one another?

L.O. 2.2 Articulate the Lean Startup methodology.
AACSB Analytical thinking

Students may see that the lean startup lends itself to opportunities to fail early and often but minimize the risk of fully scaling without a good model. It may lead to a higher business success rate. They may comment on the intuitive nature of generating hypotheses and the scientific process of testing the hypotheses. The lean startup process is more iterative or even circular than the linear business plan development process. While a business plan may be of value for financing or operations, it does not explore the customer discovery and validation of lean startup. They don't conflict as much as they take different perspectives. They complement one another because the resources for one support the other.

Suggested Answers for Chapter 2 Case Studies

Short Case Study Analysis: Frankie's Challenge: Customer Discovery

2-20. What specific steps of customer discovery are described above? What, if anything, is missing?

L.O. 2.2 Articulate the Lean Startup methodology.

AACSB Application of knowledge

Frankie conducted several steps of customer discovery including: observation of problems for specific target customers, identification of value propositions, brainstorming, hypothesis generation, creation of evolving Business Model Canvases, pivots, and customer interviews. Business interviews are missing.

2-21. How might Frankie improve her chances of success? Identify a minimum of five ways.

L.O. 2.2 Articulate the Lean Startup methodology.

AACSB Analytical thinking

Frankie could improve her chances of success by incorporating more entities into the process and increasing her understanding of the entire pictures. Some specifics include:

- **Complete customer interviews with independent funeral homes**
- **Create and test an MVP**
- **Partner with a website developer**
- **Worth with an industry association**
- **Plan to attend a professional association meeting and/or tradeshow**
- **Understand the competition better**

2-22. What customer segments and value propositions would you suggest apply for this business? How would you test them?

L.O. 2.2 Articulate the Lean Startup methodology.

AACSB Analytical thinking

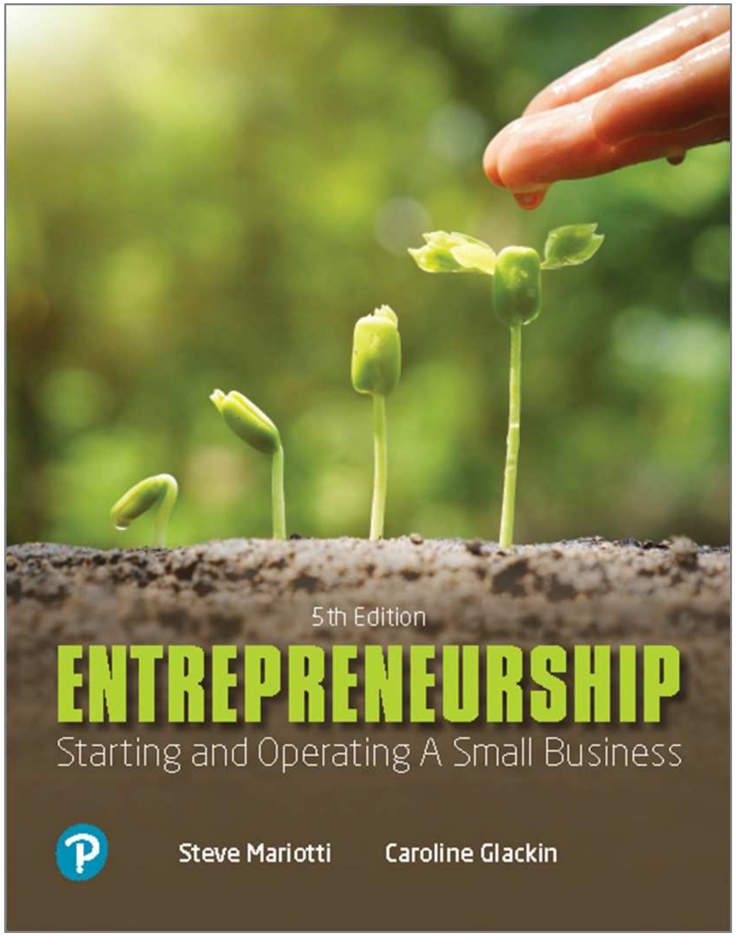
Customer Segment	Value Propositions	Tests
Consumers – immediate need	**Convenience, comfort, ease-of-use, speed**	**Provide partial online options to current customers. Interview prior customers.**
Consumers – pre-planning	**Convenience, comfort, ease-of-use, privacy**	**Use wireframe MVP to gather emails and contact. Provide partial online options for inquiries at present locations. Interview new customers.**
Independent funeral homes	**Cost savings, efficiency**	**Conduct customer discovery interviews with specific pass/fail criteria.**

Honest Tea Business Plan

The Honest Tea Business Plan is included in Chapter 2 to illustrate what a real company did as an early plan. This can be discussed in class or given as an assignment. The "Exploring Online" questions from the chapter are a good starting point.

ENTREPRENEURSHIP: Starting and Operating a Small Business

Fifth Edition



Chapter 2

Pathways to Success: Processes and Instruments

Learning Objectives (1 of 2)

2.1 Describe what a feasibility analysis is and choose when to create one.

2.2 Articulate the Lean Startup methodology.

2.3 Prepare a Business Model Canvas.

2.4 Identify primary business plan contents.

Learning Objectives (2 of 2)

2.5 Summarize the various purposes for a business plan and the audiences for one.

2.6 Differentiate the components of a business plan.

2.7 Recognize and demonstrate proper development and formatting of a business plan.

2.1: Feasibility Analysis: Does My Idea Work? (1 of 2)

The time and energy involved in generating and exploring business ideas can be extensive, with the SBA reporting that, for many entrepreneurs, the process can take years.

"If you don't know where you are going, any road will get you there." —Lewis Carroll, English author

Feasibility Analysis: Does My Idea Work? (2 of 2)

feasibility analysis - a study to assist in making the go/no go decision based on a close examination of product/service, market, industry, and financial data in a sufficient degree of detail to ensure confidence in the results.

The feasibility analysis essentially tests a business concept for viability in three areas:

1. product and/or service feasibility,
2. market and industry feasibility, and
3. financial feasibility.

Analyzing Product and/or Service Feasibility (1 of 2)

Entrepreneurs are often described as committed to their business idea.

- They take on an almost religious zeal and essentially fall in love with the concept of the product or service, creating a fantasy of what the business will be.
- A product or service is only worthwhile pursuing if it can be produced and delivered at a profit in an ongoing manner.
- In order to avoid such unwelcome surprises, you can create the production design for your product and create a working model, called a **prototype**, fabricated for testing by laboratories and prospective customers.

Analyzing Product and/or Service Feasibility (2 of 2)

It is important to perform this feasibility study in order to avoid wasting valuable resources.

An amazing product or innovative service would not necessarily translate into enough sales to sustain your business.

Analyzing Market and Industry Feasibility (1 of 2)

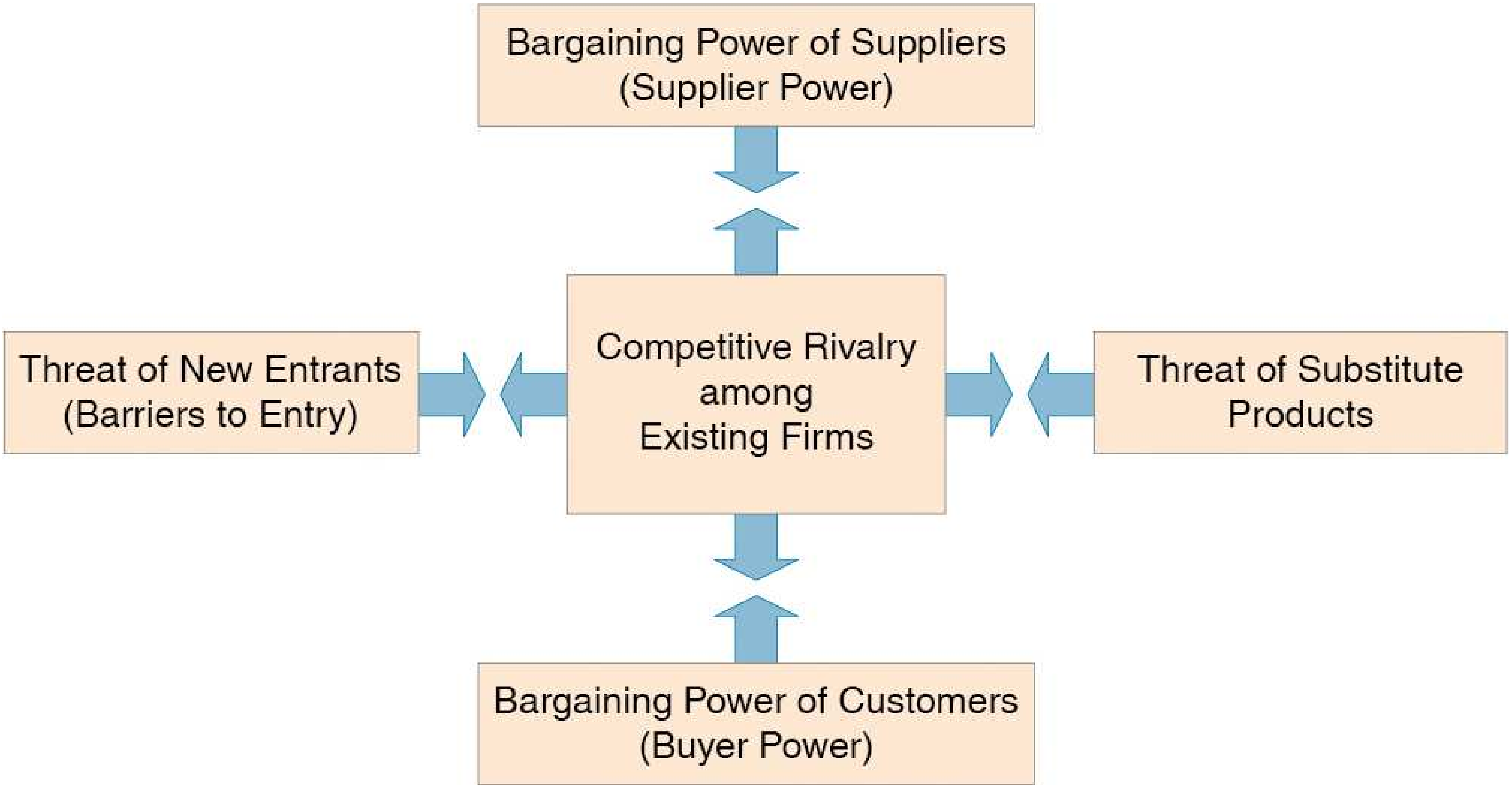
One tool that is frequently used for industry analysis is the "five forces" model created by Michael Porter of Harvard University, which focuses on the competitive intensity of a market.

The five industry forces identified by Porter are essentially:

1. existing competitive rivalry,
2. barriers to entry,
3. threat of substitutes,
4. supplier power, and
5. buyer power.

Analyzing Market and Industry Feasibility (2 of 2)

Figure 2-1 *Porter's Five Forces of Competition in an Industry*



Existing Competitive Rivalry

Key aspects of intense rivalry, according to Porter, include:

- Many firms of approximately the same size
- An industry experiencing slow growth
- Lack of differentiation
- Low switching costs for customers
- High fixed costs
- Perishable products
- The need to create new production capacity in large increments
- High barriers to exiting
- Diverse rivals

Barriers to Entry

In an industry the threat of new entrants is largely defined by the strength of the barriers erected to prevent them.

According to Porter, sources of barriers to entry include:

- Capital requirements
- Cost advantages
- Economies of scale
- Access to distribution channels
- Product differentiation
- Government policy

Threat of Substitutes

The level of threat posed by alternative products and services to industry customers matters.

Some defining factors include:

- Convenience
- Price competitiveness
- Supply availability
- Switching costs
- Public policies

Supplier Power

The less bargaining power and control the suppliers of raw materials, components, and labor have over competitors, the more attractive the industry.

Porter suggests that suppliers are more powerful when the following industry factors apply:

- There is domination by a few companies.
- The products are differentiated.
- Switching costs are high.
- Substitutes are not readily available.
- They can threaten to move into the business themselves.
- The industry is not important to the supplier.

Buyer Power

This force is similar to that of suppliers, but on the demand side. According to Porter, buyers are more powerful in an industry if:

- They are concentrated.
- They purchase a lot.
- Products are undifferentiated or standard.
- Products are not a big part of the overall cost.
- Profits are low.
- Product quality is not important.
- Products do not save money for the buyer.

Analyzing Financial Feasibility

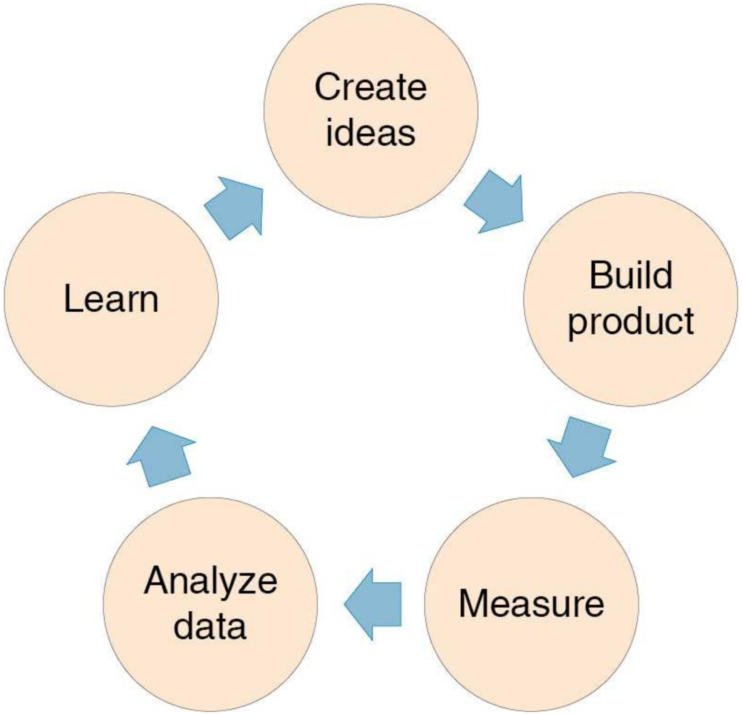
Having completed the product or service feasibility analysis and also conducted one for the market and industry, you can complete the process by assessing the financial viability of your business idea.

- This analysis does not need to be detailed.
- The amount of start-up capital required will be a function of the size and type of organization you are starting.
- An entrepreneur can assess feasibility better with a reasonable projection of revenues, based on anticipated pricing and volume.
- Finally, cost factors should be calculated and returns on investment projected.

2.2: Using the Lean Startup Methodology (1 of 3)

Lean Startup is a hypothesis driven approach to business startup using iterative development.

Figure 2-2 *Build–Measure–Learn Loop*



Using the Lean Startup Methodology

The process of focusing on speed in product development works toward ensuring product-market fit.

If a start-up's products are not a good fit with its markets, the likelihood of success is slim at best.

The process also leads to the generation of **actionable metrics,** which are measurements of the key drivers of the start-up business that guide informed decisions and actions.

Using the Lean Startup Methodology (3 of 3)

Start-ups create **minimum visible products (MVP)** – a model or version of a new product that is designed to secure maximum customer feedback with minimal effort.

By testing MVPs, start-ups avoid wasting precious resources developing product features and benefits that customers don’t want or need.

Once hypotheses are tested, start-ups can pivot (change the model to some extent, but keep parts of it), persevere (continue the same path), or perish (discontinue the start-up).

2.3: Creating a Business Model Canvas (1 of 8)

business model - a company's plan to generate revenue and make a profit from operations.

The canvas includes nine core building blocks that are intended to supply answers to critical questions. These building blocks are meant to be implemented in the company.

Creating a Business Model Canvas (2 of 8)

1. **Customer Segments (CS): the consumers for whom the company creates value**
   - I. Mass market—large, broadly similar group of customers
   - II. Niche market—narrow, specialized, specific
   - III. Segmented market—groups with slightly different needs and problems
   - IV. Diversified markets—segments that aren’t related and have very different needs
   - V. Multi-sided markets—generally are composed of supplier and customer segments that are all served

Creating a Business Model Canvas (3 of 8)

2. **Value Proposition (VP): the reason customers select the products/ services**
   I. Newness
   II. Performance
   III. "Getting the job done"
   IV. Design
   V. Brand/status
   VI. Price
   VII. Cost reduction
   VIII. Risk reduction
   IX. Accessibility
   X. Convenience/usability

Creating a Business Model Canvas (4 of 8)

3. **Channels (CN): how the company reaches and communicates with customer segments**
    I. Own channels versus partners
    II. Direct (sales force, Web sales, own stores) versus indirect (partner stores, wholesalers)

Creating a Business Model Canvas (5 of 8)

4. **Customer Relationships (CR): types established through consumer segments reached**
    I. Personal assistance
    II. Dedicated personal assistance
    III. Self-service
    IV. Automated services
    V. User communities
    VI. Co-creation

Creating a Business Model Canvas (6 of 8)

5. **Revenue Streams (R$): how funds are generated**
   I. Asset sales
   II. Usage fee
   III. Subscription fees
   IV. Lending/renting/leasing
   V. Licensing
   VI. Brokerage fees
   VII. Advertising fees

Creating a Business Model Canvas (7 of 8)

6. **Key Resources (KR): that which is critical to making the model function**
   I. Physical
   II. Financial
   III. Intellectual
   IV. Human
7. **Key Activities (KA): critical actions for success**
   I. Production
   II. Problem solving
   III. Platform/network

Creating a Business Model Canvas (8 of 8)

8. **Key Partnerships (KP): the particular suppliers and partners needed in the network**
   I. Strategic alliances between non-competitors
   II. Cooperation (strategic alliances between competitors)
   III. Joint ventures
   IV. Buyer–supplier relationships
9. **Cost Structure (C$): all costs of operations**

2.4: What Is a Business Plan?

business plan - a document that thoroughly explains a business idea and how it will be carried out.

The plan should include the following:

- the story of what the business is and hopes to become,
- all costs and a marketing plan,
- description of how the business will be financed, and
- an estimate of projected earnings.

2.5: Why Do You Need a Business Plan?

- Whether you are planning a microenterprise with virtually no start-up costs or a multimillion-dollar venture, you will find a business plan an essential tool.
- A plan can also help you determine on paper whether your business is viable before you make mistakes in the real world—allowing you to adjust accordingly.
- The business plan is vital to current and proposed businesses as a guide to operations and direction, which can be modified as the organization evolves.

Your Business Plan Is the Key to Raising Capital

As mentioned, bankers and other potential investors will refuse to see an entrepreneur who does not have a business plan (unless the loan or investment you are seeking is very small).

The financial projections should be realistic and attainable.

Writing a business plan will allow you to address all angles of your business idea.

The Business Plan Is an Operations Guide

- Whether or not you need to raise capital, a business plan will be a vital tool for guiding the internal operations of your enterprise.
- Business owners and managers increase the probability of success by taking the plan in their heads and committing it to paper.
- With your business plan as your benchmarking tool, you can compare your company’s progress to your stated plan.

2.6: Business Plan Components (1 of 2)

Exhibit 2-1 *Business Plan Outline*

Cover Page
Table of Contents
1.0 Executive Summary
2.0 Mission, Vision, and Culture
3.0 Company Description
4.0 Opportunity Analysis and Research
- 4.1 Industry Analysis
- 4.2 Environmental Analysis
- 4.3 Competitive Analysis

5.0 Marketing Strategy and Plan
- 5.1 Products/Services
- 5.2 Pricing
- 5.3 Promotion
- 5.4 Place

6.0 Management and Operations
- 6.1 Management Team
- 6.2 Research and Development
- 6.3 Physical Location
- 6.4 Facilities
- 6.5 Inventory, Production, and Quality Assurance

7.0 Financial Analysis and Projections
- 7.1 Sources and Uses of Capital
- 7.2 Cash Flow Projections
- 7.3 Balance Sheet Projections
- 7.4 Income Statement Projections
- 7.5 Breakeven Analysis
- 7.6 Ratio Analysis
- 7.7 Risks and Assumptions

8.0 Funding Request and Exit Strategy
- 8.1 Amount and Type of Funds Requested
- 8.2 Exit Plan
- 8.3 Milestones

Appendices
- Resumes
- Sample Promotional Materials
- Product Illustrations/Diagrams
- Detailed Financial Projections

Business Plan Components (2 of 2)

Cover Page and Table of Contents

- The cover page should be professional, neat, and attractive

Executive Summary: A Snapshot of Your Business

- The executive summary has to be compelling and comprehensive.

Mission and Culture: Your Dreams for the Organization (1 of 2)

Each company has the opportunity to create its own unique mission, vision, and culture.

- **mission -** a concise communication of strategy, including a business definition and explanation of competitive advantage.
- **mission statement -** a brief, written statement that informs customers and employees what an organization's goal is and describes the strategy and tactics to meet it.

Mission and Culture: Your Dreams for the Organization (2 of 2)

vision - a broader and more comprehensive perspective on an organization than its mission; built on the core values and belief systems of the organization.

culture - the beliefs, values, and behavioral norms of an organization.

Company Description: Background and Track Record

- If the company is already established, is a franchise, or is the reincarnation of a previous business, there will be a history to share with the reader of the plan.
- If this is a start-up venture, this section should describe briefly the background story of the company, explaining what you have done thus far and why you have done it.
- The legal form of the business (sole proprietorship, corporation, LLC, partnership) should also be noted.

Opportunity Analysis and Research: Testing Ideas (1 of 2)

industry analysis - a critical view of industry definition, industry size and growth (or decline), product and industry life cycle, and any current or anticipated legal or regulatory concerns.

environmental analysis - a review that addresses the roles of the community, region, nation, or the rest of the world, as they relate to a business.

proof of market - an investigation that provides evidence of a market opportunity.

Opportunity Analysis and Research: Testing Ideas (2 of 2)

target market - groups defined by common factors such as demographics, psychographics, age, or geography that are of primary interest to a business.

competitive analysis - research that compares an organization with several direct and indirect competitors by name in a manner that is meaningful to targeted customers.

Marketing Strategy and Plan: Reaching Customers (1 of 3)

marketing mix - the combination of the four factors: product, price, place, and promotion—that communicates a marketing vision.

- Product
- Price
- Promotion
- Place

Marketing Strategy and Plan: Reaching Customers (2 of 3)

- **Products/Services.** The product or service should meet or create a customer need.
- **Pricing.** The product or service has to be priced so that your target customers will buy it and the business will make a profit.
- **Promotion.** Promotion consists of advertising, publicity, and other promotional methods, such as discount coupons or giveaways.
- **Place.** This is the venue from which you will sell and distribute your product.

Marketing Strategy and Plan: Reaching Customers (3 of 3)

marketing plan - a statement of the marketing goals and objectives for a business and the intended strategies and tactics to attain them.

advertising - paid promotion through media outlets.

public relations - community activities that are designed to enhance an organization's image.

publicity - free promotion.

direct marketing - includes telemarketing, direct mail, in-person selling, and other personalized promotional efforts.

Management and Operations: Making the Plan Happen (1 of 2)

The people you hire and the processes you plan to implement will be an essential part of your business plan. This is where the rubber meets the road in the planning process.

- The management team is often the deciding factor for a potential investor’s decision to financially support a business.
- The team must be composed of an effective balance of members with technical expertise (e.g., engineering, marketing, accounting, and operations), experience in the field, and life experience.

Management and Operations: Making the Plan Happen (2 of 2)

The description of the physical location is similar to the discussion of place in the marketing mix but with the emphasis on logistics and workforce readiness.

The facilities and equipment for your business should be planned with the management team.

Financial Analysis and Projections: Translating Action into Money (1 of 3)

The financial section is the numeric representation of the business plan.

It should demonstrate organizational viability in financial terms.

- Sources and uses of capital
- Capital flow projections
- Balance sheet projections
- Income statements for three years
- Breakeven analysis
- Ratio analysis
- Risks and assumptions

Financial Analysis and Projections: Translating Action into Money (2 of 3)

cash flow statement - a financial statement showing cash receipts less cash disbursements or a business over a period of time.

balance sheet - a financial statement summarizing the assets, liabilities, and net worth of a business.

asset - any item of value.

liability - a business debt.

net worth - the difference between assets and liabilities.

Financial Analysis and Projections: Translating Action into Money (3 of 3)

owner's equity - net worth.

income statement - a financial document that summarizes income and expense activity over a specified period and shows net profit or loss.

profit and loss statement (P&L) - an income statement.

breakeven point - when the volume of sales exactly covers the fixed costs.

Funding Request and Exit Strategy: The Ask and the Return

The exit strategy is the way in which you and/or your investors expect to leave the company someday in a planned and orderly way.

initial public offering (IPO) - first offering of corporate stock to investors on the open (public) market.

Appendices: Making the Case in Greater Detail

- The appendices will provide you with an opportunity to strengthen your business plan with examples and details that are not critical for inclusion in the main portions.
- Each appendix should be numbered and placed in the plan according to the order of reference in the text.
- The appendices should be listed in your table of contents.

2.7: Business Plan Suggestions

As you put together your business plan, a number of guidelines and suggestions can help you get the most value for your time and effort.

- Write for your audience
- Show that you are invested in the company
- Be clear and concise
- Use current data and reports for your industry
- Choose a voice and stick with it
- Use a consistent, easy-to-read format
- Number and label
- Present it professionally

Presenting Your Business Plan (1 of 2)

A written business plan is only one component of the business-planning process.

- Business plan presentations may be formal or informal, and you may have anywhere from a few minutes to a couple of hours for the complete presentation and discussion.
- Presentations to venture capitalists may be limited to as little as 5 to 20 minutes.

elevator pitch - a 30-second to 2-minute presentation that conveys in an engaging way what a business is proposing and why the listener should be interested.

Presenting Your Business Plan (2 of 2)

Exhibit 2-6 *Venture Presentation Tips*

Timing	• Be prompt and ready to start on time. • Use the entire time allocated, and use it productively.
Audience	• Know your audience and tailor the presentation accordingly. • Establish rapport with the audience.
Presentation Style	• Dress appropriately and maintain a professional demeanor. • Be enthusiastic, but not artificial or arrogant. • Use proper pronunciation and language.
Presentation Contents	• Create a "hook" to capture the audience quickly. • Hit the highlights without going into excessive detail. • Keep it simple by emphasizing key points and avoiding technical jargon and acronyms that will lose your audience's interest. • Use visual aids, such as slides and sample or prototype products, to reinforce your message without distracting from it. • Emphasize the benefits of the opportunity so that they are clear to the audience. • Conclude with a "Thank You."
Follow-Up	• Expect and prepare for questions. Be thoughtful and positive in your responses. • Contact each audience member to move toward your goals.

Source: Adapted from Thomas W. Zimmerer and Norman M. Scarborough, *Essentials of Entrepreneurship and Small Business Management*, 5th ed. (Upper Saddle River, NJ: Prentice Hall, 2007).

Business Plan and Venture Competitions

Numerous business plan and venture-funding competitions are held each year for young people, undergraduate students, graduate students (primarily MBAs), and nonstudent professionals.

- Many business schools and classes hold internal competitions and then advance winners to regional, national, and even international events.
- Prizes may range from $500 to financing and professional-services packages worth millions.

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