Opportunity Recognition

Chapter 6
What is a Business Plan

Section 1
Purpose of a Business Plan

- A **business plan** is a statement of your business goals, the reasons you think these goals can be met, and how you are going to achieve them.
- Answers in advance questions you would have if you started without a plan
- Shows you have thought it through for investors
- Guides you every step of the way
- Needs to be revised from time to time
Types of business plans

• No set format!
• Based on type of business, also on audience
• Four main types
  • Quick summary – 30 seconds to 3 minutes
  • Oral presentation – relatively short, colorful slideshow
  • Investor’s business plan – potential investors need to know exactly what you are planning
  • Operational business plan – for use within business only
The 3 C’s

- Although there is no set format, each type addresses the three C’s
  - Concept – what is your product or service and how is it different from similar products or services?
  - Customer – who will be buying your product or service and why?
  - Capital – how will you locate the money your business will need? What will be your costs and what kind of profit can you expect?
Parts of a business plan

- We will use an investors business plan
- Bankers and other investors will need to see your plan before lending you money
- Usually see many plans, but make few investments
- Must be well written
- 20 pages at most
- Most have the following 7 parts
7 Parts

• Business Idea – describe product or service, talk about type of business you will start and type of business ownership, social responsibility as of late

• Opportunity and market analysis – description of the market – its size, trends, characteristics, growth rate, describe your market research, list competition and describe competitive advantage, marketing plan, product and pricing strategies, and plans for promotion
• Financial Strategies – show any historical financial data, as well as projected figures: estimated sales and expenses
• Organizational Structures – management, board of directors, training of employees, etc.
• Legal structures – describe intellectual property or contract issues, insurance, taxes
• Business management – describe how the business will be managed
• Plan for growth – plans to grow, challenges you might face, franchise plans, licensing, etc.
Plan continued

- To ensure investors understand key points include an **executive summary**
  - One or two page summary of highlights
- Can find a lot of info on internet – [www.sba.gov](http://www.sba.gov) is a good site
Putting your plan together

- In process of building plan, might notice not as good of an idea as you thought, might need to abandon or tweak the idea
- Not a simple beginning to end deal. Every new bit of information could change the entire plan
- To begin – consider two main questions
  1. What type of business
  2. What type of ownership
What is a Business Opportunity

Section 2
Recognizing Opportunities

- Usually you start a business because you see an opportunity.
- A **business opportunity** is a consumer need or want that can be potentially met by a new business.
  - A need is something that people must have to survive
    - Water, food, clothing, shelter
  - A want is a product or service that people desire.
Ideas vs. Opportunities

• Not every business Idea is a good opportunity

• An idea with no commercial potential (can't make a profit), it isn't an opportunity
  • Idea could be an opportunity in another area

• Ask yourself 5 questions to determine if your idea might be an opportunity.
  • If the answer to any of these is ‘no’, it's probably not an opportunity
Questions

1. Does the idea fill a need or want that’s not currently being met?
2. Will the idea work in the location or in the way that you plan to sell it?
3. Can you put the idea into action within a reasonable amount of time – that is, before someone else does or while resources are still available? This concept is called the window of opportunity: the period of time you have to act before the opportunity is lost
4. Do you have the resources and skills to create the business (or know someone who could help you do it?)
5. Can you provide the product or service at a price that will attract customers but still earn a reasonable profit?
Sources of Opportunity

• **Problems.** Many well known companies were started because an entrepreneur wanted to solve a problem. A problem could be something you are experiencing personally or a problem you see others experiencing. What product or service would improve your life or the life of others? What would you like to buy that is not available for purchase in your area.

• **Changes.** Our world is continually changing – changes in laws and regulations, social customs, local and national trends, even the weather.
More Sources

- **New Discoveries.** The creation of totally new products and services can happen completely by accident.

- **Existing Products and Services.** You can get ideas for opportunities from businesses that already exist. This is not the same as copying a product and calling it another name.

- **Unique Knowledge.** Entrepreneurs sometimes turn one of a kind experiences or uncommon knowledge into a product or service that benefits others.
Where to look for Opportunities

- **Newspapers and Magazines.** Locally, but also big titles across the country to help pick up trends. Specialized magazines focused on a hobby or subject can help as well.

- **Business and Governmental Agencies.** US Census Bureau, US Dept. of Labor, US Small Business Administration all have good statistical data and other information. Also try local BBB or COC.
Continued

- **Trade Resources.** Various types
  - A **trade show** is a convention where related businesses come to promote their products or services.
  - Trade associations exist for almost every industry (American booksellers Association, National Roofing Contractors Association, etc.)

- **The Internet**
Thinking Creatively

- **Creative thinking** is a thought process that involves looking at a situation in new ways. It is also called *lateral* thinking. It works well for generating ideas and recognizing opportunities.
  - Use your imagination, or think outside the box.

- **Critical thinking** is also called *vertical* thinking. It refers to a logical thought process that involves analyzing and evaluating a situation or object.
Creative Thinking Techniques

• Challenge the Usual. Ask why and what if questions

• Think Backward. Sometimes solving the problem is easier when you start by imagining the end result and trace backward.

• Be Flexible. There is almost always more than one way to solve a problem. Try from different angles. Example – post it notes
Techniques Continued

- **Judge Later.** Try it, decide later if it worked.
- **Draw Idea Maps.** Use whiteboards, chalkboards, and poster boards to sketch out ideas.
- **Brainstorm in a Group.** Ask family, friends to help think of ideas.
- **Daydream** – let your mind wander when the time is right. Visualize.
Turning Ideas into Opportunities

- Now that you have the ideas, the next step is to decide how to use them
  - Start a new business – build it yourself, more risk
  - Buy an independent business - quicker success, read sale adds, hire a **business broker** – someone who is licensed to sell businesses
  - Buy a franchise – next slides
  - Become an inventor – following slides
Buying a Franchise

- **Franchisee** – person buying into the franchise – receives the right to sell the company’s product or service
- **Franchisor** – franchise seller
Franchise Advantages

- Proven system
- Customer awareness
- Multiple benefits from franchisor (training, support, advertising)
- Exclusive geographical area
- Easier financing
- It is estimated that a franchise has a 90% or better chance of success.
Franchise Disadvantages

- Initial and ongoing fees – high fee to get into the franchise. $5,000 to $100,000 or more.
  - Royalty fee – regular ongoing payment based on percentage of sales
- Less Entrepreneurial Freedom
Becoming an Inventor

- Invent something new! – can sell your item or license it to someone else
- Some people simply change an existing product
  - HurriQuake Nail – designed to resist pulling out of wood in hurricane or earthquake – not a lot more
  - XO laptop – One laptop per child – provides laptops around the country – developed screen that reduced energy by 90%
What Inventors Need to Do

- Keep a logbook – detailed record – back yourself up, and keep track of everything
- Conduct a search – check if it's been done
- Create a prototype – a model on which future reproductions of an invention are based.
  - Start with nonworking model – foam or wood
  - Draw with CAD
  - Create working prototype
- IF talking to manufacturer or designer – sign a nondisclosure agreement – legal document in which a person or group agrees to keep certain information confidential
Evaluating Opportunity

• Evaluate the **feasibility** of the idea – how possible or worthwhile it is to pursue your idea

• Three practical methods
  • Cost/benefit analysis
  • Opportunity cost analysis
  • SWOT analysis

More on each
Cost/Benefit Analysis

• All take risks – successful people take calculated risks – more carefully considering the potential costs and benefits

• Cost/benefit analysis – process of adding up all of the expected benefits and subtracting the costs. If the benefits outweigh, might be worthwhile

• Difficulty – intangible (nonmaterial) things – what is their monetary value? Time, etc.
Opportunity-Cost Analysis

- **Opportunity cost** – value of what you will give up to get something
- Examines potential benefits you give up when choosing an action
SWOT Analysis

- A SWOT analysis is a business evaluation method that draws its name from the four areas it evaluates – strengths, weaknesses, opportunities, threats
# SWOT Analysis: Starting a DJ Business

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have experience working in a music store and know what type of music is bought most often.</td>
<td>Some friends have already asked me to DJ at upcoming parties.</td>
</tr>
<tr>
<td>Together, my potential partner and I have the necessary equipment and music resources.</td>
<td>My potential partner knows another DJ who says we can sub for him.</td>
</tr>
<tr>
<td>I have an older brother who was a DJ when he was younger. He can answer questions and provide helpful tips.</td>
<td>People in our area really like salsa music. Maybe we could add that to our play list.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Weaknesses</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>I'm not sure how dependable my potential partner will be. He is often late.</td>
<td>There are several good DJs already in the neighborhood.</td>
</tr>
<tr>
<td>We need money to continue building our music library and keep it current.</td>
<td>People planning parties don't know us and already know the established DJs.</td>
</tr>
<tr>
<td>We need a way to transport our equipment from place to place.</td>
<td>If times are hard economically, people won't pay for expensive parties with DJs.</td>
</tr>
</tbody>
</table>