

# **Business Plan: Meaning, Contents and Significance of Business Plan**

## **Business Plan: Meaning, Contents and Significance of Business Plan!**

### **Meaning:**

In simple words, business plan is a written statement of what an entrepreneur proposes to take up. It is a kind of guide frost or course of action what the entrepreneur hopes to achieve in his business and how is he going to achieve it. In other words, business plan serves like a kind of big road map to reach the destination determined by the entrepreneur. Webster New 20th Century Dictionary defines a project as a scheme, design, a proposal of something intended or devised. Let some important definitions of business plan be presented.

Mar J. Dollinger has defined the business plan as “the formal written expression of the entrepreneurial vision, describing the strategy and operations of the proposed venture.” According to Jack M. Kaplan, “The term business plan means the development of a written document that spells out like a roadmap where you are, where you want to be, and how you want to get there.” Thus, a business plan or project report can best be defined as a well evolved course of action devised to achieve the specified objective, i.e. setting up a small business enterprise within a specified period of time. So to say, business plan is initially an operating document.

The business plan is termed by different names by its different intended interest audience. For example, when presented to a bank, it may be called ‘loan proposal.’ a venture capital group might call it the ‘venture plan’ or ‘investment prospects’ and a common man may term it ‘project report.’ Let it be called by any name, its basic

purpose is the same, i.e. to serve as a road-map in setting up a business enterprise.

### **Contents of Business Plan:**

Having gone through the significance of business plan, it is now clear that there is no substitute for a well-prepared business plan or project report and also there are no shortcuts to preparing it. The more concrete and complete the business plan, the more likely it is to earn the respect of outsiders and their support in making and running an enterprise. Therefore, the business plan needs to be prepared with great care and consideration.

### **A good project report or business plan should contain the following contents:**

#### **1. General Information:**

Information on product profile and product details.

#### **2. Promoter:**

His/her name, educational qualification, work experience, project related experience.

#### **3. Location:**

Exact location of the project, lease or freehold, locational advantages.

#### **4. Land and Building:**

Land area, construction area, type of construction, cost of construction, detailed plan and estimate along with plant layout.

#### **5. Plant and Machinery:**

Details of machinery required, capacity, suppliers, cost, various alternatives available, cost of miscellaneous assets.

#### **6. Production Process:**

Description of production process, process chart, technical knowhow, technology alternatives available, production programme.

## **7. Utilities:**

Water, power, steam, compressed air requirements, cost estimates, sources of utilities.

## **8. Transport and Communication:**

Mode, possibility of getting, costs.

## **9. Raw Material:**

List of raw material required by quality and quantity, sources of procurement, cost of raw material, tie-up arrangements, if any, for procurement of raw material, alternative raw material, if any.

## **10. Manpower:**

Manpower requirement by skilled and semi-skilled, sources of manpower supply, cost of procurement, requirement for training and its cost.

## **11. Products:**

Product mix, estimated sales, distribution channels, competitions and their capacities, product standard, input-output ratio, product substitute.

## **12. Market:**

End-users of product, distribution of market as local, national, international, trade practices, sales promotion devices, and proposed market research.

## **13. Requirement of Working Capital:**

Working capital required, sources of working capital need for collateral security, nature and extent of credit facilities offered and available.

## **14. Requirement of Funds:**

Break-up of project cost in terms of costs of land, building, machinery, miscellaneous assets, preliminary expenses, contingencies and margin money for working capital, arrangements for meeting the cost of setting up of the project.

15. Cost of Production and Profitability of first ten years.

16. Break-Even Analysis

17. Schedule of Implementation

### **Significance of Business Plan:**

Arguments are made for and against writing a business plan. The argument advanced against writing business plan is that it involves costs especially when some outside consultant or accountant or lawyer is hired to write the business plan. One of the reasons for not writing business plan is the fear of prematurely closing off the new venture.

The major argument made in favour of writing business plan is reducing anxieties and tensions in running business enterprise. Writing business plan is especially useful for the entrepreneurs who require financial help from the outside sources like banks and financial institutions.

The reason is that the outside sources advance funds to entrepreneurs based on the soundness of their enterprises as reflected in business plans. In nutshell, writing a business plan is not without its costs and sacrifices, nonetheless the benefits of it outweigh its costs.

An objective without a plan is just a dream. Until committed to papers intentions are seeds without soil, sails without winds or mere wishes which do not lead to execution and without execution there is no payoff. The preparation of a business plan or project report is of great significance for an entrepreneur.

The business plan serves the two essential functions: First and most important the business plan is like a road map. It describes the direction the enterprise is going in, what its goals are, where it wants to be, and how it is going to get there. It also enables an entrepreneur to know that he is proceeding in the right direction.

Some hold the view that without well spelled out goals and operational methods/tactics, most businesses flounder on the rocks of hard times.

The second function of the business plan is to attract lenders and investors. Although, it is not mandatory for the small enterprises to prepare business plans, yet it is useful and beneficial for them to prepare the project reports for various reasons. The preparation of business plan is beneficial for those small enterprises which apply for financial assistance from the financial institutions and the commercial banks. It is on the basis of business plan or project report that the financial institutions make appraisal if the enterprise requires financial assistance or not.

If yes, how much. Similarly, other organisations which provide various assistances such as work shed, raw material, seed/margin money, etc. are also equally interested in knowing the economic soundness of the proposal. In most cases, the quality of the firm's business plan weighs heavily in the decision to lend or invest funds.

Research evidence reveals that many firms, of course, start without business plans. Speaking alternatively, their implementation stage starts with no plan, i.e. guide-map. But, most of these firms realize eventually in the hard rocks, of business environment that they need to recreate their beginnings and write their business plans at some point down the road.

The fact of the matter is that in today's highly uncertain and competitive business environment, only the most reluctant entrepreneur with the simplest business concept avoids writing a business plan (Carter, Gartner and Reynolds 1995). The very significance of business plan can be expressed as "if an entrepreneur fails to write business plan, he plans to fail in his/her business."