

Understanding Business Plans

Private Sector Engagement Toolkit - Tip Sheet #9:

A **business plan** is a detailed view on how the goals and objectives of the business will be achieved. Typically it has an outward and inward focus. The outward focus includes items such as the business environment scan, a competitive analysis, and a market analysis. The inward focus is concerned with production, operations, marketing, financial planning and management and other organizational functions. The goal of a business plan is to enable evaluation of the key elements of a business that will contribute to its success.

Business plans perform a number of tasks for those who write and read them. They are used by investment-seeking entrepreneurs to convey their vision to potential investors, and by firms trying to attract key employees, explore new business opportunities, deal with suppliers, or simply to understand how to improve management. Business plans help one assess whether a firm has a realistic strategic perspective about their business, and help determine whether the various elements and assumptions about the business (i.e. budget, sales, staffing, cash flow, etc.) are logically linked. Business plans are not necessarily fixed. A good plan changes as a business evolves so that it represents a current version of the focus and challenges the business faces.

Business plans are important to private sector engagement. If we are evaluating a firm, their business plan can help us understand whether their underlying business assumptions are reasonable. If our program calls for a private firm to expand their business or move into a new line of business, a business plan will help assess the opportunities and challenges of that. If we are developing an entirely new business in partnership with a firm, a jointly developed business plan will help us assess the fit and feasibility of that partnership.

Business plans can have different forms depending on the anticipated use of the plan and the context. For example, a plan may be quite long and contain significant detail if the goal of the plan is to attract investment. Alternatively, the plan could be shorter and fairly high-level if it is more of an internal planning document.

There are three fundamental subjects covered by a good business plan:

1. The **business concept** reviews the industry in which the firm operates, the structure of the firm, the particular product or service provided, and how the firm plans to be successful.
2. The **marketplace** describes and analyzes potential customers: who and where they are, what makes

them buy, etc. This section also analyzes the competition and the market and how the firm will be successful in that context.

3. The **financials** include the income statement, cash flow, balance sheet and other key financial ratios and projections, such as the point at which the enterprise will achieve break-even.

More specifically, a business plan also typically includes some specific components:

- **Executive summary** provides a summary of the business plan and highlights the key points of the plan.
- **Mission and background of the organization** outlines the connection between the objectives of the business plan and the overall goal of the organization.
- **Management team and organization** show how the firm has the resources (or will add resources) to implement the plan, including their skills and experience.
- **Competitive analysis** outlines who the competitors are, assesses their strengths and weaknesses, and summarizes the competitive advantage of the firm.
- **Marketing plan** details the strategy for successfully competing in the targeted market.
- **Operations, design and development plans** demonstrate that the firm has strategies to implement the plan and outlines key milestones and quality control efforts.
- **Critical risks and contingency plans** outline steps that can be taken to address potential negative developments in either the market or the firm related to the business plan.

It is important to recognize that assessing or developing business plans may be challenging as it requires technical expertise and an understanding of the private sector and industry context that we may not always have on our teams. The EMD TSU can provide support with business plan development and evaluation.

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09-14