



UNIT-2

Creating a Business Plan

Learning Outcomes

By the end of this unit the learner will be able to:

Unit 2

Creating a Business Plan

Why a Business Plan?

We firmly believe that every business needs a business plan, although the size, complexity, and components of the plan will depend on your business. The business plan requires you to take a close look at many aspects of your plan and commit to them. This, in turn, will clarify the business for you and expose any issues that will need to be resolved before the business is launched. A business plan is also a key element in obtaining funding should it be required.

Some people procrastinate about committing their plan to paper, but having a framework and acknowledging that the plan is going to help you out makes creating the business plan an easier task. In fact, the business plan should not be an intimidating exercise at all.

The One-Page Plan

For an online business, a simple, one-page business plan is usually sufficient. This type of plan usually includes the following elements:

- Company description
- List of products and services
- Marketing and sales strategy
- Financial projections
- High-level design for website, mobile presence, and supporting services

Sample Business Plan

To give you an idea of what the business plan is all about, here is a sample business plan for an online farmer's market.

As you work through this business plan, take the time to add to it or consider what each section will look like for your business.

Company Description

FarmJam will be a 100% online service serving the greater Acmetown area. It will link farmers and consumers to provide an accessible, easy to use, farm-to-table experience.

Products and Services

Local farmers will deliver produce as it is harvested to FarmJam’s warehouse. All products will be inventoried using a real-time electronic system. Customers can then order the products from a website or mobile app and choose a delivery time within the next 24 hours.

Company Structure

To begin, Norman and Sarah Miller will be the sole employees. They will be able to handle approximately 75 orders per day plus regular business operations. Norman will focus on business operations and marketing, while Sarah will focus on orders and liaising with vendors. A new employee will be required for each 50 average orders per day.

Competitive Analysis

One grocery store at the north end of Acmetown currently carries local produce, but does not offer a delivery service. It is not on a transit route and is a 45-minute trip from other parts of Acmetown.

The southern end of Acmetown offers a farmer’s market during the summer months, weather permitting. This market is on a transit route and is more closely located to urban areas. However, its seasonality and limited parking have caused frustration for customers.

Financial Projections

Income

FarmJam will generate most of its revenue via a 10% markup on all produce. Based on customer surveys, local grocery sales, and a similar service in a similar-sized town, we estimate that FarmJam will sell \$5,000 of produce each day. This will provide revenue of \$182,500 in the first year.

Setup Expenses

We estimate the following one-time expenses to set up the business. These costs will be covered by a \$50,000 grant from the Acmetown business association.

Category	Item	Amount
Software/Hardware	Computers, tablets, and smartphones	\$5,000
	Inventory software	\$10,000
	Accounting software	\$1,500
Online Presence	Development for mobile app	\$10,000
	Website development	\$7,500
Training	Entrepreneurial workshop	\$0 (Business Association)
	Inventory software workshop	\$2,500
Total Expenses		\$36,500

Operational Expenses

We estimate the following expenses for the first year.

Category	Item	Amount
Logistical Expenses	Warehouse lease (2,500 square feet)	\$12,000
	Vehicle lease (Four vehicles)	\$24,000
	Utilities	\$2,500
	Telephone and Internet	\$6,000
	Insurance (Warehouse and vehicles)	\$3,000
	Fuel	\$6,000

	Bags for products	\$2,500
Marketing Expenses	Website maintenance and hosting	\$1,500
	Internet and newspaper advertising	\$1,000
Staff Expenses	Salary for Norman	\$40,000
	Salary for Sarah	\$40,000
Total Expenses		\$138,500

Marketing Strategies

FarmJam will leverage word-of-mouth advertising within the community to generate interest and attract customers. FarmJam will also put on workshops with local community groups to showcase local produce and provide cooking demonstrations.

FarmJam will use Facebook, Twitter, and Instagram to advertise products and keep customers up to date on what products are currently available.

High-Level Online Design

The FarmJam website and mobile app will link directly to the inventory management system to allow customers to see what produce is in stock, place orders, and pay for orders. (Customers can also pay cash on delivery.) Customers will also be able to view profiles of the farmers on the website, suggest products that they would like to see, and submit questions for farmers to answer. Local technology company InDesign will create and maintain the app and website.

Future Growth

If sales reach \$100,000 in the first year, FarmJam will be able to move to a bigger warehouse with increased cooling capacity. FarmJam will also be able to add two larger, refrigerated trucks to the fleet.

These two changes will enable FarmJam to add meat and dairy products to their delivery service. It will also enable FarmJam to pick up produce from farmers and process larger wholesale orders for local restaurants and markets.

Gathering Resources

We highly recommend getting some specialized help when setting up your online business. A small business accountant will help you set up your finances appropriately, including taxes and insurance. Likewise, a small-business attorney will help you complete all the necessary paperwork and ensure that your work is protected.

You may also want to consider finding a mentor with experience in your field. Both types of resources can help you grow in the right way and make your business a success.

Some other specialists that you might consider getting help from (depending on your experience and your business model include):

- Marketing and/or social media specialists
- Website designers
- Software developers

Consider the possibility of bartering with other small companies. For example, if you need a client tracking program, and you know of a software company that offers one and needs the products that you offer, perhaps you can trade services. If you do the job well, this offers the added benefit of getting your name out there and establishing your reputation.

Freelancers and contractors can also offer you specialized support when you need it. For example, you may decide to hire someone to build a mobile app to support your storefront. Websites like eLance and Guru can help you find someone who has the skills that you need. Be sure to ask for samples of the freelancer's work and references before committing to the project. As well, be very clear about what you want and check in frequently with them.

What resources could you use when starting up your business?

Breaking Down the Plan

Creating a Marketing Plan

The Purpose of the Plan

Now that your business strategy is in place, it's time to consider how you will market your online business. Marketing processes may vary in terminology or stages depending on the material you read, and they may include more or fewer steps than this session will cover. What is common, however, is that marketing is a cyclical process, and it uses very particular terms. We will also use those terms here so that you can plan, speak to, and perform these functions within your business.

Your marketing plan may undergo many revisions until all stages work effectively. This frustrates people who do not like working in a fluid state, or have trouble dealing with change. As a result, you may need to seek help from marketing professionals who love their work and have a strong track record.

Cycle Overview

Marketing uses the following steps:



Looking at the Steps

Let's take a closer look at each of the steps in the marketing cycle.

Stage One: Consumer and Market Analysis

This stage involves the following elements:

- Considering who your customer is and what they need
- Grouping target customers into segments
- Outlining the buying process for your product or service

Stage Two: Analyzing the Competition and Yourself

In this stage, you will want to ask the following questions of your competition and yourself:

- What are your advantages?
- What are your core competencies (the things you do well)?
- What are your weaknesses?
- Where are your shortcomings?
- What can you do to capitalize on your strengths?
- What can you do to exploit the competition's weaknesses and shortcomings?

A SWOT analysis can help you address each question in the list above. SWOT stands for strengths, weaknesses, opportunities, and threats. It is a method of analyzing external factors (opportunities and threats) and internal factors (strengths and weaknesses) in a methodical way.

Once you have gathered this information, you can identify:

- How to position your services to play to your strengths
- Ways to lessen the impact of the competition
- What makes your services unique
- Key aspects of your brand

Stage Three: Analyzing Distribution Channels

Consider how you are going to get your product or service to your client. Will your product or service be completely virtual or will you need warehouses and delivery services? Consider the costs at each step of the delivery process, including bandwidth and hosting fees.

Stage Four: Creating a Marketing Plan

Your marketing research gets applied in a marketing plan based on the P's of marketing: product, price, place, promotion, and packaging. All of these P's influence the sixth P: the **positioning** of your product or service (how it compares to similar products from other companies).

Stage Five: Implement the Plan

Now it's time to test out your marketing plan. If possible, do a limited trial run before a full-scale launch.

Stage Six: Evaluate, Review, and Revise

You may recall that earlier we said that marketing is a cyclical process. At any time in the cycle, the marketer can be forced to return to an earlier stage to remedy some kind of problem. Even if things appear to be going well, take the time to closely look at what you are doing and how effective it is.

Creating Financial Projections

Choosing the Right Approach

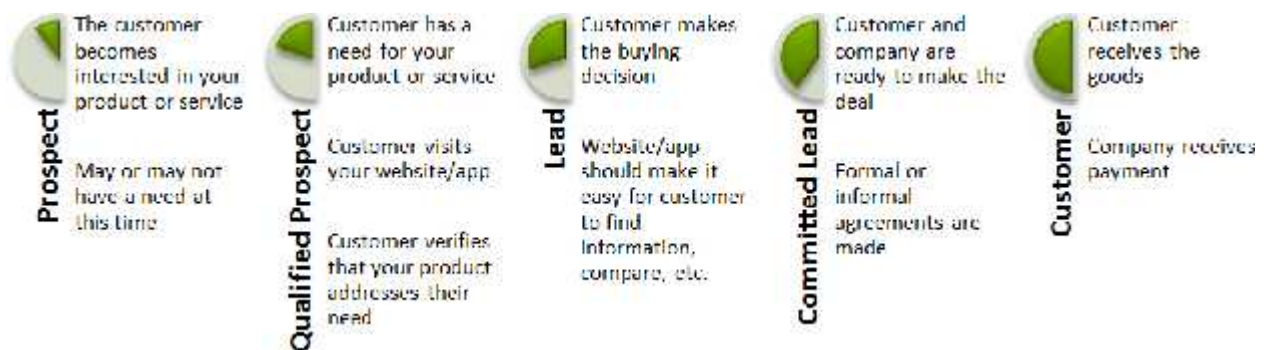
The next piece of your business idea is the financial projections. You need to have a fairly solid idea of what your online business is going to cost to run and how much revenue it's likely to generate. We recommend using a basic bottom-up method, where you generate estimates for each part of the business and then combine them to get the big picture.

Finding Data

As an entrepreneur starting a new business, you have a major disadvantage when forecasting revenue and expenses: you have no historical data to base your facts on. This means that you will have to obtain data for similar companies in your industry.

Part One: The Sales Process

The first part of financial projections is looking at your sales process. How long will it take for your company to see payment after someone becomes a potential customer? Typically, online customers move through the following stages:



Typically, the sales cycle is quite short for online businesses. However, it depends on how complex and customized your product is. You should also consider these factors when you are estimating the length of your sales process:

- What experience does the market have with this product? New products and technologies can take a while to catch on.
- What does the customer have to do in order to buy the product? Are credit terms, payment plans, proposals, tenders, or other lengthy processes required?
- Who will be involved in making the decision? For example, company employees may be allowed to purchase small amounts of office supplies, but will need approval for bigger items.
- How urgent is the purchase? A higher urgency level usually results in a shorter sales time.

To help you get an accurate picture of how long your sales process is, you can use this template. We have included some example activities for an online computer business.

Sales Stage	Activities in Our Process	Average Length of Stage
Prospect	Customer sees a blog post that company wrote for a technical magazine.	N/A
Qualified Prospect	Customer needs a new computer. They remember our website, re-visit it, and check out some customization options with the interactive wizard.	0-2 hours
Lead	Customer decides what computer they want and completes the wizard.	0-2 hours
Committed Lead	Customer places the order and enters their credit card information.	0-2 hours
Customer	Computer is built and shipped.	Within 7 days after order is placed
Total Average Length of Sales Process		7.5 days

Part Two: Sales Metrics

The next part of your financial projections is sales metrics. You will need to determine how much money each product or service will sell for (separated into one-time and recurring revenue), as well as daily, weekly, monthly, and yearly sales estimates. If support people will be required, account for their cost as well.

Let’s look at a website that sells several different e-books that you have already written and published.

- You estimate that each book will sell for \$10.
- You will not have salespeople; all sales will be done through your website.

- You estimate that five people will purchase from the website on launch week, with the number doubling each week after that until it plateaus at 1,000 customers purchasing each week.
- Since the first month is a four-week month, this means 75 sales and \$750 in revenue in the first month.
- The second month, which is also four weeks, will have 1200 sales and \$12,000 in revenue.

It can be very difficult to predict sales estimates. Always err on the conservative side. As well, be sure to allow for seasonal variances. As your business grows, you will be able to update and refine your forecasts with actual data.

Part Three: Expenses

The final piece of the financial projection puzzle is your expenses. Luckily, your major expenses should be fairly easy to estimate. Here is a list of things to consider.

One-Time Costs

- Lease deposits
- Software purchases
- Initial office setup (chairs, computers, desks, etc.)
- Website and app development

General Overhead Costs

- Rent
- Heat, lights, and water
- Communication costs (landlines, cell phones, Internet, etc.)
- Office supplies
- Website and app maintenance

Staff Costs (if applicable)

- Salaries
- Commissions
- Benefits
- Owner payouts

Advertising and Marketing Costs

- Advertising expenses (break down into appropriate channels)

Product Costs

- Labor costs
- Material costs
- Packaging

Special Costs

- Licensing and registration fees
- Professional service fees (accountants, lawyers, etc.)

- Insurance
- Outsourcing fees
- Emergency fund

Double and triple-check your expense forecasting to ensure you've accounted for everything.

Raising Startup Capital with Crowdfunding

What is Crowdfunding?

Crowdfunding refers to a growing trend of soliciting many small contributions from a crowd of people in order to support a new or existing business. There are three main types of crowdfunding as of this writing.

Charitable Crowdfunding

This type of crowdfunding is like traditional fundraising, where people give money or other donations to charitable groups without expecting anything in return.

Reward-Based Crowdfunding

This type of crowdfunding gives crowdfunders a reward in return for their contribution to the funding campaign. This might include a signed movie poster, a pre-sale copy of a video game, or gift certificates for a three-course meal.

Equity Crowdfunding

This type of crowdfunding is usually used for startup businesses. Crowdfunders give an entrepreneur money to start a business in return for a stake in the company. Equity crowdfunding is quite new, and the rules surrounding it differ for each jurisdiction.

Case Studies

Misfit

This brand of physical activity monitors (<http://www.misfitwearables.com/>) got its start via crowdfunding, raising \$846,000 in two months using the Indiegogo platform. Co-founder Sonny Vu said that not only did the campaign provide much-needed funding for the startup company, it also enabled them to get feedback in the early stages of design and manufacturing. Since its launch in 2013, the brand has gotten high reviews from technical magazines like Wired and now offers several different models of their product.

Pebble Smartwatch

Crowdfunding platform Kickstarter helped entrepreneur Eric Migicovsky turn his vision of a smartwatch into reality. In just over a month, crowdfunders raised over \$10 million. In return, they received different watch packages. The Pebble smartwatch (<http://getpebble.com/>) hit the market in early 2013 and has been extremely successful.

