

# **The Entrepreneurial Mind**

## **Lecture 4: Business Planning**

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## Lecture Learning Objectives:

At the end of the lecture, you will be able to:

1. Discuss the importance of a business plan
2. Enumerate the components of a business plan
3. Conduct environmental scanning .
4. Design a production plan
5. Determine the financial needs of the proposed business plan
6. Analyze the feasibility of the proposed business plan
7. Write a business plan

## Planning the Business to Establish

**Planning** is the defining of goals for future organizational performance and deciding on the tasks and resources needed to attain them. Applied to manufacturing, it involves planning for (1) product, (2) the process, (3) the facility location, (4) the facility layout and (5) the jobs. **Facilities** are the location and layout.

1. **Product planning** involves determining:
  - a. how the product meets customers' needs,
  - b. how long it takes for the product to make and market, and
  - c. the total cost to the customer.
2. **Process planning** deals with determining the specific technologies and procedures required to produce a product or service. (The broad definition of **product** includes service. However, in the discussions in this book, **product** refers to the physical object of business whereas service refers to the intangible or non-physical object of business.)
3. **Facility location planning** deals with the identification of the place where the manufacturing process will be situated. The criteria that should serve as guide in facility location planning are:
  - a. proximity or nearness to customers
  - b. business climate
  - c. total costs
  - d. transportation facilities (or infrastructure)
  - e. quality of labor
  - f. supplies
  - g. location of company's other facilities
  - h. peace and order condition

- i. government laws, rules and regulations
- j. environmental regulation
- k. host community
- l. competitive advantage

4. **Facility layout planning** involves the placement of departments, workstations, machines, inventory storage, within the factory. The objective of facility layout planning is to ensure smooth workflow. The factors to consider in facility layout planning are:

- a. objective or purpose of the system in terms of output and flexibility
- b. product and service demand
- c. number and volume of operations
- d. space availability

5. **Job planning or job design** is the function of specifying work activities of an individual or group in an organizational setting. The objective of job planning or job design is to develop job structures that meet the requirements of organizations. Job design satisfies the employees' personal and individual requirements. The areas to consider in job planning or job design are:

- a. tasks to be done
- b. qualification of worker
- c. physical location
- d. working time
- e. reason for hiring
- d. performance measurement
- g. motivation
- h training

### **Ways of Promoting Sales**

**Marketing**, the activity involved in moving products from the manufacturers to the customers is divided into 4 P's, namely: promotion, product, price and place. **Promotion** in its broad definition means telling the target market about the product. It requires effective communication and involves personal selling and mass selling. **Personal selling** involves direct communication between sellers and potential buyers. **Mass selling** is communicating with a large group of buyers at the same time. The communication with large groups of buyers may be done through advertising or through publicity. **Advertising** is a paid form of presenting the product while **publicity** is not paid for. **Sales promotion** in its narrow definition refers to activities that stimulate interests, trial or purchase by final customers.

The objectives of promotion are (1) to inform, (2) to persuade and (3) to remind, Here are the different means of advertising, publicity and sales promotion:

#### **Advertising**

magazines  
newspapers

#### **Publicity**

press conference  
talk shows

#### **Sales Promotion**

coupons  
contests

radio  
TV  
signs  
direct mail

human interest  
write-ups  
articles in trade  
magazines

trade shows  
sporting news  
samples  
catalogues  
flyers

### **Creative Pricing**

Notice how creative entrepreneurs increase sales in the pricing of their products. Look around and you will be amazed to hear and see the way products are priced.

**A.** At the entrance of a Metro Manila residential subdivision, the ambulant vendor of the vegetables has only one price. Everything sells at ten po (P10); a pack of garlic, a pack of onions, a bunch of string beans, a slice of squash, a piece of ampalaya, a pack of tomatoes, among others. The customer shells out P10, P20, P30 for her purchase, no bargaining the heads for home. The prices at multiples of P10 are generally higher than when buying is done in the wet market or in the supermarket. The business has been going on for a long time. Very likely, both seller and buyer are happy with the set-up.

**B.** A colorful banner in front of a bakery announces P10 for 12 pieces of any P2 bread" P2 x 12 is P24 but if the buyer buys a dozen, he gets a P4 discount.

**C.** In the ground floor of a Makati Building, this seller of home-made snack food: macaroons, brownies, puto, kutchinta, pastillas and the like, packed in styro plates inside transparent plastic bags, sells her product at 3 for P100. Very seldom would the buyer ask the price of 1 pack nor buy one pack only. Often, the buyer gives P100 and selects an assortment of 3 packages. The seller does not stay long in one building. She moves from one building to the next. Usually, she comes back only after several weeks.

**D.** A restaurant where customers eat and would spend P100 to P150 per seating had this poster that says, "Merienda, eat all you can at P75 from 2:00 PM to 5:00 PM." Many customers come at 2:00 PM to avail of the special price.

**E.** An ophthalmologist charges a consultation fee of P600 (by appointment only) in a popular hospital, P400 (first-come, first-served) in his clinic across the hospital, and P200 in a health card clinic not far away. The quality of his consultation does not go up or down in relation to the fees charged.

### **Consumer's Evaluation of the Purchase Process**

Buying decisions are influenced largely by availability of income. Since many consumers do not have enough income to buy everything they want, they want to make sure that they make the "best buy" out of available money. The factors that guide consumers in the purchase process are:

1. price

2. product quality
3. convenience
4. impact of promotion

"Value for money" is a valuable guide to the consumer in making a purchase. However, a customer may be willing to buy the product because it is available here and now even when it is priced higher than one available tomorrow and from a distant place. Product efficiency is another major consideration. A customer may be willing to pay for new computer ink, that is double the price of a refilled Maybe because the former is brighter, darker and uniform as compared to the latter. However, promotion may sway a customer to buy product "A" instead of product "B" even when the two are comparable in many respects.

Consumers buy products because of the "need" or because of "want". **Needs** are the basic forces that motivate a person to do anything. **Wants** are needs that are learned during a person's life. For example, everyone needs water to drink. However, others want bottled water to drink. Everyone **needs** a shelter to live but others **want** a house in an exclusive subdivision. The physiological, safety, social and personal needs of consumers are:

**Physiological needs** are:

1. food
2. drink
3. rest
4. sex

**Safety needs** are concerned with protection and physical well-being like

1. health food
2. medicine
3. exercise

**Social needs** are concerned with an individual interaction with others like

1. love
2. friendship
3. status
4. esteem

**Personal needs** are concerned with the need for personal satisfaction to what others think or do, like.

1. self-esteem
2. accomplishment
3. fun
4. freedom
5. relaxation

Moreover, consumers' buying is also largely influenced by attitudes and psychology. Buying is also affected by relations with other people like family, social class, culture and other groups.

### **Good Location and Workplace**

Listed in the section for facility of location planning are the criteria for selecting a site for a business. For a manufacturing business, it is important that it be located in an area where quality labor is abundant. For example, in the manufacture of wooden furniture, the factory may be located in Pampanga where good furniture makers live. The other consideration is the availability of raw materials. Producers of cooking oil are located in Laguna where there is an abundance of coconut trees. Factories operated by multinational corporations are located in export processing zones (EPZA) in order to avail of tax incentives. Producers of ready-to-eat products locate themselves where the customers are. An example is Julie's Bakeshop. Another consideration is total costs. There are many cottage industries in Caloocan City as compared to Makati City because of lower rental cost, nearness to Divisoria where raw material and supply cost is cheaper and availability of cheap labor in the vicinity.

A good workplace is one that conforms to the standards of the industry and the rules set by the government. For example, in the manufacture of cosmetics, the Bureau of Food and Drug (BFAD) requires compliance to good manufacturing practices (GMP). The GMP includes specification as to facilities. In a medical diagnostic laboratory, the Department of Health (DOH) specifies, for example, the size of X-ray rooms. The DOH requires that hazardous needles or syringes are disposed off in yellow plastic bags separate from the other waste from the laboratory.

### **Home-Based Business**

For varied reasons, the business may be home-based. We see a lot of cottage industries that are home-based. Some entrepreneurs leave their corporate employment to be close to their young children. They put up their home-based businesses with plans of moving to other work site as their businesses grow. When the business is home-based, there should be clear physical and time boundaries between the business and the home. The area for business should be identified and the time for work should be known to workers and clients. The former may be the garage and the latter may be 8:00 AM to 5:00 PM on Mondays to Saturdays.

### **Meeting Financial Requirements**

The financial requirements of the business will depend upon the nature of the business and the nature of the product. A direct door-to-door selling activity, for example, may require a very small capital for the sales agent/ trader.

The trader buys the product from the supplier/producer of goods on a cash or credit basis, sells them also on a cash or credit basis. The credit terms are short, so the cash

comes in fast and also is paid out to the supplier within short periods. When the retailer needs a physical structure and needs to keep inventory of products, the capital requirement increases. If the entity is to engage in manufacturing an even bigger capital is needed. The service business may start as personal service of the individual entrepreneur who may only need a home-based office and therefore requires minimal capital. However, as this service entity grows, the cash requirement increases. For certain types of business, laws may require minimum capitalization. The financial plan will consider the cash requirement for:

1. **fixed capital** for land, building, rental deposits, improvements, machinery, equipment, furniture, and tools. The fixed capital is for assets that will last for a long period of time.
2. **working capital** for day-to-day operations until the cash comes in from regular business. This is the cash requirement in the first few months from the formation of the business.
3. **organization costs or expenses.** This is the cost of putting up the legal business entity. It is the amount paid to lawyers and accountants in the writing of contracts or agreements and fees paid to government offices to register the business.
4. **contingencies or unforeseen costs.** This may be an estimated amount for reserve for contingencies or unforeseen events.

### **The Sources of Cash**

**Cash** may come from any of the following:

1. the personal money of the entrepreneur
2. loans from relatives and friends
3. loans from banks and other lending institutions
4. investors
5. government assistance programs
6. Non-Government Organizations (NGO)

### **Rules for Sound Financing**

An entrepreneur should be guided by sound financing rules such as

1. know the cash requirements
2. know the best terms
3. know how and when to pay
4. owner's investments should be more than the borrowings
5. if borrowings are needed for fixed assets or working capital
  - a. finance fixed assets from long-term borrowings
  - b. finance working capital from short-term borrowings

## Project Feasibility Study

A **feasibility study** is an activity designed to find out what is feasible achievable, attainable, practicable or workable. In the graduate schools of business project feasibility studies are among the standard course requirements, while in many colleges of business, project feasibility studies are among the requirements for graduation. Why is there much importance attached to feasibility studies? It is because the feasibility study tells the business person if the business project is worth pursuing.

Some businessmen, especially those with academic training in making feasibility studies, make studies for their own business. Others would engage the services of those trained to prepare project feasibility studies. This person is usually referred to as a business consultant or an expert in preparing project feasibility studies. A business consultant preparing a study needs to ask a series of questions addressed to the client. Primary information is the "product" that the businessperson will deal in.

Product feasibility studies are needed by:

1. management
2. investors
3. lenders
4. government agencies

1. **Management** need feasibility studies when they have to decide on new products or when they have excess funds to invest

2. **Investors**, like top management in number 1, would want to put in money where the rate of return is high. Such rates of return may not be limited financial rate of return. They may also emphasize environment and social outreach.

3. **Lenders** need to know if the borrowers are capable of paying the loans that will be granted to them.

4. **Government agencies** need to know the details of government projects before funds are released.

### Parts of the Feasibility Study

1. **The Executive Summary** presents the highlights of the study that are shown in detail in the different sections. The executive summary presents the conclusions arrived at on the feasibility of the project. This part is very Important. Executives are too busy and usually do not have the time to read a lengthy report. But they would like to pick up the "gist" of the study and make a quick decision whether the feasibility study is worth considering.

2. The **project background and history** discuss the proponents of the project or the owner of the project. This section states the name of the business. It states the form of

the organization, whether sole proprietorship, partnership or corporation. It identifies the location of the business. It may include a brief history of the project.

3. The **industry study** involves the analyses of the threat of new entrants and substitutes and bargaining power of buyers and suppliers as shown in Figure 4-1 below. The study will determine the intensity of competition within the industry. The industry study will guide you if it is still advisable to go into a business like Jollibee or like the neighborhood sari-sari store.

4. The **market study** consists of market description, demand, supply, statistical analysis of demand and supply, general marketing practices, proposed marketing programs, projected sales and system design. This part of the study focuses on the four P's of marketing, namely, the product, place, promotion and price. The product is described; its manner of distribution and promotion; and finally, the computation of price. Figure 4-2 shows the 4P's of marketing.

5. The **management study** consists of personnel requirement, management policies, timetable (Gantt Chart), and system design. It shows the organization chart of the proposed business. It provides job analysis, job description, job specification and job classification. Figure 4-3 is an illustration of the contents of the management study.

6. The **technical study** consists of the identification of the product, the process of acquiring, processing and bringing the product to the point of sale. The study covers materials, technology, physical facilities, manpower requirements, costs and system design.

7. The **financial study** consists of projected balance sheet, projected Income statement, projected cash flow over a period of time, usually five years. These projections are based on reasonable assumptions. The study shows computations using financial analytical tools like ratios and trends and the interpretations of the computations arrived at. The study tests the financial health of business. The tests are for (a) liquidity, (b) capital adequacy, (c) profitability and (d) break-even point.

8. The **socio-economic study** shows the impact of the project on the personnel, on the community, on the environment, on the government and other beneficiaries.

Considering the legal dimension in all aspects of the study, there are laws and ordinances that must be met, labels on products are important with manufacturing and expiration dates; wages and benefits should be mandated by law; and for obvious reasons, projects like fireworks, poultry farm and hog farm are not allowed to be established in residential areas.

## Writing the Business Plan

After working on the preliminary as described in the previous lessons, the plan is now ready to be written. Figure 4-4 shows the process flow of starting a small enterprise. Going up in the process, the writing of a business plan is the last in the planning stage

In partnerships or corporations, the plan is submitted to higher officers for approval. In a proprietorship, however, a written plan serves as the reference of the owner in running his business.

The actualizing stage begins with the registration of the business with the government agencies that regulate businesses. Non registration of the business renders it illegal and subject to closure. Of course, a responsible entrepreneur would want his operations to be in accordance with law. Going through the process of establishing a business legally, morally and ethically saves you of untold problems and troubles.

In the words of a successful entrepreneur, the business plan is the single most important document at the start-up stage. A **business plan** is a written document describing all relevant internal and external elements and strategies for starting a new venture or a new product or a business expansion. It provides a guide and structure to management. The business plan will detail the following:

1. product - to be made or traded or service to be rendered
2. marketing - when, where, to whom the product or service is to be sold
3. management - organization, employees' and officers positions and job assignments
4. finance - financial needs and where the money will come from and paid to
5. operations - how the product will be produced or how the service will be rendered or how the merchandise is to be acquired

A written business plan is like a game plan that is both for the current and future years. It is also called a road map. It may start as a preliminary plan and evolve to a final plan. The business plan is prepared by the entrepreneur who may consult with accountants, lawyers, engineers and marketers. They are called consultants. They may be private consultants or government consultants. The entrepreneur afraid of others "stealing" his ideas may keep certain aspects of the popular favorite remained a secret. An ingredient of a native cake (bibingka) has also remained a secret.

Lenders, investors, employers, government, suppliers and customers, all benefit from a business plan. The lender determines the amount of money to lend based on the plan; the investor analyzes it for investment opportunities; employers use it as guide for operations; customers determine what products to buy from the business; and suppliers determine what products to sell to the business through the plan. The government sets policies guided partly by the plans of business. At the time this book is being written, a marketing company was charged with pyramiding. It submitted to the Securities and Exchange Commission (SEC) a business plan showing that the questioned activity is not in their plans.

The business plan may be simple or complex depending upon the product service. The entrepreneur doing the "road map" gets to:

1. see the product and service in detail
2. do self-assessment
- 3, see obstacles
4. assess cash and other resource requirements

Plans also tell the entrepreneur to "go for it" or "abandon it". It points out the present, the future and the road that connects the two. It is a selling document a document for selling ideas to investors. It is a tool that hopes to create interest in the project. The business plan should communicate clearly and effectively t features that are important to the user, who is the reader of the document. It is better to do a feasibility study before doing a business plan.

Usually, a business plan has the following parts:

- **Executive Summary** highlights briefly and convincingly the different sections in the business plan. It supports the conclusion that the business is profitable and that it is worth pursuing.
- **Description of the Venture-** provides a complete picture or description o the products, services and their unique features.
- **Operating Plan** - gives the detail of how products are to be manufactured. The merchandising plan for a trading business shows in detail how the products are to be acquired.
- **Marketing Plan** - describes market conditions and strategy related to how products and services will be priced, distributed and promoted.
- **Organizational Plan** - describes the form of ownership and lines authority and responsibilities of the people in the organization.
- **Financial Plan** - projects financial data that show profitability, liquidity and stability.
- **Appendices or Annexes** - back-up materials that support the text of the business plan. They are mentioned in the text as references.

After the business plan has started, operations are compared with the plan. The entrepreneur should find out if the actual operation is on schedule or in accordance with the planned time. The monitoring should be done within a period shorter than a year, better monthly or even a shorter period. With the availability and speed of computers, frequent measure of progress may not pose a problem. The entrepreneur should not hesitate to modify, change or update the plan whenever necessary. Environmental

development after the plan has been implemented may call for its updating. At this point, it is important to repeat that goals should be **SMART**. Meaning, they should be Specific, Measurable, Attainable, Realistic and Time-bound.

## **Contents of a Business Plan**

### **I. Cover Page**

- a. Name and address of business
- b. Name(s) and address(es) of the owners
- c. Contact persons
- d. Date prepared
- e. Statement of confidentiality of report

**II. Executive Summary** - one to four pages overview of total business plan highlighting significant point arousing Interest on the part of the reader.

**III Product** - description of products or services and their unique features.

**IV. Marketing Plan** - who the customers are, competition marketing strategy, competitive edge, pricing.

**V. Organizational Plan** - states the form of business organization. Identifies management team, investors, their background, their duties and responsibilities States the plan for employees recruitment and training.

**VI. Operating Plan** - explains the process of acquiring and processing products, Identifies equipment, physical plant. machinery, materials.

**VII. Financial Plan** - specifies financial needs and sources of financing and shows for a three- to five-year period pro-forma income statement, cash flow projections, pro-forma balance sheet and break-even analysis:

**VIII. Appendix** - shows supplementary materials.

## **Desirable Business Practices**

After the planning stage the entrepreneur moves to the next stage that is actualizing the plan. He sets the plan to work. He obtains money. He registers the business with the government offices. He moves to the business location, does the layout, acquires equipment, products and materials and hires employees.

Now the entrepreneur is ready to start his business. He does the following:

1. Computes costs, determines selling prices, adds mark-ups subtracts markdowns. These steps are guided by the desired profit margin and prices that the customers are willing to pay and afford to pay.

2. Prepare price tags.
3. Makes promotional or advertising materials like brochures, posters, ads for TV, radio, magazines and newspapers.
4. Review purchase orders from customers.
5. Fill-up orders of customers by packaging products for delivery.
6. Prepares delivery receipts, sales invoices for the products to be delivered and issues official receipts for payments from the customers.
7. Practices courtesy and efficiency in serving customers.
8. Gets ready to answer and properly handle complaints of customers.

**Reference:**

**Entrepreneurship, Cristina B. Banastao and Solita A. Frias, Unlimited  
Books Library Services & Publishing Inc.  
2022**