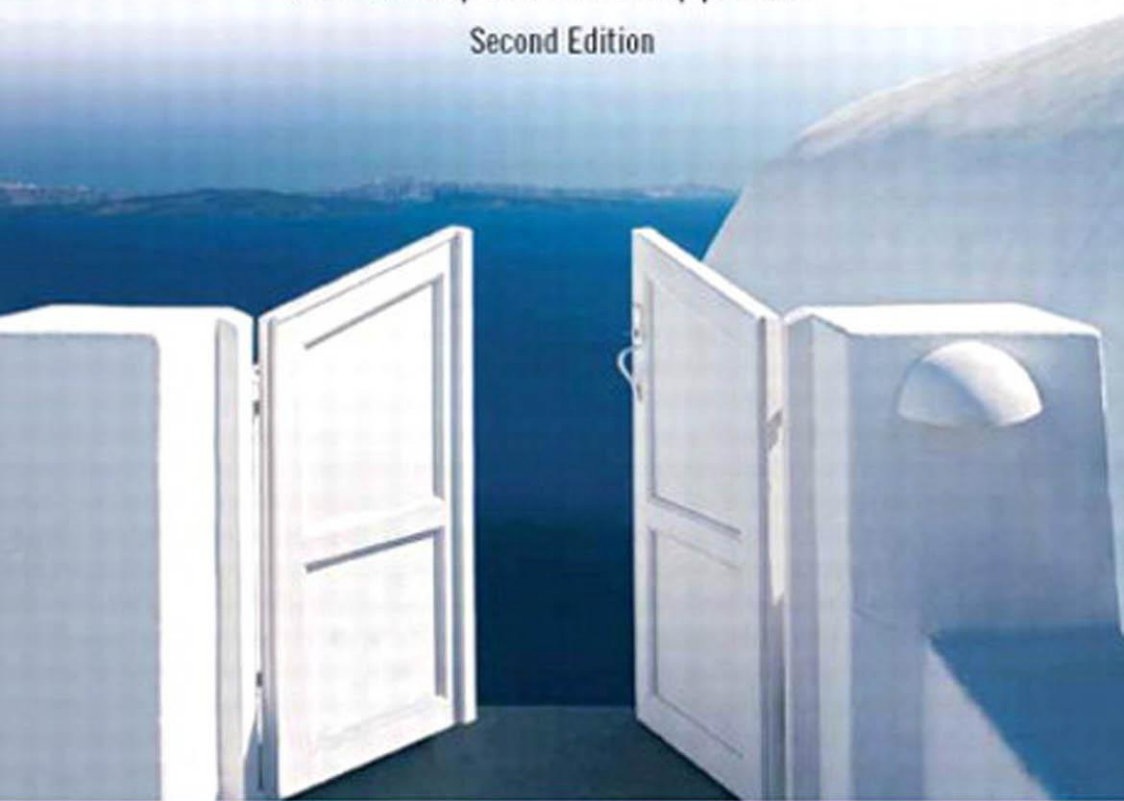




Preparing Effective Business Plans

An Entrepreneurial Approach

Second Edition



Bruce R. Barringer

PREPARING EFFECTIVE BUSINESS PLANS

AN ENTREPRENEURIAL APPROACH

SECOND EDITION

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Oklahoma State University

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Text Font: 10/12, Times Ten LT Std

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Library of Congress Cataloging-in-Publication Data on File

10 9 8 7 6 5 4 3 2 1

PEARSON

ISBN 10: 0-13-350697-5
ISBN 13: 978-0-13-350697-6

Dedication

To my wife Jan, my best friend

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PREFACE

THE SURGE IN INTEREST IN ENTREPRENEURSHIP ON COLLEGE CAMPUSES AND BEYOND

There is tremendous interest in entrepreneurship on college campuses and around the world. In academia, some 2,000 colleges and universities in the United States, about two-thirds of the total, now offer a course in entrepreneurship. As a result, a growing number of students are forgoing traditional careers and starting their own business. Ordinary citizens are equally interested in starting entrepreneurial careers. According to the 2012 Global Entrepreneurship Monitor, in the United States a total of 13 percent of the adult population (ages 18–64) either is starting a business or has started a business in the past 3 ½ years. There are regions of the world where the percentage is even higher. For example, in Latin America and the Caribbean 17 percent of the adult population, on average, either is starting a business or has started a business in the past 3½ years.

NEW TO THIS EDITION

- Fresh material that explains the business startup process, from the original inception of a business idea to a fully fleshed-out business plan
- New or updated Business Plan Insight boxed features
- Revised and updated business plan for Prime Adult Fitness, the fictitious fitness center for people 50 years and older, that is completed step-by-step throughout the course of the book
- New and updated Application Questions at the end of each chapter
- New and updated examples, embedded in each chapter, that illustrate the issues that business plan writers grapple with
- An updated Internet Resource Table (Appendix 2.2), which provides students access to online resources to assist them in completing a First Screen analysis and a complete business plan

THE IMPORTANCE OF BUSINESS PLANS

An important tool that helps people who intend to start a new business is a business plan. A business plan is a written document that carefully explains every aspect of a new venture. Although many entrepreneurs and small business people do not write a business plan before they start their business, it’s highly recommended. For most businesses, a business plan serves two functions. Inside the firm, the plan helps a company develop a “blueprint” to follow in executing its strategies and plan. Outside the firm, it introduces potential investors and other stakeholders to the business opportunity the firm is pursuing and how it plans to pursue it.

OBJECTIVES OF THE BOOK

The objectives of this book are twofold. The first objective is to help students and others learn how to write a business plan. This book provides step-by-step instructions for writing a plan. Second, the book immerses its reader in the process of thinking through the issues that are important in starting a business. This objective may be the most compelling advantage of the book. A full business plan is written, chapter-by-chapter, as an example through the course of the book. The issues that are considered in writing this plan provide a template for others to use as they consider their own business ventures and write their own business plan.

ORGANIZATION OF THE BOOK

The book is organized into four distinct parts:

<i>Part</i>	<i>Topic</i>	<i>Chapters in the Book</i>
1	Starting the Process	1
2	What to Do Before the Business Plan Is Written	2–3
3	Preparing a Business Plan	4–10
4	Presenting the Business Plan	11

DISTINGUISHING FEATURES

A number of distinguishing features set this book apart from other business plan books that are available.

FOCUS ON THE ENTIRE “FRONT END” OF THE ENTREPRENEURIAL PROCESS

Although the primary purpose of the book is to describe how to write a business plan, the entire “front end” of the entrepreneurial process is discussed and defined. The most effective business plans are part of a comprehensive process that includes (1) identifying a business idea, (2) screening the idea (or ideas) to determine their preliminary feasibility, (3) conducting a full feasibility analysis to see if proceeding with a business plan is warranted, and (4) writing the plan. Each step in this process is explained in the book.

FEASIBILITY ANALYSIS WORKSHEETS

Two worksheets are included to help students and others work through the feasibility analysis process. The first worksheet is called the “First Screen,” and helps determine the preliminary feasibility of a business idea. The second worksheet is a full feasibility analysis and is much more comprehensive. Combined, the worksheets represent a sequential way for students to determine the “feasibility” of their business ideas before they enter the business planning process.

SAMPLE BUSINESS PLAN

A business plan, for a fictitious company named Prime Adult Fitness, is built through the course of the book. Every aspect of the plan is described and discussed. This plan will give students and others a solid point of reference as they build their own business plans.

PRESENTING A BUSINESS PLAN

The final chapter in the book provides tips and suggestions for presenting a business plan with confidence and poise. Based on a 20- to 30-minute hypothetical presentation, a 12-slide PowerPoint presentation is provided with suggestions for what to include on each slide.

BUSINESS PLAN INSIGHT BOXED FEATURES

Each of the first ten chapters includes a boxed feature that provides special insights on writing a business plan or launching a new venture.

SUPPLEMENTS

At www.pearsonhighered.com/irc, the following supplements are available to adopting instructors for download. Registration is simple and gives you immediate access to new titles and new editions. If you ever need assistance, our dedicated technical support team is ready to help with the supplements that

accompany this text. Visit <http://247.pearsoned.com/> for answers to frequently asked questions and toll-free user support phone numbers.

- Instructor's Resource Manual
- PowerPoint Presentation

COMPANION WEBSITE

A useful companion website, www.pearsonhighered.com/entrepreneurship, offers free access to teaching resources for all books in the Prentice Hall Entrepreneurship Series, including additional activities, links to latest research, sample entrepreneurship curriculum and syllabi, teaching tips, and Web resource links.

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Dr. Barringer's research has been published in *Strategic Management Journal*, *Journal of Management*, *Journal of Business Venturing*, *Journal of Small Business Management*, *Journal of Developmental Entrepreneurship*, and in several other outlets. Dr. Barringer is the author or coauthor of five books, including *Entrepreneurship: Successfully Launching New Ventures*, *Preparing Effective Business Plans*, *The Truth About Starting a Business*, *What's Stopping You? Shatter the 9 Most Common Myths Keeping You From Starting Your Own Business*, and *Launching a Business: The First 100 Days*.

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C H A P T E R

WHY PLAN

INTRODUCTION

On college campuses and around the world, entrepreneurship garners tremendous interest. More than 2,000 colleges and universities in the United States, about two-thirds of the total, now offer a course in entrepreneurship.¹ Across the United States, interest in entrepreneurship is growing, among all demographic groups. According to the Kauffman Index of Entrepreneurial Activity, 320 out of every 100,000 adults created businesses in the United States in 2011. That number translates into approximately 543,000 new businesses being created each month during the year.² Interest in starting a business among young adults is at an all-time high. According to a recent survey, 54 percent of millennials (ages 18–34) either want to start a business or have already started one. That number is even higher for African Americans and Latinos. A total of 63 percent of African Americans and 64 percent of Latinos expressed a desire to start their own company.³

An important tool that helps people who intend to start a new business is a business plan. A business plan is a written document that carefully explains every aspect of a new business venture.⁴ Although some entrepreneurs simply “wing it” and start a business without the benefits of formal planning, experts recommend preparing a business plan. For most new ventures, the business plan is a dual-purpose document used both inside and outside the firm. Inside the firm, the plan helps the company to develop a “road map” to follow in executing its strategies and plans. Outside the firm, it introduces potential investors and other stakeholders to the business opportunity the firm is pursuing and how it plans to pursue it.

The most effective business plans are part of a comprehensive process that includes (1) identifying a business idea, (2) screening the idea (or ideas) to determine their preliminary feasibility, (3) conducting a full feasibility analysis to see if proceeding with a business plan is warranted, and (4) writing the plan. Many

new businesses fail, not because the founders didn't work hard or weren't committed to the venture, but because the idea wasn't a good one to bring with. This process sets forth a specific path for investigating the merits of a business idea. Although the primary purpose of this book is to describe how to write an effective business plan, the second section of the book, titled "What to Do Before You Prepare Your Business Plan," focuses on how to identify and screen business ideas (Chapter 2) and how to test their feasibility (Chapter 3).

Although writing a business plan may appear at first glance to be a tedious process, a properly prepared business plan can save an entrepreneur a tremendous amount of time, money, and heartache by working out the kinks in a business concept before rather than after the business is started. A large percentage of entrepreneurs do not write business plans for their ventures. In fact, a 2010–2012 study of 350 entrepreneurs found that of those that had successful exits (i.e., an IPO or sale to another firm), about 70 percent did not start with a business plan.⁵ Similarly, in a 2002 study, *Inc.* magazine asked the founders of the firms that comprised the *Inc.* 500 that year whether they had written a formal business plan before they launched their companies. A total of 60 percent had not. These statistics should not deter an entrepreneur from writing a business plan. Ample evidence supports the notion that writing a business plan is an extremely good investment of an entrepreneur's time and money.⁶

REASONS FOR WRITING A BUSINESS PLAN

There are two primary reasons for writing a business plan, as depicted in Figure 1-1. First, writing a business plan forces the founders of a firm to systematically think through each aspect of their new venture. This is not a trivial effort—it normally takes several days or weeks to complete a well-developed business plan—and the founders will usually meet regularly to work on the plan during this period. Writing a business plan is also an immersion experience—many founders work late nights and on weekends to get their plan completed. An example of how much work is sometimes involved, and how a well-planned new business unfolds, is provided by Gwen Whiting and Lindsey Wieber, the cofounders of The Laundress (www.thelaundress.com), a company that sells specially formulated laundry detergents and other fabric care products. Wieber and Whiting met at Cornell University

FIGURE 1-1 Two Primary Reasons for Writing a Business Plan

Internal Reason	External Reason
Forces the founding team to work together to hammer out the details of a business venture	Communicates the merits of a new venture to outsiders, such as investors and bankers

while studying fabrics, and after graduating, the pair decided to start a business together. The following vignette comes from an interview they gave to Ladies Who Launch (www.ladieswholaunch.com), a Web site that highlights the accomplishments of female entrepreneurs:

Gwen: Lindsey and I went to college and studied textiles at Cornell together and always wanted to be in business together. We knew it was going to happen. We always talked about ideas. We were talking about this concept, and it was the right time for us. The first thing we did was the business plan and then a cash flow analysis. We wanted to do as much research as possible before developing the products.

Lindsey: We spent Memorial Day weekend (2003) doing our business plan. We spent the Fourth of July weekend doing our cash flow. After we had our ideas on paper, we went back to Cornell, met with a professor there, and had a crash course in chemistry. She worked with us on the formulation of the products.

Gwen: I found a manufacturer on Columbus Day. Every piece of free time we had, we dedicated to the business. We weren't at the beach with our friends anymore.⁷

The payoff for this level of dedication and hard work, which involved the preparation of a formal business plan, is that Whiting and Wieber have now had a successful business for 10 years. Their products are sold through their Web site and in many stores.

To provide another indication of the value of writing a business plan for the founders of a firm, Table 1-1 shows the contents of the business plan for a fictitious

TABLE 1-1 Business Plan Format for New Venture Fitness Equipment Inc.

<i>Table of Contents</i>		
I.	Executive Summary	1
II.	Company Description	3
III.	Industry Analysis	6
IV.	Market Analysis	10
V.	Marketing Plan	14
VI.	Management Team and Company Structure	18
VII.	Operations Plan	22
VIII.	Product (or Service) Design and Development Plan	25
IX.	Financial Projections	30
	Appendices	
	Summary of Feasibility Analysis, Including Customer Reaction to the Product or Service	
	Supporting Industry Research	
	Resumes of Management Team Members	

■ 4 PART I Starting the Process

company named New Venture Fitness Equipment. This plan is probably similar to the plan that Gwen Whiting and Lindsey Wieber wrote for The Laundress. New Venture Fitness Equipment plans to sell a new generation of fitness machines that will take the boredom out of exercising indoors by equipping its machines (treadmills, stationary bikes, and rowing machines) with flat-panel monitors that will allow exercisers to compete against virtual opponents, in a sort of electronic-game format, on a variety of simulated outdoor courses. Spend a few minutes looking at each of the topics included in Table 1-1, and then imagine the founders of New Venture Fitness Equipment talking through each of these topics. Imagine the debate that will inevitably ensue as the founders grapple with tough issues, such as projecting the size of their industry, specifying their target market, pricing their products, and determining how many machines they will have to sell to break even in each of their first three years. This process forces a team to not only work together but also turn abstract ideas like “these machines are so great they should sell like hotcakes” into concrete realities like “we’ll need to sell 9,850 machines each year during our first three years to break even.” The benefit of this type of intense analysis before a business is started provides a compelling rationale for writing a business plan. This sentiment is affirmed by Guy Kawasaki, a well-known Silicon Valley entrepreneur and venture capitalist, who wrote:

All the late-night, back-o’-the envelope, romantic intentions to change the world become tangible and debatable once they’re put on paper. Thus, the document itself is not nearly as important as the process that leads to the document. Even if you aren’t trying to raise money, you should write one (a business plan) anyway.⁸

The second reason a business plan is important is because it is a selling document for a company. It provides a mechanism for a young company to present itself to prospective investors, business accelerators and incubators, suppliers, potential partners, and others. Investors vary in terms of the reliance they place on formal business plans. Initially, many investors ask for an executive summary, which is a 1–2 page overview of a business plan, or they’ll ask for a short set of PowerPoint slides (often called a slide deck) describing the merits of a new venture. If their interest is sufficiently peaked, in some cases they’ll ask for a full business plan and in other cases they won’t. It’s still necessary to have a business plan, however. If an investor commits, in most cases a business plan will be required during the due diligence phase. Due diligence refers to the process investors go through after they tentatively commit to an investment. The commitment is based on a thorough investigation of the merits of the venture, whether any legal complications exist, and whether the claims made in the business plan are accurate and realistic.⁹

As a selling document, a business plan also helps a new company build credibility. For example, imagine that you are an investor and have enough money to invest in one new business. You chat informally with several entrepreneurs at a university-sponsored event for startups and decide that there are two new ventures that you want to know more about. You contact the first entrepreneur

and ask for a copy of his business plan. The entrepreneur hesitates a bit and says that he hasn't prepared a formal business plan but would love to buy you lunch to talk about his business idea. You contact the second entrepreneur and make the same request. This time, the entrepreneur says that she would be glad to forward you a copy of a 25-page business plan, along with a 12-slide PowerPoint presentation that provides an overview of the plan. Ten minutes later, the PowerPoint presentation is in your e-mail inbox with a note that the business plan will arrive by FedEx the next morning. You look through the slides, which are crisp and to the point and do an excellent job of outlining the business opportunity. The next day, the business plan arrives just as promised and is equally impressive.

Which entrepreneur is likely to get your attention? All other things being equal, the answer is obvious: the second entrepreneur. The fact that the second entrepreneur has a business plan not only provides you with detailed information about the venture but also suggests that the entrepreneur has thought through each element of the business and is committed enough to the new venture to invest the time and energy necessary to prepare the plan.

Another way that a business plan helps establish credibility for a firm is by winning or placing high in a university-, community-, or state-sponsored business plan competition or similar event. In the United States alone, more than 50 universities conduct business plan competitions, awarding up to \$10 million in prizes and in-kind services every year. The participants are able to connect with investors and successful entrepreneurs who serve as judges and the winners are typically featured in local newspapers and business publications. Winning or placing high in a competition also sends a message to investors that a startup is worth looking at. For example, when a professor they admired suffered a heart attack, Ray Li, a Rutgers alumnus, and John Vitug, a graduate of Kean University, created an all-natural, low-calorie beverage named Heart Juice that contains ingredients that combat high cholesterol. The two partnered with Shaun Bratton, an MBA candidate at Rutgers Business School, and entered the 2011 Rutgers Business School Business Plan Competition. They were placed second and won \$10,000. Commenting on the value of participating in the competition, Ray Li said:

The Rutgers competition gave us the push to get our product up and running. The award confirmed the belief that we could be successful and win interest from venture capitalists down the road.¹⁰

Over 300 stores now carry Heart Juice, and the number is growing.

There is an emerging school of thought that opposes the idea of writing a business plan, and advocates experimentation and trial-and-error learning gleaned through customer feedback over formal planning.¹¹ This approach, which is associated with the Lean Startup movement, espouses many excellent ideas, particularly in the area of solicitation feedback directly from prospective customers prior to settling on a business idea and a business model to execute on the idea. This book differs from this approach by arguing that a business plan represents an important starting point for a new venture and serves many useful

purposes. It is not intended to be a static document written in isolation at a desk. Instead, it is anticipated that the research conducted to complete the plan will place the founders in touch with potential customers, suppliers, business partners, and others, and that the feedback obtained from these folks will cause the plan to change as it's being written.¹² It's also anticipated that the business will iterate and change after it is launched, based on additional feedback. Some businesses will change more than others, depending on the quality of their initial feasibility analysis and the newness and volatility of their industry. An example of a startup that has relied on its business plan extensively but iterates frequently is Moxie Trades (www.moxietrades.com), a company started by Marissa McTasney, a woman in the construction industry. Ms. McTasney couldn't understand why tradeswomen had to wear ill-fitting men's work boots and clothes, so she started a company that designs and sells work boots and work apparel designed specifically for women. Writing about how Moxie Trades has benefited by having a formal business plan and how frequently the plan changes, author Melanie Keveles wrote in the book *Scrappy Startups*:

Marissa found that she was capable of drawing up a business plan, but she also found that her business plan would work for three months and then it would change. Now, not only does she modify her business plan every six months but she completely changes her strategy along the way.¹³

WHO READS THE BUSINESS PLAN AND WHAT ARE THEY LOOKING FOR?

There are two primary audiences for a firm's business plan. Let's look at each of them.

A FIRM'S EMPLOYEES

A clearly written business plan, which articulates the vision and future plans of a firm, is important for both the management team and the rank-and-file employees. As mentioned above, some experts argue that it's a waste of time to write a business plan and favor trial-and-error learning instead. Although trial-and-error learning is valuable, the process of writing a business plan is often as beneficial as the plan itself, as illustrated through the New Venture Fitness Equipment example. Not only is it useful for a management team to hammer out the contents of a business plan together, but also the process of working together on such an important project can help develop a strong, cohesive team. The process can also uncover potential trouble spots in a team. If particular members of a team can't work together to produce a business plan, it is unlikely they will be successful working together after the business is launched.

A clearly written business plan also helps a firm's rank-and-file employees operate in sync and move forward in a consistent and purposeful manner. The existence of a business plan is particularly useful for a new business that

has geographically dispersed employees. For example, say you live in Raleigh, North Carolina, and were just hired to be the primary sales rep for the eastern United States for an information technology startup headquartered in California. Imagine how helpful it would be for you to have a copy of your new firm's business plan, so that you could refer to the plan to make sure everything you do and say is consistent with the overall plans and direction of the company.

INVESTORS AND OTHER EXTERNAL STAKEHOLDERS

External stakeholders, such as investors, potential business partners, potential customers, private and government-funded grant awarding agencies, and key employees who are being recruited to join a firm, are the second audience for a business plan. To appeal to this group, the business plan must be realistic and not reflect overconfidence on the firm's part. A good rule of thumb is that a business plan should be written with extreme empathy for the readers, who are typically busy people who like to read plans that are clear, concise, and plainly explain the business. Overly optimistic statements or financial projections undermine a business plan's credibility, so it is foolish to include them. At the same time, the plan must clearly demonstrate that the business idea is viable and offers potential investors financial returns that are greater than lower-risk investment alternatives. The same is true for potential business partners, customers, grant awarding agencies, and key recruits. Unless the new business can show that it has impressive potential, there is little reason for anyone to become involved.

A firm must validate the feasibility of its business idea and have a good understanding of its competitive environment prior to presenting its business plan to others, as will be emphasized throughout this book. Sophisticated investors, potential business partners, and others will base their assessment of the future prospects of a business on facts, not guesswork or speculation. The most compelling facts a company can provide in its business plan are the results of its own feasibility analysis, particularly if the analysis includes feedback from industry experts and prospective customers. A business plan rings hollow if it is based strictly on entrepreneurs' predictions and estimates of what they "think" will happen.

Particularly when writing for an external audience, entrepreneurs must avoid appearing naïve or uninformed, especially about the industry a firm is about to enter or the amount of competition a firm may encounter. To make this point, William A. Sahlman, a Harvard professor and expert on business plans, says that "Business is like chess: To be successful, you must be able to anticipate several moves in advance."¹⁴ What Sahlman means by this statement is that a business plan that is overly optimistic and doesn't seem to anticipate any problems or competitive challenges to its product or service is by definition naïve and stands to lose credibility quickly. All companies have problems and competitors. In addition, a cardinal rule in approaching an investor or a banker with a business plan is to get a personal introduction. Bankers and investors receive many business plans, and most of them end up in a pile on their credenzas. To have your business plan noticed, find someone who knows the banker or the investor, and ask for an introduction.

GUIDELINES FOR WRITING A BUSINESS PLAN

Several important guidelines should influence the writing of a business plan. It is important to remember that a firm's business plan, its executive summary, or a set of PowerPoint slides that summarizes the plan is typically the first aspect of a proposed venture that will be seen by an investor or whomever the plan is presented to. If the full plan, the executive summary or the PowerPoint slides are incomplete or look sloppy, an investor may easily infer that the venture itself is incomplete or sloppy. It is important to be sensitive to the structure, style, and content of a plan before exposing it to a firm's employees or sending it to an outsider. It is also important for the individuals writing the plan to continually measure the type of company that they are envisioning against their personal goals and aspirations. One of the worst things that can happen to an entrepreneur is to write a business plan, raise money, launch the business, and then realize that the business is inconsistent with his or her personal aspirations or preferred lifestyle and wish that the firm hadn't come to fruition.

STRUCTURE AND STYLE OF THE BUSINESS PLAN

To make the best impression, a business plan should follow a conventional structure, such as in the plan outlined earlier in Table 1-1. Although some entrepreneurs are creative and don't want their plans to "look like everyone else's," departing from the basic structure of the conventional business plan is usually a mistake. Typically, investors are very busy people and want a plan that allows them to easily find critical information. If investors have to hunt for something because it is in an unusual place or just isn't there, they might simply give up and move on to the next plan.

One of the most common questions that the writers of business plans ask is, "How long and detailed should it be?" Experts vary on the optimal page length, but most recommendations fall in the 25–35-page range. Many software packages are available that employ an interactive, menu-driven approach to assist in the writing of a business plan. Some of these programs are very helpful; however, entrepreneurs should avoid a boilerplate plan that looks as though it came from a "canned" source. The software package may be helpful in providing structure and saving time, but the information in the plan should still be tailored to the individual business. Some businesses hire consultants or outside advisors to write their business plans. Although there is nothing wrong with getting advice or making sure that a plan looks as professional as possible, a consultant or outside advisor shouldn't be the author of the plan. Along with facts and figures, a business plan needs to project a sense of anticipation and excitement about the possibilities surrounding a new venture, which is a task best accomplished by the creators of the business. Plus, hiring someone to write the plan denies the entrepreneur or team of entrepreneurs the positive benefits of the writing experience, as explained earlier in the chapter.

The appearance of the plan must be carefully thought out. It should look sharp but not give the impression that a lot of money was spent to produce it. Those who read plans know that entrepreneurs have limited resources and

expect them to act accordingly. A plastic spiral binder, including a transparent cover sheet and a back sheet to support the plan, is a good choice. When writing the plan, avoid getting carried away with the design elements included in word-processing programs, such as boldfaced type, italics, different font sizes and colors, clip art, and so forth. Overuse of these tools makes a business plan look amateurish rather than professional. Some style-related things can be done that show the amount of care and attention that went into a plan and that aren't overly flashy or costly. For example, if a company has a well-designed logo, it should be placed on the cover sheet of the business plan and on the header for each page. A simple design element such as having the colors in the charts and graphs in the plan match the colors in the logo shows an attention to detail and an eye toward branding that is impressive to most readers.

One important criterion that all business plans should adhere to is to convey a clear, coherent story of what the business plans to accomplish and how it plans to get there. Many entrepreneurs aren't very good at this, which lessens the potential impact of their plans. Robert W. Price affirms this sentiment in a book titled *Roadmap to Entrepreneurial Success*, which reports the observations of two experts on business plans regarding this issue:

According to David Berkus, a past-president of the Tech Coast Angels, one of the largest angel investment groups in the United States, the first step to writing a business plan is fleshing out your “talking points” and weaving them into a storyline. Storytelling is having the ability to communicate succinctly and precisely what you do, what you want to do, and what you need to do it. Bill Joos at Garage Technology Ventures, who has heard some 100,000 pitches from entrepreneurs, agrees that there is a “big problem with entrepreneurs who have the inability to talk about what they do.”¹⁵

One thing that a new venture can do to help develop a concise description of their business is develop an elevator speech. An elevator speech is a brief, carefully constructed statement, usually 1–2 minutes long that outlines the merits of a business venture. It is explained in more detail in the following Business Plan Insight box. A properly prepared elevator speech can assist in writing a business plan by helping the founders develop a sharp and concise description of their business.

In business plans, savvy investors and others will pick up on several potential “red flags” when certain aspects of a plan are insufficient or miss the mark. These red flags, which are depicted in Table 1-2, not only undermine the credibility of the business plan but of the individuals who wrote the plan. The writers of a plan should work hard to avoid these potential complications.

CONTENT OF THE BUSINESS PLAN

Most business plans are divided into sections that represent the major aspects of a new venture's business, as depicted in the business plan outline shown earlier in Table 1-1. The titles of the sections will vary from plan to plan, although most plans follow a fairly standard format. What varies, of course, from plan to plan,

BUSINESS PLAN INSIGHT

Develop an Elevator Speech

A very useful exercise for a new firm is to develop an elevator speech. An elevator speech (or pitch) is a brief, carefully constructed statement that outlines the merits of a business opportunity. Why is it called an elevator speech? If an entrepreneur stepped into an elevator on the 25th floor of a building and found that by a stroke of luck a potential investor was in the same elevator, the entrepreneur would have the time it takes to get from the 25th floor to the ground floor to try to get the investor interested in the business opportunity. Most elevator speeches are 1–2 minutes long.

An elevator speech might come in handy on many occasions. For example, many university-sponsored centers for entrepreneurship hold events that bring investors and entrepreneurs together. Often these events include breaks designed specifically for the purpose of allowing entrepreneurs looking for funding to mingle with potential investors. The other thing an elevator speech does for a young firm is force the founders to develop a very concise, to-the-point description of the business idea.

An outline for a 2-minute elevator speech is provided here. A new venture’s elevator speech should be carefully prepared and practiced often.

STEPS IN AN ELEVATOR SPEECH

Step 1: Describe the opportunity or problem that needs to be solved.	45 seconds
Step 2: Describe how your product or service meets the opportunity or solves the problem.	45 seconds
Step 3: Describe your qualifications.	15 seconds
Step 4: Describe your market.	15 seconds
Total:	2 minutes

is the quality of the writing, the substance of the plan, and the degree to which the plan convinces the reader that the business opportunity is exciting, feasible, defensible, and within the capabilities of the people launching the firm. Writing a plan that includes all of these elements is not an easy task, but it is a very useful one, as illustrated throughout this book.

The essence of what should be included in each section of a business plan is described in Chapter 4 through Chapter 10 of this book. After the plan is completed, it should be reviewed for spelling and grammar and to make sure that no critical information has been omitted. There are numerous stories about business plans being sent to investors that left out important information. One investor even said that he once received a business plan that didn’t include any contact information for the entrepreneur. Apparently, the entrepreneur was so focused on the content of the plan that he or she simply forgot to provide contact information on the business plan itself. This was a shame because the investor was interested in learning more about the business opportunity.¹⁶

TABLE 1-2 Red Flags in Business Plans

<i>Red Flag</i>	<i>Explanation</i>
Founders with none of their own money at risk	If the founders aren't willing to put their own money at risk, why should anyone else?
A poorly cited plan	A plan should be built on hard evidence and sound research, not guesswork or what an entrepreneur "thinks" will happen. The sources for all primary and secondary research should be cited.
Defining the market size too broadly	Defining the market for a new venture too broadly shows that the true target market is not well defined. For example, saying that a new venture will target the \$205 billion per year pharmaceutical industry isn't helpful. The market opportunity needs to be better defined. Obviously, the new venture will target a segment or a specific market within the industry.
Overly aggressive financials	Many investors skip directly to this portion of the plan. Projections that are poorly reasoned or unrealistically optimistic lose credibility. In contrast, sober, well-reasoned statements backed by sound research and judgment gain credibility quickly.
Hiding or avoiding weaknesses	It is foolhardy for a new venture to try to downplay or hide its weaknesses. All firms have weaknesses, and often one of the most important things an investor or banker can do, beyond providing money, is to help a new venture shore up the weaknesses that it has.
Sloppiness in any area	It is never a good idea to make a reader wade through typos, balance sheets that don't balance, or sloppiness in any area. These types of mistakes are seen as inattention to detail and hurt the creditability of the entrepreneur.
Too long of a plan	Most experienced readers of business plans know exactly what they're looking for, and to make them wade through 50 pages of material just gets in the way. Don't include page after page of descriptive information about an industry, for example. Two pages of "to the point" information and analysis is much more valuable than 20 pages cut and pasted from the Internet.

Entrepreneurs vary in terms of how much feedback they solicit during the business planning process. Companies that formulate their business plans in secret, to avoid tipping off potential competitors as to what they're planning, refer to themselves as operating in stealth mode. For example, during the time that Dean Kamer was developing the Segway, the self-balancing, two-wheeled human transporter, the project was code named "Ginger."¹⁷ This approach is the exception rather than the rule. Generally, it's best to get as much input and feedback as possible from potential customers and others while the business plan is being written.

MEASURING THE BUSINESS PLAN AGAINST YOUR PERSONAL GOALS AND ASPIRATIONS

Another guideline for writing a business plan is that as a plan is being written, the people involved should continually measure the type of company that they are hoping to start against their personal goals and aspirations. This consideration is important for two reasons.

First, the old adage “be careful what you wish for” is as true in business as it is in other areas of life. For instance, if an entrepreneur identifies an opportunity that has a large upside potential and decides to write a business plan to solicit funds from a venture capitalist or other investor, the entrepreneur should know what to expect if the business is funded. In the case of venture capital, most venture capitalists shoot for a 30–40 percent annual return over the period of their investment, which is typically four to seven years.¹⁸ This level of expectation forces a firm into a fast-growth model literally from the start, which typically implies a quick pace of activity, a rapidly raising overhead, and a total commitment in terms of time and attention from the founding entrepreneurs. Accepting venture capital also involves surrendering equity in the firm to outsiders (in exchange for their investment) and heavy scrutiny at all levels. The upside is that if the new company is successful, the founders will normally do very well financially.

The point of this description, within the context of this chapter, is that entrepreneurs crafting business plans to try to attract venture capital should know what they are getting into and should make sure that the lifestyle associated with owning and managing a venture capital-funded firm is something that is consistent with their personal goals and aspirations. Those who want to own their own firm but place a high value on leisure time or family time or don’t want the pressures associated with a group of investors continually looking over their shoulder are poor choices to launch venture-backed firms. These types of individual are better suited to launch a firm in a target (or niche) market that flies slightly under the radar of large competitors, and they should write business plans that solicit funds from friends, family, or a lender. There are many successful firms, which include clothing boutiques, Web retailers, and service firms, just to name a few, that fit this profile. In contrast, some people thrive in a high-pressure environment and have a high desire to make a large amount of money. An entrepreneur who fits this profile is better suited to launch a venture-backed firm.

The second reason that it is important for an entrepreneur to continually measure a business plan against personal goals and aspirations is that as a business plan evolves, the entrepreneur may find aspects to the business that are not as attractive as originally anticipated. A firm that is envisioned to be a nonprofit, for example, may not be financially viable as a nonprofit when the numbers are crunched and feedback is solicited from potential donors and other stakeholders. The firm may only be viable as a for-profit firm, which may be less appealing to the potential founders of the firm. Similarly, someone may find, through the course of writing the business plan, that the business being contemplated can only be successful if run at a much larger scale than was originally anticipated.

The additional risk associated with the larger operation may be more than the potential entrepreneur is willing to undertake. In both of these instances, the process of writing the business plan may result in the entrepreneur deciding to not launch the business. This outcome should be considered to be a successful outcome of the process if the resulting business would have been inconsistent with the entrepreneur's personal goals and aspirations.

RECOGNIZING THAT ELEMENTS OF THE PLAN MAY CHANGE

A final guideline for writing a business plan, which has been highlighted throughout this chapter, is to recognize that the plan will invariably change as it is being written. The best insights are gained by physically talking to potential customers. A valuable component of the Lean Startup movement, referred to earlier, is that it encourages founders to “get out of the building” and ask potential customers and others feedback on all elements of a business proposal including product features, pricing, distribution channels, and so on. Revisions are then made based on feedback, and the process starts all over again.¹⁹ This approach is very similar to what will be described in Chapter 3 of this book, which focuses on feasibility analysis. Feasibility analysis is the process of determining if a business idea is viable, and is normally conducted prior to writing the business plan. The purpose is to assess the merits of a business idea prior to dedicating the time and effort to write a business plan.

An academic principle called the corridor principle provides another explanation for why business plan change while they're being written. The principle states that once an entrepreneur starts a business, the entrepreneur begins a journey down a path where “corridors” leading to new venture opportunities become apparent.²⁰ The same principle applies during the preparing of a business plan. As an entrepreneur or team of entrepreneurs starts testing the merits of a business idea and starts writing the plan, new insights will invariably emerge that weren't initially apparent. This process continues throughout the life of a company, and it behooves entrepreneurs to remain alert and open to new insights and ideas. As a result of this phenomenon, experts like to stress that a business plan is a living, breathing document, rather than something that is set in stone. In support of this notion, Guy Kawasaki, the Silicon Valley investor and entrepreneur quoted earlier in the chapter, recommends to the authors of business plans to “Write Deliberate, (but) Act Emergent.”²¹ What Kawasaki means by this statement is that it is necessary to write a “deliberate” plan that provides a specific blueprint for a new venture to follow, but at the same time, the individuals involved should be thinking “emergent,” which is a mindset that is open to change and is influenced by the day-to-day realities of the marketplace.

TYPES OF BUSINESSES

There are four distinct types of business, as shown in Table 1-3. All of these types of businesses are acceptable—there is no value judgment here. This book, however, focuses primarily on lifestyle firms, managed growth firms,

TABLE 1-3 Types of Businesses

<i>Type of Business</i>	<i>Explanation</i>	<i>Examples</i>
Survival	A business that provides its owner just enough money to put food on the table and pay bills	Handyman, lawn service, part-time childcare
Lifestyle	A business that provides its owner the opportunity to pursue a certain lifestyle and make a living at it	Home-based eBay business, subshop, single-unit franchise, clothing boutique, personal trainer
Managed Growth	A business that employs 10 or more people, may have several outlets, and may be introducing new products or services to the market	Multiunit franchise, regional restaurant chain, Web retailer (modest scale)
Aggressive Growth	A business that is bringing new products and services to the market and has aggressive growth plans	Computer software, medical equipment, Web retailer (large scale), national restaurant chain

and aggressive growth firms. Not all businesses grow rapidly and make tons of money but may still provide their owners satisfying lives and financial security. This book equally targets this type of business along with more aggressive growth firms.

THE PLAN FOR THE BOOK

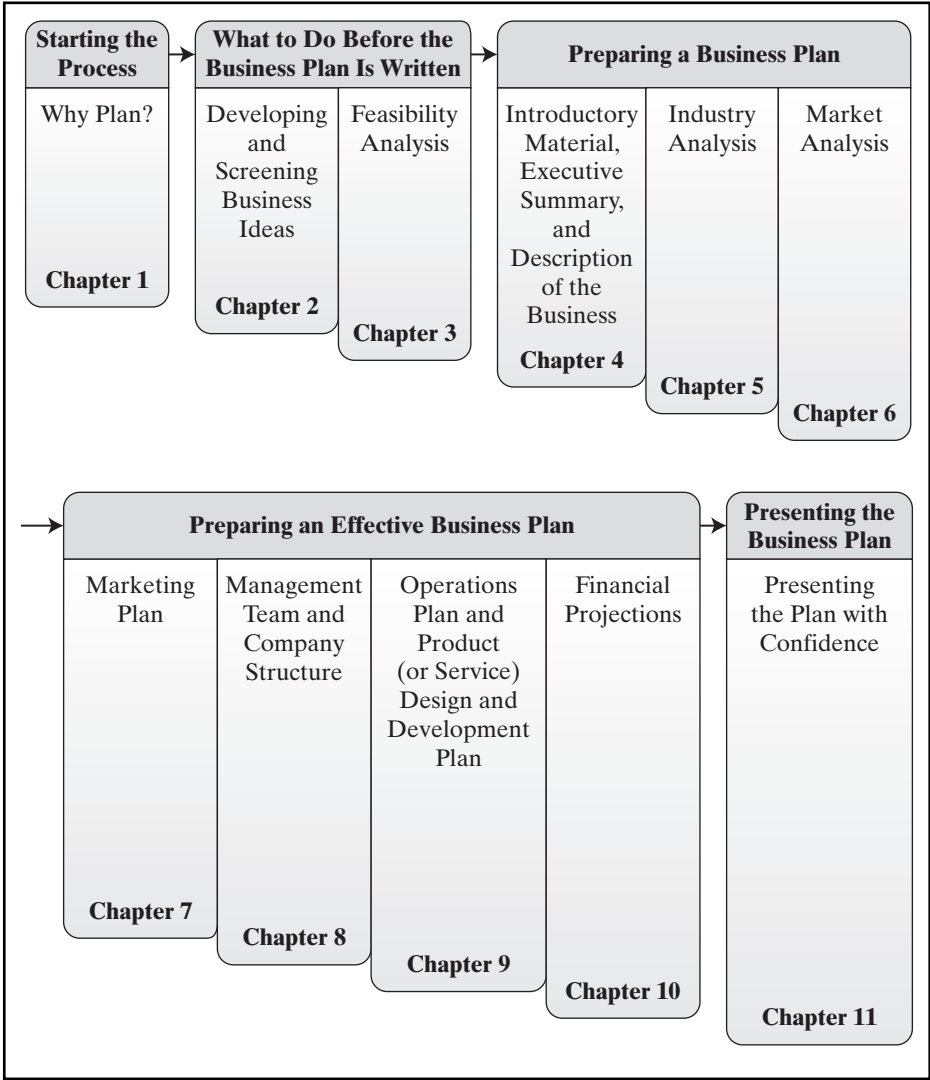
This book is divided into four sections as shown in Figure 1-2 and as listed here:

- Section 1: Starting the Process
- Section 2: What to Do Before the Business Plan Is Written
- Section 3: Preparing a Business Plan
- Section 4: Presenting the Business Plan to Investors and Others

STARTING THE PROCESS (CHAPTER 1)

As discussed earlier, there are two primary reasons for writing a business plan: The process of writing a business plan forces the founders to systematically think through each aspect of their new venture, and a business plan introduces potential investors and others to the firm and the business opportunity it is pursuing. Although all business plans vary depending on the nature of the new venture, there are certain guidelines, discussed in this chapter, which can increase the odds that a particular plan will be successful. A particularly important consideration, normally unseen to the reader of a plan, is that an individual's business plan should coincide with the individual's personal goals or aspirations.

FIGURE 1-2 Steps Involved in Identifying a Business Opportunity, Assessing the Feasibility of the Opportunity, and Preparing an Effective Business Plan



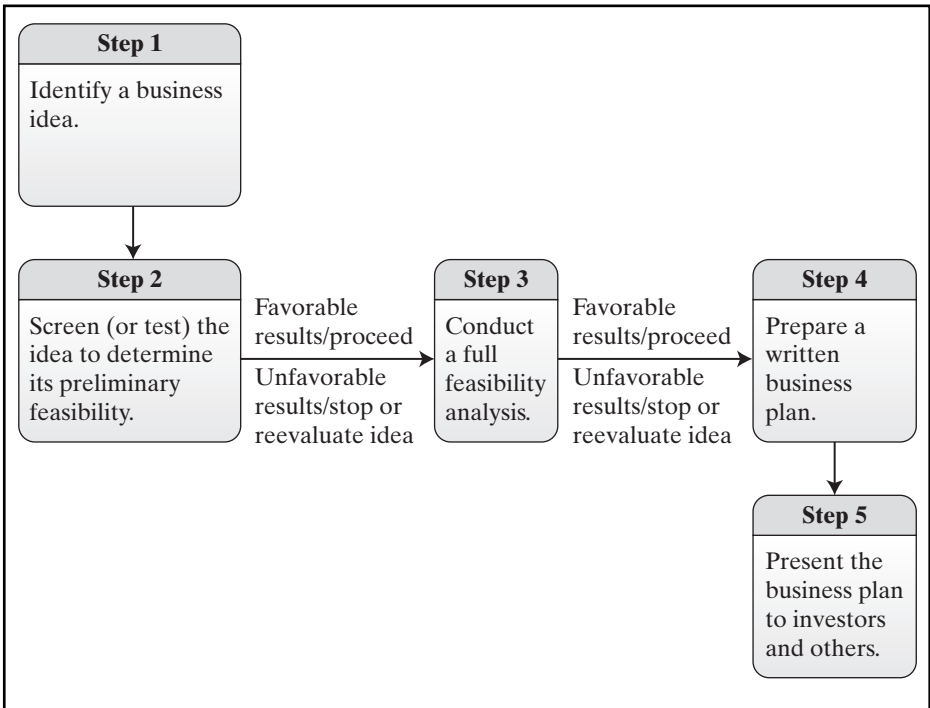
Although writing a business plan can appear to be a tedious process, a well-developed plan can save an entrepreneur a tremendous amount of time and money by working out the flaws in a business idea before rather than after the business is launched. Having a business plan is also an essential document for a firm to have at its disposal, particularly if it plans to reach out to others to try to gain access to resources.

WHAT TO DO BEFORE THE BUSINESS PLAN IS WRITTEN (CHAPTERS 2 TO 3)

As mentioned in the introduction to the chapter, writing a business plan is part of a comprehensive process that includes (1) identifying a business idea, (2) screening the idea (or ideas) to determine their initial feasibility, (3) conducting a full feasibility analysis to determine if proceeding with a business plan is warranted, and (4) writing the plan. These steps, labeled “The Comprehensive Feasibility Analysis/Business Planning Process,” are depicted in Figure 1-3. Although the preparation of a business plan is essential, it is often an insufficient exercise through which to complete a full and candid analysis of the merits of a new business idea. Steps that logically precede the completion of a business plan, which include the preliminary screening of business ideas and feasibility analysis, are also important. Many entrepreneurs make the mistake of identifying a business idea and then jumping directly to writing a business plan to describe and try to gain support for the idea. This sequence often omits or provides little time for the important steps of critically investigating the merits of the idea before the business plan is written.

The sequential nature of the steps shown in Figure 1-3 cleanly separates the investigative portion of thinking through the merits of a business idea from the planning and selling portion of the process. Steps 2 and 3 are investigative in nature and are designed to critique the merits of the business idea. Step 4, the business

FIGURE 1-3 The Comprehensive Feasibility Analysis/Business Planning Process



plan, is focused on planning and selling. The initial steps are important because there is no reason to write a business plan for a business idea that has little chance of succeeding. The reason it is so important to complete the entire process, according to John W. Mullins, the author of a highly regarded book titled *The New Business Road Test*, is to avoid falling into the “everything about my opportunity is wonderful” mode. In Mullin’s view, failure to properly investigate the merits of a business idea (Steps 2 and 3) before the business plan is written runs the risk of blinding an entrepreneur to inherent risks associated with the potential business and results in too positive of a plan.²² A savvy reader is likely to pick up on this lack of awareness and overly positive slant, which undermines the credibility of the plan.

In fairness, some entrepreneurs are able to combine the steps depicted in Figure 1-3 and produce a very well-researched and well-documented plan. On some occasions, however, an entrepreneur might need to move quickly to capture a first-mover advantage or for another reason, so portions of the process depicted in Figure 1-3 need to be done in parallel rather than sequentially. Breaking the process down into the steps shown in Figure 1-3 is a more careful and prudent approach, however, unless this approach isn’t practical for a compelling reason.

Chapter 2 in the book focuses on how entrepreneurs identify business opportunities and introduces the preliminary screen, which is a device for rapidly assessing the preliminary feasibility of a business idea (or ideas). Chapter 3 describes how to conduct a complete feasibility analysis.

PREPARING A BUSINESS PLAN (CHAPTERS 4 THROUGH 10)

Chapters 4 through 10 provide an explanation of how to complete each section of a business plan and describe (step-by-step) the business plan for a fictitious company named Prime Adult Fitness. Prime Adult Fitness is a fitness center for people 50 years old and older. The goal is to teach you to write a business plan that is complete, yet concise and to the point.

PRESENTING THE BUSINESS PLAN (CHAPTER 11)

If the business plan successfully elicits the interest of a potential banker or investor, or it is entered into a business plan competition, the next step will be to present the business plan to a small group or audience of individuals. The final chapter of the book provides suggestions and guidelines for presenting a business plan to investors and others. Concrete suggestions are given for how to make effective presentations using PowerPoint slides and how to field questions from an audience effectively.

Chapter Summary

1. A business plan is a written document that carefully explains every aspect of a new business venture.
2. The most effective business plans are part of a comprehensive process that includes (1) identifying a business idea, (2) screening the idea (or ideas) to determine their preliminary feasibility, (3) conducting a full feasibility analysis, and (4) writing the plan.

■ 18 PART I Starting the Process

3. There are two primary reasons for writing a business plan: (1) It forces the founding team to work together to hammer out the details of the business venture, and (2) it communicates the merits of a new venture to outsiders, such as investors or bankers.
4. The process of writing a business plan forces a team to not only work together but also turn abstract ideas into concrete realities.
5. The two primary audiences for a firm's business plan are the firm's employees and investors/other external stakeholders.
6. A firm's business plan, its executive summary, or a set of PowerPoint slides that summarizes the plan is typically the first aspect of a proposed venture that will be seen by an investor (or anyone else who reads the plan), and if the plan is incomplete or looks sloppy, it is easy for an investor to infer that the venture itself is incomplete or sloppy.
7. To make the best impression, a business plan should follow a conventional structure. Typically, the individuals who read business plans are very busy people and want a plan that allows them to easily find critical information.
8. As a business plan is written, the people involved should continually measure the type of company that they are hoping to start against their personal goals and aspirations.
9. There are four types of businesses: survival, lifestyle, managed growth, and aggressive growth. This book focuses on lifestyle, managed growth, and aggressive growth firms.
10. Although the preparation of a business plan is essential, it is often an insufficient exercise through which to complete a full and candid analysis of the merits of a new business venture. Steps that logically precede the completion of a business plan, which include the preliminary screening of business ideas and feasibility analysis, are also important.

Review Questions

1. What is a business plan? What are the advantages to preparing a business plan for a new venture?
2. What are the two most common reasons that entrepreneurs write business plans?
3. Who are the primary consumers of business plans? In what ways do the people who read business plans differ in the information they are looking for?
4. It is often argued that the process of writing a business plan is as important as the plan itself. How is this so?
5. Why is it important for the founders of a firm to continually measure whether the type of company they are envisioning, as described by their business plan, is consistent with their personal goals and aspirations?
6. What are the hazards involved with using a software package to help write a business plan or hiring consultants to write the business plan for you?
7. Describe the general rules of thumb for the length and appearance of a business plan.

8. Why is it important for a firm to test the feasibility of its business idea prior to writing a business plan?
9. Why is it important for entrepreneurs who are writing business plans to “get out of the building” and ask potential customers and others for feedback on all elements of a business proposal?
10. What is an elevator speech? How can developing an elevator speech help a firm write a more effective business plan?

Application Questions

1. Justin Wells is one of three founders of an organic snacks company. The founders have decided to write a business plan to try to obtain funding. In a meeting with his cofounders, Justin said, “I know that we’re all very busy, so I’d like to volunteer to write the business plan. My parents have a cabin on a lake about an hour from here, so if it’s alright with the two of you, I’d like to take my laptop up to the cabin for a couple of days and hammer out the business plan. Any objections?” If you were one of Justin’s cofounders, what would you say? What alternative approach, if any, would you suggest to writing the plan?
2. Melanie Scott is a high school math teacher who is in the process of developing an iPhone app centered on engaging games that require high school students to use math to master the games. Melanie is planning to attend a new business conference in about six weeks that will feature a number of investors. She hopes to make some contacts and schedule follow-up meetings with several investors. Up until now, Melanie has focused primarily on the technical aspects of building the app, and hasn’t written a business plan or talked to any potential customers. She’s willing to do whatever it takes to get prepared for the conference. What would you tell Melanie to focus on over the next six weeks to get ready for the conference?
3. A year ago, a friend of yours opened an innovative type of fitness center that helps high school athletes improve their fitness and sharpen their skills to the point where they’ll be more likely candidates for college scholarships. He recently wrote a business plan seeking \$100,000 in funding to expand from one location to three locations. He sent the business plan out to three industry experts for feedback, and was struck by the advice he received. All three experts loved his concept and encouraged him that instead of asking for \$100,000 to expand to three locations, he should ask for \$1 million to expand to 30 or more locations. What factors should your friend consider before he pursues this advice?
4. Imagine you just received a text message from a friend. The message reads, “Just wanted to share with you some fantastic news. Last Friday, I talked to an investor about my business idea, and he asked me to send him the executive summary from my business plan along with a PowerPoint overview of the plan. I spent the weekend working on his request, and am about to send him an 8-page executive summary and a 42-slide PowerPoint overview. Just thought I

check with you to see if you have any last minute words of advice. I really want to get funding.” How would you respond to this request for feedback?

5. Spend some time studying the Web site of Heart Juice (www.heartjuice.com), a healthy beverage company referred to in this chapter. Search for additional information on the company. Write a two minute elevator speech rather than a 60-second elevator speech.

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C H A P T E R

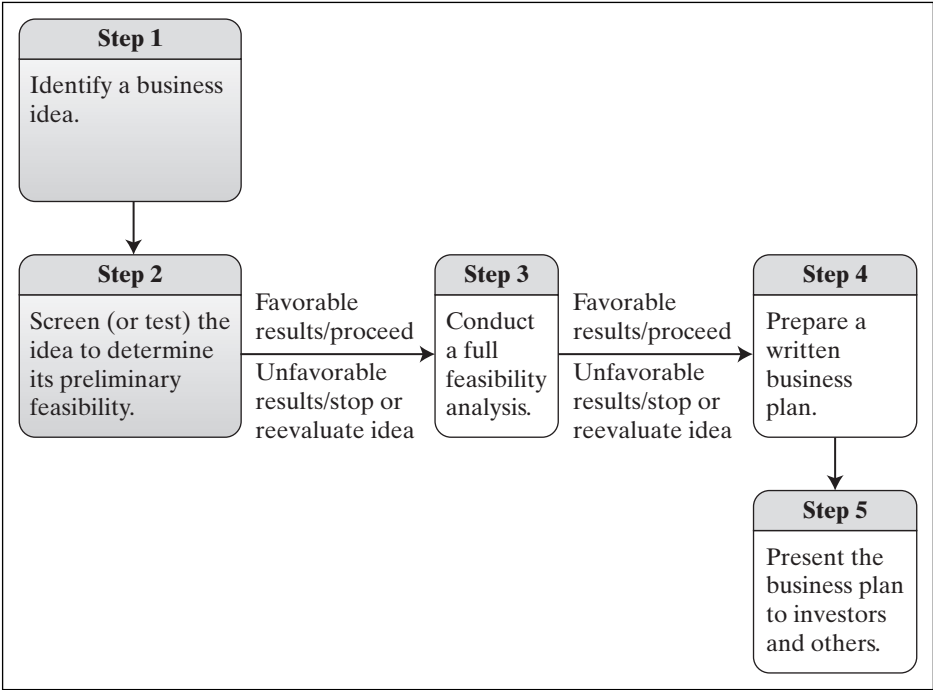
DEVELOPING AND SCREENING BUSINESS IDEAS

INTRODUCTION

This chapter focuses on how to identify business ideas and how to determine if a specific idea is a good business opportunity. As mentioned in Chapter 1, many new businesses fail, not because the founders didn't work hard or weren't committed, but because the idea wasn't a good one to begin with. What's often missing in the ideas that fail is a lack of simple old-fashioned detective work. Detectives find clues by being curious and alert, by following leads, and by subjecting their ideas and evidence to scrutiny before they form judgments. Similarly, the best new business ideas occur to entrepreneurs who are curious and alert, know where to look for ideas, and are willing to subject their ideas to scrutiny and inspection.

To describe how to develop and screen business ideas, this chapter is divided into two parts. The first part focuses on the three most common sources of new business ideas and the techniques that entrepreneurs use to explore these sources and generate ideas. The second part of the chapter introduces a tool called the First Screen, which allows an entrepreneur to quickly determine whether an idea represents a potentially viable business opportunity. It's called the First Screen because after an idea is chosen, it should be subjected to a more thorough feasibility analysis (Chapter 3) to see if writing a full business plan is warranted. As mentioned in Chapter 1, these preliminary steps are important because there is no reason to write a business plan if an idea has little merit. The First Screen also provides an entrepreneur the flexibility to consider multiple business ideas, rather than settling on a single idea from the outset. As will be explained later in the

FIGURE 2-1 The Comprehensive Feasibility Analysis/Business Planning Process



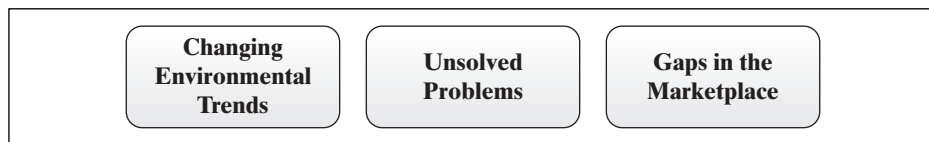
chapter, it shouldn't take more than two to three hours to run an idea through the First Screen worksheet. Hopefully, the expedient nature of this process will encourage a lot of idea generation, so the best possible idea ultimately emerges.

A reminder of the comprehensive feasibility analysis/business planning process introduced in Chapter 1 is provided in Figure 2-1. The highlighted areas show the stages of the process covered in this chapter. Recall that the comprehensive nature of this process is not meant to weigh it down or add extra work but instead to create a context in which only well-researched, well-thought-out, and ultimately realistic and feasible ideas enter the business plan process.

Now let's look at the three most common sources of new business ideas and the specific techniques that entrepreneurs use to explore these sources and generate ideas.

THREE MOST COMMON SOURCES OF NEW BUSINESS IDEAS

The first step in creating an effective business plan is selecting an idea that fills a need and provides unique value to the customer. If a new business provides a product or service that's merely a different version of something that's already available, it has a tough road ahead. It's hard to get people to change their habits

FIGURE 2-2 Three Sources of New Business Ideas

or behaviors and switch from a product that they're currently using to a new one, even if the new product is better or less expensive. Instead, the most successful new business ideas add value in a unique or compelling way by capitalizing on one of the three sources of business ideas discussed here and shown in Figure 2-2.

CHANGING ENVIRONMENTAL TRENDS

The first source of new business ideas is changing environmental trends. The most important trends to follow are economic trends, social trends, technological advances, and political action and regulatory changes. Changes in these areas often provide the impetus for new business ideas. When looking at environmental trends to discern new business ideas, keep two caveats in mind. First, it's important to distinguish between trends and fads. Startups typically do not have the resources to ramp up quickly enough to take advantage of a fad. Second, even though we discuss each trend individually, they are interconnected and should be considered simultaneously when brainstorming new business ideas. For example, one reason that smartphones, like the Apple iPhone, are so popular is because they benefit from several trends converging at the same time, including teenagers and young adults with increased disposable income (economic trend), an increasingly mobile population (social trend), and the continual miniaturization of electronics (technological trend). If any of these trends weren't present, smartphones wouldn't be as successful as they are.

Table 2-1 provides examples of how changes in environmental trends have provided the impetus for new business ideas. The following is a discussion of each trend and how changes in the trend provide openings for new business and product ideas.

ECONOMIC TRENDS

An understanding of economic trends is helpful in determining areas that are ripe for new business ideas and discerning areas to avoid. When the economy is strong, people are more willing to buy discretionary products and services that enhance their lives. Individual sectors of the economy have a direct impact on consumer buying patterns. For example, a drop in interest rates typically leads to an increase in new home construction, furniture sales, and appliance sales. Conversely, a string of corporate layoffs or a rapid decline in the stock market normally leads to a reduction in the demand for luxury goods.

When studying how economic forces affect opportunities, it is important to evaluate who has money to spend and what they spend it on. For example, an increase in the number of women in the workforce and their related increase

TABLE 2-1 Companies Started to Take Advantage of Changes in Environmental Trends

<i>Changing Environmental Trend</i>	<i>Resulting New Business Opportunities</i>	<i>Resulting Companies</i>
Economic Trends		
Search for ways to use traditional sources of energy more efficiently	Developing technologies, products, and services that help businesses and consumers conserve energy	Noesis Energy, Effortless Energy, Sagewell, eMeter, Nest Labs
Aging of the population	In-home care, health-related products and services, financial services for older people, travel-related service for older people	Comfort Keepers, TenderTree, Adhere Tech, Elder Life Financial Services, Senior Travel Service, Inc.
Social Trends		
Increased interest in different, tastier, and healthier food	Healthy-fare restaurants, food trucks and ethnic packaged foods, craft beer, functional beverages	Naked Pizza, Chobani, Lobsta Truck (Los Angeles), Brooklyn Brewery, Rescue Water
	Healthy-fare restaurants, food trucks and ethnic packaged foods, craft beer, functional beverages	Naked Pizza, Chobani, Lobsta Truck (Los Angeles), Brooklyn Brewery, Rescue Water
Heightened interest in wellness as Americans are increasingly seeking ways to become and stay healthy	Fitness centers, pilates and yoga studios, exercise apps, weight loss programs, and apps	24 Hour Fitness, Yogaview (Chicago), Runkeeper, Noom Weight Loss Coach
Technological Advances		
Smartphones	Smartphone operating systems, smartphone apps, smartphone accessories	Android, Rivio Entertainment (Angry Birds), Instagram, Fitbit, ISkin,
Advances in biotechnology	Biotech-related pharmaceutical products, veterinary products, environmental and food testing	Amgen, Life Technologies, PathSensore, GrayBug
Political and Regulatory Changes		
Increased EPA and OSHA standards	Consulting companies, software to monitor compliance	PrimaTech, Compliance Consulting Services, Inc., SafeSoft
Affordable Care Act (Obamacare)	Electronic medical records, doctor–patient matching services, physician social networks	CareCloud, One Touch EMR, ZocDoc, PracticeFusion, Sermo

in disposable income is largely responsible for the number of boutique clothing stores targeting professional women that have opened in the past several years. Some of the boutiques, such as Ellen Tracey (<http://www.ellentracyc.com>) and

Tory Burch (<http://www.toryburch.com>), compete on a national scale, whereas others, such as Cha (<http://shop-cha.com>), in St. Louis, are single-store boutiques that have been opened by one or more individual entrepreneurs. Similarly, as baby boomers reach retirement age, a sizable portion of their spending will be redirected to areas that facilitate their retirement. This trend will invariably spawn new businesses in many areas, largely because baby boomers have greater disposable income relative to previous generations. The most promising areas include health care, finance, travel, housing, and recreation. The high cost of energy, coupled with a desire to be socially responsible, has also spawned a growing number of startups that are developing products and service that help businesses and consumers become more energy efficient. An example is Nest Labs (www.nest.com), a 2010 startup. Nest makes the world's first Learning Thermostat. The thermostat, which can be used in homes or businesses, learns from your temperature adjustments and programs itself to optimize a building's comfort and energy efficiency.¹

An understanding of economic trends can also help identify areas to avoid. For example, this is not a good time to start a company that sells products or services to public schools. Public schools have been hard hit by local, state, and federal budget cuts. The cuts have significantly reduced their ability to purchase new products or services.

SOCIAL TRENDS

An understanding of the impact of social trends on the way people live their lives and the products and services they need provides fertile ground for new business ideas and opportunities. Often, the reason that a product or service exists has more to do with satisfying a social need than the more transparent need the product fills. For example, the proliferation of fast-food restaurants isn't due primarily to people's love for fast food but rather to the fact that people are busy and often don't have time to cook their own meals. Similarly, social networking sites such as Facebook (www.facebook.com) and Twitter (www.twitter.com) aren't popular because they can be used to post messages and pictures on a Web site. They're popular because they allow people to connect and communicate with each other, which is a natural human tendency.

Changes in social trends alter how people and businesses behave and how they set their priorities. These changes affect how products and services are built and sold. The following list provides a sample of the social trends that are currently affecting how individuals behave and set their priorities:

- Aging of the population
- Growth in the use of mobile devices
- The increasing diversification of the workforce
- Increasing interest in healthy foods and "green" products
- The rise of personal and home entertainment
- Emphasis on alternative forms of energy

■ 26 PART II What to Do Before the Business Plan Is Written

- Increasing need for devices that enhance the security of individuals, buildings, public gatherings, and transportation systems
- Continual migration of people from small towns and rural areas to cities
- Desire for personalization (which creates a need for products and services that people can tailor to their own tastes and needs)

Each of these trends in providing the impetus for new business ideas will continue to do so. For example, the aging of the population is spawning business ideas from home health care to devices that remind people to take their medicine on time to fashionable apparel for elderly people with limited mobility. One new company, CareZone.com (www.carezone.com), was started by Jonathan Schwartz, who was looking for ways to better managing the care of five aging parents and in-laws. CareZone is an app for smartphones, tablets, or computers that allows those involved in a person's care to share and save information in a secure, online setting. Commenting on CareZone's potential market, *Time* magazine reporter Harry McCracken wrote:

It's not a given that CareZone will take off, but this much is clear: It's potential market is enormous, since almost everyone will join its target audience—people responsible for tending to the medical care of someone else—sooner or later.²

CareZone is realizing this potential. Launched in 2012, it has already attracted just under a million users in 100 countries.

TECHNOLOGICAL ADVANCES

Technological advances provide an ongoing source of new business ideas. In most cases, the technology itself isn't the key to recognizing business opportunities. Instead, the key is to recognize how technologies can be used and harnessed to help satisfy basic or changing human needs. For example, the creation of the smartphone is a technological achievement, but it was motivated by an increasingly mobile population that finds many advantages to having the ability to communicate with coworkers, customers, friends, and family from anywhere and everywhere.

Technological advancements also provide opportunities to help people perform everyday tasks in a better or more convenient way. For example, OpenTable.com is a Web site or mobile app that allows users to make restaurant reservations online and now covers most of the United States. If you're planning a trip to Phoenix, for example, you can access OpenTable.com, select the area of the city you'll be visiting, and view descriptions, reviews, customer ratings, and, in most cases, the menus of the restaurants in the area. You can then make a reservation at the restaurant of your choice and print a map of directions to the restaurant. The basic tasks that OpenTable.com helps people perform have always been done—looking for a restaurant, comparing prices and menus, soliciting feedback from people who are familiar with competing restaurants, and

getting directions. What OpenTable.com does is help people perform these tasks in a more convenient and expedient manner.

Another aspect of technological advances is that after a technology is created, products often emerge to advance it. For example, the creation of the smartphone industry has created related industries that produce smartphone accessories and apps. In fact, according to ABIresearch, the average smartphone owner will spend \$56.18 on accessories per device.³ The value of the app industry is even more promising. The market for paid application downloads reached \$8 billion in 2012, up 27% from 2011.⁴ An example of a company launched to create apps is BenchPrep (<http://benchprep.com>), which was started in 2008 by Ashish Rangnekar, who at the time was an MBA student at the University of Chicago, and Ujjwal Gupta, who was working on his PhD at Penn State. BenchPrep creates apps that help students study for standardized tests, such as the GMAT or the GRE. The apps are “smart” in that they give students progress reports to show where they are excelling and where performance needs to improve. According to the company, BenchPrep students increase their scores by an average of 15% on standardized tests by using their apps. This boost in performance leads to high acceptance rates at colleges they are applying to.⁵

POLITICAL ACTION AND REGULATORY CHANGES

Political and regulatory changes also provide the basis for new business ideas. For example, new laws often spur startups which are launched to take advantage of the consequences of the laws. This is currently happening as a result of the Affordable Care Act (Obamacare). The combination of new regulations, incentives for doctors and hospitals to shift to electronic records, and the releasing of massive amounts of data held by the Department of Health and Human Services (on topics such as hospital quality, nursing home patient satisfaction, and regional health care system performance) is motivating entrepreneurs to launch electronic medical records startups, apps to help patients find the best physician for their needs, and similar companies.⁶

On some occasions, changes in government regulations motivate entrepreneurs to start firms that differentiate themselves by “exceeding” the regulation. For example, several years ago, the Federal Trade Commission (FTC) changed the regulation about how far apart the wood or metal bars in an infant crib can be. If the bars are too far apart, a baby can get an arm or leg caught between the bars, causing an injury. An obvious business idea that might be spawned by this type of change is to produce a crib that is advertised and positioned as “exceeding” the new standard for width between bars and is “extra safe” for babies and young children. The change in regulation brings attention to the issue and provides ideal timing for a new company to reassure parents by providing a product that not only meets but exceeds the new regulation.

Political change also engenders new business and product opportunities. For example, global political instability and the threat of terrorism have resulted in individuals, businesses, and communities becoming more security conscious. Each of these groups needs unique new products and services to ensure their safety.

UNSOLVED PROBLEMS

The second approach to new business ideas is unsolved problems. Problems can be experienced or recognized by people through their jobs, hobbies, or everyday activities. Commenting on this issue and how noticing problems can lead to the recognition of business ideas, Philip Kotler, a marketing expert, said:

Look for problems. People complain about it being hard to sleep through the night, get rid of clutter in their homes, find an affordable vacation, trace their family origins, get rid of garden weeds, and so on. As the late John Gardner, founder of Common Cause, observed: "Every problem is a brilliantly disguised opportunity."⁷

Consistent with this observation, many companies have been started by people who have experienced a problem in their own lives, or observed others struggling with a problem, and created a business to solve the problem. For example after watching countless women walk home barefoot after a long night in heels, New York University finance students Katie Shea and Susie Levitt started a company named CitySlips (www.cityslips.com) to make easily portable comfortable shoes. They created a pair of flats that fold up to fit into a pocket-size zip pouch, which easily fits in most women's purses. When a woman pops on the shoes, the pouch unfurls into a tote bag to carry the high heels. The two began selling CitySlips in 2009, and are now in over 500 stores.⁸

Similarly, Laura Udall invented an alternative to traditional backpacks when her fourth-grade daughter complained daily that her back hurt from carrying her backpack. After conducting research, obtaining feedback from student focus groups, and building several prototypes, Udall invented the ZUCA, a backpack on rollers that strikes the ideal balance between functionality and "cool" for kids. ZUCA (www.zuca.com) is now a successful company, and its rolling backpacks can be purchased online or through a number of retailers.⁹

Some business ideas are gleaned by recognizing problems that are associated with emerging environmental trends. For example, SafetyWeb (www.safetyweb.com) has created a Web site that helps parents protect their children's online reputation, privacy, and safety. It also allows parents to monitor their children's cell phone calls and text messages. The social trends toward more online activity by children and increased cell phone usage and texting have resulted in the need for this service. Similarly, several startups have launched recently to track whether people are taking their medicine as prescribed. AdhereTech (www.adheretech.com), for example, has developed a pill bottle that measures the exact amount of pills or liquid in a bottle in real time, and reminds patients to take their medication via phone calls or text messages. According to the company, simple real-time reminders increase pill taking compliance from 60% up to 90%. Taking medicine on time is particularly important for older patients, who often take multiple medications. The aging of the population is a social trend that has in part spurred the need for startups like AdhereTech.

If you're having difficulty solving a particular problem, one technique that is useful is to find an instance where a similar problem was solved and then apply that solution to your problem. An example is provided by Susan Nichols, the founder of Yogitoes (<http://www.yogitoes.com>), a company that makes nonslip rugs for yoga enthusiasts. Several yoga positions require participants to strike poses where they balance their weight on their feet at an angle. In this position, it is easy to fall or slip when using a regular rug or mat. Nichols looked for a yoga mat that would prevent her from slipping but found that no one knew how to make one. So she started looking for an example of a product that was designed specifically to prevent it from slipping on a hard floor, to study how it functioned. Eventually, she stumbled upon a dog bowl with rubber nubs on the bottom to prevent it from sliding when a large dog ate or drank from it. Using the dog bowl (of all things) as a model, Nichols found a manufacturer who helped her develop a rug with small PVC nubs that prevents yoga participants from slipping when they perform yoga moves. Nichols started Yogitoes to sell the rugs, and has now been in business for just over 10 years.¹⁰

Many other colorful examples of people who launched businesses to solve problems are included in Table 2-2. The Business Plan Insight boxed feature provides insight into a rapidly growing group of people starting businesses to solve problems: college students solving problems that college students encounter.

GAPS IN THE MARKETPLACE

The third source of business ideas are gaps in the marketplace. There are many examples of products that consumers need or want that aren't available in a particular location or aren't available at all. Part of the problem is created by large retailers, such as Wal-Mart, Costco, and Kohl's, which compete primarily on price and offer the most popular items targeted toward mainstream consumers. Although this approach allows the large retailers to achieve economies of scale, it leaves gaps in the marketplace. This is the reason that clothing boutiques, specialty shops, and many ecommerce Web sites exist. These businesses are willing to carry merchandise that doesn't sell in large enough quantities for big-box retailers to carry.

Product gaps in the marketplace represent potentially viable business opportunities. For example, Tish Ciravolo realized that there were no guitars on the market made specifically for women. To fill this gap, she started Daisy Rock (www.daisyrock.com), a company that makes guitars just for women and girls. Daisy Rock guitars are stylish, have feminine names (e.g., Powder Pink, Pink Sparkle, and Cosmic Purple), and incorporate design features that accommodate a woman's smaller hands and build. A more common example of a company that filled a gap in the marketplace is provided by Songkick (www.songkick.com), an online company that has created a single place for music lovers to track their favorite bands and buy concert tickets. A gap the founders of Songkick saw is that too often people miss seeing their favorite bands because they didn't realize that the band was in their area. Concert goers try to avoid this prospect by

TABLE 2-2 Companies Started to Solve a Problem

<i>Entrepreneurs</i>	<i>Year</i>	<i>Problem</i>	<i>Solution</i>	<i>Company That Resulted</i>
Ann Scott and Leslie Silverglide	2011	People who are interested to using a personal trainer are often deterred because they don't belong to a gym, have no way of making contact with a personal trainer, or aren't available when the personal trainers are.	Create a Web site that matches personal trainers and clients and allows the sessions to be conducted over live, two-way video.	Wello (www.wello.com)
Greg Goff and Hesky Kutscher	2010	People traveling do not have ready access to their children's' medical records, which may be needed if a child gets injured or sick.	Create an online platform that can be pulled up from any Web browser or on a smartphone that provide access to a child's full medical history.	MotherKnows (www.motherknows.com)
Perry Chen, Charles Adler, and Yancy Strickler	2009	No platform was available online that made it possible for people to raise money for creative projects.	Launch an online crowd funding platform that allows people to raise money for creative projects and new product ideas.	Kickstarter (www.kickstarter.com)
Same Goldman and Ned Tozen	2008	Around 1.5 billion people, living in developing countries, do not have access to electricity. They often use kerosene lanterns to light their homes, which emit harmful fumes and present a fire hazard.	Design and manufacture affordable solar-powered lamps.	d.light (www.delightdesign.com)
Jamie and Ben Heywood	2005	It's difficult for people with life-changing diseases to find people with similar ailments to converse with, share their experiences, and learn techniques to better cope with their disease.	Create a Web-based platform that allows people with serious diseases to find one another, share experiences, and provide each other encouragement and advice.	PatientsLikeMe (www.patientslikeme.com)

BUSINESS PLAN INSIGHT

Companies Started by College Students Solving Problems that College Students Encounter

Although it's easy to imagine that most of the products and services designed specifically for college students were developed by established companies or experienced entrepreneurs, that's not always the case. A growing number of products and services targeting college students or their parents were developed by college students themselves, first to solve their own problems and then to share the solutions with others.

In 2010, Michael Koetting, a student at the University of Texas, was up late one night trying to complete some calculus homework. He was in the type of class that has several sections and hundreds of students, and it occurred to him that at least 100 of his classmates must be on Facebook at that given moment in time, and if he could connect with them, he could form a study group to tackle the problems. That insight led Koetting, along with cofounders Gaurav Sanghani and Sid Upadhyay, to launch Hoot.me (www.hoot.me), a Facebook application which allows college students to connect with other students, teaching assistants, professors, and others to form study groups to work on homework assignments and class projects. A student can also schedule an appointment with a tutor to get more formalized instruction.

Similarly, as a college student at the University of Colorado, Sarah Schuup invited her parents to visit her a couple of times a year to see the campus and where she was living. Although she enjoyed seeing her parents, one challenge she always encountered was helping them plan their stay and making it enjoyable. As a dormitory resident, she didn't know much about surrounding Boulder-area hotels and shops that were several miles from campus. After muddling through several visits, it occurred to Schuup that what parents needed was a magazine that would provide them a directory of hotels, motels, restaurants, and shops to help them plan their trips to see their kids at college. She felt parents might also be interested in information like how to help their kids apply for scholarships, when tuition payments are due, and where the nearest bank is to a particular location (the guides are now available online as well as in print form). *University Parent* was launched in 2003, and is now available at over 200 colleges and universities.

subscribing to venue mailing lists, checking band Web sites, and sifting through generic concert newsletters. This is a clumsy process that often doesn't work. Songkick filled the gap by creating a Web site that allows users to track the bands they like and sends them a personalized concert alert when the bands they are following announce a tour date in their area.

Gaps in the marketplace are commonly recognized when people become frustrated because they can't find a product or service that they need, and they recognize that other people feel the same frustration. This scenario played out for Lorna Ketler and Barb Wilkins, who became frustrated when they couldn't find stylish "plus-sized" clothing that fit. In response to their frustration, they started Bodacious (<http://www.bodacious.ca>), a store that sells fun and stylish

clothing for hard-to-fit women. Ketler and Wilkins' experience illustrates how compelling a business idea can be when it strikes just the right cord by filling a gap that deeply resonates with a specific clientele. Reflecting on the success of Bodacious, Wilkins said:

It's so rewarding when you take a risk and it pays off for you and people are telling you every single day, "I'm so glad you're here." We've had people cry in our store. It happens a lot. They're crying because they so happy (that they're finding clothes that fit). One woman put on a pair of jeans that fit her, and she called me an hour later and said, "They still look good, even at home!" Sometimes people have a body change that happens, whether they have been ill or had a baby, and there's lots of emotion involved in it. If you can go out and buy clothes that fit, that helps people feel good about themselves.¹¹

Gaps in the marketplace can also exist when a geographic area that needs a particular service but doesn't have a large enough population to justify a traditional store or service provider, or the store or provider is not open at night or on weekends. Many rural communities do not have 24-hour pharmacies, for example. This makes it difficult for people who visit an emergency room or an urgent care center at night or on a weekend to quickly fill a prescription. To fill this gap, InstyMeds (www.instymeds.com) developed a vending machine for prescription drugs to be located in rural hospitals and urgent care centers. This is how it works. If you receive a prescription from a doctor in a hospital or urgent care center that has an InstyMeds machine nearby, the prescription will be accompanied by an InstyMeds private code. The code allows you to access the prescription from the machine. If you have insurance, the machine will determine your co-pay for the prescription, and you can pay by cash or credit card. If you don't have insurance, you'll be instructed to pay the full amount. InstyMeds doesn't work for all prescriptions, like those that need to be refrigerated, but does include the 100 or so most common medicines prescribed by emergency and urgent care physicians.

Another approach to filling gaps is to look at existing businesses and determine if a different version of the business is needed as a result of changing environmental trends. This is currently happening in the fitness center industry. There is a growing preference for easily accessible small gyms that cater to a local market and are open 24 hours a day, opposed to large gyms that include swimming pools, racquetball courts, and other amenities. The trend has been motivated by less disposable income, more hectic schedules, and an increase in the number of shift workers in the United States that work odd hours and may not be able to make it to a fitness center that is only open during the morning, day, and evening. Several fitness franchises have launched to fill this gap including Anytime Fitness, Snap Fitness, and 24 Hour Fitness.

Other examples of companies that were launched to fill gaps in the marketplace are included in Table 2-3.

TABLE 2-3 Companies Started to Fill a Gap in the Marketplace

<i>Gap in the Marketplace</i>	<i>Resulting New Business Opportunity</i>	<i>Companies That Resulted</i>
No fitness centers open 24 hours per day	Fitness centers that appeal to shift workers, working mothers, and young people who prefer to work out at odd hours rather than during the hours that mainstream fitness centers are open	Anytime Fitness, Snap Fitness, 24 Hour Fitness
Lack of toys that focus on the intellectual development of a child	Toy stores, direct-sales organizations (such as Tupperware), and Web sites that sell educational toys	Modular Robotics, Ubooly, LaunchPad Toys, Kazoo & Company
Shortage in the availability and variety of ethnic food in many parts of the United States	Ethnic food stores, Web sites that sell ethnic food, ethnic food manufacturer, and ethnic restaurants in areas that are underserved	Ethnic Foods Company, International Food Market, Rice King, Senor Sisís
Shortage of clothing stores that sell fashionable clothing for hard-to-fit people	Boutiques and Web sites that sell fashionable clothing for hard-to-fit people, including plus-sized clothes, maternity clothes, or clothing for tall or short people	Casual Male, Fashion to Figure, Motherhood Maternity

TECHNIQUES FOR GENERATING IDEAS

The three sources of new business ideas are used by people in both subtle and overt ways. Some people recognize new business ideas through casual observation, intuition, or even serendipity or luck. Other people are more overt and use the three sources of business ideas to deliberately try to generate new business ideas, whether they have an idea of the type of business they want to start or whether they are starting from scratch. This section of the chapter focuses on three techniques that people use to explicitly try to generate new business ideas.

While considering these techniques, remember that business ideas take time to develop, so it's important to not become discouraged if an idea doesn't come to you quickly. It's also important to realize that the best ideas aren't necessarily the most original. It normally exceeds the budget of a new firm to educate the public about a revolutionary or original idea. The following Business Plan Insight box illustrates the most realistic categories of business ideas for new firms.

BRAINSTORMING

The most common way to generate business ideas is through brainstorming. The term **brainstorming** is a catch phrase that means different things to different people. Technically, a brainstorming "session" is targeted to a specific topic

about which a group is instructed to come up with ideas. The leader of the group asks the participants to share their ideas. One person shares an idea, another person reacts to it, another person reacts to the reaction, and so on. A flip chart or whiteboard is typically used to record the ideas. A productive brainstorming session is freewheeling and lively. The session is not used for analysis or decision making—the ideas during a brainstorming session need to be filtered and analyzed, but this is done later.

Brainstorming sessions dedicated to generating new business ideas are often less formal. For example, some business school professors use a tool called the “bug report” to help their students brainstorm business ideas. They instruct their students to list 50–75 things that “bug” them in their everyday lives. A high number is required because it forces students to go beyond thinking about obvious things that bug them (campus parking, roommates, scooping snow in the winter) and think more deeply. On occasion, students actually hold focus groups with their friends to brainstorm ideas and fill out their lists. Another particularly effective approach to brainstorming is to use the three sources for new business ideas as a way of organizing the discussion. Imagine you are part of a small group that is trying to brainstorm ideas for a new type of fitness center. You know the market is too crowded to support another generic center, so you’re looking for novel ideas. You create three columns on a whiteboard labeled Changing Environmental Trends, Unsolved Problems, and Gaps in the Marketplace. You then start brainstorming specific ideas, looking at each category individually and then looking at how the categories interact with each other. After brainstorming dozens of ideas in each category, you start grouping the ideas into themes or patterns to create more solid ideas. One pattern jumps out at you: the population is aging, older people are increasingly interested in fitness, many of the exercise machines and classes taught in traditional fitness centers aren’t suitable for older people, and there are no fitness centers designed specifically for the 50+ demographic. Based on this pattern, your first solid idea is to create a fitness center designed specifically for people 50 years old and older.

FOCUS GROUPS

A **focus group** is a gathering of 5 to 10 people who are selected because of their relationship to the issues being discussed. Although focus groups are used for a variety of purposes, they can be used to help generate new business ideas.

Focus groups typically involve a group of people familiar with a topic, who are brought together to respond to questions and shed light on an issue through the give-and-take nature of a group discussion. Focus groups usually work best as a follow-up to brainstorming, when the general idea for a business has been formulated, such as opening a fitness center for the 50+ demographic, but further refinement of the idea is needed. Usually, focus groups are conducted by trained moderators. The moderator’s primary goals are to keep the group “focused” and to generate lively discussion. Much of the effectiveness of a focus group session depends on the moderator’s ability to ask questions and keep the discussion on track. For example,

to further explore the idea of opening a fitness center designed specifically for older people, a focus group might be assembled that consists of 10 people who are 50 years old or older and are members of generic fitness centers. The moderator might ask, “What is it that you don’t like about your fitness center?” A 71-year-old man might say, “I don’t like the classes that are offered. They include various types of aerobics and spinning, which I don’t mind, but the music is too loud, the pace is too quick, and they are always taught by guys and gals in their twenties who have no idea of what I’m going through in life.” The moderator may then ask the group, “How many of you would feel more comfortable if the classes in your fitness center were taught by people your own age?” If 7 out of the 10 hands shot up, you might have just discovered one refinement for your business idea.

LIBRARY AND INTERNET RESEARCH

A third approach to generate new business ideas is to conduct library and Internet research. A natural tendency is to think that an idea should be chosen, and the process of researching the idea should then begin. This approach is too linear. Often, the best ideas emerge when the general notion of an idea, like opening an innovative type of fitness center, is merged with extensive library and Internet research, which may provide insights into the best type of innovative fitness center to pursue.

Libraries are often underused as a source of information for generating business ideas. The best approach to using a library is to discuss your general area of interest with a reference librarian, who can point you to useful resources, such as industry-specific magazines, trade journals, and industry reports. Simply browsing through several issues of a trade journal on a topic can spark new ideas. Very powerful search engines, databases, and industry reports are also available through university libraries, which would cost hundreds or thousands of dollars to access on your own. An example is IBISWorld (www.ibisworld.com), a company that publishes full industry reports on all major industries and subcategories within industries. IBISWorld is a fee-based site but is normally free if accessed through a university or large city library. For example, if you wanted to study the fitness industry, IBISWorld has a current, comprehensive report titled “Gym, Health & Fitness Clubs in the United States.” Spending time reading through the report could spark new ideas for fitness centers or help affirm an existing idea. Spending just a few minutes reading IBISWorld’s report bodes well for the idea of opening a fitness center for the 50+ demographic. According to the report, fitness center memberships have increased considerably over the past 10 years, rising from 46.4 million in 2003 to more than 52.6 million in 2013. Households with higher incomes and more leisure time are more likely to belong to fitness clubs, which fits the 50+ demographic. A full 20% of people who belong to fitness centers are now 55 years or older. Particularly encouraging is a statement contained in the “Industry Outlook” portion of the report. According to the report:

Over the next five years and beyond, population growth and demographic change will significantly influence industry revenue. It is estimated that the mature market (people aged 55 and older)

will maintain a more active lifestyle and continue to focus on physical appearance and weight. By 2014, the retiring baby boomer generation will likely create strong opportunities for gyms and health and fitness clubs to focus on this massive potential market segment.¹²

This analysis bodes extremely well for the idea of a fitness center focused exclusively on people 50 years old and older.

Internet research is also important. If you're starting from scratch, simply typing "new business ideas" into Google or Bing will produce links to newspaper and magazine articles about the "hottest" and "latest" new business ideas. Although these types of articles are general in nature, they represent a starting point if you're trying to generate new business ideas from scratch. If you have a specific idea in mind, like the fitness center concept we've been discussing, a useful technique is to set up a Google or Yahoo! "alert" using keywords that pertain to your topic of interest. Google and Yahoo! alerts are e-mail updates of the latest Google or Yahoo! results (i.e., Web site updates, press releases, news articles, blog postings) based on your topic. This technique, which is available free, will feed you a daily stream of news article and blog postings about a specific topic.

FIRST SCREEN

After a business idea, or several ideas, have been chosen, it is important to have a way to quickly assess the merits of the idea, before subjecting it to full feasibility and business planning. The First Screen provides a mechanism for quickly assessing the merits of a business idea.* As mentioned earlier, it is called the First Screen because it is an entrepreneur's (or group of entrepreneurs') first pass at assessing the feasibility of a business idea. If a business idea cuts muster at this stage, and the decision is made to pursue it, it will be subjected to a full feasibility analysis (Chapter 3), which includes talking to potential customers, before a full business plan is written. Recall, these early steps are necessary to make sure that only ideas with sufficient potential enter the full business planning process. The First Screen template is provided in Appendix 2.1 at the end of this chapter.

Although completing the First Screen does take some research and analysis, it is not meant to be a lengthy process. It is also not meant to be a shot in the dark. The best ideas are the ones that emerge from analysis that is based on facts and good information, rather than speculation and guesses. Appendix 2.2, at the end of this chapter, contains an Internet Resource Table that may be particularly helpful in completing a First Screen analysis. Several of the most valuable resources, such as IBISWorld, Factiva, LexisNexis Academic, and ProQuest, are fee based but are typically free if accessed through a university or major public library. It is well worth your time to learn how to use these resources—they are rich in terms of their content and analysis.

* Copies of the First Screen worksheet, in both MS Word and PDF format, can be obtained from the author's Web site at www.prenhall.com/entrepreneurship.