

# Chapter 35

## Developing a Business Plan

- Section 35.1 The Business Plan
- Section 35.2 The Marketing and Financial Plans



# The Business Plan

## Key Terms

business plan

business  
philosophy

trading area

buying  
behavior

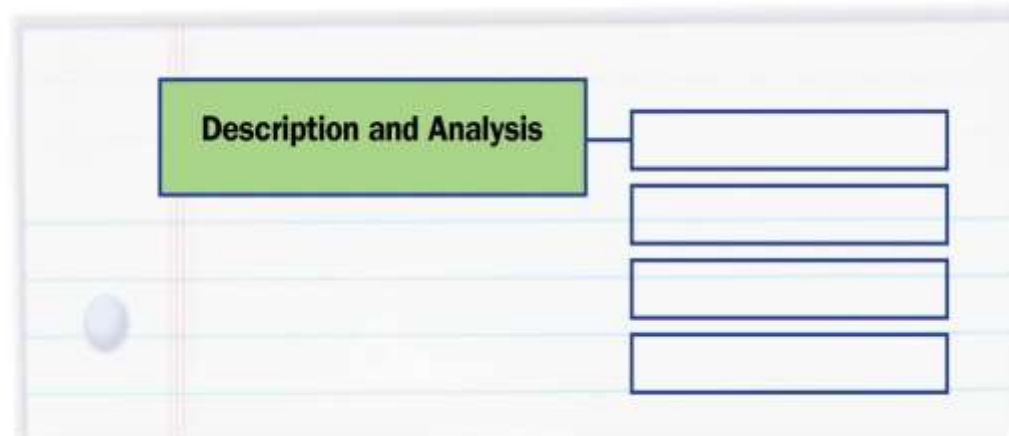
## Objectives

- Explain the purpose and importance of a business plan
- Identify external planning considerations

# The Business Plan

## Graphic Organizer


In a chart like this one, identify the elements in the first component of a business plan.



# Developing the Business Plan

## **business plan**

A proposal that outlines a strategy to turn a business idea into a reality.

A **business plan**  is a proposal that outlines a strategy to turn a business idea into a reality. It should contain four main components:

- Description and analysis of business
- Organizational plan
- Marketing plan
- Financial plan

## BUSINESS PLAN OUTLINE

1

### Section 1

describes the general concept of the proposed business, outlines the entrepreneur's special skills, and analyzes the potential market.

- I. Description and analysis of the proposed business situation
  - A. Type of business
  - B. Business philosophy
  - C. Description of good or service
  - D. Self-analysis
    1. Education and training
    2. Strengths and weaknesses
    3. Plan for personal development
  - E. Trading area analysis
    1. Geographic, demographic, and economic data
    2. Competition
  - F. Market segment analysis
    1. Target market
    2. Customer buying behavior
  - G. Analysis of potential location



## BUSINESS PLAN OUTLINE

2

### Section 2

discusses how the business will be organized.

## II. Organizational plan

### A. Proposed organization

1. Type of ownership
2. Steps in establishing business
3. Personnel needs

### B. Proposed good/service

1. Manufacturing plans and inventory policies
2. Suppliers

## III. Marketing plan

### A. Pricing policies

### B. Promotional activities

3

### Section 3

describes the way the business will price, promote, and distribute its products and services.

## BUSINESS PLAN OUTLINE

### IV. Financial plan

#### A. Sources of capital

1. Personal sources
2. External sources

#### B. Projected income and expenses

1. Personal financial statement
2. Projected start-up costs
3. Projected personal needs
4. Projected business income
5. Projected business expenses
6. Projected income statement(s)
7. Projected balance sheet
8. Projected cash flow

**Section 4** identifies the sources of capital and projects income and expenses.

4

# **Description and Analysis of the Proposed Business**

The description and analysis section introduces the proposed business concept. It should clearly identify the products and services the business will sell.



# Business Philosophy and Products

## **business philosophy**



Beliefs about how a business should be run that demonstrate an understanding of the business's role in the marketplace.

Your **business philosophy** ◀ explores how you think the business should be run and demonstrates your understanding of your role in the marketplace. It reveals your attitude toward your customers, employees, and competitors.

# Self-Analysis

Self-analysis is a description of your personal education, training, strengths, and weaknesses as well as a plan for personal development.

Indicate the education and training you have had so far to prepare you for operating a business, as well as any special licenses you may have.

# Trading Area Analysis

## trading area

The geographical area from which a business draws its customers.

A **trading area** is the geographical area from which a business draws its customers. You must analyze the trading area to become familiar with:

- Geographic and demographic data
- Economic data
- Competition

# Trading Area Analysis

The buying power index (BPI) helps business owners determine the buying power for a given target market. It factors total income, total population, and total retail sales figures to determine an area's sales potential.

# Trading Area Analysis

To analyze all the competitors in your trading area, find out:

- Products and prices
- Locations
- General quality of products
- Strengths/weaknesses

# Trading Area Analysis

Try to estimate your competitors' sales volume and how they promote and sell their products. Sources include:

- Annual reports
- Local chamber of commerce
- Yellow Pages and Internet



# Market Segment Analysis

You must carefully identify your target market so that you will know the needs/wants of different markets for your goods/services. You can categorize it by characteristics such as geographics and demographics.

# Market Segment Analysis

## buying behavior



The process individuals use to decide what they will buy, where they will buy it, and from whom they will buy it.

After you have identified your target market, you will need to explain how the market's buying behavior will be good for your business.

**Buying behavior** ◀ is the process individuals use to decide what they will buy, where they will buy it, and from whom they will buy it.

# Analysis of Potential Locations

Select your location after you have analyzed your trading area and your market segment, including your target market and competition.

Should you buy, lease, or build your facility? The advantages of leasing outweigh the other options for most businesses.

# **Analysis of Potential Locations**

When deciding where to be located, consider the potential competitors in the area.

If your business is similar in size and merchandise to its competitors, you may want to locate near them to encourage comparison shopping.

# **Analysis of Potential Locations**

The nature of the business will dictate if you locate your business in a mall, neighborhood shopping center, freestanding location, or online. The location will determine your hours of operation.

High visibility and prime locations are more important for some businesses than others.

# **Analysis of Potential Locations**

Consider customer safety and accessibility before choosing your location. Make sure that your business would comply with local ordinances and licensing requirements.



The slide features a red top border with a blue and yellow wavy pattern. A red banner at the top center contains the text "SECTION 35.1 REVIEW" in white. Below the banner is a large green chalkboard with a red border and gold corner fasteners. Gold decorative swirls are placed at the top and bottom corners of the chalkboard. The bottom of the slide has a white scalloped border.

## SECTION 35.1 REVIEW

## SECTION 35.1 REVIEW

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# The Marketing and Financial Plans

## Key Terms

job  
descriptions

organization  
chart

equity capital

debt capital

collateral

credit union

## Objectives

- Develop a business's organization plan
- Construct a marketing plan
- Identify the financial elements of a business plan
- Describe financing sources for businesses

# The Marketing and Financial Plans

## Graphic Organizer

Complete this chart and identify three business plan components discussed in this section.



## **Organizing the Plan**

The second section of the business plan explains how you will organize the new business. It includes a description of how you will create and sell your product or service. Finally, it includes your marketing plan.

# Proposed Organization

The organizational section of your business plan is a blueprint or a foundation for the structure of your proposed business. You will identify what type of business ownership structure your company will utilize and describe the steps you will take to establish your business.



# Proposed Organization

List your personnel needs in your business plan and identify the people who will perform those jobs.

# Proposed Organization

## job descriptions

Written statements listing the requirements of a particular job and the skills needed to fulfill those requirements.

**Job descriptions** ◀ are written statements listing the requirements of a particular job and the skills needed to fulfill those requirements including:

- Job purpose, qualifications and skills needed, duties to be performed, equipment to be used, and expected work conditions

# Proposed Organization

## organization chart



A diagram of a company's departments and jobs with lines of authority clearly shown.

An **organization chart** is a diagram of the company's departments and jobs with lines of authority clearly shown. It tells employees to whom they report and to whom they can turn with problems or questions.

# Proposed Organization

Your organization chart may include outside professionals. These people include:

- Accountants
- Attorneys
- Bankers
- Insurance agents

# Proposed Product or Service

One part of your plan should include available products and services, as well as your:

- Potential suppliers
- Manufacturing plans
- Inventory policies
- Costs

# Proposed Marketing Plan

Both promotion and pricing policies are vital to the success of your business. Identify how the greatest number of potential customers in your target market can be reached in the most efficient and effective way.



# **Financial Section of the Business Plan**

In this section of a business plan, lenders and investors can see what monies are needed to start and operate the business.

# Sources of Capital

Capital is the funding needed to finance the operation of a business, including all goods used to produce other goods.



# Equity Capital

## **equity capital**

The process of raising money from within your company or by selling part of the interest in the business.

**Equity capital** ◀ is money raised from within your company or by selling part of the interest in the business. You do not need to repay the money or pay interest, but the investor becomes a co-owner in your business.

## Debt Capital

### **debt capital**

Borrowed funds that must be repaid.

**Debt capital** ◀ is a term used to describe borrowed funds that must be repaid. If you pay it promptly, you will be able to establish a good credit standing, which will make it easier to borrow additional money.

## Debt Capital

### **collateral**



Something of value that a person pledges as payment for a loan in case of default.

**Collateral** ◀ is something of value that you pledge as payment for a loan in case of default.

# Debt Capital

Banks rely on the following criteria, called the six Cs of credit, to evaluate a business owner's creditworthiness:

- Capital the owner can invest
- Collateral that can cover the loan in case of default

# Debt Capital

- Capability of the owner to succeed
- Character of the owner
- Coverage by an insurance policy
- Circumstances of the business

## Debt Capital

### **credit union**

A cooperative association formed by labor unions or groups of employees for the benefit of its members.

A **credit union** ◀ is a cooperative association formed by a labor union or group of employees for the benefit of its members. Though you must be a member to borrow from credit unions, they charge lower interest rates than other banks.



# Debt Capital

The last part of the business plan is the financial statements, which display your business's projected income and expenses.



**SECTION 35.2 REVIEW**

## SECTION 35.2 REVIEW

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## FOCUS on KEY POINTS

### Section 35.1

- The four components of a business plan are description and analysis of the business; organizational and marketing plan; and financial plan.
- The description and analysis includes: type of business; business philosophy; product or service; self-analysis; and trading area analysis.

continued

## FOCUS on KEY POINTS

### Section 35.2

- The organizational plan and marketing plan outline how the business will be organized and promoted.
- Most entrepreneurs need to borrow money to start a business. Investors and lenders want to see financial information about a business.
- The financial plan should include sources of capital and its projected income and expenses.



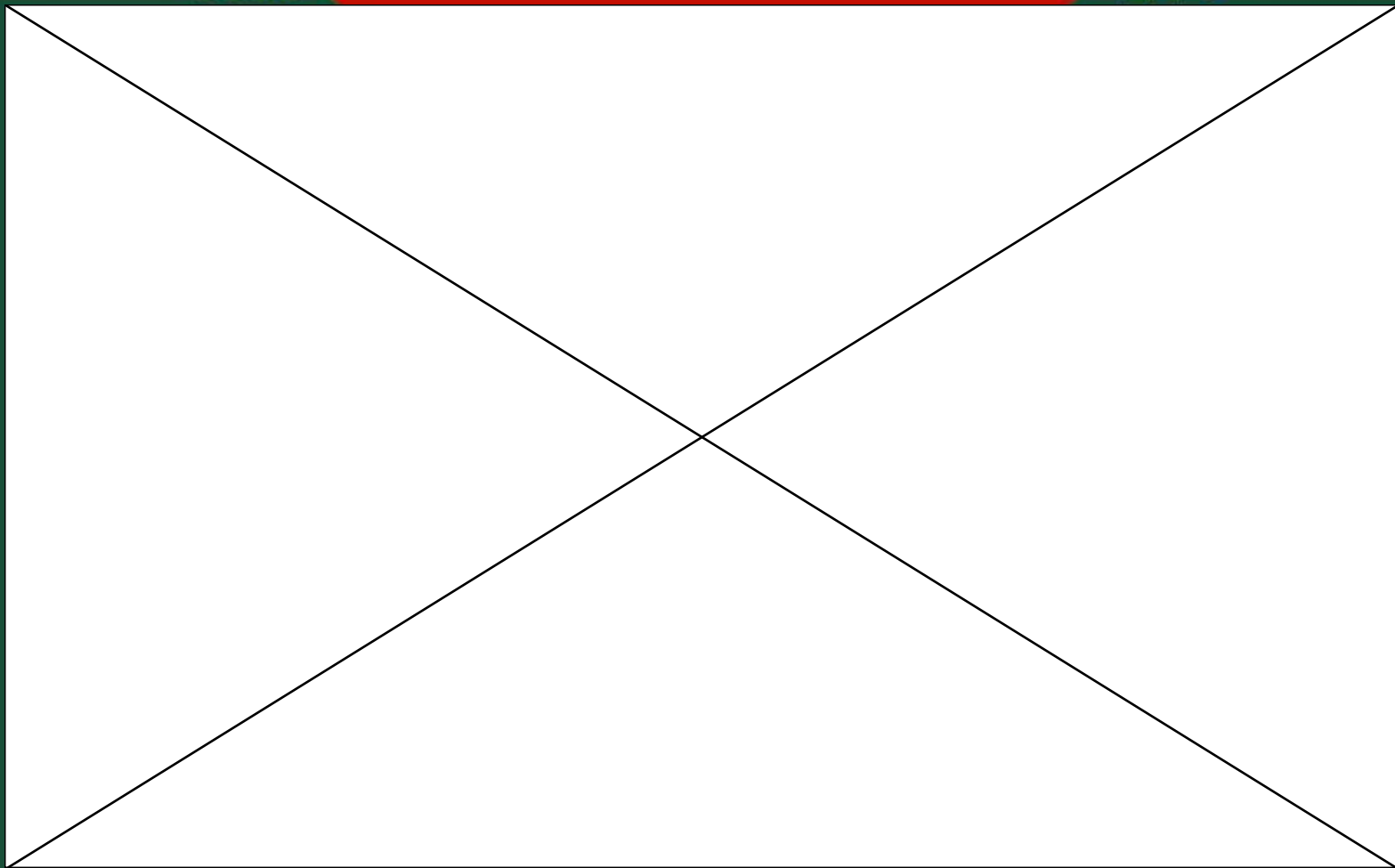
This chapter has helped prepare you to meet the following DECA performance indicators:

- Explain the nature of business plans
- Develop company objectives
- Explain the nature and scope of financing
- Develop a business plan



## CHAPTER 35 REVIEW

# CHAPTER 35 REVIEW



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