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chapter 6

planning to realise opportunities

chapter contents

Introduction

The purpose of this chapter is to provide a practical guide to planning how to realise the opportunity. In many cases this will take place through planning the formation of a new business venture. However, many opportunities will also be realised to achieve growth within existing organisations, or in informal ways such as social enterprises within community groups. Therefore 'opportunity planning', is not always synonymous with business planning, and can be undertaken independently in relation to any opportunity.

The learning goals of this chapter are that you will be able to:

- generate the information to use in preparing a plan to exploit an opportunity
- develop a business model to show how the business will generate revenue
- create a plan for a new venture
- critically evaluate a venture plan and business model
- prepare to present a venture plan to potential stakeholders.

While waiting for a plane at Stansted airport, drinking coffee next to the airport bookshop I noticed that people were buying fiction much more than, for example, the business and management books on offer. Fantasy fiction, such as Philip Pullman and Terry Pratchett, seemed to be especially popular. So why does fantasy fiction outsell business books? Because people find it more interesting and entertaining, and it engages with their imagination. Yet the entrepreneur, in creating a new opportunity or venture, is also using imagination, but in a more practical way. We are trying to achieve a balance between creative and rational thinking, but the conventional approaches to planning often overemphasise the rational and miss out the inspirational. So what can we learn from storytelling and how can this be used to improve our opportunity planning?

There is a huge amount of literature on 'how to write a business plan', which this chapter does not aim to duplicate. Guidance on writing a business plan can be obtained from many banks, business support agencies and other sources listed in the resources section. However, many business ventures are set up without a written plan, and research does not show a clear relationship between business success and having a business plan. It may be that the orthodox advice to 'write a business plan' quite often misses the target.

This chapter therefore takes a different approach. It offers a flexible and imaginative, future-oriented approach to planning the opportunity, in which working on the 'design' for the venture and producing a viable business model are necessary skills and activities. A key task for the entrepreneur is to sell the business concept to third parties, be they investors, partners, customers or suppliers. Creating a credible and persuasive plan is generally an essential stage in doing this. Experience of working with many entrepreneurs in new and small businesses shows that they are often asked to produce a business plan by a third party, such as a bank, potential investor, customer or grant-providing agency, and the plan is written to unlock these resources. Chapter 8 includes the Aquifer case study of this type of venture planning.

The chapter covers the questions in the third quadrant of Opportunity-Centred Entrepreneurship, shown in Figure 6.1.

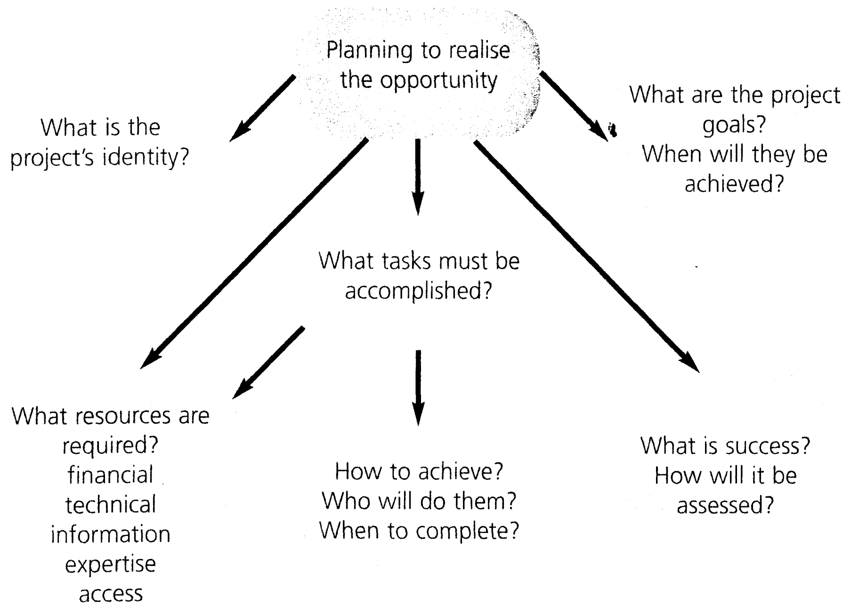

FIGURE 6.1 **Planning to realise the opportunity**

why plan and how to plan

Why plan? A professor of entrepreneurial studies often remarked wryly to business owner-managers that 'men make plans to make God laugh!', because the unexpected always happens. The serious point is that planning is about future-thinking, and envisaging the future as you intend it to be. However, while we must try to implement our plans and make them happen, as will be covered in Chapter 7, the reality is that we are not in control of the future, and what we intend through a plan will often be different in reality. Business plans usually end up being wrong.

This may seem like a good argument for not planning but, as with democracy, what is the alternative? The alternative is not to plan, to muddle along from day to day, being reactive or at best opportunistic. This is how many people, and indeed small business owners, do behave. The problem with this approach is that success, if it is achieved at all, becomes dependent on chance, circumstance and 'being in the right place at the right time'.

There are strong reasons for planning as a key aspect of the entrepreneurial process. Planning makes us think strategically and purposively about what we intend to achieve and how to realise this: it is planning for success as a clear statement of what the venture aims to achieve. Through planning, we can envisage different scenarios, anticipate and prevent problems. Planning helps put us in control rather than simply reacting tactically to events, and enables us to monitor the variations between the plan and reality and to re-plan accordingly.

Planning is necessary because we are making the connections between knowing what the opportunity is, having defined, explored and evaluated it through the activities in Chapters 4–5, and how to realise it. Opportunity planning is future-oriented thinking and acting. This chapter introduces a simple but effective approach to opportunity and new venture planning in three stages. The first involves creating the story of how the opportunity will be realised. The second is to create a plan for the opportunity. The third is to develop a business model and then the full venture plan, using much of the work developed through the activities in previous chapters. To do this, we have to learn how to think in the future. This builds on the work in Chapter 4 on creativity and opportunity mapping.

activity

Future thinking

- Sit back for a few moments and allow your body to relax and your mind to wander.
- Think about what you would *like to happen* in the future. This could be about anything – not necessarily business, work or career oriented. You could imagine your next holiday, where you want to live, your ideal evening out.
- What do you see? What does it feel like? What are sounds and sensations you experience? Spend some time thinking about 'what it would be like'.
- Have a piece of paper, preferably blank and unlined, and a pen or pencil to hand. Use this to note down the ideas in your mind. These might be words or pictures. You could draw a mind-map of what you imagine.

This exercise might seem strange or unproductive at first. However time spent developing your ability in 'future thinking', about what you would like to happen, which we can term 'vision', or about 'scenarios' or 'contingencies' which could happen, will be worthwhile. Humankind is, so far as we know, the only mammal able to think prospectively and imagine the future. This is probably the most valuable capability we have in entrepreneurial working, so it is worth investing time in developing these skills; even if it seems like 'daydreaming', it can be productive. Everyone can think creatively, and does so in different ways. Walt Disney, for example, had a creative space in his office where he went to develop ideas.

Creating an opportunity plan

This section uses future thinking to develop an opportunity plan. We will use a 'storyboard' approach to develop prospective future-thinking and vision, and to plan the actions needed to make it happen. One of the problems of conventional business planning is that it has become dominated by highly rational and often numbers-based thinking, which creates an illusion of certainty through detail. There is nothing wrong with this in its place but it should be seen as one outcome, rather than the whole point of the planning process.

Instead, we can think of a good plan as being like a story. A story takes us into a different reality which may be the future, the past or an alternative version of today. A story has a plot or storyline, characters, actions and movement. A story is narrated in a way that holds the listener's interest. Even if the story is a fantasy, if it works it is 'believable' or credible and convincing in its plot, characters and narration. Increasingly the academic literature, both on entrepreneurship and business management more generally, is taking storytelling and narrative seriously (Hjorth and Steyaert, 2004). We can use the 'art' of storytelling to develop our ideas for the opportunity and to communicate these to other people more effectively than through a detailed plan alone. If you aim to use a venture plan to gain partners, investors or customers then it is essential that they believe your story.

Shaping the story

- The story has a structure including a beginning, a middle and an end.
- There is a plot or storyline which involves change and movement, so we do not know at the beginning what will have happened by the end.
- The story has characters – believable people who make things happen – and things happen to them which they do not expect.
- There is a storyteller or narrator.

example

Blue Fish Creative Media

Here Tony tells the story of how he set up Blue Fish Creative Media with his associates:

> Blue Fish was established by myself, Mike and Darryl in 1991. We had lost our jobs when the design agency we worked for went into liquidation. We decided to start on our own, selling our motorbikes and renting a single room to work from. During this pioneering stage we worked ludicrous hours to get off the ground – survival was the name of the game. We spent every waking hour in the office. We didn't believe we were working hard enough unless we were working past midnight, we'd often work until 3 a.m., supplying our clients with pizzas and Coke whilst they checked and signed off text. We'd take on any work, agree to any turnaround, and built our reputation for service with a huge number of people.
>
> We turned over £57k in the first year, then we turned over £220k in the second year and made £50k profit. But we were all working long hours and became busy fools, like prisoners in our own company, and we realised we wouldn't continue to enjoy work if we carried on like that. We knew we had the seeds of something good but needed help in getting to the next stage. We had to work out what we had done wrong and more importantly what we were doing right. So for the first four or five years we were messing around, trying to find our feet, establish our credentials, starting to understand how we made a profit or a loss. After five years we had seven people, turning over £400k.

We went to see our accountant. He ripped our business model apart and showed us how we make a profit. We assumed we made a profit on buying print and marking it up, but we were only charging 18 per cent of the hours that we worked. We analysed everything to see exactly what we were doing; we now know what our key performance indicators are. He showed us how to double our salaries and our profits but halve our hours within two years and we did it.

We all agreed we wanted to be out of the business by the time we're 50 with about £2m each, so we wrote a 20-year plan of the profitability levels we had to hit to get ourselves out of the business. We've put in a strong management team who can run the business for us; they can either buy us out or we could sell to a third party with the management team in place.

We're bang on target, we've set ourselves 30 per cent growth targets and this year we'll do just over a million, from £782k last year. We've set a target of around £1.3–1.5m next year but the main thing is the profitability levels. Now we work 40–50 hours per week, never more than that. Salaries have trebled, we've doubled our fee rate and profitability is still going up – we know where it all comes from now.

Tony's story tells us why they formed what has become a successful business, what they wanted from it, a good deal about how the business has changed and how the founders have learned, and what their strategy and goals for the business are. This is a story, not a business plan, which communicates something of the innovative, sometimes manic nature of their business that you would not gain from a conventional business plan. But they needed a plan to enable them to define and then realise their ambitions.

activity

creating a storyboard for the opportunity

The purpose of this activity is to think creatively about how the opportunity will be realised in the future and to generate strategic thinking to inform the opportunity plan, by starting to create the story of your opportunity. You can use several sheets of blank paper to create the storyboard and draw mind-maps and 'rich pictures', putting down key words and ideas using marker pens. Alternatively you can tell the story orally and use a tape recorder.

Where you are

- On the first page, describe the beginning, where you are now. What is the opportunity, and the potential as you see it?
- What is your current situation?
- Why do you want to make the opportunity happen?
- Who are the other characters involved?

activity continued

Where you aim to get to

- Now try moving to the end.
- What do you want the end of the story to be? When will this be – months or longer, two, five or ten years?
- What will you have achieved?
- How will the future reality be different?
- What will have changed for you? For the other characters involved?
- What will 'success' look and feel like?

How to get there

- Now work on the middle. You have an image of the end. What will you need to do to get there?
- What are the actions, the stages in the story that move you from current to future reality? What is the flow of events which need to take place?
- What are the good things and successes you think will happen?
- What could be the bad events and misfortunes which might take place?

Now you have a storyboard for the opportunity. This may be a voice recording, in which case you can play it back and write down the key ideas into a story, or it may be three or more pages of a written and drawn storyboard. This can be the basis for your opportunity plan; you can always come back to improve and work on it. Like any story it will improve every time it is told and this is certainly true of venture plans.

This activity aimed to help you to future-think about the opportunity and how you can make it happen. This material can be translated and used in a more formal plan which will be prepared later in this chapter. Future-thinking is creative strategic thinking, focusing on what you intend to achieve, where you want to take the opportunity, and what this means for you and others involved with it. The storyboard is about the story, the progression from now to the future and being able to identify the activities, events, people and possibilities which are involved in going from 'now' to realise the future goals.

planning from idea to venture

If you have used the storyboard exercise to map out the overall story, now you can start to work on it in more detail. The devil, as they say, is always in the detail! The next stage is to create a plan to make the opportunity happen. We have already moved from 'idea' to opportunity through completing the work in Chapters 4–5. We will use this information to create the opportunity plan, a template for which is shown in Figure 6.2.

The introduction to this chapter mentioned that an opportunity could be realised within an existing organisation, outside a formal organisation, or through creating a new business venture. The question is what type of organisation is needed to make the opportunity happen – formal or informal, existing or new, single or joint venture (e.g. two existing organisations forming a third jointly owned one). Any plan, decision and action to make an opportunity happen is a 'venture' in the sense that a venture is 'an undertaking of a risk, a risky enterprise, a commercial speculation' according to the *Concise Oxford Dictionary*.

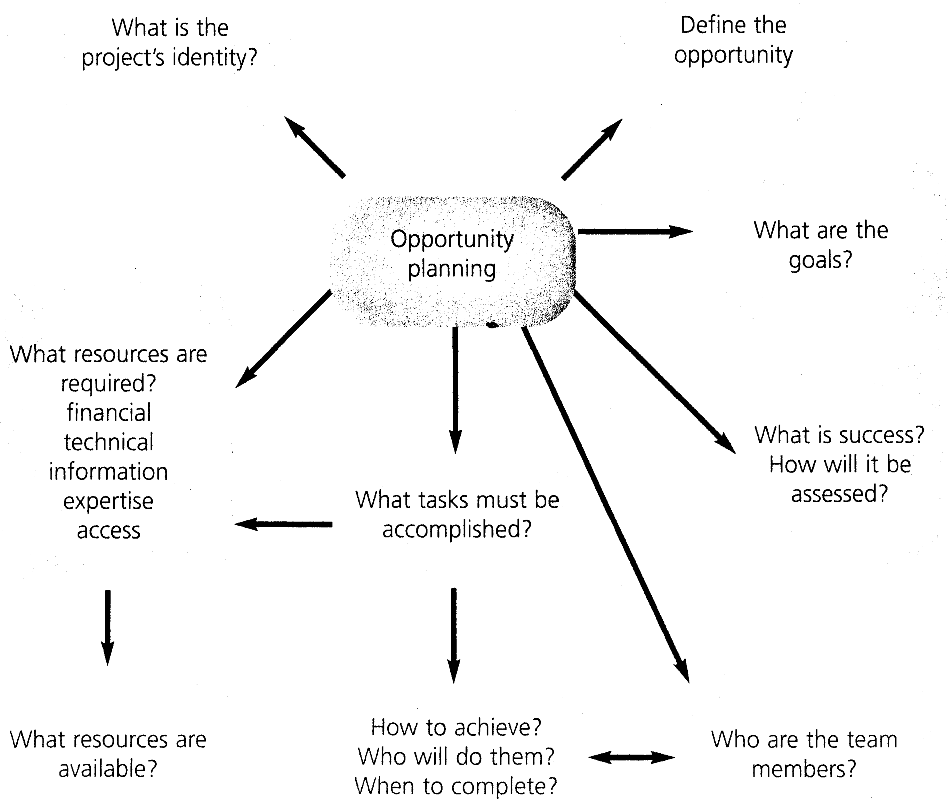

FIGURE 6.2 **Opportunity planning**

One feature of planning is that as well as being creative, it is a way of forcing out questions and decisions which need to be made, and of 'problem solving in advance' by identifying potential problems and finding ways of preventing, eliminating or dealing with these situations.

Here are key questions to be addressed in the opportunity plan:

- Restate what the opportunity is.
- Is there a name or title for the opportunity or business venture? What will you call it?
- What is the single most important goal to be achieved through the opportunity?
- When will this be achieved? How will you measure it?
- What are the other goals which need to be achieved?
- How do these relate to the overall goal, and are they compatible? What are their timescales?
- How will the success of these be measured or assessed?
- What tasks or activities need to be completed to achieve each of these goals?
- Who are the people who will make the opportunity happen?
- Who will take responsibility for each goal?
- Do they have the skills, information and time to achieve these goals?
- What resources are needed to achieve these goals?
- Which resources are already available and which must be obtained?

activity

Opportunity planning

- Work from your storyboard to develop an opportunity plan to make your opportunity happen.
- Use an opportunity map to develop answers to the questions in the previous section.
- Review the map: how feasible is it?

Identifying key themes, strategies, activities and tasks

The opportunity plan is not simply a 'to-do list' but the beginning of a strategic plan to develop the venture. Once you have a draft plan then review it, not just once but regularly to update and improve it. If you have a team then talk about each aspect to ensure that everyone has the same understanding and is committed to make their part of it happen. If you are working alone then reflect on it, or if you have an adviser, coach or mentor, share and discuss it with them. In this way the most important goals, themes and activities will become clear. Look for synergies and connections between different aspects of the plan: for example, how can you move from consumer research into test marketing and trial sales of a product?

defining the project and its identity

One vital aspect of an opportunity is to establish its unique identity. This can take different forms depending on the type of opportunity and the strategy for its exploitation; for example, whether a new venture is to be formed. Here are different ways in which the identity of the opportunity can be expressed:

- name of the business venture – e.g. company name
- name of the product, service or experience to be provided
- website domain name, URL and e-mail address
- brand identity which can include all of these.

Identifying, securing the rights to use the identity and exploiting it are an important step, already referred to in the section on intellectual property in Chapter 4. Here are guidelines for establishing the identity for the opportunity. The identity should:

- communicate the opportunity and its benefits to the target customers
- be distinctive, preferably unique, and memorable
- not be easily confused with similar offerings
- be hard to copy or to 'pass off' imitations of.

The concept of branding and identity is well established, so none of this is new, meaning that creating and protecting new brand identities has become much harder. Many of the readily available names and words in the English language have been registered as trademarks or Internet domain names. The identity has symbolic and linguistic importance, and being memorable is essential. It may be worth finding and using a creative consultancy which specialises in business identity to help develop your ideas.

example

The Hive

Nottingham Trent University was developing a new facility to support graduate business innovation projects and start-up business ventures. They had located a site and sources of funding, and needed an identity which would appeal to the target market – entrepreneurial students and graduates. The project team came up with 'The Hive' as a name, choosing this because it was short, memorable, and expressed ideas of busy-as-bees, hive-of-activity and honey = money. Even though the project team included a designer, they brought in an external design agency to create a vibrant visual identity as a brand, with co-ordinated marketing materials and website, ensuring that these brand values were carried through into the décor of the building. The ideal domain name was not available but they chose the closest available:
www.businesshive.ntu.ac.uk

The Hive has become highly successful in stimulating university enterprise and the identity has been an integral aspect of its appeal. In its first five years of operation, over 60 businesses have been created and around 90 per cent of start up companies formed with the help of The Hive have remained in business. The Hive was rated 'A' star in a regional accreditation process for business incubators, and is recognised nationally for the success and rigour of its support programmes for graduate entrepreneurs.

activity

- Do you have an identity for your opportunity?
- If not, start to collect ideas, words and images which could be used. Aim to come up with a range of possible ideas, not just one. While a 'brainstorming' session can be helpful in coming up with ideas, it is just one stage in the process.
- Spend time putting possible combinations of words and images together, associating ideas in new ways which could appeal to the target customer. If there is a project team, everyone should be involved in this activity. Aim to come up with several combinations which can be checked out to see which brand names and website URLs are taken and which combinations are available.
- Aim to find one which meets the guidelines provided earlier, as far as possible – and which you think will have the maximum customer appeal. Try this with some limited consumer research – ask people in the target group which of the available combinations 'speaks to them' with most positive impact.
- Once you have chosen the identity, protect it by registering the website domain name (and different combinations of these) and a trademark if you think this could be of potential value.

creating a business model

What is a business model? The business model demonstrates as clearly and simply as possible how the opportunity will create revenue and financial value from its operations. This is at the heart of the opportunity plan and needs to show who is doing what; for whom they are doing it; and the financial assumptions and results on which the plan is based. Here are some deceptively simple questions we ask people with ideas for new business ventures:

- Who are your target customers?
- What value will you create for them?
- Why will they buy from you?
- How is this superior to competitors?
- How will the business generate cash flow through sales?
- How will the business generate profits?
- What financial investment does the business require?
- Can you draw a simple diagram to show the business model?

One format for a simple business model is shown in Figure 6.3. This starts to include basic financial measures. If you are not familiar with these, they are explained in the financial toolkit. The business model includes:

- the target customer group, intended product or service, and customer benefits
- sales targets and revenue
- variable costs (costs attributable to each customer)
- fixed costs (costs which apply at any level of sales)
- total costs, gross and net profit before tax
- gross and net profit margins and break-even sales figures
- projected sales growth in years two and three.

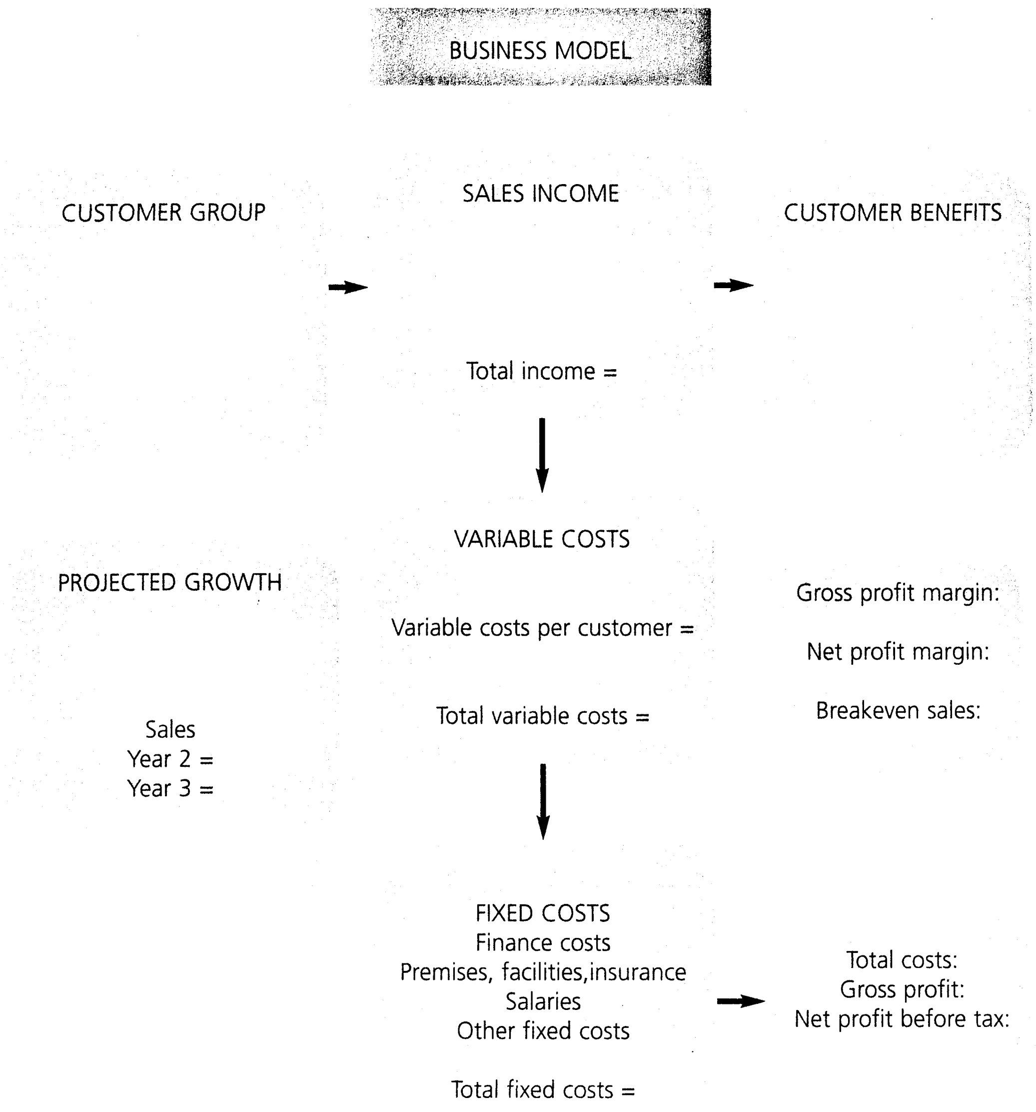

FIGURE 6.3 **Business model template**

Evaluating a business model

A business model such as this can be completed and presented to give a readily understandable one-page overview of the opportunity to potential investors and lenders. It can also be revised easily to account for different scenarios. It is important to be aware of the criteria which potential investors and other decision makers may use in evaluating a business model:

- Are the assumptions and information on which the model is based realistic and reliable? Or are, for example, your expectations of the rate of customer acquisition and sales growth over-optimistic?
- Are fixed costs kept as low as possible (e.g. avoiding unnecessary expenditure – hire or lease rather than buy)? Are costs controlled overall?
- At what point are break-even sales reached?
- Are the levels of gross and especially net profit both realistic and attractive?

preparing the venture plan

This section covers the development of the venture plan; the business model is an integral part of this plan. This activity will use the work you have done in Chapters 4 and 5 on exploring the opportunity and the work from earlier in this chapter on future-thinking, opportunity planning and business modelling. By now you should be familiar with the use of mind-maps for key concepts and we will work on the venture plan in the same way. Figure 6.5 (page 143) shows an overview of a venture plan, and a template is included in the toolkit. It is suggested that you work on the venture plan using flipchart paper on the wall or a white board. The advantage of working on the venture plan in this way is that you can start from the 'vision' of what you aim to achieve through the venture in the centre, and then work on each of the other boxes, starting with the opportunity, then the strategy, and the plans for marketing and sales, operations, finance, and people. The final step is the action plan which summarises the priority actions which need to be completed. Additional information under each of the headings can be pasted up and the venture planning map can become a 'header' or summary of the information in the plan. Notes on what to include in each section of the plan follow in the next section.

Table 6.1 (page 142) builds on the map of a venture plan by showing the headings and sub-headings of a typical venture plan as they might be used on the contents page, with links to where the information can be obtained from activities in this and preceding chapters. This will help you as you develop your venture plan in the next section.

Vision and strategy were covered earlier in this chapter. Opportunity was covered in Chapter 4. Guidelines on completing the other parts of the venture plan are given in the next section.

Marketing and sales plan: key questions to address

- What are the vital success factors which you have to get right? These factors will differentiate the venture from competitors. They may include superior technology, service, choice or other benefits to the customer. Beware of claiming to offer lower cost unless the business model really provides a lower cost structure.
- Who are the target customer segments? This was covered in Chapter 4.

activity

An example of a business model using this format is shown in Figure 6.4. This is for an IT services business to be set up by two people.

- Review the business model using the evaluation criteria in the previous section.
- What problems or weaknesses can you identify in the business model?
- What suggestions would you make for improving it?

What problems did you identify? Here is a selection:

- Customer group and business opportunity: how competitive is the sales proposition given the reducing cost of IT services to the small-business market?
- Sales income: the pricing appears high for the same reason. It assumes all 200 customers will pay for full 12 months, yet in reality they would sign up at different points during the year.
- Variable costs: who is doing the marketing? Is the spend to attract each customer realistic? Are variable costs really as low as £50 per customer?
- Fixed costs: why borrow £100k to spend on IT systems which will depreciate quickly when more flexible options include leasing or renting space on a server? Are other fixed costs realistic?
- As a result, sales, gross and net profit figures are over-optimistic and need to be reconsidered before a sound basis for growth in years two and three can be envisaged.

Clearly this is a flawed business model which needs revision from the basic assumptions onwards. However too many businesses are started using poor business models which have never been written down and do not work well. This can lead to the failure of the business, so it makes sense to chart, evaluate and improve the business model as a starting point.

- Marketing matrix: the marketing matrix is a simple concept which can be used in many different ways to plan and analyse the relationship between customer segments and product types. It relates customer segments to specific product or service offerings, and is useful if there are two or more segments or product/service combinations – see Table 6.2.

BUSMODE LTD

CUSTOMER GROUP
Micro-small businesses buy integrated web/e-business/comms/CRM service
They pay £50 month flat fee + traffic charges on 1 year contract

SALES INCOME
200 customers in year 1
£50 month each = £120,000
+ £25 month average traffic = £60,000

Total income = £180,000

CUSTOMER BENEFITS
200 x improved communications systems
100 x start e-business
100 x managed CRM system
100 x time saved within businesses

PROJECTED GROWTH
Gain 300 customers/year in years 2–3
Lose 25% past customers/year
Increase charges 5%/year
Sales
Year 2 = £425,000
Year 3 = £634,000

VARIABLE COSTS
Marketing costs £100 to attract each customer = £20,000
Variable costs £50 per customer = £10,000

Total variable costs = £30,000

Gross profit margin: 83%
Net profit margin: 32%
Breakeven sales: £110,844

FIXED COSTS
Repayment on £100,000 financing of IT system = £28,000
Premises, facilities,insurance = £24,000
Salaries (2 people) = £40,000

Total fixed costs = £92,000

Total costs: £122,000
Gross profit: £150,000
Net profit before tax: £58,000

FIGURE 6.4 **Example of a business model**

activity

- Develop a business model for your opportunity. You can use the template in the toolkit.
- Evaluate your business model using the criteria listed above.
- What problems can you identify and how could you revise the model to correct these?

TABLE 6.1 **Venture plan structure and contents**

Section	*Source of material*
1. Executive summary Opportunity, business concept, investment proposition, anticipated return	This chapter, opportunity planning
2. Opportunity Demand, innovation, feasibility, attraction SWOT analysis in relation to competitors Key differentiators	Opportunity evaluation, Chapter 5
3. Strategy Vision, Direction, goals, sales targets	This chapter, opportunity planning
4. Marketing plan Target market and customer segments The product/service concept – features and benefits Marketing matrix Promotion, distribution, pricing Sales plan	Market research, Chapter 4 and this chapter, venture planning
5. Operations plan How the business will operate: capabilities, resources, people, processes	This chapter, venture planning
6. People plan People: who will run the business, track records	Capabilities assessment, Chapter 3 This chapter, venture planning
7. Financial plan The business model or process Financials: investment and working capital requirements, break-even, pricing, gross and net margins, cash flow, return on investment	This chapter, venture planning and toolkit
8. Action plan	This chapter, venture planning and toolkit

The example shows that some customer segments form a strong core market for certain products and services, but make few purchases of other offers from the same business. The marketing matrix can be used for the following applications:

- matching products and services to customer segments
- identifying client types and the ‘triggers’ which cause them to buy a product/service
- matching product features and benefits to each client type
- forecasting the sales value from each customer/product combination

FIGURE 6.5 **Map of venture plan**

- forecasting the profitability of each combination
- identifying the marketing activity needed to connect with each customer segment
- analysing strength of competitive position.

TABLE 6.2 **Marketing matrix of product sales distribution to customer groups**

Customer segments *Product/service types*	*Customer group 1*	*Customer group 2*	*Customer group 3*	*Customer group 4*
Product A	60%	30%	10%	0%
Product B	20%	30%	40%	10%
Service A	55%	40%	5%	0%
Service B	10%	10%	10%	70%

activity

Complete a marketing matrix to show the relationships between customer segments and product service types: which customer groups do you envisage will buy which types of products? Even if you only plan to offer one product initially, you can project which types of customer you expect to buy it.

Operations plan: key questions to address

Here we plan how the venture will provide its product or service to the customers.

The business needs to be designed effectively so that it can exploit the opportunity. It can be designed in the same way that a product, a building or a website is designed for effective use, so that it operates effectively and efficiently, enabling it to adapt and grow. Here are guidelines for designing a new business venture effectively.

- Form follows function – so make it easy for the customer to find, interact with and buy from the organisation through well-designed selling processes.
- Processes are kept simple, flexible and robust.
- Responsibilities and functions are defined clearly to avoid overlap.
- The organisation is lean and flat, avoiding unnecessary hierarchies.
- The effectiveness of each aspect of the business can be measured using simple, useful metrics.

The key to operations planning is to use simple, step-by-step processes, for example through process mapping or flowcharting. The aim of a business process is to make it simple to follow for both the customer and worker within the business, to minimise the scope for it going wrong or for introducing variability which affects quality, and to

TABLE 6.3 **Example of sales order process**

Step	*Time taken (minutes)*	*Information record*
Log customer enquiry	5	Enquiry form and set up customer log
Assess customer requirement	30	Enquiry form
Prepare and send quotation and terms of business	50	Quote
Check acceptance by customer	10	Customer log
Plan job into work schedule	5	Work schedule
Initial design work	420	Design file
Check approval by customer	30	Customer log
Make modifications	60	Design file
Check final approval by customer	30	Customer log
Commission website	120	Design file
Invoice customer	20	Customer log
Follow-up to check customer satisfaction, payment and assess further requirements	20	Customer log

make it as efficient as possible so that costs can be controlled. The most important process for a new venture is probably the sales order process: what are the steps in taking and fulfilling a customer order? The sales order process for a website design consultancy is shown in Table 6.3 and is typical of a generic process in a small service business.

As part of planning the process, consider what information is generated and

activity

- Design the sales order process for your venture.
- Map out what you think the key stages will be from enquiry to completion and payment.
- What information would be generated/retained at each stage?
- What variations would you expect there to be in the process?

retained. This could be as simple as a customer record 'job card' on a computer, with an invoice being generated. This basic process will be developed using the 'business resource process' technique. There are relationships between the business process, information and people's skills and capabilities which are needed to manage the service or product delivery. Questions for the people plan are considered in the next section.

If the business depends on supplier, subcontractor, distributor or reseller relationships, then these need to be identified in the operations planning:

- Which suppliers, subcontractors, distributors or resellers does the business depend on?
- Is the business entirely dependent on any of these or do alternatives exist?
- How reliable are they known to be?
- What are the contractual relationships with them for delivery and payment?
- Which types of new suppliers etc. will be required and how will these be selected?

A new venture often depends on establishing a reputation for high quality and customer service. Putting this another way, it is hard to grow a new business if it gains a reputation for low quality and poor service! Quality and service standards do not happen by accident and need to be planned. Simple service standards may include maximum response times to customer enquiries, time intervals between order and delivery, and targets for customer satisfaction.

- What standards of product and service quality will the target customers expect? If these vary between segments or product types, use a marketing matrix to chart them.
- How do these compare with competitors' standards for quality and service?
- How can the consistency of quality and service be maintained, e.g. by minimising variability or inconsistent standards?
- What measures or records of quality and service need to be maintained (some may be contractual requirements)?

activity

Use the questions in the sections on suppliers, quality and service to plan how the business will ensure consistent quality and service, both from third parties such as suppliers and within its own operations.

People plan: key questions to address

It is important to demonstrate that the venture has the people with the skills, expertise and experience to start and manage the business successfully and to provide the service expected by customers. The experience of the venture team and especially the chief executive or lead entrepreneur is an essential aspect of this.

- Who are the key people in the business?
- What are their track records relevant to the venture (this can be important in reassuring investors and reducing the perception of risk)?
- What are their roles? For example, who will be responsible for: general management (chief executive); marketing and sales; operations; finance; information; people?
  - The business is unlikely to have one person responsible for each of these, and an owner-managed business may start with one person responsible for all of them. How can responsibilities be shared most effectively within the team?
- What are the key skills, capabilities and expertise required by the venture? Which need to be employed within the venture and which can be bought-in when needed?
- Which people have these, and what training and development is needed (e.g. to meet external requirements for qualified staff)?
- What recruitment of staff is likely to be needed to fill gaps in skill or capacity?

activity

Use the questions in the people planning section to develop a simple people plan for the venture.

Financial plan: key questions

The financial plan is a vital part of the venture plan and will be scrutinised closely by potential investors and lenders. It needs to demonstrate that the business is viable, that it will show a satisfactory return on the investment to be made in it, and that the financial projections are realistic, being based on valid costings and data. It may well be written to meet investors or lenders requirements, as outlined later in this chapter. The key financial aspects normally included in the plan are:

- Business model: include the business model prepared earlier.
- Sales, pricing and income projections.

- Investment: what investment is required in the business?
- When is this required (at what points and over what timescale)?
- How this will be spent, e.g.:
  - in fixed capital assets
  - start-up capital to cover launch expenses
  - working capital to finance cash flow and trading.
- What combination of equity investment and loan finance is required?
- What investment are the venture team making and what percentage of share ownership do they intend to retain?
- From whom is the investment/finance required?
- What is the projected repayment of loan finance?
- What is the projected return on equity investment? (For example, an investor would require a share in the equity of the business with an anticipated exit strategy through sale of the shares and a capital gain, or a share in the profit stream through dividends on shares, or both.)
- Cash flow: show a cash flow projection for at least 12 months, or until the business reaches positive cash flow (cash income exceeds expenditure) if this is longer than 12 months.
- Profit and loss: show a profit and loss projection for the first 12 months.
- Balance sheet: include a projected balance sheet if investment is required.
- Key ratios: include anticipated:
  - break-even sales figure
  - gross and net profit margins
  - gearing and other ratios.

activity

The activity is to prepare a financial plan for the venture plan. This may involve significant work so it is suggested that you read through the financial planner in the toolkit. Identify any terms which are unfamiliar to you and check that you understand them. Then gather the financial information on the venture which you have already prepared, as listed in Table 6.1. Identify what additional information you require and gather this, by research to collect costing or pricing data. Once you have the information then prepare the financial plan.

If you have not prepared a financial plan before, the recommended starting point is:

- Start with your business model.
- Prepare a cash flow forecast for months 1–12.
- Identify what start-up capital is needed to launch the venture.
- Identify what working capital is needed to finance operations when trading.
- These will show the funding required for the first year.
- Profit and loss, balance sheet and key ratios can be worked out from this.

Rather than being considered in detail here, these highly important components of the financial plan are included in the finance planner section of the toolkit. Further reading of financial planning texts at an appropriate level for your knowledge and confidence is also recommended in the resources section.

An important consideration in financing a new venture is the point at which break-even and financial viability is reached. Any venture which involves either innovation (new product, service or process development) or market development is almost certain to have a period in which funds need to be invested prior to trading, and even once trading has started, further working capital will be needed to finance operations. Entrepreneurs are usually optimistic at the planning stage and often do not realise that there are three golden rules governing this period of innovation or market development and early trading:

- Development costs are higher than you expected.
- Development takes longer than you expected.
- Because you have under-estimated the investment needed at the planning stage, you will find it much harder to raise second-round funding part-way through this process.

This is known as the 'death valley curve' and is shown in Figure 6.6.

Action plan

The action plan pulls together the business goals, sales targets, immediate priorities, actions and responsibilities. This can be in the form of a project plan (e.g. a Gantt chart) or of the template in the business action planner section of the toolkit.

- The action at this stage is to bring the various parts of the draft plan together and to review them. Are they integrated to support each other?
- Confirm the business goals – is everyone in agreement?
- Decide on the priorities which must be achieved to start the venture.
- What actions must take place, by when, and who will be responsible for each?

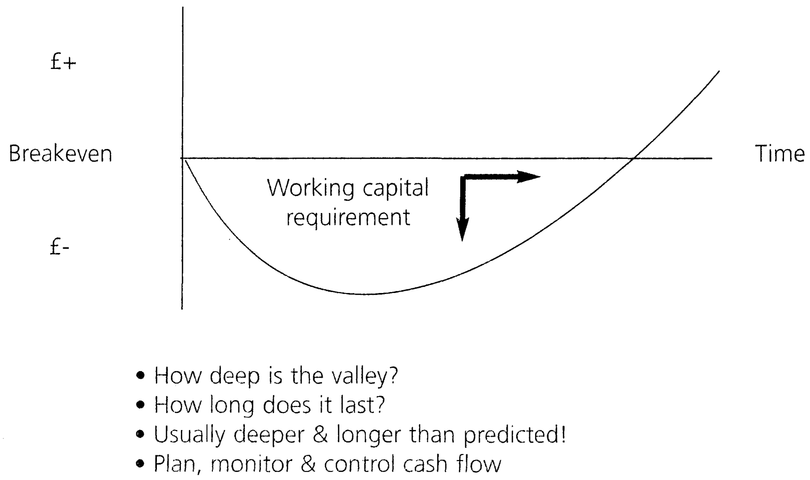

FIGURE 6.6 **Death valley curve**

establishing and accessing resources

The venture planning process is likely to identify that a range of resources are required to enact the opportunity. Some of these may already be available, but unless you are very fortunate or are planning a venture of quite limited scale, other resources will be required. The types of resources were outlined in Chapter 4 and the networks through which they can be attracted or captured were considered in Chapter 5. Resources can come, for example, from corporate organisations; public sector organisations, including regional development agencies; research institutes; including universities; and investors, including business angels and venture capital funds. It makes sense to invest capital only in purchasing assets which are known to be of long-term and appreciating value to the business, and to aim to gain the use of other assets at least cost, for example by renting, leasing or borrowing. Large organisations, including corporates, public sector bodies and the military, often buy and then do not fully utilise capital assets, which may then be targeted by entrepreneurs to use on a 'pay as you go' basis. These can include premises, printing, payroll, manufacturing and distribution facilities.

The types of resources required may include, for example:

- *Knowledge*: specialist knowledge, expertise or information not held by the venture team which needs to be researched or bought-in.
- *Human resources*: skills, expertise and capability required in the venture.
- *Finance*: investment or lending for capital asset purchase or working capital.
- *Technology*: product or process technology which needs to be bought-in or licensed.
- *Intellectual property*: permissions or licences which need to be negotiated to provide the rights to use them.

activity

- Review the resources which have been identified as being required in the sections of the venture plan prepared so far.
- Use the resource identification grid in Table 6.4 (overleaf) to identify which resources are already available to the venture.
- Which resources will be required, but are not currently available to the venture?
- For each of these, identify the options available for obtaining this resource, e.g.:
  - Which organisation/person has this resource and could it be borrowed at no/minimal cost? (these may include existing organisations including public and corporate organisations, which often have under-used assets)
  - Can it be bought-in or rented on a flexible pay-as-you-go basis?
  - Cost of purchase?
  - What alternative options are available if the resource cannot be obtained, e.g. substitutes or effect on the venture of the resource not being available?

Table 6.4 **Resource identification grid**

Factor	*Resources available*	*Resources required*	*Potential sources*
Knowledge			
Human resources			
Finance			
Technology			
Intellectual property			
Physical resources			
Capacity			
Networks			
Other			

- *Physical resources*: equipment, plant, buildings or land which the business needs to access or control.
- *Capacity*: facilities which need to be bought-in, e.g. subcontracting manufacture, packaging, despatch or call-centre operations.
- *Networks*: for access and distribution to customers or resellers.
- And any other resources not included in the categories above.

planning as a dialogue

Venture planning is not a solitary exercise but can be a way of connecting the venture team who are promoting the opportunity with the network of investors, resource providers, customers, and others. This can explore how their needs can be met through the venture, to the mutual benefit of all parties. Venture planning is part of the process of the negotiated enterprise, as outlined in the entrepreneurial learning model in Chapter 3. It therefore includes conversations and negotiations, both informal and formal, with the network of interested parties around the venture whom we can term stakeholders. Key stakeholders connected with the venture are likely to include:

- the venture team
- investors and lenders
- technology and other partners

- suppliers, sub-contractors, distributors and resellers (as appropriate)
- customers of potential significance (e.g. corporate clients)
- public sector, grant providing and regulatory organisations.

The venture planning stage is often a good point to contact, seek out and consult people and organisations to get their input into the plan. However they will expect you to be able to 'pitch' an outline of the plan to enable them to understand the nature of the opportunity, so as a minimum you should have completed the business model and a one-page outline of the venture plan, as shown in Figure 6.5.

In addition, expert business and professional advisers, such as lawyers, accountants, technical and intellectual property specialists may be involved where their expertise and advice can benefit the venture. But beware, there are sharks out there who feed on little businesses, so select advisers with care and take up references on them from other entrepreneurs.

activity

- Look back to your network of industry and related contacts from the activities on networking in Chapters 3 and 5.
- Identify the most useful contacts who could guide the venture towards resources or other networks such as potential customers.
- Shortlist these contacts.
- Consider how you could contact them to successfully engage their interest in the venture.

presenting the plan: pitching the idea

The venture plan is 'the sales document for the business'. As well as the venture team requiring a plan, it is needed to convince potential investors, partners, supporters and clients that the venture is credible and able to meet their requirements. This involves strategies and skills of presentation, communication and influencing.

The venture plan is a slim-line, easily revised document which communicates all the necessary information about the venture, as outlined in this chapter. It could also be termed a 'business proposal'. A useful analogy is that the venture plan or business proposal is rather like the 'trailer' for a film at the cinema – it is designed to excite attention and provide as much information as necessary to stimulate the target viewer to want more. For those who do want more, then the full business plan becomes the 'main picture'. Table 6.5 shows the characteristics of an effective venture plan.

The venture plan may be all that is needed for an opportunity where the client does not require more information. However some organisations, including some in the public sector, corporate and institutional sectors, equate the thickness and weight of a business plan with its value and ability to minimise risk. If one of these organisations requires a more detailed plan and you require their support, then it is important to obtain specific information from them about their detailed requirements so that you can follow this.

In presenting the plan or 'pitching' to potential investors, partners or customers, preparation and planning are the key. You need to 'know your audience', having researched

TABLE 6.5 **Characteristics of an effective venture plan**

Here are 12 features of an effective venture plan:

1. It demonstrates a clear opportunity which has not yet been exploited.
2. It displays strong customer attraction and differentiation from competitors.
3. There is significant, quantified growth potential in identified markets.
4. There is a credible strategy and plan to exploit the opportunity.
5. It deploys innovation which can be shown to work effectively.
6. It has unique aspects which can be prevented from copying (control of IPR).
7. There are success factors with risks identified and minimised.
8. Investment required is shown with realistic return on investment.
9. Timescale to break-even and anticipated profit stream are realistic.
10. Financial planning is accurately costed and realistic .
11. Potential exit routes and timescales for investors are shown.
12. The venture team demonstrate capability and motivation.

their interests, track record and likely goals. You need to anticipate their questions, and particularly those related to areas of weakness, such as customer demand, product readiness, financing and venture team capability, which will be probed remorselessly. So you need to 'put yourself in their shoes' to prepare convincing responses which use factual data rather than excessive confidence. If you are seeking financial or other investment such as technology, prepare your negotiating position: what do you want, and what are you prepared to offer in return.

Key questions in 'pitching' or selling the idea

- Who is the plan written for?
- What do you aim to achieve from presenting the plan? What are you prepared to exchange to gain what you need?

activity

- Prepare your venture plan and a short presentation of no more than 15 minutes.
- Review your plan against the 12 features of an effective venture plan shown in Table 6.5.
- Rehearse this. If possible video it and view the feedback to enable you to correct mannerisms, hesitation, repetition or over-confidence.
- Invite a small group of your contacts from the previous exercise, preferably including at least one third party such as an entrepreneur, investor or business banker.
- Present the venture plan and invite their feedback on how you could improve the venture plan and your presentation; give them the above list of features and ask them to review the plan against this.
- Use their feedback to revise and improve your venture plan and presentation.

- What are their needs and expectations? (e.g. are they looking for investment or lending opportunities, technology or distribution partnerships?)
- How can you fine-tune your presentation of the plan to meet their needs?
- Do you know your audience? What is their investment history, in which types of ventures? What are their investment objectives or lending criteria?
- How can you reassure them of your credibility and capability to make it happen?

critical questions on venture planning

This final section highlights key questions on venture planning to consolidate your learning in this important area. There is also a case study in Chapter 8 for you to read later. Venture planning is one skill-set which you are highly likely to use a number of times during your career, so it is worth reflecting on what you have learned so far.

- What do you think are the objectives of venture planning?
- How would you go about preparing a venture plan: what are the main stages?
- What are the key components of a venture plan?
- What are the main factors which make for an effective venture plan?
- What are the key skills you have developed and learning points you can use in planning opportunities and venturing?