

International Entrepreneurship Educator's Programme

Entrepreneurial Learning - Pedagogical Note Series

31. The Business Plan as a Relationship Management Instrument

1. What is the use of the Business Plan as a Relationship Management Instrument?

The business plan is often placed as the core of a new venture programme. Yet the research evidence demonstrates that it has not been central to the initiation of many businesses, even those that are now global. It is also unlikely that it was ever invented by an entrepreneur. It is more likely to be the product of those who offer resources to the entrepreneur and need formal documents and plans to justify their decisions (bankers, venture capitalist, public grant and loan giving bodies and large company customers and suppliers). This does not mean that the plan can be a useful means for the entrepreneur to think out his venture. The work of Saraswathy and others indicates nevertheless that the plan rarely turns out to be the reality and it is the capacity of the entrepreneur to learn on his/her feet that is the mark of success in the early and probably later years.

These thoughts have major implications for the teaching of start-up business planning. Arguably it is best taught as a relationship management instrument. Although they will all have some things in common the banker will look for somewhat different things from the formal venture capitalist, from the angel, from the public agent from the would-be partner and from the corporate business. The plan in this case can be compared with a cv which while containing a common thread is 'dressed' to suit the specific job application. This scenario provides numerous opportunities for the educator.

2. Main components of the Business Plan

Different organisations have their own formats but common points are as follows:

The Plan format

- summary
- overall objective - vision
- background to development
- the needs to be met and customers
- the market and potential - reaching it
- the people - ability, motivation and commitment
- the scale and resource requirement(equipment, staff, materials, location, technology) - standards – costs
- management, organisation and systems
- financial plan - available, needs, gap - what if?

The Summary

- the name
- objectives of new company or development
- idea/product, customers, market, competition, USP
- scale of business - why - and location
- people, management and organisation
- resource summary, requirement, commitment, gap and financial forecast

Background to development

- history to development of market/opportunity
- the relevant environmental conditions
- why the 'time is right'

- demonstration of the relevant know who
- demonstration that really know the business

The Idea and the Market

- the product/service clearly expressed
- evidence that can make it/do it to quality
- the needs/benefits it will meet/provide
- customers (profile) - evidence of acceptance at price
- the market size, growth, segments, share
- the competition (the best) and the USP
- the price/cost/margin relationship
- how will enter and reach the market - channels-
promotion - distribution

The People

- who involved
- relevant abilities and experience (technical,
personal, managerial and relevant sector)
- motivation and evidence of commitment and ambition
- relevant contacts and networks
(full CV's in the Annex)

The scale and resource requirement

- *Scale* - output targets of entry and why at this scale (technology, customer requirement, ambition, market opportunity)
- *Physical resource requirement* - new or additions (what and why)
- *Cost estimates, prices and margins* - and standards on which they are based (utilisation , wastage, efficiency, quality)
- *Location* - and rationale

Operations process and technology (where relevant)

- types of process and rationale
- technology and rationale
- competitive industry context
- supply and maintenance context

The Management, Organisation and Systems

- ownership
- key managers and responsibilities
- organisation structure
- organisation - type and rationale
- relationship of management to ownership where necessary and relevant
- legal requirements to be met (if relevant)
- business systems - control

The Financial plan
(with full explanatory assumptions)

- sales forecast
- profit and loss forecast
- cash flow forecast
- balance sheet forecast
- breakeven
- contingencies, alternatives
- payback and rate of return

While the above framework is useful participants should be advised to follow the formats available from the various stakeholders where they are available.

3. How is an exercise constructed?

There are a number of different possible approaches.

Role play

The students are given a start –up case (see Pedagogical note 33). They are then divided into small groups as follows:

- a bank presentation group
- a venture capital group
- a public grant giving group
- an active partner investor group
- a family group

Each of the groups is divided into two –one sub group which will present the case to the stakeholder acting the role of the entrepreneur and the other group representing the stakeholder. Each subgroup is asked first to brainstorm on what the stakeholder will be most looking for in the proposal – the entrepreneur group in order to direct the presentation and the stakeholder group in order to question it. On the basis of their thoughts which are guided by the facilitator they enter into a negotiating role play for the rest of the class.

Class Brainstorming on Case

If time does not permit the class can brainstorm as a whole on the different stakeholder perspectives. They can then be given the case and asked to comment upon it from different perspectives as a written exercise or full class discussion.

Class Brainstorming on a short mini case statement as below:

‘Emily Janes and Kandy Floss are the ‘pretty’ young girls who run the successful Kiosk chain of ‘underwear fashion’ shops in London. They want expand their business into Jewellery and Cosmetics. They need to raise £50,000 for this exercise. They think that they can get it either from: a bank; their parents; potential partners; Korean suppliers; venture capitalists; or from government grants. What would these different stakeholders look for in a Business Plan? What should they themselves be particularly thinking about to convince themselves?’

Using Stakeholder representatives

As preparation for the exercise the whole group can interview invited stakeholders with the purpose of identifying what particularly they are looking for in a business plan. The results can then be compared.

A Guide to the different perspectives that might be found is as follows:

The Business plan as a negotiating and communicating tool

Who is it for and why?

- for partners
- for the staff and management team
- for investors
- for lenders
- for customers and suppliers
- for bureaucrats
- for providers of property
- for the family

What are they looking for and Why?

Bankers view

- does the plan match the bank format?
- is the plan good - would my boss back it?
- can they repay - when?
- what are they putting in - anyone else?
- what are the risks and assumptions/
- guarantees - realistic and solid?
- clear idea and market - future?
- honesty, relevant ability and past behaviour
- what is cash to be used for?
- can they run a business and communicate?

Investors view

- solid plan, assumptions and contingencies
- product and market - solid opportunity
- experience of making, doing it
- networks good
- profit, growth and dividend projections
- way out - time horizon
- team, and ability for fast development
- commitment and others involved?
- gearing good for raising other finance
- we can communicate with them and work with them

Business plan - Entrepreneurs view

- do I believe it (in the mirror)?
- where will it go wrong and what will I do?
- how solid is the top line?
- would I buy it - if so why - if not why?
- who is it for - will it meet their needs?
- how should I present it?
- can I use it for planning at all?
- is the cash flow right - gearing?
- is there enough contingency in it?
- what will change for me?

Potential Partners view

- have I ownership of the plan
- what is my risk and how great
- exit routes in emergency (divorce etc.)
- my role in the business - decision making?
- communication
- personality compatibility
- ambition / motivation compatibility
- others involved and role/power
- time horizon

Customers view

- really good product - meets our needs
- quality and consistency
- clearly better than others
- will be dedicated to us
- good terms of delivery
- low risk of problems - financially sound
- track record of reliability
- up-to-dateness of technology
- plenty of slack - flexibility
- good communication points - partner/strategy

Bureaucrats view

- solid plan covering all contingencies
- no risk of scandal - honesty - track record
- good network and confidence of other bureaucrats/politicians
- can meet state grant or loan criteria
- plan is in our format for our convenience
- communication will be good
- other respectable institutions/people involved
- meets political objectives – PR

Family view

- understanding
- risk to family assets and security
- steady stream of income
- disturbance to family life - demands on time
- personal family involvement
- ownership obligations and returns
- future for children
- changes in friendship patterns - social obligations
- status and lifestyle - present and future

3. Relevance to Entrepreneurial Learning

The approach is one of learning by and through relationship management. As indicated in earlier Notes, it is through relationships with stakeholders that entrepreneurs do most of their learning. The relationship approach to business planning moves participants into this frame of mind.

4. Outcomes

Participants will know how to develop and appraise a business plan from different stakeholder perspectives and will have practiced negotiation on the basis of the plan