



**Enhancing Young People Skills and Competencies in Social Entrepreneurship by Virtual Reality**

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**Course 4: Business Plan Fundamentals**

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# Introduction to the Business Plan

## What Is a Business Plan?

The **business plan** is the product of a **strategic thinking** or **planning process**. The strategic direction developed in that process can then be communicated in the form of a business plan to lenders, potential investors and associates within your company [1]. In this form, a business plan is a document that defines in detail a company's objectives and how it plans to achieve its goals. That means that a business plan is an important document aimed at a company's external and internal audiences. The development of a strategic direction is a critical step for company and with a business plan there are a written roadmap for the firm from marketing, financial, and operational perspective.

Developing a strategic direction is a critical step for each company. It allows business to leverage the knowledge and skills of its management team, staff and consultants to develop a strategic direction for the organization that will lead to its best chance of success. This provides an opportunity to use the advisory group you have created [2].

***"The business that fails to plan, plans to fail."***

## Why Do You Need a Business Plan?

Every business will benefit from the preparation of a carefully written business plan. Take the time to write a clear, concise and winning business plan. The success of your business depends on it. One of the principal reasons for business failure is lack of planning. There are three main benefits that do business internationally.

**1. To serve as a guide for your business**

The most important reason for writing a business plan is to develop a guide that will be followed throughout the life of the business. To be of value, your plan must be kept up-to-date. While plans presented to lenders must be bound, you may choose to keep your working copy of the plan in a loose-leaf binder. Then you may add current financial statements, updated rate sheets, recent marketing information, and other data as they become available.

**2. As documentation for financing**

A business plan is a requirement if you are planning to seek financing. If you are seeking capital, the business plan details how the desired investment or loan will further the company's goals and increase its profits. Every lender wants to know how you will maintain your cash flow and repay the loan (with interest) on a timely basis. Every investor also wants to know also how his investment will improve the overall net worth of the company and help him to achieve his desired return on investment. You will have to detail how the money will be used and back up your figures with solid information such as estimates, industry norms, rate sheets, etc. Lenders and investors have access to statistics that are considered normal for various industries, so be sure that your projections are reasonable.

**3. To work in foreign markets**

If you do business internationally, a business plan provides a standard means of evaluating your business potential in a foreign marketplace. No business today can afford to overlook the potential of international commerce brought about by changes in communications, technology, and transportation. The development of a business plan will demonstrate ways in which your business can compete in this global economy [3].

## Online businesses

Financing is an important issue for online businesses. Investors for online businesses have become more cautious following the dot‐com crash, which is making it more difficult for these businesses to obtain financing. Venture capitalists, investment banks, and brokerage houses share in the blame for the dot‐com crash. By offering so much money to the dot‐coms and being impatient for large returns, entrepreneurs were tempted to disregard fiscal responsibility. The most advise investors to resist the temptation to search for traditional business plans, clearly identified customers, and foreseeable cash flows and profits because e‐commerce remains a new area where flexibility, imagination, and patience will be rewarded [4]. Therefore, in online businesses the need for a properly structured business plan is almost necessary to attract new investors.

## Types of Business Plans



***The one-page Business Plan***

It summarizes the important points of the business into a single page.

The most applicable scenario for a one-page business plan is for introducing an investor (or another party) to a business that they are unfamiliar with [5].



**The mini Business Plan**

It is a 1-10 page document and provides much of the same information as a comprehensive business plan. The information is condensed and minimizes all fine details and explanations [5].



***The Comprehensive Business Plan***

A comprehensive plan begins with an executive summary (similar to the one-page business plan). It gives readers a full view of the business including the market problem, the solution, company mission, objectives and goals, marketing strategy [5].

**WHAT TYPES OF PLAN DO I NEED?**

It depends on the nature of your business. If you have a simple concept, you may be able to express it in very few words. The purpose of your plan also determines its length.

However, you should not complete one business plan and send that one business plan out for every situation.

You should have all three types of business plans in your arsenal and be able to supply the right business plan when needed.

## The importance of a good business plan

One of the most important steps in setting up any new business is the construction of a business plan as it is a fundamental document every new business should have in place before starting operations. Operating without a business plan is usually not a good idea. A good business plan should outline all the projected costs and potential pitfalls of every decision a company makes. In fact, very few companies are able to go very long without one. There are benefits to creating (and sticking to) a good business plan. These include being able to think through ideas before investing too much money in them and addressing potential barriers to success.

Business plans, even among competitors in the same industry, are rarely identical. However, they can have the same basic elements, such as a summary of the business and detailed descriptions of its operations, products and services, and financial projections. A plan also states how the business intends to achieve its goals.

A business plan can help the owner-manager crystallize and focus his ideas. It can help him set goals and give him a yardstick against which to monitor performance. Perhaps of more immediate importance, it can also act as a vehicle to attract any outside financing the business needs, it can convince investors that the owner-manager has identified high growth opportunities and has the entrepreneurial and managerial talent to exploit them. Opportunity effectively, and that it has a rational, coherent and credible program to do so.

The business plan implies the long-term view of the business and its environment. A good plan should highlight the strengths and acknowledge the weaknesses of the proposed venture. Above all, it should convey a sincerity of purpose and analysis that lends credibility to both the plan and the entrepreneur submitting it [6].

## The planning process

Many individuals believe that a business plan is only needed to raise funds and document business parameters for investors. However, business plans are actually the road maps that enable individuals to execute excellence. Many entrepreneurs establish their businesses without business plans; however, this may take more time and result in higher costs. Without a business plan, the owner has no concrete foundation or direction to keep the business focused.

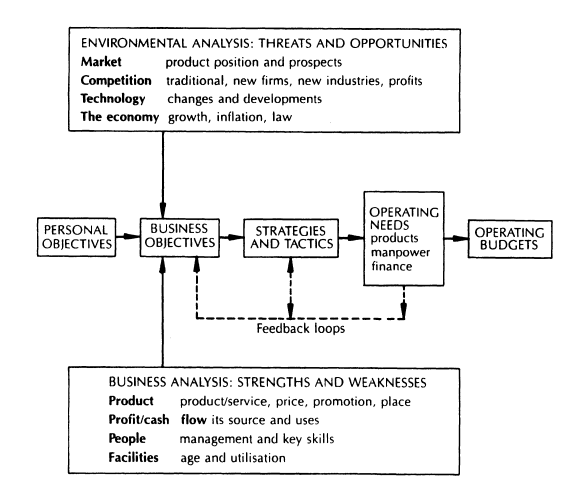
The business plan should clearly and concisely define the mission, values, strategy, measurable objectives, and key results the owner expects. It is important to set aside enough time to formulate the plan. Experts recommend starting the planning process at least 6 months before initiating a new business. A poorly conceived plan can set the company back several months or years, or can result in business failure. Building a business plan is a dynamic process; execution is the primary task. Once it is formulated, the plan is fine-tuned and updated on a continuous basis. The business planning process entails a variety of steps [6].

For an existing business this process first involves coming to terms with the personal objectives of the owner-manager.

* Do we want income, or capital growth?
* Do we want to sell the business as a going concern when it gets to maturity, or do we want to pass it on to our children?
* Do we want to take risks in the business or do we value security more?

Second, it involves coming to terms with the strengths and weaknesses of the existing business, and the opportunity and threats that it faces. This is often called a 'position audit' or 'SWOT' (Strengths, Weaknesses, Opportunities, Threats) analysis [6].

The whole planning process is shown diagrammatically in Figure 1.



**Figure 1. The planning process [6].**

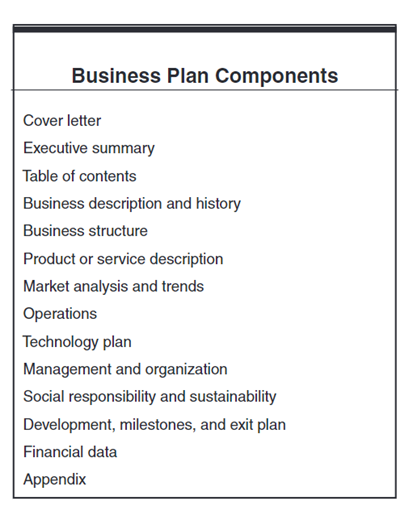
# How to write a business plan

## THE BUSINESS PLAN FORMAT

Design format may vary depending on intended use and readership. Bankers, investors and other investors rarely have time to give every proposal and business plan the attention it deserves. Each owner competes with other entrepreneurs for the necessary support. Highlighting key areas and summarizing as needed will allow investors to easily review the data included in the plan.

The business plan should include the following sections: (1) Title Page, (2) Executive Summary, (3) Table of Contents, (4) Business Description and history, (5) Management (6) Market and Business Analysis, (7) Business and Market Development, (8) Marketing and Sales, (9) Financials data, (10) Application of Capital and (11) Appendix.

There are various alternative structures, for example like the one in Figure 2.



**Figure 2 Business Plan Components [7]**

## HINTS FOR WRITING A BUSINESS PLAN

Experts suggest that the business plan should not exceed 15 - 35 pages, not including the financials and appendices. 20 pages is enough for almost any business. Anything less than 10 pages may be considered frivolous. Appendices are limited to no longer than the length of the drawing. If investors are interested, they will ask for more information. Most plans should be projected 3 to 5 years into the future or until the owner reaches a proposed exit strategy [8].

**Title Page**

Your business plan must have a title or cover page. This page should include your company name, logo, month and year formed, the name of the point person in the financing of the business (including his/her address and phone number) fax number for the business, and, if you have it, your website address. If you are worried about someone “stealing” your business ideas, include a non-disclosure statement on the cover page that is to be signed by the prospective lender/investor to which you are giving the plan (the non-disclosure statement will be explained in later section).

**Cover Letter**

A cover letter should entice the reader to give careful consideration to the business opportunity and to read further. The cover letter should include:

* Why the owner has chosen this funder to receive the plan.
* The nature of the business.
* The development stage of the business.
* The amount of funds sought.
* The type of funding sought (e.g., investment or loan).
* The principals of the company and contact information.

The cover letter must be simple, attractive, concise, and tailored to each investor.

**Executive Summary**

The executive summary is the most important section of the business plan. Is a very brief overview of the plan and your business model that is intended to capture the reader's interest. This part of the plan is generally at most two pages long. A "rule of thumb" is the shorter the better. But it must be very well written. The executive summary is targeted to the audience. Current technology enables the entrepreneur to change, update, and tailor the business plan as needed.

The executive summary:

* Summarizes the basic concepts and highlights key points.
* Identifies the company's main concept, objectives, and purpose.
* Identifies the target or niche market and competitive advantage and position.
* Outlines the marketing and sales strategy.
* Identifies growth opportunities.
* Highlights benchmarks.
* Quantifies resources.
* Describes work and management experience and past successes of the management team.

**Table of Contents**

The table of contents serves as a guide to writing and organizing the business plan. It also assists readers to understand and easily access the information presented. Some lenders may be interested in reading one part of the plan first and forming their initial decision of whether or not to read further based on that one section alone. Therefore, it should be organized to facilitate the reader's review of the information you have included in the plan. In addition, include a table of contents and have separators (tabs) for each section of the plan.

**Business Description and history**

The objective of this section is to describe the business, how the entrepreneur will manage it, and why the business will succeed. If the business is new, the following questions should be answered [7]:

* What is the legal/corporate name of the business?
* What is the legal form of the business?
* What is the mission of the company?
* Where the business located is and what geographical areas will it serve?
* What hours of the day and days of the week will the business operate?
* Will the business be seasonal?
* What is the nature of the business?
* How will the business succeed and what is its growth potential?
* What is each individual’s experience in the business and what positions will individuals hold?
* What type of staff will be needed?
* What makes this business special or different?
* What is the financial status of the company (i.e., income and expenses)?
* What is the structure of the business?
* Why will the business be profitable or continue to grow?
* What types of patents, trademarks, copyrights, and licenses are needed?

**Management**

There should be a separate section on management with the people who make up the management team and how they work together. Investors and lenders place significant interest in the management team.

Individuals should be listed in key positions filed and a brief biography provided for each individual, stating their qualifications for the job and showing what they bring to the job. Any outside advisers should be listed, such as the accountant, lawyer, insurance agent and business advisers. Resumes of all internal and external directors and advisors can be placed in the Appendix section.

**Market and Business Analysis**

This segment describes the existing marketplace in which the entrepreneur will introduce the company, its products, and services. It can be viewed as a plan within a plan. At its most basic level, the marketing strategy sets forth the products or services marketing mix and includes product, price, promotion, and place (distribution) for the coming year with projections for at least 5 years. Marketing (including sales) is the revenue generating part of the company. Price and value work together. Clients consider durability, reliability, service, and quality in addition to cost. Pro-motion, the amount and nature of the marketing activities, might include advertising online, in professional publications.

This is one of the most crucial sections of plan. The development of an understanding of the current state of your business venture. It helps the lender/investor to get an understanding of how your company is today. You should go through a SWOT (i.e., Strengths, Weaknesses, Opportunities, and Threats), as doing this analysis can really help you (and others)to take a critical and objective look at your business.

**Marketing and Sales**

In this part, you show how you will attract new customers and describe your company's entire marketing effort. Share your sales strategy with the lender/investor in detail. In addition, all advertisements to be used should be described and copies of all sales brochures to be used included in the Appendix. Your marketing goal is to generate the maximum number of new customers in a short period of time.

**Financial data**

The financial data section is quite detailed and some investors state that it is the most critical of all parts of the Business Plan. Therefore, you need to show that you know what your business will and will not do financially.

**Application of Capital**

The funding requirements will be an initial amount for operating capital and the purchase of assets to carry out the ideas and sales efforts of your business. The complete summary of your whole funding requirement could be expressed as:(1) all cost to complete development of product/service; (2) all cost to purchase equipment/fixed assets; (3) marketing cost to launch and carry out total marketing strategy; and (4) all working capital cost to open and carry on the business for a period of time according to your cash flow projections. In addition, always explain how any investment or loan proceeds will be used for the above listed four items.

**Appendix.**

This section is where you put the data which backs up what you have said in your Business Plan. The appendix is used to reinforce the content of the business plan. The appendix includes the conclusions outlined in the plan. Information that can be provided in this section includes:

* Letters of intent.
* Key contacts.
* Endorsements and testimonials.
* Definitions of technical words.
* Client listings.
* Photographs.
* News articles.
* Resumes of key management personnel and consultants.
* Contracts.
* Trademarks or copyrights.
* Marketing materials.

# SWOT Analysis

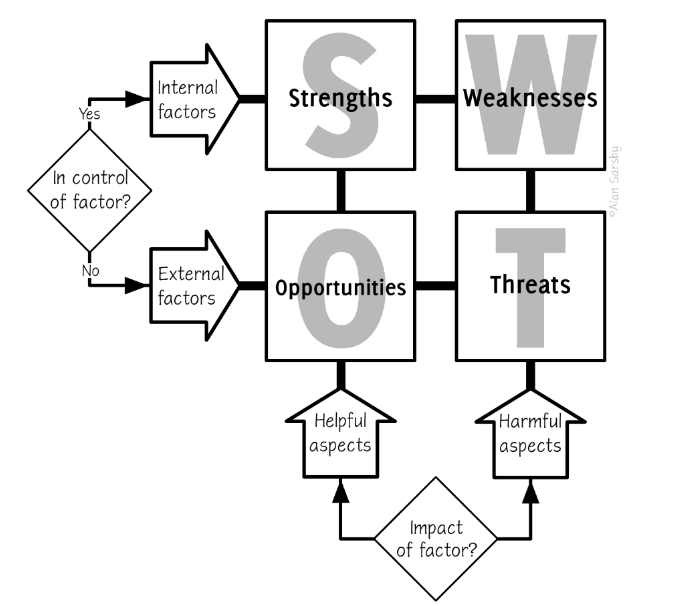
## What is a SWOT Analysis?

SWOT Analysis (short for strengths, weaknesses, opportunities, threats) is a business strategy tool to assess how an organization compares to its competition. The strategy is historically credited to Albert Humphrey in the 1960s, but there is no universally-accepted creator. Also known as the SWOT Matrix, it has achieved recognition as useful in differentiating and establishing a niche within the broader market [10]. A SWOT analysis is an in-depth examination of key factors that are internal (strengths and weaknesses) and external (opportunities and threats) to a business.

* **Internal Factors.** The examination of internal factors takes a close look at the organization, laying out core competencies and areas in which a business has a competitive advantage. It also looks at areas in which a business has a lack of certain strengths.
* **External Factors.** An examination of external factors takes a look at the marketplace in which a business operates and helps to identify new areas in which the business can grow and niche markets that can be pursued, all which will ultimately lead to greater profits for the business. It also looks at changes and trends in the marketplace that may affect a company’s business operations [3].

## Illustration SWOT

SWOT should be drawn as show in Figure 3. There are four boxes, Strength (S), Opportunities (O), Weaknesses (W) and Threats (T). The axes are important in SWOT because they define the content of four boxes. If the axes are omitted; problems often arise when collecting and assigning information to the appropriate quadrant [11].



**Figure 3. The basic SWOT diagram [11]**

## Benefits of a SWOT analysis

Conducting a SWOT analysis enable a business to channel its focus into those areas that present the greatest opportunities and those competencies in which it is strongest. Concurrently, the business look into ways to mitigate its weaknesses and develop plans and strategies to overcome any threats that present themselves. When conducting a SWOT analysis, you should be realistic about the strengths and weaknesses of your business [3].

Some benefits of performing a SWOT analysis include:

* Cost-effective
* Wide Range of Applications
* Promotes Discussion
* Provides Visual Overview
* Offers Insight
* Integration and Synthesis
* Fosters Collaboration

Many firms consider SWOT analysis an effective tool for analyzing marketing data and information. The simple and straightforward framework provides a sense of direction and works as a catalyst for the development of future marketing plans. If performed correctly, a SWOT analysis not only organizes information and data but also uncovers competitive advantages that a business can use to gain leverage over its competitors in the market [12].

# Thinking strategies

To avoid problems, delays or rejection by investors, it is better to follow thinking strategies. In order to gain a competitive advantage, **thinking strategically** in entrepreneurship is important [13].

This procedure typically involves:

* Seeing the big picture
* Planning ahead
* Turning thought into action

## Seeing the big picture

**Big-picture thinking** stretches beyond the short term and considers how an entrepreneurship can succeed in the long term.

It helps you build a vision of the opportunities ahead [14].

## Planning ahead

Strategic thinkers can **plan ahead** and anticipate potential problems.

Having a backup plan always helps you when things don’t go as planned.

## Turning thought into action

So, you have a plan and you have made some choices.

Now, you need to take control of these choices, understand what you should and must do and start **turning thought into action** [15].

# A final thought on planning

## Why Do Business Plans Fail?

Even if there is a good business plan, it can fail, especially if the plan is not followed! Having strong leadership with an emphasis on design is always a good strategy. Even when the plan is followed, if there are bad assumptions about your forecasts, you can be caught in cash flow shortfalls and out-of-control budgets. Markets and the economy can also change. Without flexibility built into your business plan, you may not be able to pivot to a new course as needed [16].

## Considerations for a Business Plan

A major reason for a business plan is to give owners a clear picture of objectives, goals, resources, potential costs, and drawbacks of certain business decisions. A business plan should help them modify their structures before implementing their ideas. It also allows owners to project the type of financing required to get their businesses up and running.

Well prepared and executed, the business plan is the entrepreneur’s most crucial business document. Investors expect a higher level of expertise and preparation from entrepreneurs they choose to fund. The successful business plan is convincing because it not only discusses the business idea but also demonstrates the author’s business competence through a thorough, detailed discussion of what must be done to implement the idea.

As the number of new businesses increases each year, competition for funding is greater than ever. Owners who provide business plans with a clear definition of the business, evidence of strong management, thoughtful marketing capabilities, and an attractive financial structure have the competitive advantage and are more successful in obtaining necessary funding. A well-conceived business plan is still the most effective tool for reaching long-term goals and achieving success [16].

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