

## 7.4: Business Plans

A business plan is a twenty- to forty-page document that serves the dual role of being an internal road map for your team and an external sales tool for potential investors, customers, and partners. Your business plan describes the entirety of your venture: the problem you're solving, your solution, the technology behind it, the size of your target market, the customers, the competition, your business model, team, financial needs, and exit strategy.

A business plan forces you to think things through early; it ensures you have well-defined venture goals. Clear goals help generate a clear path for you and your team to follow as you begin to implement your venture.

### 7.4.1 The elements of a business plan

Business plans vary widely, but most consist of:

- The executive summary
- The problem you're solving or the need you're filling
- Your solution
- Technology and IP
- Size of opportunity/market
- Customers and how you will reach them
- Competition
- Business model
- Team
- Financial needs
- Exit strategy

The executive summary is a 2- to 5-page section that summarizes the plan's main points. In a few pages, the executive summary conveys the essence of the venture. It should contain only the key points from the important sections of the full plan.

The problem you're solving or the need you're filling is stated in an introductory section. Don't shy away from aggressive terms and phrases in this section—you want to grab the reader's attention.

Your solution, or how you will alleviate the pain, is stated in general terms.

Your technology and IP are described in more detail in the next section. Explain specifically how the technology works, but don't overdo it; the explanation should be comprehensible to an intelligent layperson with some knowledge of the field. State whether the technology is yours or licensed, and, if so, from whom and under what conditions. Describe the status of your IP protection. What patents have been granted, applied for, will be applied for? Supply the patent numbers or the application numbers if you have them. State if you're protected by other forms of IP.

**Size of opportunity/market** If you're creating a new market it can be difficult to gauge its potential size, whereas if you're introducing a better technology into an existing market, the estimate can be more accurate. Regardless, you and your potential investors need to feel comfortable that the potential market is large enough to sustain a profitable business.

**Customers and how you will reach them** Points to discuss include who your target customers are, your strategy for selling to them, what channels you will use, and when. Demonstrate an understanding of your target customers.

**Competition** Demonstrate knowledge of your competitors. Who are they? Are they selling the same or different technology? Who are the likely new entrants? Are they both domestic and foreign? What are their strengths and weaknesses?

**Business model** is a general outline of the way your company will make a profit. We go into more detail on business models later in this section.

**Team** This section should convince potential investors that they can trust your team with their money. Does your team:

- Have the knowledge, experience, diverse skill sets, integrity, drive, persistence, and passion required to make it happen, in spite of the adversity and obstacles that are likely to arise along the way?
- Understand its limitations? Are you willing to seek help and listen?
- Work with solid, experienced directors and advisors?

Although important, this section of the plan is only the first step in the convincing process. Personal interactions with investors and the due diligence process also play an important role.

Financial needs including the amount of money the venture is seeking and over what time frame; how the money will be used; the major assumptions involved; and when you will achieve cash flow break-even and profitability.

Exit strategy details how investors will get their money back (hopefully with a healthy return) and exit your company. Some exit strategies are Initial Public Offering (IPO), merger/acquisition, and buyout by a strategic partner.

#### 7.4.2 Nine questions every business plan should answer

1. Who is the customer?
2. How does the customer make decisions about buying this product or service?
3. To what degree is the product or service a compelling purchase for the customer?
4. How will the product or service be priced?
5. How will the product reach all the identified customer segments?
6. How much does it cost (in time and resources) to acquire a customer?
7. How much does it cost to produce and deliver the product or service?
8. How much does it cost to support a customer?
9. How easy is it to retain a customer?

From “How to Write a Great Business Plan” by William A. Sahlman. Harvard Business Review, July-August, 1997.

#### 7.4.3 The real benefits of a business plan

Jeremie Spitzer and Paul G. Silva talked to us about their experience creating a business plan for Zform, a software entertainment company that creates fully accessible games for both blind and sighted communities.

Spitzer says that before actually sitting down to write the business plan for Zform, he hadn’t thought at all about marketing. He soon realized that he needed to do some research and identify the competition.

“Don’t just jump into a new venture [without planning] because you will drown in the small details and won’t even realize that you’re way off base. A business plan forces you to think of all the details that you wouldn’t normally think about. When you write your plans down on paper, you have to be clear. The process of writing forces you to work out the details.”

Spitzer emphasizes that there is no such thing as a final plan. “You need to accept and be comfortable with the fact that your business plan is a live document that will always be changing.”

Silva suggests looking to others for advice. “Planning is essentially answering questions that have already been laid out for you by people that are experienced and know exactly what will hurt your venture if you don’t plan. The process of planning was ten times more valuable than the actual business plan itself.”

Silva believes in learning from others’ mistakes. He regularly reads the “Postmortem” section of Game Developer magazine, which talks about games that have failed and why they have failed.

Silva advises new venture seekers, “Talk to an industry veteran who has experienced failure, and ask why.”

Another viewpoint on business plans comes from Phyl Speser of Foresight Science & Technology. “Most folks will disagree with me, but I think [business plans] are highly overrated. Boeing never had a business plan until late in the last century. They knew what they did: they built airplanes. If you’re going out for venture capital money, you need a twenty+ page plan. If you’re not, you usually need a much smaller one. Essentially, you need as much of a plan as is necessary for your team or your investors. Otherwise, don’t waste the time.”

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