

## The Basics of a Business Plan for Development Professionals

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**Keywords:** *business development, agro-enterprise development, agribusiness, management, marketing, financial statements, net present value, internal rate of return, financing, feasibility*

**Abstract:** *A business plan is not only for private sector companies that seek financing. It's rigor encourages a thorough assessment of every important aspect related to the feasibility and sustainability of a project or enterprise. It covers topics that are sometimes overlooked or insufficiently addressed in development projects such as: market orientation; market analyses; detailed operational procedures; intangible assets; and realistic financial projections. Therein lies its value to development initiatives: providing a thorough, private-sector style strategy to help ensure a well-planned and viable project. This paper presents the concept at a basic level for enterprise development projects.*

### I. Developmental Importance of the "Business Plan"

While a business plan is best-known as the blueprint for starting a business or seeking financing for a business, its usefulness as a tool for project planning in the development field should not be underestimated. Such a document clearly and concisely defines the status, operations, and objectives of a project or a business, and it outlines the methods for achieving its goals by elaborating on the nature of the operation, its management, technical feasibility, profitability and returns on investment.

Such a plan is an essential tool for starting or expanding an enterprise whether public or private. By exploring the key components that make a project or business viable it encourages a thorough questioning of assumptions and an objective assessment of potential and economic feasibility. That same thoroughness can serve as an excellent barometer of how well the plan's authors know the business, project, or sector.

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Because of its importance for private sector development and its usefulness to projects and public institutions, the business plan and its basic elements ought to be familiar to development professionals. This document will explain its elements and uses in a straightforward manner that can be readily adapted for both project planning and business use.

## **II. Key Principles and Guidelines**

The business plan first describes what the project or business is, what it will do (output or outcome), how it will be managed, how and where it will operate, and how all of this will be funded.

It must always include:

1. A brief description of the project or business
2. A profile of its management and key personnel
3. The operational or production processes
4. A list of tangible and intangible assets
5. The market analysis and strategy
6. The financial plan and document
7. References and supporting documents
8. An executive summary

## **III. The Basic Roadmap**

### **1. The Project or Business Description**

The project or business description should:

- a. Clearly identify the primary goals and objectives of the project or business and the reasons for doing it. Identify why your products or services are necessary. Who will benefit from your product or service?
- b. Describe the (business) project and its principal activities or product/service. In other words, what business are you really in? What channel or niche do you intend to fill?
- c. Describe the form of the organization: corporation, partnership, not-for-profit or other and clarify its tax status.
- d. Describe the project time-table including the current status of the project and the amount of work that has been done thus far. Explain when commercial operations will commence.
- e. Identify the location of the operational and the local availability of resources, utilities, manpower and public transportation and transport infrastructure, such as roads, rail, and shipping facilities.
- f. Set out what licenses and government approvals are required and which have already been obtained.

## **2. A Profile of Management and Key Personnel**

This section should provide detailed information about sponsors, partners, and key management staff. Why are they the best people for the job? Include age, education, current occupation, and relevant business and management experience. Outline the duties and pay scale of each individual. Describe the plan for hiring and training other personnel including wage and benefit structures.

## **3. The Operational or Production Processes**

Describe how the products and services will be produced.

- a. Cover the sources and procurement methods for all necessary raw materials, inputs, and equipment. Include contingency plans.
- b. Identify quality control measures.
- c. Calculate operational flows, production schedules and physical layouts.
- d. Determine inventory levels and inventory control methods.

## **4. A List of Tangible and Intangible Assets**

This category includes technology, buildings, equipment, contracts and key industry "partners" or suppliers.

- a. Describe any proprietary technology or process and technical support arrangements for adapting to the local environment and needs.
- b. Describe and value the land and civil works, buildings and equipment or determine how to build or procure them (leasing, buying, importing).
- c. Mention valuable contracts or "partnerships" with suppliers, vendors, or buyers.

## **5. The Market Analysis and Strategy**

As competition increases marketing becomes a critical aspect of success. This caveat applies equally to development projects: if your clients are not aware of you, your services, or the value you can provide then your work is seriously hampered. Nevertheless, marketing is often overlooked especially in countries without the experience of a market economy.

### **People, product, price, path, promotion**

- a. The key element of successful marketing is to know your clients -- their likes, dislikes, expectations, and trends. Doing a thorough analysis of your market is therefore essential for developing a marketing strategy.

- b. The features and benefits of the products or services must be thoroughly explained. How does the product or service satisfied client needs? What comparative advantage does it have?
- c. What path or channel of distribution will be utilized? Are you a wholesaler, exporter, retailer? Describe the supply channel and your contingency plans for any reasonably foreseeable failures within it.
- d. What is your pricing strategy for the product or service and what does your market research information say the market will pay? How does this compare with the competition? What will your terms of sale be: cash, credit, LC, etc.? (Hotlink to Trade Finance paper)
- e. What is going to be the promotional strategy? Determine your market position: follower versus leader; quality versus price; client oriented; etc. and the methods for conveying it effectively.

A market analysis must go beyond the potential clients. Make a realistic assessment of both existing and expected competition. Supply reasonable information about competitors' market share, cost margins, quality levels, special niches, and future potential. Clearly define what your competitive strategy will be. (Hotlink to International Market Studies)

## 6. The Financial Plan and Documents

The bottom line is, will the project be financially sustainable or will the business make a profit? This is where you tell the financial story and show evidence of your plan. It should be complete and accurate and the revenues and expenses in your documents must agree with the statements and projections made in the rest of the business plan.

The first step is a financial plan. To support your basic financial plan you will need three separate documents:

- a. an income (profit and loss) statement
- b. a balance sheet
- c. a statement of cash-flows

The **financial plan** itself should include a budget with projections of revenue, expenses, and profits. This requires a careful estimation of the cash-flow needs. Include the following:

- a. Estimate projected **start-up budget** (costs incurred prior to operation) including:
  - legal costs;
  - government permits and licensing fees;
  - consultant's fees;
  - engineering design and planning fees;
  - equipment;

insurance;  
accounting;  
utilities set-up and deposits;  
costs of hiring and training personnel  
advertising and promotion

- b. Calculate the **operating budget** allowing enough money to cover the first six months of operation since it will probably be unprofitable at first. Include the relevant items from the list above plus the following:
- salaries/wages
  - compensation of officers (management)
  - employee benefits
  - rent
  - interest payments
  - depreciation
  - advertising and public relations
  - supplies
  - repairs/maintenance
  - taxes and licenses
  - accounting and legal
  - insurance
  - travel
  - utilities
  - telephone and postage
  - fees/dues/subscriptions
- c. Estimate **total investment** including land, buildings, equipment, utilities, working capital, and interest.
- d. List the sources of financial support and contributions that you can expect.

Each area of the financial plan should be keyed or referenced to a separate list that explains all projections and assumptions should any point require a detailed explanation.

### **Financial Statements**

You should understand and prepare projections for three basic financial statements. Each area of the financial statements should be keyed or footnoted to a list that explains the detailed basis for the projections and assumptions that are listed on the statements. These projections should be for at least three and generally five years:

- a. The income (sometimes called the P&L or profit and loss) statement that projects and allows you to track your income, expenses, and profits (or losses).
- b. The balance sheet, which is a snapshot record of assets, liabilities, and capital.

- c. The statement of cash flows, which provides information about the business's ability to generate cash, as well as monthly projections of the sources and uses of cash for the business. These should be detailed for at least the first 12 months of a new business.

*Examples of the statements are shown in the Resources section below.*

### **Some Useful Financial Calculations**

The **breakeven analysis** can be a very useful calculation to illustrate the required minimum level of performance as measured by revenue or sales. To quickly calculate a basic breakeven point simply divide your fixed or unavoidable expenses by your gross profit margin which is gross profit divided by sales.

There are several methods that can be used to evaluate the financial feasibility of an investment project. One simple method is **payback**. This method is used to calculate how quickly a project or enterprise will pay back the initial investment and then determine if this is an acceptable period of time to wait. To apply this method, first calculate projected future income from the project and then count the number of periods before the cumulative forecasted cash flow equals the initial investment.

Another method for evaluating project investments is to calculate the **net present value** of the project by discounting the forecasted future cash flows using the opportunity cost of capital, or the rate of return offered by other investment alternatives. Approximate options of this rate of return could be the rate of interest paid on bank deposits or the return offered on investment securities. The formula to calculate the net present value is somewhat complicated and can best be illustrated using an example. The present value of a project is equal to the sum of each future annual cash flow divided by the sum of one plus the rate of return raised to an exponential power equal to the number of years the cash flow must be discounted back. Then, the net present value is this present value minus the initial investment required. For example, the net present value of a two-year project with a cost of 1,000 and expected income of 500 in the first year and 700 in the second year, assuming a discount rate of 10%, is equal to 500 divided by 1.10 plus 700 divided by 1.10 squared, or 1.21, minus the initial investment of 1,000. Using this formula, the net present value of this project is equal to 33. Any project with a positive net present value is considered viable from a financial point of view.

A similar method to analyze the feasibility of an investment opportunity is **internal rate of return**. Under this method, the internal rate of return is the discount rate that sets the net present value equal to zero. Using the example presented above, the internal rate of return, or IRR, can be derived by using the equation net present value of zero equals 500 divided by 1 plus the IRR, plus 700 divided by the sum of 1 plus the IRR, squared, minus the initial investment of 1,000. In this case, the IRR is equal to 12.3%. Actual calculation of the internal rate of return is somewhat tedious and time consuming and is usually performed on a computer or programmable calculator. Projects that have an internal rate of return greater than the opportunity cost of capital can be considered financially viable .

## **7. References and supporting documents**

Provide reference letters, Curriculum Vitae for key personnel, credit reports and any other supporting documents (i.e. contracts with buyers, patent documentation, letter of intent from additional lender or landlord, etc.) as appendices.

## 8. Executive Summary

Although this is written last it is usually the part that is read first. A summary should cover the main points in approximately one-page without delving into the details of the document except perhaps to mention the supporting details contained within the business plan. A test of its success is if it makes the reader want to know more about the project or business.

It should include:

- a. a short history identifying the business or project
- b. a clear statement of both its short term and long-term goals and how these will be achieved
- c. the identity of the main protagonists
- d. the amount of money already invested, the amount needed and the security offered
- e. expected return
- f. the primary reasons why the project or business will succeed

## III. Resources

### Related Learning Tools on this site

[http://wbln0018.worldbank.org/essd/essd.nsf/Agroenterprise/agro\\_guide](http://wbln0018.worldbank.org/essd/essd.nsf/Agroenterprise/agro_guide)

Hotlink Developing Enterprise through Direct Assistance

Hotlink Agribusiness Development Centers

Hotlink Non-farm Rural Enterprise Development

Hotlink Basic Trade Finance Tools: payment methods in international trade

Hotlink Export Procedures

Advice for business plans and business development can be obtained from business development centers and business incubators, chambers of commerce, better commercial banks, many development and donor agencies, and a number of Web sites. Here is a sampling.

### People and Institutions

The U.S. Small Business Administration, whose website at <http://www.sbaonline.sba.gov/> offers a wealth of statistics, program summaries, guides, referrals and other information useful not only within the United States but abroad. Links of particular interest accessible from within that site include:

SBA. *The Facts about Small Business Investment Companies.*

<http://www.sba.gov/opc/pubs/fs69.html>

SBA. *The Facts about the Small Business Development Center Program*

<http://www.sba.gov/opc/pubs/fs43.txt>

SBA. *The Facts about the Small Business Micro-loan Program*

<http://www.sba.gov/opc/pubs/fs68.html>

SBA. *The Facts about Business Information Centers*

<http://www.sba.gov/opc/pubs/fs71.html>

SBA. *SBA Research Summaries on Small Business*

<http://www.sba.gov/ADVO/research/summaries/>

SBA Procurement Marketing and Access Network (Pro-Net)

<http://pro-net.sba.gov/>

Besides its own staff located in a network of more than 100 Business Information Centers scattered around the country, the SBA relies heavily on third-party advisors who have received SBA certification to assist small business. SBA is also connected institutionally to an important volunteer organization called the Service Core of Retired Executives (SCORE), which has its own website at <http://www.score.org/>

The SBA and USDA together run an innovative program entitled Rural Empowerment Zones and Enterprise Communities Program (U.S.), whose website can be found at:

<http://www.ezec.gov/index.html>

Of particular interest as a model for how to nurture entrepreneurs and their new enterprises is the National Business Incubator Association (NBIA), at <http://www.nbia.org/> The Kent Business Incubator (<http://business.kent.edu/SBDC/incubate.htm>) is a typical example of an NBIA affiliate.

Canada has its own set of small business development agencies and programs, which include: Canadian Rural Information Service - Small Business Resources

[http://www.agr.ca/policy/cris/directories/smallbusiness\\_e.html](http://www.agr.ca/policy/cris/directories/smallbusiness_e.html)

Micro-Enterprise Innovation Exchange (Canada)

<http://www.mta.ca/rstp/micro.html>

Analogous entities or programs in Europe include, among many others:

Agence Pour la Création d'Entreprises (France)

<http://www.apce.com/>

Rural Advisory Centres (Finland)

<http://www.agronet.fi/mkl/mklyleng.htm>

Royal Tropical Institute (Netherlands) - Agriculture and Enterprise Development

<http://www.kit.nl/AED/>

Virtually every developing country also has one or more public, parastatal or private organizations working in the small and/or rural enterprise field. Good examples include:

Entrepreneurship Development Institute (EDI) of India

<http://www.ediindia.org/index.htm>

Rural Enterprise Programme (Kenya)

<http://198.62.158.137/partners/mfn/krep.html>

Get Ahead Financial Services (South Africa)

<http://198.62.158.137/partners/mfn/getahead.html>

Ukrainian-Canadian Business Center (SBEDIF)

<http://www.nwenterprise.com/>

Rural Enterprises Development Project (St. Lucia)

<http://www.stlucia.gov.lc/gis/specials/Parliament/>

19992000Budget/st\_lucia\_rural\_enterprise.htm

Some of the organizations that specialize in micro, small, and medium enterprise development:



ACDI/VOCA	<a href="http://www.acdivoca.org">http://www.acdivoca.org</a>
VITA	<a href="http://www.vita.org/">http://www.vita.org/</a>
Action International:	<a href="http://www.accion.org/">http://www.accion.org/</a>
Technoserve, Inc.:	<a href="http://www.technoserve.org/">http://www.technoserve.org/</a>
Enterprise Works	<a href="http://www.enterpriseworks.org">http://www.enterpriseworks.org</a>
CARE:	<a href="http://www.care.org/">http://www.care.org/</a>

## **Readings**

OECD. *Fostering Entrepreneurship*, Policy Brief No. 9, OECD, 1998.

[http://www.oecd.org/publications/Pol\\_brief/9809-eng.htm](http://www.oecd.org/publications/Pol_brief/9809-eng.htm)

SLU Listing of General Entrepreneurship Texts

<http://www.slu.edu/eweb/texts.htm>

SLU Listing of Core Publications in Entrepreneurship and Related Fields

<http://www.slu.edu/eweb/booklist.htm>

*Dissertations in Entrepreneurship and Related Fields* (Dissertation Abstracts International)

<http://www.slu.edu/eweb/disserta.htm>

The Sage Series in *Entrepreneurship and the Management of Enterprises*

<http://www.slu.edu/eweb/publications.htm#Sage>

Katz, Jerome ed.. *Advances in Entrepreneurship. Firm Emergence and Growth*, 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> ed. St. Louis University Press, 1993, 1995 and 1997.

<http://www.slu.edu/eweb/publications.htm#JAI>

NDIA. *Empowerment Zones, Enterprise Communities and Rural Development Investment Areas*

<http://www.ndia.org/govt-pol/docs/issue-b/105/IB105-31.htm>

USDA. *Rural Enterprise and Small Business Development: A Quick Bibliography*

<http://www.nal.usda.gov/ric/ricpubs/qb9338.html>

Rawlinson, Heather. *Rural Small Enterprise Development in a Time of Agricultural Restructuring: A Case Study of Mexican Peasant Communities*. CIDA, 1997.

<http://cbie.ca/cida/cp7431.htm>

VITA. *Guinea Rural Enterprise Development Program (PRIDE)*. VITA, 1998

<http://www.vita.org/projects/guinea.htm>

IDRC. *Rural Agroindustry in Latin America: An Evaluation of the PRODAR Network*. IDRC, 1997.

NBIA. *State of the Business Incubator Industry Findings*. NBIA, 1998.

<http://www.nbia.org/facts.html>

## **Relevant Internet Links**

The International Chamber Of Commerce offers publications on a number of business topics

<http://www.iccwbo.org>

UN ITC Small and Medium Enterprise Network

<http://www.intracen.org/>

45<sup>th</sup> International Council on Small Business (ICSB) World Conference

<http://www.seaanz.asn.au/icsb2000/icsb1.htm>

The Enterprise Development Website

<http://www.enterweb.org/>

eWeb (St. Louis University Entrepreneurship Center)

<http://www.slu.edu/eweb/>

U.S. Federal Agency Working Group on Micro-enterprise Development

<http://www.sba.gov/microenter/>

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Institute for Global Entrepreneurship and Electronic Commerce  
<http://www.confederationon.ca/theinstitute/>

## Annex 1

### Income (Profit and Loss) Statement

Year ended December 31, 2000

<b>SALES</b>	5,000	
<b>COST OF GOODS SOLD</b>		
Beginning Inventories	1,000	
Add: Purchases and Manufacturing Costs	<u>2,500</u>	
Goods Available for Sale	3,500	
Less: Ending Inventories	<u>(1,500)</u>	
Total Cost of Goods Sold	(2,000)	
<b>GROSS MARGIN</b>		3,000
<b>SELLING AND ADMINISTRATIVE EXPENSES</b>		
Sales Commissions	500	
Advertising and Promotions	200	
Staff Wages and Benefits	300	
Management Salaries	500	
Rent and Utilities	200	
Miscellaneous	<u>100</u>	
Total Selling and Administrative Expenses	(1,800)	
Depreciation Expense	<u>(200)</u>	
Total Operating Expenses		<u>(2,000)</u>
<b>OPERATING INCOME</b>		1,000
Interest Expense		<u>(500)</u>
<b>EARNINGS BEFORE INCOME TAXES</b>		500
Income Tax		<u>(100)</u>
<b>NET INCOME</b>		<u><b>400</b></u>

## Annex 2

### Balance Sheet

As of December 31, 2000

#### ASSETS

Current Assets:

Cash and Temporary Investments	400
Accounts Receivables	600
Inventories	1,500
Pre-paid Expenses	<u>50</u>
Total Current Assets	2,450

Property, Plant, and Equipment:

Land	50
Buildings and Equipment, at cost	2,800
Less: Accumulated Depreciation	<u>(1,500)</u>
Net Property, Plant and Equipment	1,350

Other Assets:

Investments	30
Intangible Assets	<u>70</u>

**Total Assets** **4,000**

#### LIABILITIES & SHAREHOLDERS' EQUITY

Current Liabilities:

Accounts Payable	700
Taxes Payable	200
Accrued Expenses	70
Current Portion of Long-term Debt	<u>30</u>
Total Current Liabilities	1,000

Long-term Debt 300

Total Liabilities 1,300

Shareholders' Equity:

Paid-in Capital	700
Retained Earnings	<u>2,000</u>
Total Shareholders' Equity	<u>2,700</u>

**Total Liabilities & Shareholders' Equity** **4,000**

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## Annex 3

### Statement of Cash Flows Year ended December 31, 2000

#### OPERATING ACTIVITIES:

Net Income	400
Items in Net Income not Requiring Cash:	
Depreciation	200
Deferred Income Taxes	100
Other	25
Changes in Current Assets and Liabilities:	
Accounts Receivable	300
Inventories	(500)
Prepaid Expenses	50
Accounts Payable	(150)
Accrued Liabilities	<u>75</u>
Cash Provided by Operations	500

#### INVESTING ACTIVITIES:

Acquisitions of Property, Plant, & Equipment	(500)
Disposal (Sales) of Property, Plant, & Equipment	<u>150</u>
Cash Used by Investing Activities	(350)

#### FINANCING ACTIVITIES

Loan Proceeds	200
Loan Payments	(250)
Cash Dividends	<u>(50)</u>
Cash Used by Financing Activities	(100)
Increase in Cash and Temporary Investments	50
Cash and Temporary Investments at Beginning of Year	<u>350</u>

**CASH AND TEMPORARY INVESTMENTS AT END OF YEAR**

**400**

